
TOURISM ACCOMMODATION AND TRAINING

PART B

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1 THE INQUIRY

The main purpose of this chapter is to explain the nature of the inquiry and the procedures adopted in conducting it.

There is a brief description of the scope of the inquiry and the terms of reference. It also explains how the two elements of the inquiry, accommodation and training, have been interpreted in the report. The chapter concludes by outlining the report structure.

1.1 Introduction

The terms of reference for the inquiry direct the Commission to report on among other things:

- the structure and competitiveness of accommodation providers;
- cost structures compared with competing destinations;
- impediments to access to capital for industry investment;
- the impact of institutional, regulatory and taxation measures;
- the effect of industrial awards and agreements on costs and flexibility;
- the appropriateness and adequacy of existing training programs; and
- the level and effectiveness of any government support measures.

The terms of reference also request that the Commission report on examples of past successes and failures by way of case studies. The identification of strengths and weaknesses and the use of case studies, as required by the terms of reference, are useful approaches in undertaking an industry study and are used where appropriate. However, the overall thrust of the inquiry is to identify the relevant factors underlying industry performance and competitiveness.

Governments have limited direct involvement with the tourism industry. The main support provided by governments is for marketing and training. The former is not included in the terms of reference for the inquiry.

The complete terms of reference for the inquiry are reproduced facing page 1 of the Overview.

1.2 Scope of the inquiry

The reference does not explicitly specify the scope of the inquiry, but it is clear that the two elements of the inquiry, tourism accommodation and training, are the subject of the inquiry, rather than the tourism industry as a whole. Nevertheless, it is the growth of the tourism industry as a whole, that provides the context in which the inquiry has been conducted.

As an industry development reference, the inquiry is concerned with opportunities for, and impediments to, growth — specifically, the extent to which existing tourism accommodation and training arrangements are assisting or impeding the development of a competitive tourism industry. The inquiry is therefore forward-looking.

Before looking at the future, the first and not insignificant task of the inquiry, has been to describe the industry as it is at present. As will become obvious during the report, certain elements of the recent history of the industry also have a bearing on the prospects for the industry's future growth. A recent over-supply of accommodation in some key destinations has led to what the industry calls 'profitless growth'. For the time being at least, this particular piece of history seems to be dampening new investment in some destinations.

From the perspective of the Australian economy, tourism accommodation and training are not so much interesting for their own sake, but because a world competitive tourism industry can generate increased economic development. From this perspective, the task of the inquiry is to identify sources of competitive advantage and how tourism accommodation and training can contribute to the competitiveness of the tourism industry.

1.2.1 What is tourism?

Although most people have a mental picture of what tourism is, the nature of the 'industry' can be unclear in a definitional sense.

Tourism is not so much an industry as a collection of activities or a pattern of demands. The World Tourism Organisation (WTO) has defined tourism as:

... the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes. (WTO, 1991, p.8)

Australian bodies, in particular, agencies responsible for gathering and analysing data on tourists, use similar definitions.

Although tourism is described in a definitional sense by what people do and where they travel, its economic impact is determined by how much tourists

spend. There is in turn a link between what tourists spend on accommodation and the requirements for trained staff to meet their needs. In this sense, there is an inter-dependency between the two elements of the inquiry. Each element however has its own definitional aspects as discussed below.

For definitional purposes, accommodation is considered to have one boundary and training another.

1.2.2 Tourism accommodation

The definition of a tourist (given above) determines what is tourism accommodation: any accommodation used by a tourist. However, given there are no public policy issues pertaining to the use of friends' and relatives' houses by tourists (which is not an insignificant source of accommodation for tourists), such accommodation is omitted from discussion.

To analyse tourism accommodation, the sector is best thought of not as a single entity, but as comprising many different segments, from 4 and 5 star hotels to backpacker hostels and caravan parks.

The inquiry therefore focuses on the factors that contribute to or detract from the competitiveness of some or all of these different accommodation segments.

1.2.3 Tourism training

A vast range of occupations are involved in providing goods and services to tourists, not only those associated with accommodation but with such activities as tour guiding, travel bookings and restaurant meals. Improved staff training can improve competitive advantage through higher productivity and customer enjoyment of the tourism experience. Such training can lead to additional business through word of mouth and an increase in repeat business.

1.3 Why investigate tourism accommodation and training?

A century ago, travel for pleasure was an experience largely confined to the wealthy and there was far less business travel than there is now. With the advent of mass tourism this has changed dramatically and tourism is now a fast-growing industry worldwide.

The tourism industry is also growing rapidly in Australia and is generally considered to be a success story. Tourism accommodation and training are important for the ongoing development of an economically viable tourism industry from which the benefits will flow through the economy generally.

1.4 Conduct of the inquiry

Following receipt of the terms of reference the Commissioners commenced a round of informal visits to seek the views of a wide range of people. Accommodation owners, financiers, trade union officials, trainers, workers and representatives of industry and government agencies were consulted.

An issues paper was subsequently prepared and distributed to interested parties.

Initial public hearings were held in May, June and July 1995 in Sydney, Melbourne, Darwin, Adelaide, Perth, Brisbane, Hobart, Cairns and Canberra.

Following release of the Draft Report in November 1995 a second round of public hearings was held. At this time representatives of the major industry interest groups wrote to the Minister seeking an extension of time to make submissions and for a delay in the date by which the Commission should present its report. The Minister agreed to industry's request and a new reporting date of 23 April 1996 was set.

A total of 184 submissions were received. Organisations and individuals who made submissions to the inquiry and participated in industry visits or at public hearings are listed in Appendix A.

1.5 Structure of the report

The report is in four parts, A to D. Part A contains the terms of reference and the overview. Part B contains the chapters. There are four case studies in Part C and the appendices are in the final part of the report, Part D.

2 THE TOURISM INDUSTRY

Tourism to and within Australia is a high profile industry, forecast to grow until the year 2000 and beyond.

The purpose of this chapter is to present an overview of Australian tourism and put it in a worldwide context.

The Chapter defines tourism and presents a brief history of it in Australia. It then discusses worldwide and regional trends in tourism, comparing them with Australian trends.

The Chapter discusses some of the main influences on tourism in Australia and concludes with a discussion of the role of the government in supporting tourism.

2.1 Measuring tourism as an industry

It is pertinent to this inquiry to have a clear understanding of what tourism is. As will become evident, how tourism is defined and measured has implications for the two distinct elements of this inquiry — accommodation and training.

Industries are typically thought of in terms of their output (for example bales of wool) and measuring and assessing them involves aggregating activities that produce similar products. However, tourism does not conform to this model.

It is not possible to measure tourism as the supply of a particular product:

... tourism supply is defined in terms of the demand (of the buyer) rather than, as usual in other industries, in terms of the properties of the product and its production. (Morley 1990, p. 4)

The reason is that tourists buy products which are also bought by the rest of the community. Examples are local transport and restaurant meals. The extent to which taxis are part of the tourism industry depends not on the service they provide but on who buys it.

In Australia, official data on tourists, tourism activities, expenditure and accommodation are provided by three major bodies — the Australian Bureau of Statistics (ABS), the Bureau of Tourism Research (BTR) and the Tourism Forecasting Council (TFC). The states and territories also produce official data for their jurisdictions. The measures used for tourists in statistical publications are shown in Box 2.1.

Box 2.1 Statistical measures of tourists and tourist trips

The term tourist is used to describe overseas visitors, domestic overnight visitors and domestic day-trippers. The following definitions are important in understanding the statistical data.

- Short-term inbound arrivals of overseas visitors. This term is used for overseas visitors whose intended stay in Australia is less than 12 months. It is often shortened to inbound arrivals or overseas visitors. This classification also includes students and others who intend to stay less than twelve months. The BTR survey only includes those over the age 15 years, but the ABS survey includes all visitors.
- Domestic overnight trips. In BTR statistical collections, a domestic tourism journey is referred to as a trip. The main destination of the trip is recorded as the place where the most nights on the journey were spent. Any place where one or more nights were spent whilst on a trip is recorded as a visit; hence, domestic tourism trips subsume visits and comprise trips for any purpose including business trips.
- Domestic day-trips. A day-trip is defined as 'a trip away from home involving no overnight stay, at least four hours in duration where the main purpose of the trip is for pleasure' (BTR 1995b).

Both the ABS and the BTR are moving to align Australian tourism data collections with the framework and definitions developed by the United Nations Economic and Social Council (UNESCO) and the World Tourism Organisation (WTO). This framework was ratified by the UNESCO in February 1993 for the purpose of collecting internationally comparable tourism statistics.

In this framework, tourism is defined as:

... the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes. (UNESCO 1992, p. 8)

In addition to those travellers who stay overnight the UNESCO–WTO definition of tourism includes day-trippers.

2.2 The history of tourism

The Industrial Revolution brought with it technological changes that permitted relatively inexpensive transport, affordable by the emerging middle class. Increasingly these people were able to spend part of their wealth on discretionary goods such as travel for leisure. In the twentieth century, tourism, or as it was previously known, travel, has been driven by a range of factors.

Prior to World War I, before widespread adoption of the automobile, it was the custom to use public transport to reach leisure destinations. The most extensive transport networks were linked to major cities such as Melbourne and Sydney. The popularity of the Dandenong Ranges to Melbourne's east and the Blue Mountains to Sydney's west typified the recreational preferences of this period, attracting guests to the numerous guesthouses and private hotels — two dominant styles of tourism accommodation of that era.

Visitation and the popularity of destinations reflected strong seasonal patterns. Coastal locations were obviously popular in summer, and northern coastal regions such as the Gold Coast and, for the more affluent, the Great Barrier Reef were drawcards in winter.

Destinations beyond metropolitan areas began to achieve prominence as motor car touring increased in popularity after the depression of the 1920s. For example, the Pacific Highway from Sydney to the Gold Coast fed tourism growth on the Gold Coast, and other tourism centres that developed at various nodes in between.

Australia became linked to world air travel in the 1930s as one point of connection on Imperial Airlines' flights around the world. Australian tourism was historically linked to world leisure tourism via the preferences of the wealthy, who could afford to travel to their destination of choice. Prior to World War II, rail transport and sea travel were prominent. While representing the best transport technologies of their era, these means of travel were relatively slow. Following World War II, tourism in Australia benefited from reduced travel times, as the lower cost of commercial aviation encouraged the expansion of both the inbound and domestic markets.

With the advent of jet aircraft in the late fifties, more distant destinations became accessible. Much domestic tourism was closely associated with natural attractions, such as the beach and the Australian bushland. Rapid transport facilitated expansion of tourism in remote natural areas, further increasing the appeal of Australia to the international tourist market and providing more options for domestic travellers.

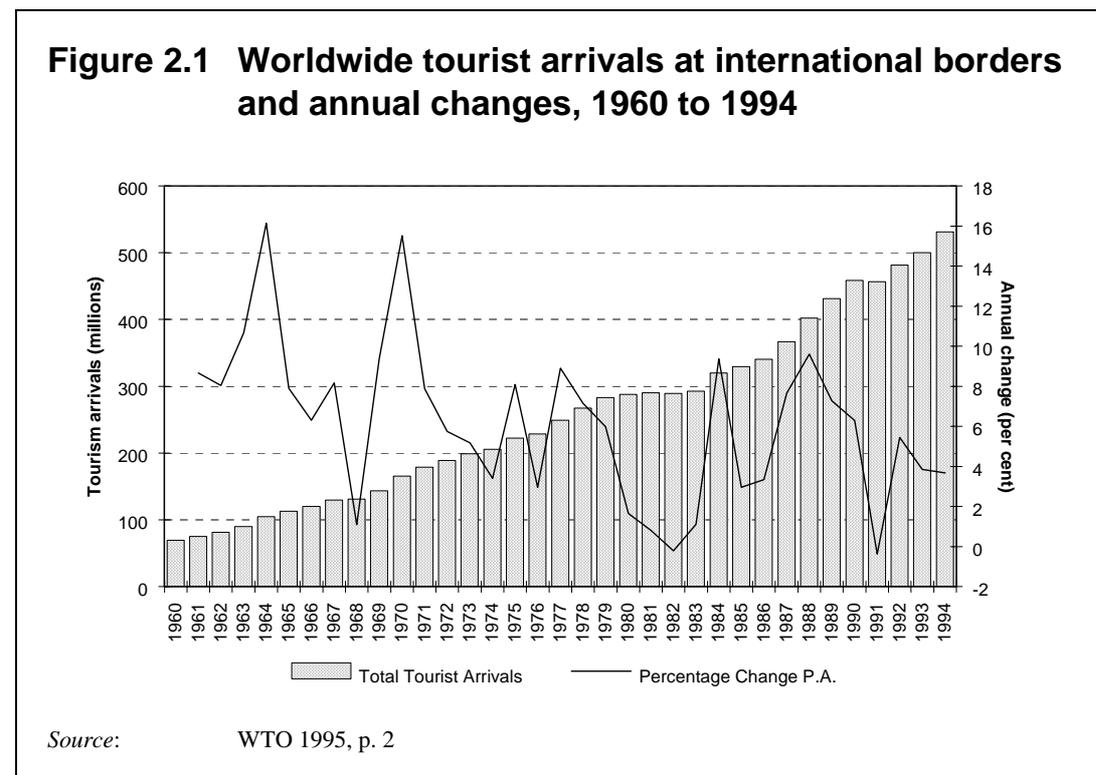
Changing fashions also led development as certain regions rose in popularity, then sometimes declined, or changed according to the type of tourist who visited. For example, the Gold Coast changed from a 'sea of tents' — mainly at Christmas time — with occasional fibro-cement beach shacks, to a near continuous strip of commercial tourism accommodation, including nodal concentrations of resorts, motels and large hotels. Tasmania has evolved from being an off-shore 'holiday isle attraction', appealing to all types of tourists, to a leading exponent of nature-based tourism, and more recently has diversified its appeal by providing a range of bed and breakfast accommodation.

Although what we now call tourism has a long history in the northern hemisphere, mass tourism to and within Australia is a relatively recent phenomenon. While commercial travel and pleasure touring by the wealthy has been a longstanding part of Australian life, mass tourism emerged largely over the past 50 years.

Since World War II tourism in Australia has continued to grow. By the mid 1980s, the rate of expansion of the Australian tourism industry was so rapid that the Organisation for Economic Development and Co-operation (OECD) identified Australia as the World's fastest growing tourism destination (Report of the Australian Government Inquiry into Tourism, 1986). Indeed the scope of tourism now extends to all parts of Australia and caters for most types of tourist.

2.3 Tourism worldwide

Tourists comprise two groups, those travelling within their own country (domestic tourists) and those travelling outside their home country (international visitors).



The WTO publishes data on the number of tourist arrivals at international borders throughout the world. To calculate these data the WTO collate

information made available to them by the respective regional and country specific authorities that collect the raw data.

Figure 2.1 presents total worldwide international visitor arrivals and annual percentage change for the period 1960 to 1994. Although the overall number of tourist arrivals has expanded, the rate of expansion has not been constant.

In 1994 the WTO recorded a 4 per cent increase to a worldwide total of 530 million arrivals, about double the population of the United States. According to recent industry publications, preliminary WTO data indicates that tourist arrivals worldwide were about 560 million in 1995, however the rate of growth has been slower than in recent years (ATR 1996, p. 2).

2.4 Tourism in East Asia–Pacific

The WTO publishes data for a number of selected groupings of countries. Table 2.1 shows the WTO regional market shares of total international tourist arrivals and changes in market shares for six WTO geographic regions for the period 1980 to 1994.

On the basis of the data in Table 2.1, the East Asia–Pacific region — which includes Australia and its neighbours — had the greatest increase in market share over the period 1980 to 1994. Although East Asia–Pacific accounted for a relatively small share of total international tourist arrivals in 1994, that share had grown significantly from 1980, doubling from 7 to 14 per cent in the period.

Another indicator of the popularity of this region is the rate of growth of tourist arrivals. Recent estimates of regional tourism growth suggest that East Asia and the Pacific has dominated tourism growth for the last decade, however, in 1995 the region averaged about 9 per cent growth, less than both the Middle East region and South Asia (ATR 1996, p. 22).

Part of the growth in tourism in the East Asia–Pacific region is due to increases in average incomes — both in Asia and in other countries. Many Asian countries have experienced faster increases in average incomes over the last two decades than have Europe and the United States.

Table 2.1 Regional market shares of total international tourist arrivals and changes in market share

<i>Region</i>	<i>Change in market share 1980 to 1994 (per cent)</i>	<i>Market share 1980 (per cent)</i>	<i>Market share 1994 (per cent)</i>
Middle East	-0.56	2.11	1.55
Europe	-5.32	65.56	60.24
South Asia ^a	-0.11	0.80	0.70
Americas	-1.54	21.58	20.04
Africa	0.86	2.58	3.44
East Asia-Pacific ^b	6.66	7.37	14.03

a South Asia includes the sub-regions Afghanistan, Bangladesh, India, Iran, Maldives, Myanmar, Nepal, Pakistan and Sri Lanka.

b East Asia-Pacific includes the sub-regions North-eastern Asia, South-eastern Asia, Australasia, Melanesia, Micronesia and Polynesia.

Source: WTO 1995, p. 8

2.5 Tourism in Australia

Tourism in Australia, as in the rest of the world, takes many forms. A person attending a conference is a tourist, so is a holiday maker, someone visiting friends and relatives, or a foreign business person. Statistical collections of tourism data generally focus on the two segments:¹

- overseas visitors to Australia; and
- Australian tourists travelling within Australia.

2.5.1 Overseas visitors to Australia

The number of overseas visitors has increased over the past 11 years from 1 million in 1984 to 3.7 million in 1995.

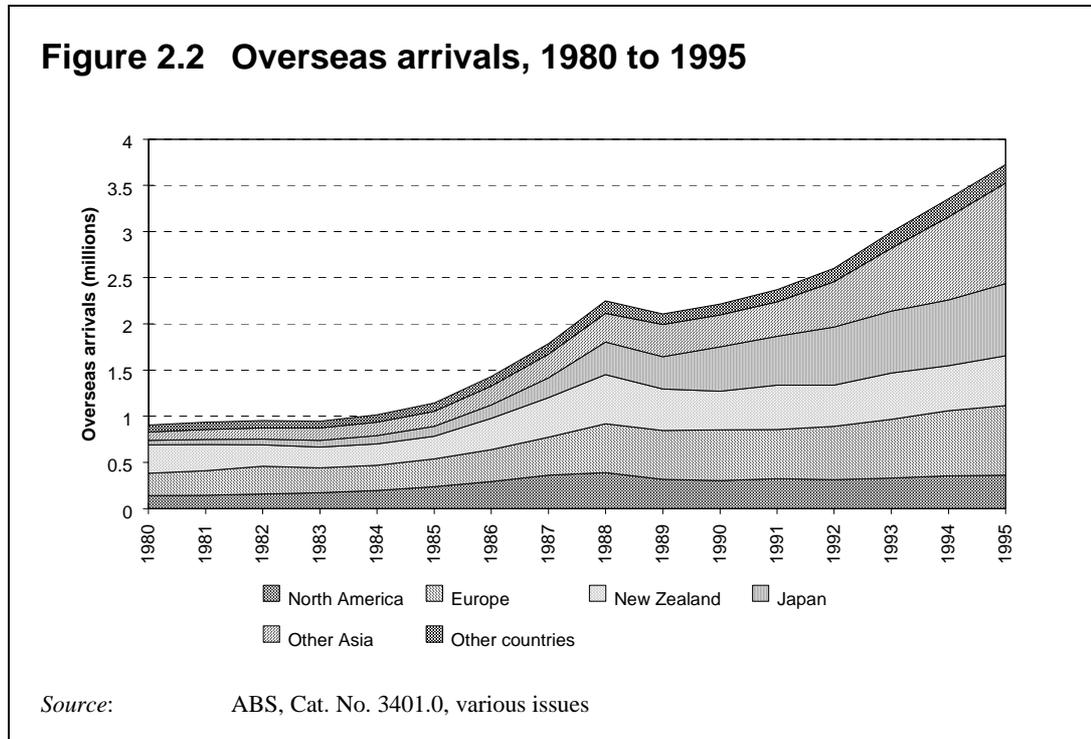
From 1984 to 1995 overseas visitor numbers have been growing at an average of about 13 per cent per year. In 1994, overseas visitor numbers grew by 12 per cent and in 1995 they grew by 11 per cent. This rate of growth is considerably higher than world-wide growth in total overseas visitors (WTO 1995).

In the past, most visitors have been from three markets — Europe, North America and New Zealand. In 1984, visitors from these areas together represented 69 per cent of overseas visitors; while by 1995 they represented 44 per cent. Numbers from Asia have shown the most rapid increase. In 1984,

¹ Statistical collections also cover Australian tourists travelling to foreign destinations.

23 per cent of overseas visitors were from Japan and Other Asia (see Figure 2.2).² By 1995, they represented 50 per cent of arrivals.

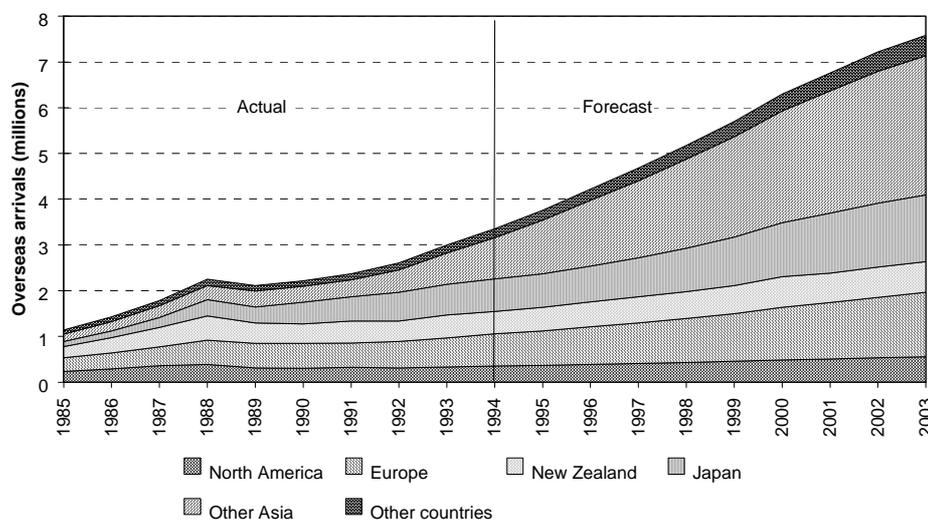
Because Australia is situated relatively close to Asia, a region of high economic growth, there is scope for a continuing high rate of growth of inbound tourism from that region (WTO 1994b).



The Tourism Forecasting Council (TFC) is responsible for official forecasts of tourism in Australia (see Box 2.2). In April 1995, the TFC forecast that the number of overseas visitors will increase to 6.3 million by the year 2000, an average increase of 9.8 per cent per year from 1993 to 2000 (see Figure 2.3). It forecast that by the year 2003 arrivals will increase to 7.6 million per year (TFC, 1995a, p. 6).

The TFC forecasts by country of origin are shown in Figure 2.3. The proportion of overseas visitors from Japan and Other Asia is forecast to grow from 48 per cent in 1994 to 57 per cent in 2000.

² The peak in 1988, in Figure 2.3, was partly due to World Expo 88 held in Brisbane and the Bi-centennial celebrations. Part of the drop in numbers in 1989 was due to the domestic airline pilots' strike.

Figure 2.3 Overseas arrivals, 1985 to 2003

Source: ABS, Cat. No. 3401.0 various issues and TFC 1995a, pp. 6-7.

2.5.2 Overseas visitor nights

Less than one third of overseas visitors stay in commercial accommodation, the balance stay in rental properties, with friends or relatives, or some mix of accommodation types.

The number of nights spent in Australia by overseas visitors varies by both purpose of visit and country of origin. Overall, average stays were about 24 nights in the year to September 1995, with holiday visitors staying an average of 17 nights; those visiting friends and relatives an average of 31 nights; business visitors, 14 nights; and those staying for other reasons an average of 52 nights (BTR, 1996, p. 9).³

The majority of tourists in Australia, both international and domestic, do not use commercial accommodation. Of those who do not, most stay with friends and relatives.

The arrivals translated into 29.6 million visitor nights in 1984 and 79.2 million visitor nights in the year to September 1995 (BTR 1991c, 1996). In April 1995, the TFC forecast visitor nights to increase to 121 million nights in 2000 and 144 million nights in 2003 (TFC 1995a, p. 14).

³ Data for year ending September 1995.

Box 2.2 The Tourism Forecasting Council

The Tourism Forecasting Council (TFC) was established in June 1993 to improve the quality and dissemination of tourism forecasts for the industry at the national level and in key tourism regions. The forecasts were intended to improve planning and investment, and reduce mismatches of demand and supply (DoT 1993). The Council's membership ensures that the interests of the tourism, finance industries and institutional investors are addressed. Membership of the council includes:

- a representative of the Tourism Task Force;
- the National President of the Australian Hotels Association;
- the Head of the Tourism Division, Department of Tourism;
- the Director of the Bureau of Tourism Research;
- the Managing Director of the Australian Tourist Commission;
- the Chairman of the Tourism Council Australia;
- the Executive Director of the Life Insurance Federation of Australia;
- the Chief Executive Officer of the Building Owners and Managers Association;
- the Chairman of the Australian Standing Committee on Tourism;
- a representative of the Australian Council of Trade Unions; and
- a representative of the Australian Bankers' Association.

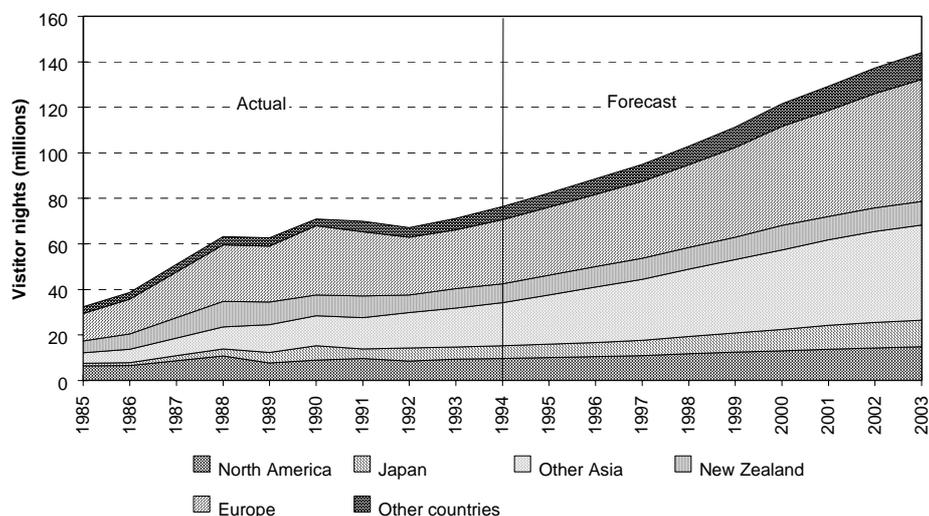
The duration of stay by overseas visitors differed markedly between countries of origin. Visitors from the traditional markets of Europe and the United Kingdom tend to stay longer in Australia than visitors from Japan.

In the year to September 1995, visitors from the United Kingdom stayed an average of 43 nights and those from Other Europe spent an average of 37 nights in Australia. Americans and Canadians stayed an average of 26 nights, visitors from Other Asia stayed an average of 25 nights and the Japanese stayed only 9 nights on average. Visitors from the rest of the world stayed an average of 28 nights.

Europe accounted for 36 per cent of visitor nights to Australia in the year to September 1995, while Other Asia accounted for 29 per cent. Although Japan accounted for 22 per cent of arrivals in the year to September 1995, it only accounted for 10 per cent of visitor nights spent in Australia. (see Figure 2.4)

The highest growth rates for inbound tourism are from Asian countries. The average length of stay varies considerably according to country of origin; European and North American tourists stay significantly longer than tourists from Japan.

Figure 2.4 Nights spent in Australia by overseas visitors, 1985 to 2003



Source: ABS, Cat. No. 3401.0, various issues and TFC 1995a, p. 14

2.5.3 Domestic travel

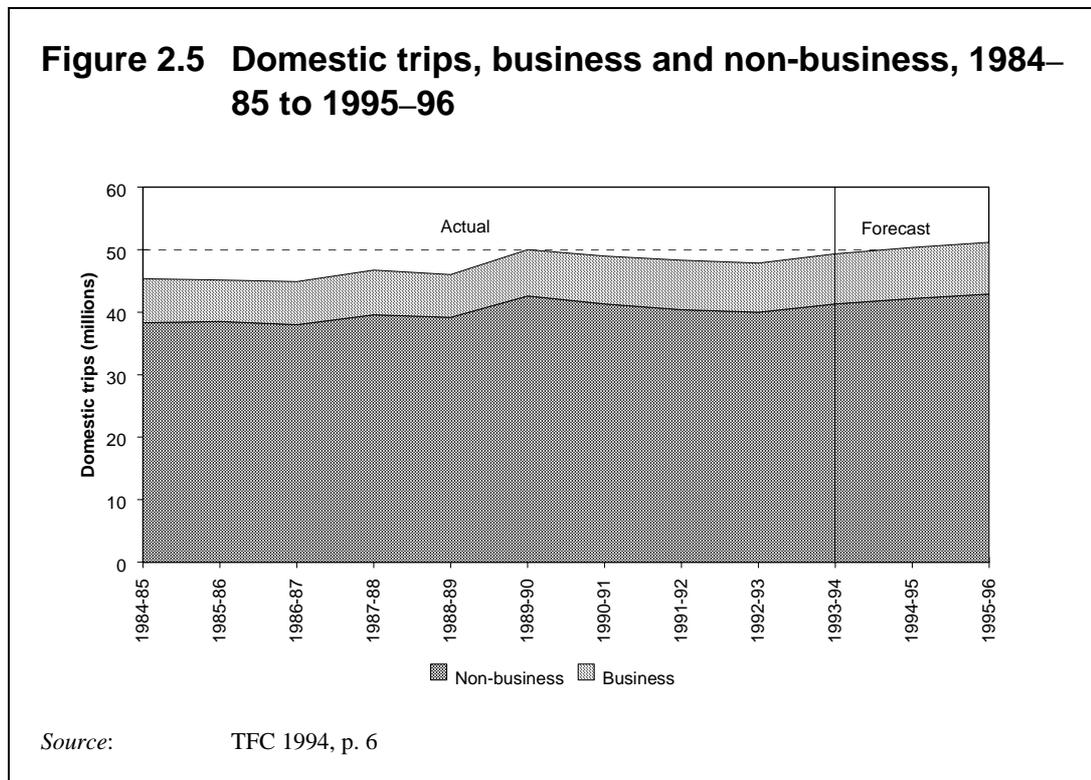
Domestic tourist trips are those where Australian residents stay overnight (within Australia) and do not include day-trips. To be classified as a domestic trip in BTR data collections, travellers need to travel away from home for one or more nights but for less than 3 months.⁴ They can be categorised into business and non-business trips, the latter being subdivided into leisure (or holiday) travel and visiting friends and relatives (VFRs).

Domestic trips, not including day trips, increased from 45 million in 1985–86 to peak in 1989–90 at about 50 million before declining to about 48 million in 1993–94 (see Figure 2.5).⁵ These trips amounted to about 208 million visitor nights spent by domestic tourists in 1994. Not all domestic tourists use

⁴ The BTR definition specifies that domestic trips are less than 3 months, however international definitions adopt 12 months as the cut off. The BTR is moving towards international comparability of data, but presently uses the 3 month cut off. Notwithstanding this difference, the BTR has advised that the application of either 3 months or 12 months as the standard is likely to produce similar results as few domestic trips are of more than 3 months duration.

⁵ As a consequence of a break in the statistical series of the BTR Domestic Tourism Monitor, the most recent data as at April 1996 on domestic tourism refers to the financial year ending June 1994.

commercial accommodation, however, and those who stayed in hotels, motels and guesthouses in 1994 accounted for about 44 million nights.



Most domestic trips were undertaken for non-business reasons. Historically, non-business trips comprise about 80 per cent of total domestic trips.

The TFC expects that domestic visitor nights — business and non-business — will benefit from an improving Australian economy during the late 1990s. The number of holiday visitor nights are forecast by the TFC to grow at a rate of 2 per cent per year from 1993–94 to 1999–2000. The number of business visitor nights are expected to grow by 4 per cent per year. Domestic visitor nights are forecast to reach 238 million in 1999–2000 (TFC 1995b, p. 5).

The expected growth in domestic tourism is significantly less than the expected growth of foreign tourism. The TFC estimates that, by the year 2000, domestic tourism will account for about 60 per cent of nights in hotels, motels and guesthouses in Australia. This would represent a significant decrease from the present level of slightly more than 70 per cent of nights.

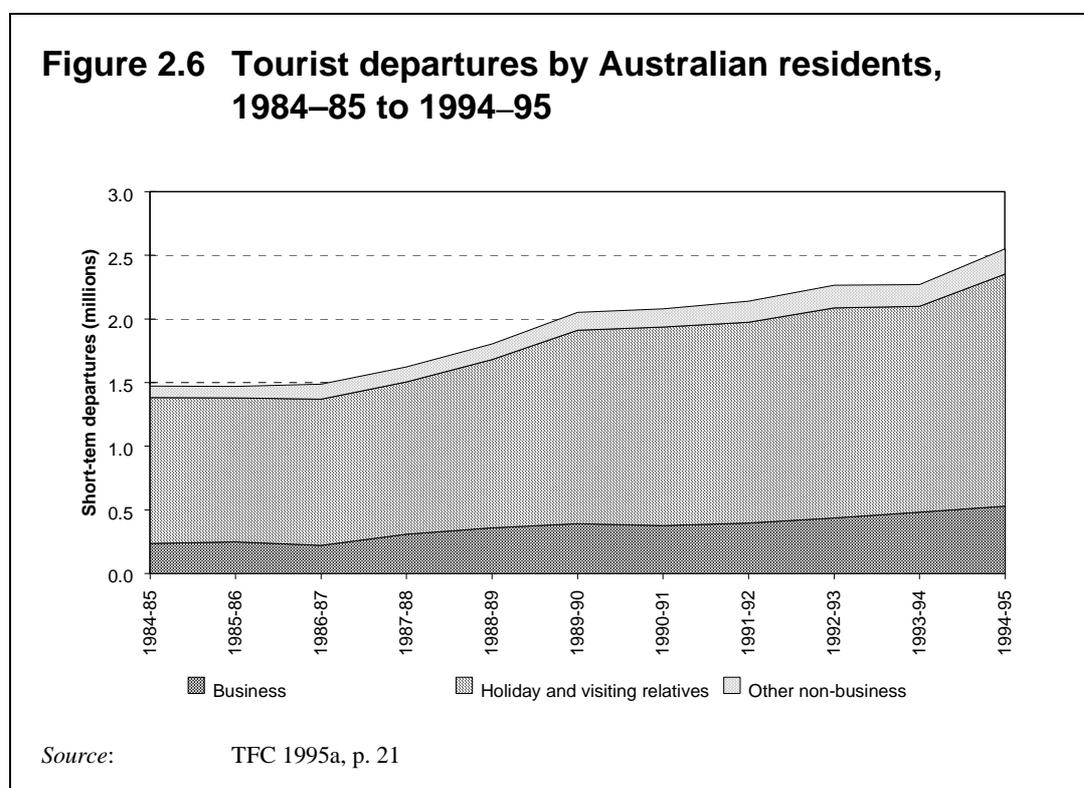
2.6 Australian travel overseas

Australia as a holiday destination competes with a number of overseas destinations for domestic tourists and the number of Australians who choose

foreign destinations in preference to local destinations has implications for the demand for tourism accommodation in Australia.

In 1994–95, 2.5 million Australian residents departed overseas for periods of less than a year (see Figure 2.6). Tourist departures are forecast to increase in 1995–96 to about 2.8 million Australians. From 1984 to 1994, tourist departures have been growing at about 5.6 per cent per year. From 1994 to 1995 departures grew at 7 per cent. In April 1995, the TFC forecast that departures would increase until 1998–99 at the rate of 9 per cent per year (TFC, 1995a, p. 21).

Recently, South-east Asia has been the most popular destination for outbound Australians, followed by the Oceania region, Europe, North and South America, and North-east Asia — including Japan and China (ABS, Cat. No. 3401.0, various issues).



2.7 Comparisons with overseas destinations

Data on tourism arrivals to destinations in the Asia–Pacific region are available in the statistical collections of several countries and WTO publications. These data provide an indication of how attractive Australia is as a tourism destination. However, the data presented below are for 1994 and

more recent data may show different relative positions among competing destinations.

2.7.1 Growth in inbound arrivals

The growth in inbound arrivals for a number of competing destinations is shown in Table 2.2. Australia had a higher growth rate between 1990 and 1994 than all other destinations except Indonesia.

Table 2.2 Inbound arrivals, per cent growth rate by country of destination, 1990 to 1994

<i>Country of destination</i>	<i>Per cent growth rate 1990 to 1994</i>
Australia	10.9
Hong Kong	9.1
Singapore	6.7
New Zealand	7.9
Thailand	2.8
Indonesia	18.6
Hawaii	0.1

Source: WTO 1994b and tourism bureaus of relevant countries

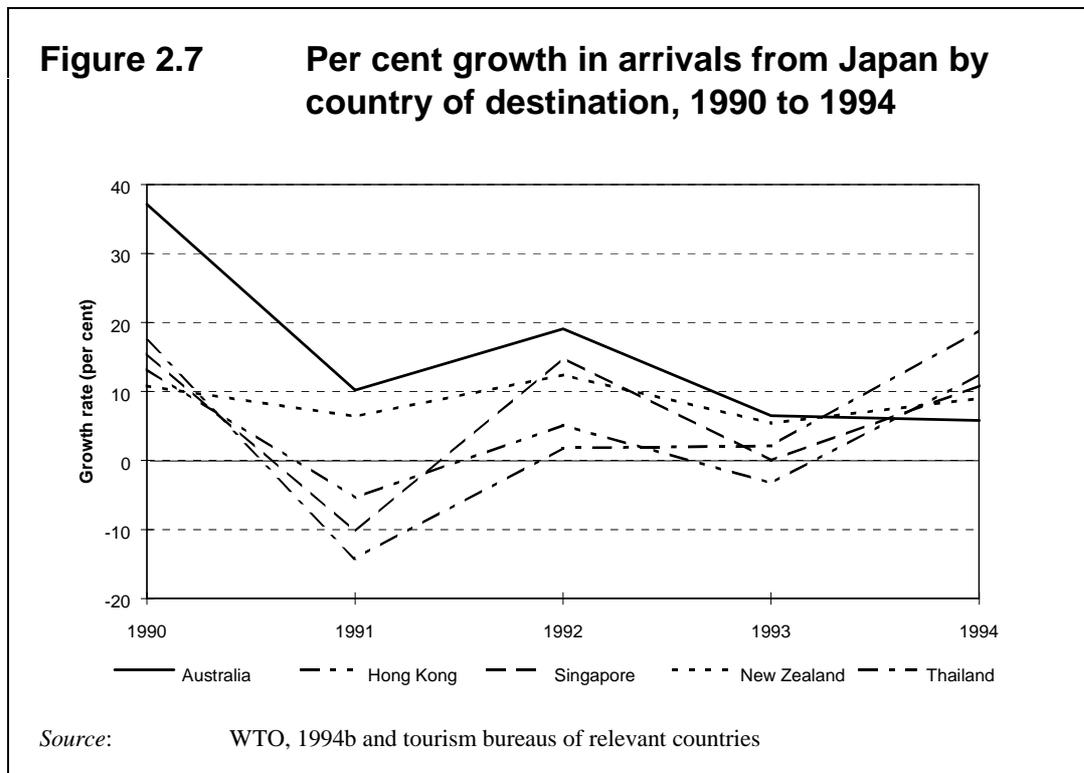
The annual growth rate is only one measure. A better measure is to consider whether the share of tourism attracted to Australia is growing over time. On the basis of WTO data, the market share of tourism within East Asia and the Pacific attracted by Australia has decreased marginally. In 1988 Australia accounted for almost 5 per cent of tourism in this region, but in 1992 this share had decreased slightly to about 4 per cent (WTO, 1994b, p. 84). This change should be qualified. As Australia had the World Expo in 1988, that year represented an historical peak in Australian tourism. That this share has been largely maintained suggests that Australia has continued to be competitive as a destination.

2.7.2 Changing patterns in market segments

It is generally recognised that inbound tourists from different countries are interested in different tourism activities and that people's preferences change through time. For this reason, the composition of tourists visiting Australia will be likely to change through time.

For example Japan has been a major source of tourist arrivals to Australia in the past decade. In recent years the rate of growth in arrivals from Japan to Australia has decreased. Figure 2.7 shows that arrivals to Australia from

Japan show similar trends as arrivals from Japan to some competing destinations.



Another indicator of the changing patterns in market segments is the shares of tourists from a specific destination that are visiting competing destinations. Table 2.3 presents data on changes in the share of tourists from selected countries visiting selected competing destinations. Although the annual growth in arrivals to Australia from Germany was 13.7 per cent in the period 1990 to 1994, the rate of growth in German tourists visiting destinations such as Hong Kong, Indonesia, Hawaii and New Zealand, was greater. The annual growth in arrivals from United States to Australia was 3.7 per cent over the same period. Indonesia, Hong Kong, Singapore and New Zealand experienced higher growth rates over that period.

Table 2.3 Inbound arrivals, per cent growth rate by country of destination and country of origin, 1990 to 1994

<i>Country of destination</i>	<i>Japan</i>	<i>United States</i>	<i>Germany</i>
Australia	10.3	3.7	13.7
Hong Kong	2.0	6.1	18.8
Singapore	3.4	4.9	8.6
New Zealand	8.3	3.8	18.6
Thailand	-3.7	-3.0	9.6
Indonesia	22.4	10.3	16.3
Hawaii	5.1	-8.8	18.9

Source: WTO 1994b and tourism bureaus of relevant countries

2.8 What influences tourism in Australia

International travel and tourism is strongly linked to the world business cycle (TFC 1995a). Rising incomes (especially in Japan and some other parts of Asia), reduced restrictions on travellers leaving certain countries, worldwide marketing, and increased awareness of Australia and the unique environment it has to offer, have all contributed to a growing influx of visitors.

In Australia, during the mid to late 1980s a number of special events — the America's Cup in Fremantle in 1987, World Expo '88 in Brisbane and Bicentennial celebrations in 1988 — also contributed to growth.

2.8.1 The influence of prices and incomes

Incomes and relative prices are important determinants of the demand for any good or service. In particular it is important to understand the responsiveness of tourism demand to changes in price and income.

The economic concept of elasticity of demand measures the change in quantity demanded for a change in another variable — expressly, elasticities measure the per cent change in the quantity demanded resulting from a one per cent change in another economic factor. Elasticity is therefore, a measure of the degree of responsiveness to change.

As part of its research to forecast the number of inbound arrivals, the BTR has estimated a number of elasticities. These elasticities indicate changes that can be expected in numbers of overseas visitors in response to changes in the cost of living in Australia relative to the country of origin and changes in their GDP per capita (see Table 2.4). Numbers of arrivals are highly responsive to changes in income in the countries of origin with estimated elasticities varying

from 1.35 to 7.58. Estimated relative price elasticities varied from -0.30 to -3.09 .

These figures refer to the responsiveness of tourism overall and not to the responsiveness of tourism accommodation.

Table 2.4 Income and relative price elasticities of tourism^a

<i>Country</i>	<i>GDP per capita elasticity</i>	<i>Relative price elasticity</i>	<i>Country</i>	<i>GDP per capita elasticity</i>	<i>Relative price elasticity</i>
United States	2.12	-2.54	Japan	7.58	-3.01
United Kingdom	2.74	-1.06	Singapore	2.48	-2.16
Germany	4.74	-1.22	Malaysia	2.99	-3.09
Netherlands	1.54	-0.89	Indonesia	4.43	-0.75
France	4.59	-0.71	Hong Kong	2.13	-0.30
Italy	2.48	-2.16	New Zealand	1.35	-1.93
Switzerland	6.73	-1.24			

Note: Elasticities are calculated at the mean values of the variables using the long-run coefficients. GDP elasticities are based on changes in GDP per capita in the country of origin. Relative price elasticities are based on changes in the purchasing power between Australia and the country of origin. All elasticities refer to tourism overall, as distinct from tourism accommodation.

a Income is measured as GDP per capita.

Source: BTR 1992

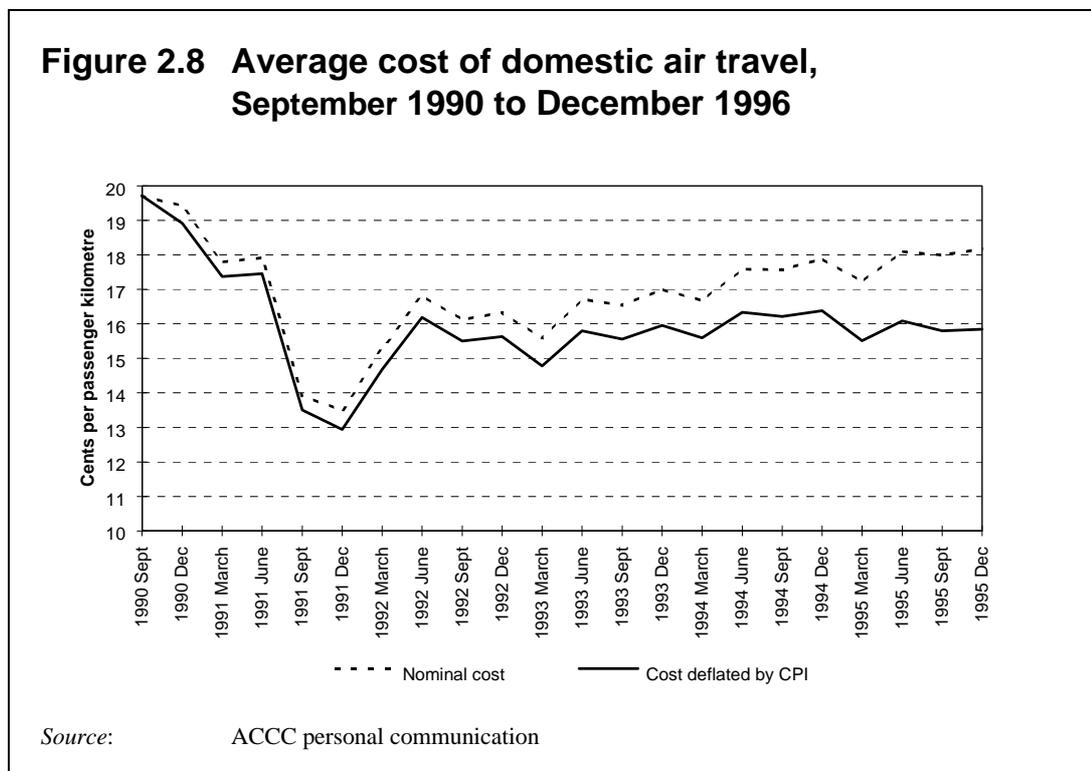
Recent research by the Bureau of Transport and Communications Economics (BTCE) suggests that economic activity, measured by GDP, is an important determinant of air travel demand and consequently tourism. Income elasticities for a range of source countries were positive and fell in a range between 1 and 3. Income elasticity of 3, for instance, indicates that a 1 per cent increase in income in that source country is likely to result in a 3 per cent increase in leisure tourists from there to Australia (BTCE, 1996, p. 28). In as much as an increase in leisure tourism will increase accommodation demand, the BTCE estimates are a useful guide to the responsiveness of accommodation demand to a change in incomes.

2.8.2 Changes in the price of airfares

The same BTCE research estimated disaggregated airfare elasticities for a number of Australia's tourism markets. Airfare elasticities for foreign travellers to Australia varied from -0.5 for Korean tourist to -1.86 for Singaporean tourists. This negative relationship between the price of airfares and leisure travel demand indicates that higher prices for airfares lead to lower levels of tourism, as would be expected (BTCE, 1996, p.27).

Domestic travel elasticity estimates by the Bureau of Transport Economics (BTE 1982) suggest that a 1 per cent fall in airfares in Australia results in a 0.4 to a 1.2 per cent increase in air travel, depending on destination and length of trip.

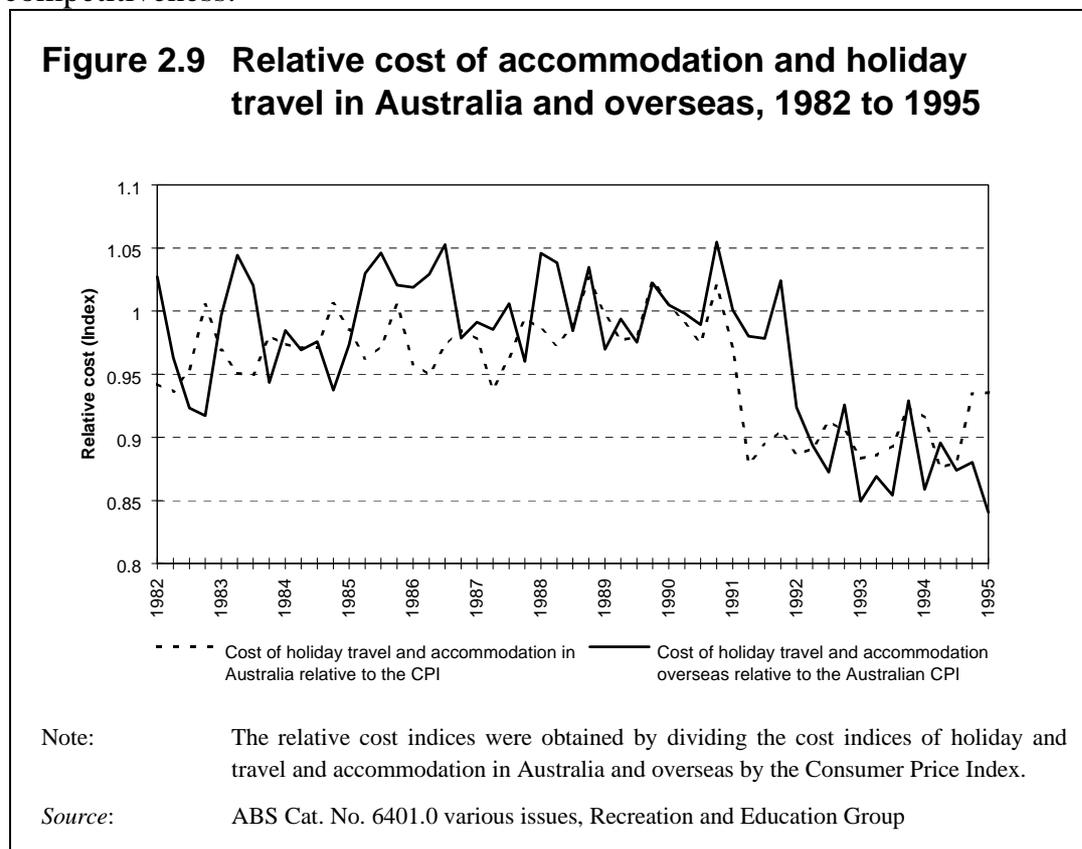
Since deregulation of the airline industry in Australia in October 1990, domestic airfares have fallen in real terms by approximately 20 per cent (see Figure 2.8). The fall in airfares had an immediate effect on air travel. In the March quarter 1991, numbers of passenger kilometres travelled increased by 28 per cent over the previous quarter and were 13 per cent higher than the March 1989 quarter (BTR 1991c). This is evidence that a fall in the price of airfares contributed to an increase in air travel.



2.8.3 Movements in the cost of holiday travel and accommodation in Australia and overseas

Following the December quarter 1990 (and deregulation of the domestic airline industry), the cost of holiday travel and accommodation in Australia relative to the consumer price index fell by about 10 per cent (see Figure 2.9). The cost for overseas travel and accommodation paid by Australians travelling overseas fell about a year later.

To the extent that the prices Australians face, in Australia and overseas, reflect the prices inbound travellers face in these destinations, the indices of relative costs in Figure 2.9 suggest that the Australian tourism industry has retained its competitiveness.



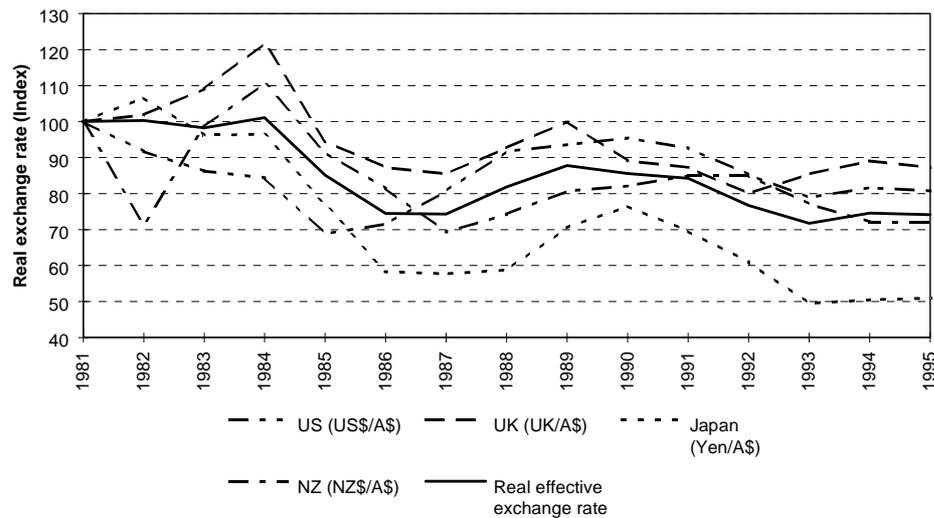
2.8.4 Movements in exchange rates

Another factor which affects international visitors' decisions about whether to travel to Australia is the exchange rate. Empirical research by the BTCE (1996, p. 28) found that real exchange rate elasticities for foreign leisure tourism were negative. That is, a rise in the real exchange rate would result in a decrease in the numbers of tourists to visit Australia.

Figure 2.10 presents indices of real exchange rates (adjusted for inflation) over the period 1981–1995. It also presents the real effective exchange rate over the same period. The real effective exchange rate can be broadly defined as a nominal effective exchange rate index that has been adjusted for relative movements in Australian price or cost indicators and our partner countries or competitors. For this reason the real effective exchange rate is a useful measure of competitiveness.

The Australian dollar has depreciated in real terms (adjusting for inflation) against currencies in New Zealand, the USA, Japan and other Asian countries over the period 1981 to 1995. By itself this general real depreciation has increased the competitiveness of Australian tourism by increasing the purchasing power of tourists in Australia relative to alternative destinations.

Figure 2.10 Real exchange rates, 1981 to 1995



Note: All exchange rate indices have been normalised to 100 in 1981. Exchange rates adjusted for inflation.

Source: International Monetary Fund, *International Financial Statistics*, various issues

In terms of the real effective exchange rate the Australian dollar has depreciated by 26 per cent from 1981 to 1995 (in 1981 dollars). This has resulted in foreign tourists being able to purchase 26 per cent more in 1995 than they could in 1981 for the same amount of their currency. By this measure, tourism in Australia has become more competitive as the purchasing power of foreign tourists has grown. However, at the time of writing the Australian dollar is appreciating against the major currencies and this could reduce the impact of past depreciation if it continues. That stated, the present situation could be nothing more than a temporary change, and what is important is any long-term movement.

2.9 Government involvement in tourism in Australia

The size and economic impact of the tourism industry is gaining increased recognition from governments at all levels across Australia.

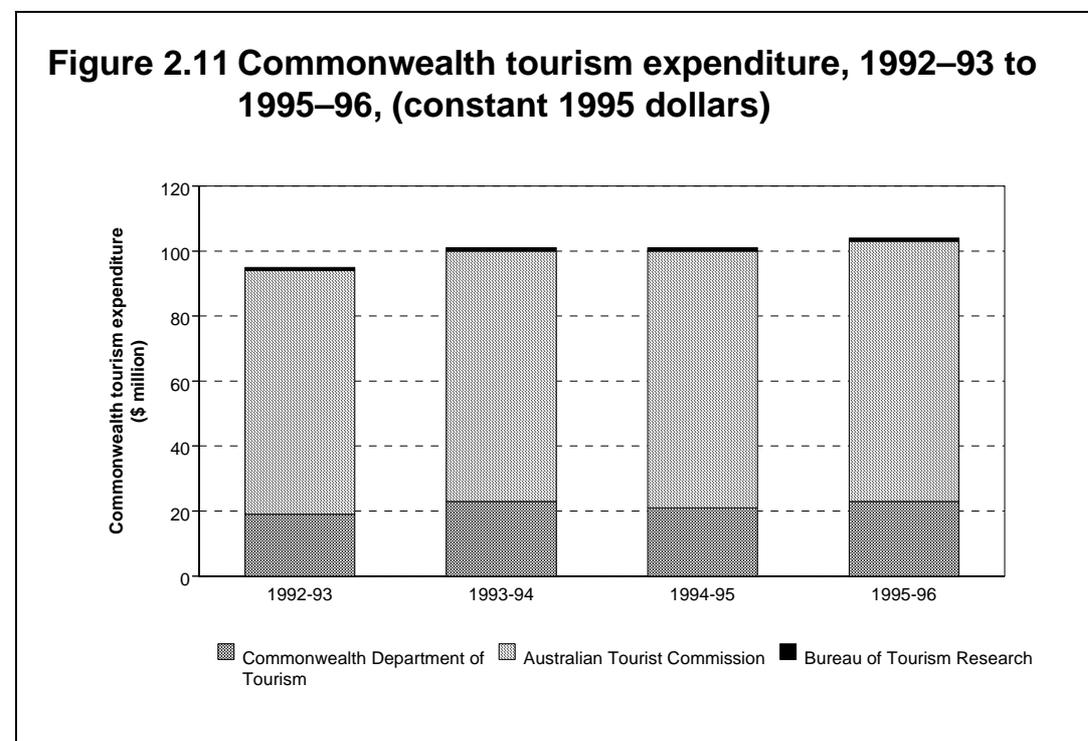
2.9.1 Commonwealth government assistance to tourism

Since March 1996, government involvement in the tourism industry has been administered by the Department of Industry, Science and Tourism. Previously tourism was a distinct Commonwealth ministry. The majority of direct Commonwealth assistance for the tourism industry was provided through the then Tourism portfolio, which consisted of three bodies:

- the then Commonwealth Department of Tourism;
- the Australian Tourist Commission; and
- the Bureau of Tourism Research.

Two thirds of the BTR's core funding was provided by the Commonwealth and one third by the states and territories. Funding for the Tourism Forecasting Council was provided through the then Commonwealth Department of Tourism.

Budget allocations for the Tourism portfolio, since its first full year as a separate portfolio in 1992–93, are shown in Figure 2.11.



<i>Note:</i>	Actual expenditure for first three years, budgeted expenditure for 1995-96, deflated using the GDP(E) deflator.
<i>Source:</i>	DoT Annual Reports, Tourism Portfolio Budget Statements 1995-96

For 1995–96, Commonwealth tourism funding is almost \$105 million. It is apparent from Figure 2.11 that Commonwealth funding has changed little, in real terms, since 1992–93, and that the Australian Tourist Commission receives the dominant share of funding, most of which is spent on marketing.

2.9.2 State and territory government assistance to tourism

Each of the state and territory governments has at least one agency responsible for tourism. The structure of these agencies is different in each jurisdiction and they have been subject to review and change from time to time. If there is a common link between these agencies, it is the emphasis on marketing activities.

The majority of the state and territory government tourism funds are spent on marketing, with the balance being spent on research, minor capital developments, planning and policy.

In some jurisdictions, the government has funded or facilitated major infrastructure projects which are of direct benefit to the tourism industry. These include convention centres, casinos and, in the case of the Northern Territory, direct investment in hotel accommodation. In some cases, special events such as major festivals and sporting events are also part funded by state and territory governments. The states and territories are also generally involved in the provision of infrastructure such as visitor information centres, roads, signposts and guided walkways that can benefit tourists.

Table 2.5 Tourism funding, state and territory governments, 1993–94

<i>State/territory</i>	<i>Tourism funding (\$m)</i>	<i>State/territory</i>	<i>Tourism funding (\$m)</i>
NSW	27.9	WA	19.7
Vic	22.5	Tas	18.7
Qld	24.2	NT	20.9
SA	17.0	ACT	4.4

Source: Annual reports of state/territory tourism agencies

A comparison of the states and territories in terms of tourism funding is shown in Table 2.5. In total, tourism funding from the state/territory governments is significantly greater than funding from the Commonwealth government. State and territory governments provided total tourism funding of \$155 million in the fiscal year 1993–94. In this year Commonwealth appropriations were \$101 million.

2.10 Conclusions

In Australia the domestic tourism segment is considerably larger than the inbound tourism segment (208 million visitor nights compared to 79 million) and is likely to remain so for some time. However, inbound tourism is growing more rapidly than domestic tourism.

Growth rates fluctuate over time. Australia is not unique in having experienced changing patterns of demand for its tourism products. A number of competing destinations have also.

This chapter has identified a number of influences on the rate of growth of tourism to and within Australia. These include the level of disposable income in source countries, the cost of airfares and the exchange rate. These influences provide insights for the industry into how the level of demand for Australian tourism might change. For example, during the 1980s tourism was boosted by a rapid increase in the number of overseas visitors coming to Australia, particularly from Japan and other Asian countries. This was driven, at least in part, by increasing national income in those countries. Rapid economic growth in Asia is expected to give rise to further increases in tourism from this region.

Growth in tourism in Australia is expected to continue vigorously as a result of this. In April 1995, the TFC forecast that numbers of overseas visitors will increase from 4.2 million in 1996 to 6.3 million by the year 2000 and to 7.6 million by 2003.

3 THE ECONOMIC IMPACT OF TOURISM

This chapter describes the patterns of expenditure of both inbound and domestic tourists.

It considers the foreign exchange impact of tourism and tourism's impact on the current account in Australia. The chapter then presents an economy-wide perspective on the impact of an increase in tourism expenditure.

3.1 Introduction

Chapter 2 described how inbound and domestic tourism in Australia are both forecast to increase until the year 2000 and beyond. On this basis tourism will continue to have a significant impact on the Australian economy. In its submission the Australian Hotels Association described the importance of the tourism industry.

... [t]he part played by the tourism industry in Australia's economic well-being is widely acknowledged to be significant, although estimates of its exact contribution vary. (sub. 157, p. 2)

3.2 Contribution of tourism to national income

The benefits of tourism expenditure accrue first to regional economies, then flow-on across the national economy. Tourist spending is income for local communities. To the extent that local businesses 'import' materials and rely on other regions to supply inputs, the rest of the economy benefits.

It is also important to acknowledge that there are costs associated with tourism. These can be a local or national concern, or both. As well as tangible costs such as, say, localised price increases, tourism can impose costs on a community that are harder to measure. Examples of these intangible costs are increased traffic congestion or crowding and environmental impacts at popular sites.

If economic development is augmented by tourism growth, net of associated costs, the tourism industry can generate a compound benefit across regions or the entire nation. However, net benefits at a national level only result if either or both of the following circumstances prevail:

- there is under utilisation of resources, and expansion of the tourism industry does not give rise to increased production costs; and
- tourism is a more profitable activity than other industries presently using resources and re-allocation of resources to tourism increases the value of output.

3.2.1 Estimates of worldwide tourism expenditure

As tourism is an amalgam of many other industries, the expenditure of tourists has direct impacts on many businesses, including:

- hospitality businesses such as hotels, restaurants and cafes;
- travel and transport related businesses such as travel agents and transport operators;
- international travel businesses such as airlines and shipping agents; and
- recreational and service industries such as dive tours and charter boat services.

The most effective means of measuring the size of tourism is by gathering data on what tourists spend.

The World Tourism Organisation (WTO) reported that international tourists spent US\$372 billion for calendar year 1995¹ and the industry contributed 1.3 per cent to world gross domestic product (GDP).²

3.3 Expenditure by inbound visitors to Australia

According to the International Visitor Survey (IVS) in the year ending September 1995, 3.3 million inbound tourists aged 15 years and over stayed for an average of 24 nights and spent about \$1935 each within Australia (BTR 1996). This amounted to total expenditure by inbound visitors in Australia of \$6.47 billion or about 1.5 per cent of GDP for that year.³

¹ Generally tourism data are collected for calendar years. Except where otherwise noted data in this chapter refer to calendar years.

² Data from the WTO for tourism receipts represents preliminary estimates for 1995. The total is computed on the basis of data supplied by individual countries and does not include airfares.

³ GDP equals the market value of all final goods and services produced in an economy during a given time period (usually a year). The ABS estimate of GDP(E) was \$414.76 billion in the year ending 30 June 1995—Australian National Accounts, National Income, Expenditure and Product, Cat. No. 5204.0 September quarter 1995.

3.3.1 Patterns of inbound visitor expenditure

The fact that many inbound tourists buy packages (airfares, accommodation, tours etc.) in their country of origin makes it difficult to present an accurate picture of expenditure patterns in Australia. Package tour purchase prices generally include a large proportion of the total cost of accommodation (BTR 1995d). Indeed tourists who travel on package tours generally have low expenditure figures within Australia, having purchased the majority of their accommodation — as well as airfares and transfers — in the package price.

Noting the difficulties in estimating what is spent on Australian tourism goods and services due to the payment overseas for many of these items, the available data indicate that average total expenditure by inbound visitors in Australia has decreased in real terms from 1990 to 1995. However, average expenditure per night has increased in real terms. For example, average expenditure per night increased from \$66 in 1991 to \$81 in the year to September 1995 — in constant 1995 dollars.⁴

Expenditure patterns vary according to many criteria, including tourist's country of origin (reflecting cultural differences) and their purpose of visit (those on holiday are likely to behave differently from business travellers).

Components of inbound expenditure

Table 3.1 presents a summary of the components of tourism expenditure within Australia by inbound tourists during the year to September 1995. It excludes package travel.

Table 3.1 Tourism expenditure within Australia, inbound visitors, year ending September 1995

<i>Expenditure category</i>	<i>Average expenditure per visitor^a</i> (<i>\$</i>)	<i>Total expenditure per category</i> (<i>\$m</i>)	<i>Share of total expenditure</i> (<i>%</i>)
Food, drink and accommodation	659	2 203	34
Shopping	596	1 993	31
Other expenditure ^b	680	2 275	35
Total	1 935	6 471	100

a Includes all expenditure within Australia, but does not include purchases of travel packages.

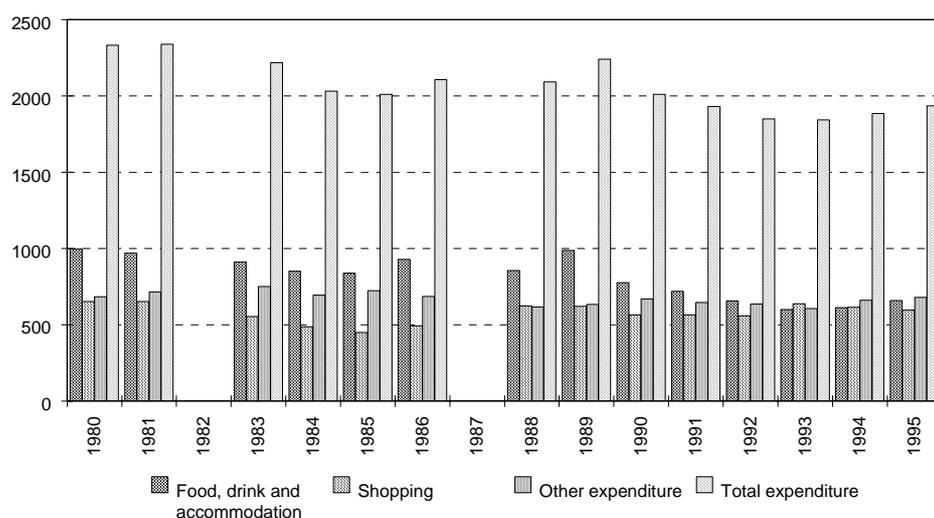
b Other expenditure includes fax and phone services, postage, public transport expenditure, gratuities, some student expenditure such as textbooks and some capital expenditure such as the net cost of cars and business equipment purchased by foreigners who fall within the short term inbound visitor category.

Source: BTR 1996, p. 12

⁴ Average expenditure per night for the calendar year 1995 is not available.

Expenditure on food, drink and accommodation within Australia represented approximately 34 per cent of total purchases per visit in the year ending September 1995, generating expenditure of \$659 per person.⁵ The magnitude of this figure is influenced by the fact that those tourists who stay with friends or relatives do not have commercial accommodation bills to meet.

Figure 3.1 Average expenditure within Australia, 1980 to 1995^a, (constant 1995 dollars)



Note: Includes all expenditure within Australia, but does not include purchases of travel packages.

a Calendar years and year ending September 1995. The IVS was not conducted in 1982 and 1987.

b Deflated by CPI all groups, base 1980–1981 = 100.

Source: ATC and BTR, International Visitor Survey (various issues)

Figure 3.1 illustrates expenditure on the categories food, drink and accommodation combined and shopping fluctuated substantially throughout the period 1980 to 1995, but generally the combined food, drink and accommodation category attracted the greatest share of expenditure.⁶ Since 1980 the share of total average expenditure within Australia attributable to food, drink and accommodation has decreased in real terms from 43 per cent

⁵ From the calendar year 1995, due to changes in the survey, the BTR will be able to report expenditure on accommodation as a separate item (BTR, pers. communication).

⁶ It should be noted that if there were changes in the numbers buying packages overseas these figures do not reflect the complete picture.

to 34 per cent in 1995. This occurred during a period in which there was a very significant increase in visitation from Japan, which is largely a package market. This could explain the change.

In 1993 and 1994, expenditure on shopping exceeded that on the combined category of food, drink and accommodation. Again the level of package tours, rather than a change in tourists' purchasing patterns could explain this.

Expenditure and purpose of visit

Expenditure patterns vary according to the main reason for travel to Australia. For example, in the year to September 1995, business travellers spent \$2158, holiday makers⁷ \$1684 and tourists visiting friends and relatives spent \$1474 per trip (see Table 3.2).

Table 3.2 Average expenditure within Australia, inbound visitors by purpose of trip, year ending September 1995

<i>Main reason for visit</i>	<i>Number of trips ('000)</i>	<i>Average expenditure (\$)</i>	<i>Total expenditure (\$m)</i>
Holiday	1 998	1 684	3 365
Visiting friends and relatives	621	1 474	915
Business	348	2 158	751
Other ^a	377	3 820	1 440
Total	3 344^b	1 935	6 471

Note: Includes all expenditure within Australia, but does not include purchases of travel packages.

a Includes travellers in transit, accompanying business travellers, medical reasons, employment, religious pilgrims and education. Education is the largest component of average expenditure for this group of visitors and reflects the influence of high levels of student expenditure in this category, including capital expenditure such as cars and computers.

b The IVS surveys all visitors aged 15 years and over. This figure for the total number of trips is therefore lower than ABS estimates as the ABS surveys arrivals of all ages.

Source: BTR 1996, p. 13

In the year to September 1995, business travellers spent \$1144 of their per trip expenditure on food drink and accommodation, holiday makers \$525 and tourists visiting friends and relatives spent \$468.⁸ One sub-category of holiday-makers, backpackers, spent \$1633 per trip on food, drink and accommodation in this period. This stems from the fact that backpackers stay

⁷ Holiday makers include backpackers who spent \$3790 on average per trip in the twelve months to 30 September 1995.

⁸ Not all people visiting friends or relatives stay with friends or relatives. Some use commercial accommodation. This statistic also takes into account contributions made by tourists to friends and relatives.

in Australia much longer than other holiday-makers and, even though they use relatively inexpensive accommodation, this is more than off-set by their length of stay.

Expenditure and country of origin

Inbound tourism expenditure also varies according to the country of origin of the tourist. Table 3.3 presents the average expenditure within Australia for tourists from a number of Australia's significant inbound tourism markets. The data are for the year ending September 1995.

Table 3.3 Average expenditure within Australia per inbound visitor, by country of origin, year to September 1995

<i>Region of origin</i>	<i>Total visitors ('000)</i>	<i>Average expenditure per visitor (\$)</i>	<i>Total expenditure (\$m)</i>
Japan	730	1 494	1 091
Other Asia	924	2 334	2 157
USA and Canada	334	2 153	719
United Kingdom ^a	344	1 981	681
Other Europe	367	2 587	949
New Zealand	474	1 194	566
Other Countries	171	1 807	308
All regions	3 344	1 935	6 471

Note: Includes all expenditure within Australia, but does not include purchases of travel packages. Includes travellers in transit, accompanying business travellers, medical reasons, employment, religious pilgrims and education. Education is the largest component of average expenditure for this group of visitors and reflects the influence of high levels of student expenditure in this category, including capital expenditure such as cars and computers. This is likely to inflate expenditure from Other Asia.

a Includes the Republic of Ireland.

Source: BTR 1996, p. 12

Tourists from Europe tend to spend more in Australia than other foreign visitors. The average expenditure for tourists from Other Asia — a combined source category, not including Japan — was the next highest in absolute terms. Tourists from the United States and Canada — another combined source category — also had high average expenditure.

The travel preferences of tourists from various markets also influence their expenditure patterns within Australia. In particular, the high average expenditure within Australia for tourists from the United Kingdom and Europe can be partly explained by their preference for independent travel — as opposed to package travel — and their longer average duration of stay compared to Asian visitors. The relatively low average expenditure within

Australia by Japanese tourists is largely explained by the short duration of their visits.

Table 3.4 Package tour expenditure, by country, 1994

<i>Region of origin</i>	<i>Number of trips ('000)</i>	<i>Proportion who came on an inclusive travel package (%)</i>	<i>Average inclusive tour expenditure per night (\$A)</i>
Japan	580	84	547
Other Asia	348	43	234
United States	77	28	233
Canada	5	10	124
United Kingdom ^a	32	10	152
Other Europe	61	17	181
New Zealand	98	22	80
Other countries	17	10	120
All regions	1 218	39	291

Note: Not all tourists who purchased tourism services other than international airfares will have purchased all-inclusive package tours. This figure includes people who purchased packages from semi-inclusive to totally inclusive.

a Includes the Republic of Ireland.

Source: BTR 1995d, pp. 77–78

Table 3.4 presents the average inclusive tour expenditure per night, for tourists who came on inclusive travel packages, from the same source markets referred to in Table 3.3.⁹ It also presents the average inclusive tour expenditure per night visitors from those markets. Data for package tour expenditure are not currently available from the BTR for the calendar year 1995.

3.4 Domestic tourism expenditure

Domestic tourism expenditure has historically been the largest component of total tourism expenditure in Australia. The Domestic Tourism Expenditure Survey (DTES) conducted by the BTR in 1992 contains the most recent comprehensive estimates of domestic tourism expenditure. The DTES calculated total domestic tourism expenditure, as well as expenditure by type of trip and region.

⁹ An inclusive tour includes all of the price of airfares and some, or all, of the price of transfers, accommodation and tours taken as part of the package. Package tourists on all-inclusive tours still have some expenditure in Australia, although it is less than the expenditure of a tourist on a semi-inclusive tour. ABS data includes all persons of any age visiting Australia. BTR data is survey based and includes only those aged 15 or greater.

In 1992, total domestic tourism expenditure was \$28.6 billion, or 7.2 per cent of GDP, with accommodation accounting for \$3.1 billion or nearly one per cent of GDP (BTR 1993a). Of the \$28.6 billion, \$18.2 billion¹⁰ was spent on overnight trips, \$10.4 billion on day trips and \$0.7 billion due to the domestic component of overseas trips by Australian residents. There were 46 million domestic overnight trips with an average expenditure of \$395 per trip during 1992.¹¹ Average expenditure on accommodation was \$101 per trip (excluding trips spent with friends and relatives), and \$68 per trip if all types of trips are taken into account (see Table 3.6).

3.4.1 Domestic overnight trip expenditure

The average duration of a trip in 1992 was five nights. Table 3.5 presents tourist expenditure on overnight trips by tourists' main destination.

In general, trips with high average expenditure were to more distant destinations where travel is more likely to be by air. This helps to explain the high average expenditure per trip for travel to the Northern Territory. The higher average expenditure per trip to some destinations can also be explained by the longer average duration of stay in those destinations (BTR 1993a, p. vi). Table 3.6 presents a breakdown of expenditure for Australian domestic overnight trips in 1992.

The low figure for accommodation is explained by the high proportion of trips to visit friends and relatives. The low figure for air travel could be largely explained by the fact that private motor vehicle travel is a dominant mode of transport. Also, a large component of expenditure on airfares and accommodation is subsumed in the figure for package tours.

As could be expected, average expenditure per trip increased with the duration of the trip, yet the highest expenditure on a per night basis (\$159) occurred on trips of one night duration.

¹⁰ This figure is larger than the figure cited in section 3.8 of this chapter. The figure in section 3.8 refers only to leisure tourism expenditure.

¹¹ An overnight trip is a journey of at least 40 kilometres from home.

Table 3.5 Expenditure on overnight trips, by the tourists' main destination, 1992

<i>Main destination</i>	<i>Total trips ('000)</i>	<i>Average expenditure per trip (\$)</i>	<i>Total expenditure (\$m)</i>
NSW	14 864	347	5 200
Vic	9 186	300	2 800
Qld	10 318	496	5 100
SA	3 692	308	1 100
WA	5 029	422	2 100
Tas	1 453	459	700
NT	406	2 066	800
ACT	1 118	412	500
Total	46 081	395	18 200

Source: BTR 1993a, pp. 4–5

Table 3.6 Average item expenditure per domestic overnight trip, Australia, 1992

<i>Expenditure item</i>	<i>Average expenditure per trip (\$)</i>	<i>Total expenditure (\$m)</i>
Accommodation	68	3 134
Meals	54	2 489
Petrol and oil	45	2 074
Airfares	40	1 844
Shopping	32	1 475
Package tours ^a	61	2 812
Other expenditure	95	4 379
Total	395	18 200

a This figure includes expenditure on accommodation as part of the package price.

Source: BTR 1993a, p. 13

Day trip expenditure

BTR estimated that total Australian expenditure on day trips in 1992 was \$10.4 billion. This figure is the product of a total of 253 million day trips by Australian residents, with average expenditure being \$41 per trip.

There was some minor variation according to the state/territory of origin: New South Wales (\$42), Victoria (\$42), Queensland (\$41), Northern Territory (\$48), Western Australia (\$44), ACT (\$42), Tasmania (\$34) and South Australia (\$32).

3.5 Inbound and domestic tourism expenditure compared

On the basis of the most recent data published by the BTR, currently domestic tourism — including day trips — is considerably larger than inbound tourism in terms of expenditure. However, the rate of growth of inbound tourism is forecast to be significantly higher than the rate of growth of domestic tourism.

Based on the TFC estimate of 9 per cent compound growth over the decade 1993 to 2003, inbound tourism expenditure is estimated to reach \$14.5 billion (in 1993 dollars) by 2003 (TFC 1995a, p. 18). Nevertheless, this would be only half of the amount of spending by domestic tourists in 1992.

On this basis, in terms of expenditure, domestic tourism activity should be much greater than inbound tourism for the foreseeable future.

3.6 The increasing share of tourism in Australian expenditure

Real inbound tourism spending has been growing at an average rate of about 10 per cent per annum. It has increased from 7 per cent of current account credits in 1981 to over 10 per cent of credits in 1994, growing more quickly than total exports (ABS 1994b). Real domestic tourism spending grew at about 4.5 per cent per annum (in real terms) between 1982 and 1992, compared with real consumption spending growth of 3 per cent per annum over the same period (see Appendix B). That is, domestic spending on tourism has been growing faster than other household spending.

The structure of the economy has thus tended to shift towards tourism-related industries; as disposable incomes have increased, tourism expenditure has increased faster relative to other types of expenditure.

3.7 Current account implications of tourism

Another way of understanding the economic impact of tourism is to consider tourism's export earnings. Some participants in the inquiry, including the Commonwealth Department of Tourism (DoT), focussed on the forecast growth of inbound tourism and the (export) income it generates. The Commonwealth Department of Tourism commented:

... for policy reasons we're particularly focussed on the inbound tourism ... I think there is a government priority being placed on foreign exchange earnings that has that implication to some extent and sometimes influences our behaviour. The other

element, of course, is that the foreign dollars are the growth part of the industry. (trans, p. 986)

As a destination, Australia not only competes with other tourist destinations for the business of foreign tourists, but it also competes with those destinations for the business of Australian tourists. The choice by Australian tourists between competing destinations within Australia and overseas has implications for tourism accommodation in Australia and the balance of payments. It is the balance of the flows of tourists, both inbound and outbound that is important in determining the current account outcomes.

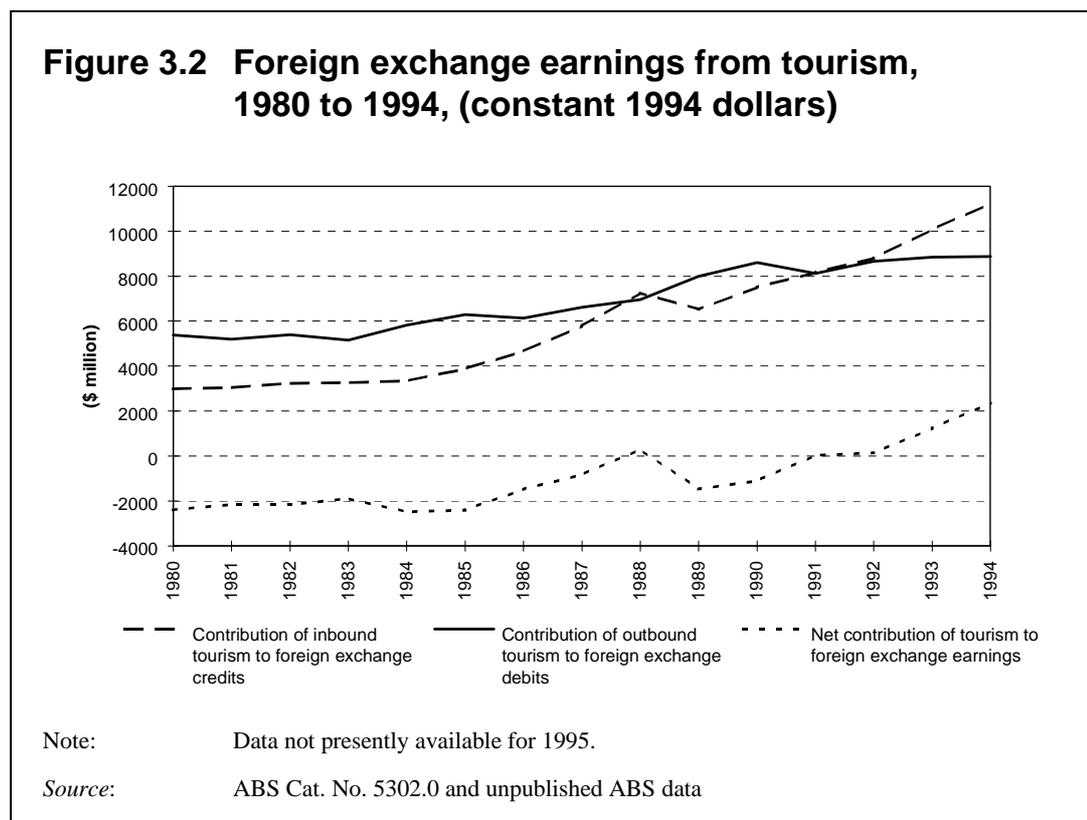


Figure 3.2 presents the net foreign exchange earnings in 1994 dollars accruing to the Australian economy from tourism over the period 1980 to 1994. This figure for net contribution of tourism to foreign exchange earnings is not net of imports however, and is therefore a first approximation of the balance between foreign exchange credits and debits.¹²

¹² The problem of measuring the level of 'leakages' arising from imports required to meet tourism needs is not a unique problem. Most industries use some imports in the production of exports. Estimates of import leakages range from 56 per cent for small tourism economies such as the Pacific Islands, to 11 per cent for developed economies that are able to produce most of the factors that facilitate tourism exports (WTO 1994a, p. 4).

3.8 Economy-wide impacts of tourism expenditure

It is possible to model the impact of tourism in an economy-wide framework. As tourism affects many parts of the economy, it is useful to go beyond a discussion of tourism expenditure and its current account implications and include the effect of such spending on related sectors in the economy. The remainder of this chapter presents the relationship between the tourism sector and the rest of the economy. Further, it evaluates the impact of tourism's increasing importance in the economy using a general equilibrium modelling approach.

Inbound tourism was estimated to contribute \$10.5 billion to the Australian economy in 1994. This figure includes an estimate of the amount of package tour expenditure which is ultimately paid to Australian providers of hotel rooms etc.¹³ but excludes imports purchased directly by tourists. It is not directly comparable to data reported by the BTR, ABS, or TFC. The composition of this spending is shown in Table 3.7 with the details in Appendix B. Expenditure on accommodation represented about 15 per cent of spending by inbound tourists.

Domestic holiday tourism expenditure was estimated to contribute \$14 billion to the Australian economy in 1992.¹⁴ Expenditure on accommodation represented about 16 per cent of this expenditure.

¹³ The Australian component of package tours paid for overseas includes, for example, the fares paid to Australian carriers (not those paid to foreign carriers), all revenues received by accommodation providers in Australia and all revenues received by operators of tours and transfers in Australia (Cole et al 1996).

¹⁴ This figure refers only to tourism for the purpose of holidaying. As such it is not comparable to the figure reported in section 3.4.

Table 3.7 **Composition of domestic holiday and inbound tourism spending**

<i>Commodity type</i>	<i>Composition of inbound spending^a</i> (%)	<i>Composition of domestic holiday spending^b</i> (%)	<i>Composition of all tourism spending</i> (%)
Food, beverages and tobacco	10.7	2.6	6.1
Other commodities ^c	17.7	34.1	27.1
Transport and transport services	37.1	30.1	33.1
Restaurants, entertainment, retail and wholesale trade and other services	20.3	16.8	18.3
Accommodation	14.2	16.4	15.5
Total	100.0	100.0	100.0

a Inbound spending includes revenue received by Australian airlines from the carriage of visitors to Australia; the proportion of expenditure by foreign airlines on Australian goods and services that is associated with bringing visitors to Australia; and the Australian component of package tour spending. It excludes imports.

b Domestic spending includes spending on motor vehicles, caravans and other equipment not captured in the Domestic Tourism Monitor and excludes business travel and spending that would have occurred even if persons were not travelling.

c Comprises published and printed material; glass, clay, leather and plastic products.

Source: Based on BTR 1993, BTR 1995a, ABS 1994 and Skene 1993 (see Appendix B)

3.8.1 Economy-wide impact

The Commission modelled a 10 per cent growth in tourism so as to explore the economy-wide impacts.

The analysis was conducted using the ORANI model of the Australian economy.¹⁵ This type of analysis does not provide a forecast of the Australian economy; rather, it provides insights into the mechanisms through which the economy adapts to the modelled changes. It distinguishes the effects of a specific change in the economy from the multitude of other factors that influence economic outcomes. The analysis compares two states of the economy in a static sense.

The analysis modelled an increase in the share of aggregate expenditure accounted for by inbound tourists and domestic tourists on holidays in Australia.¹⁶ Increased tourism spending affects the whole economy as

¹⁵ The model and analysis are described in greater detail in Appendix B.

¹⁶ Holiday tourism is a discretionary part of tourism expenditure whose share in the economy will change relatively easily through advertising or increased income. Business tourism is a business expense which is expected to vary with the general level of economic activity. Any changes in economic activity that may be induced by the

suppliers of, say, accommodation and meals seek inputs from suppliers of materials, power and other inputs. Simulation results indicate that the economy-wide effects of increased tourism activity depend on the state of the economy in which these increases occur. In particular, increased tourism activity can result in an increased economy-wide demand for labour. If this occurs when labour can be hired without significantly increasing real wages, the simulations indicate that there is a potential gain for the Australian economy. However, if real wages increase in response to the increased demand for labour, then production costs for all industries increase according to simulation results.¹⁷ This wage increase reduces the competitiveness of Australia's exports in world markets and results in lower levels of exports, production and income than if tourism's share of economic activity had remained unchanged. At the same time, as the prices of Australian produced goods increase, consumers and producers are expected to switch towards cheaper imports.

The impacts also depend on whether the increased tourism activity is initially associated with a net increase in economic activity over what would have occurred in the absence of the modelled changes (as with inbound tourism), or results from an increase in the share of tourism expenditure (as with domestic holiday tourism). That is, as domestic incomes rise, expenditure on holiday tourism rises more than proportionately with income. This scenario does not provide the same opportunities for expanding production as does the net expansion of inbound tourism.

Simulation results are summarised in Table 3.8. The first two columns show the impact of changes in inbound and domestic tourism expenditures assuming that employment is able to adjust without significantly altering real wages (scenarios 1 and 2). The last two columns show results for identical changes in tourism expenditure, assuming that the economy is less able to supply workers to growing industries and changes in real wages occur as a result (scenarios 3 and 4). The percentage changes reported reflect changes in variables in addition to what they would be had the economy grown without a shift toward tourism expenditure.

The greatest economic impact occurs in scenario 1, when wages are assumed not to rise in response to increased demand for labour. The simulations

changes modelled will implicitly be reflected in the level of business travel and are therefore accounted for in the model.

¹⁷ This assumes that labour is homogeneous and that it is relatively easy to switch from one occupation to another. This is a reasonable assumption if enough time is allowed for workers to be trained in the professions required by the expanding sectors of the economy.

indicate that the benefits to the Australian economy result from its ability to adjust to the increased demand for inbound tourism through higher employment.

In contrast, simulation results in scenario 3 show that when employment can not expand in response to increased demand, wages increase as labour is bid away from other sectors into the tourism sector. This increase in wages causes the costs of producing export commodities to rise. This reduces exports of non-tourism products sufficiently to counteract the initial increase in export revenues associated with increased inbound tourism spending. Consequently, in this scenario, the rest of the economy contracts in response to the expansion of the tourism sector.

Table 3.8 Economy-wide impacts of a 10 per cent increase tourism demand (percentage changes)

Macroeconomic Aggregates	Employment adjusts		Wages adjust	
	Increased inbound expenditure Scenario (1)	Increased domestic expenditure Scenario (2)	Increased inbound expenditure Scenario (3)	Increased domestic expenditure Scenario (4)
Real GDP	0.34	..	0.05	-0.05
Real consumption	0.20	0.03	0.06	0.01
Export volume	1.13	0.01	0.29	-0.14
Import volume	0.41	0.04	0.32	0.02
Export prices	0.01	..	0.21	0.04
Real wages	0 ^a	0 ^a	0.14	0.02
Employment	0.32	0.06	0.01	..

a Indicates that a variable is held fixed in the simulation.

.. Percentage change is between -0.005 and +0.005.

The impact of reallocating domestic consumer expenditure to tourism expenditure is shown in scenarios 2 and 4 under the same labour market assumptions used for the inbound tourism scenarios. When labour is available at the prevailing wage rate, the increased share of tourism expenditure has little economy-wide impact. Because tourism industries tend to use more labour per unit of output than the rest of the economy, employment increases slightly (scenario 2).

In scenario 4, the combination of the lack of an expansionary effect and the upward pressure on the wage rate results in increased export prices and reduced activity

The effect of the modelling, under all the scenarios, on industries that sell most of their output to tourists is unambiguously positive. This is especially the case for the accommodation industry; its output increases by between 2.6 and

5.5 per cent in the simulations. In scenario 1, the tourism-oriented services sector stimulates activity in the rest of the economy, promoting new employment. In scenario 3 the stimulation is inhibited by a shortage of labour, resulting in increased costs. This increase in costs has a negative impact on agricultural and mining exports. In scenario 2, increased domestic tourism expenditure promotes new employment.

The simulation results indicate potential pressures on parts of the Australian economy as tourism expenditure as a share of aggregate expenditure increases. If the growth in this share increases more quickly than does the availability of resources such as labour, this expansion can be expected to occur to the detriment of other sectors in the economy. Alternatively, if additional resources are available, the tourism sector can expand to the benefit of the economy as a whole.

3.9 Conclusion

The economic impact of tourism will be influenced by the type of tourists and the pattern of their expenditure.

The chapter details expenditure according to major items (such as accommodation) and according to market segments. The fact that package tours are important for certain market segments and that it is extremely difficult to disaggregate expenditure into purchases of accommodation, souvenirs, etc means that it is not possible to be precise in presenting expenditure data.

Using the ORANI model of the Australian economy, the Commission estimated the impacts of a 10 per cent increase in tourism expenditure on the rest of the economy. The increased share of tourism expenditure in the Australian economy is reflected in the expansion of tourism-related services, including accommodation, in the simulations. Whether the economy as a whole benefits from such a change depends on the availability of resources (especially labour) to respond to the change.

4 THE STOCK OF TOURISM ACCOMMODATION IN AUSTRALIA

This chapter describes tourism accommodation in Australia. It begins by detailing the types of accommodation which are available and the means of classifying and measuring the quantity of that accommodation. The current stock of accommodation is described as well as the patterns of recent development including the growth of certain segments.

4.1 Introduction

Inquiry participants have argued that the ability of the accommodation stock to cater for changes in the number and mix of tourists is fundamental in determining the success or failure of the Australian tourism industry.

This chapter describes the various types of tourism accommodation in Australia, the geographical spread and changing nature of accommodation. It pays particular attention to the expansion of 4 and 5 star accommodation during the latter half of the 1980s. Further, it shows that while changes in this accommodation segment have been prominent in recent times, Australia offers a diverse and evolving variety of tourism accommodation stock.

4.2 Types of tourism accommodation

The tourism accommodation sector provides a wide range of short term commercial accommodation, catering to travellers with various needs and budgets.

Accommodation is generally classified on the basis of amenities and facilities provided by the establishment. The major classes of accommodation (for example, hotels and motels, holiday units, caravan parks, bed and breakfast establishments) are also described by a voluntary system of star ratings. A 5 star rating represents the deluxe end of the market and a 1 star represents the lower end of the market.

This section proceeds to describe the types of accommodation in Australia. In Section 4.2.1 terms used in the industry are applied to describe the types of accommodation. In Section 4.2.2, a typology of accommodation is presented on the basis of the official data sources. First the Australian Bureau of Statistics

(ABS) classification system is presented, then the Australian Automobile Association (AAA) quality ratings. There exists substantial blurring of the boundaries between various types of accommodation and ambiguity is possible when contrasting accommodation by vernacular and official terms.

4.2.1 A popular classification of tourism accommodation

This section of the chapter uses terms common to the industry to describe the types of tourism accommodation available in Australia.

Hotels

Modern tourist hotels often have a variety of guest rooms or suites, restaurants, recreational facilities (for example, pool or gymnasium), meeting rooms, retail, guest services (for example, business centre), and a moderate to high level of customer service. A hotel is licensed to operate a public bar, distinguishing it from a motel. This class of accommodation also includes the ageing stock of regional hotels with a few rooms attached. These establishments are important for commercial travellers and domestic tourists who venture into more remote regions of Australia. Recently other categories of hotels have gained some prominence, such as boutique hotels, all-suite hotels and casino hotels.

Boutique hotels are relatively small (usually fewer than 100 rooms), but offer distinctive food, beverage facilities and customer service compared with other high standard hotels. A boutique hotel in Sydney was recognised for its commitment to quality service by winning the 1994 Customer Service award in the national medium-sized category for all Australian businesses.

Hotels can have both rooms and suites. All-suite hotels have only suites. They have a larger than normal guest room, include at least one bedroom and a separate lounge/living room without beds. Many all-suite hotels have a full or partial kitchen. The recently opened Mercure Grand hotel at Darling Harbour is an all-suite hotel. So-called casino hotels are associated with, or part of, a gambling facility. They generally have a large number of rooms per establishment and offer high quality facilities.

So-called private hotels provide a different quality of product and service than full service hotels. They are often located on the fringe of the CBD. A typical private hotel provides limited room types, limited food services, and a minimal level of guest services.

Motels

The motel accommodation segment typically supplies accommodation to business travellers and domestic tourists. Located principally in suburban areas,

geographically large tourism areas such as the Gold Coast and rural towns, they vary from budget accommodation with minimal facilities to 4 star establishments. The owners of motels are often the operators. Many motels are associated with marketing groups such as Flag Inns, Golden Chain, Budget or Best Western. A typical motel has guest rooms and family suites. It may have a bar, a restaurant, a swimming pool, meeting rooms and limited guest services.

Resorts

In common usage the term resort is applied to anything from a tourist destination — at which there may be a number of separate accommodation establishments — to a hotel or motel that is not distinguishable from the categories above. However, for the purposes of clarity and consistency, resorts can be considered to be complexes comprising combined accommodation and leisure facilities.

In Australia, this type of tourism accommodation initially developed on the islands of the Great Barrier Reef. Accommodation is provided on a room, suite, cabin or unit basis. These establishments provide sufficient entertainment to encourage an extended, self contained on-site holiday. The tariff may include food as well as accommodation, and sometimes also recreational activities. Resorts vary in size, quality and facilities, depending on location and market served. In general resort guests are seeking a holiday experience (associated with the accommodation) rather than only accommodation services.

Timeshare resorts provide another class of resort accommodation. In such resorts, accommodation is sold on the basis of time intervals, usually in minimum lots of a week.

Another type of resort development has attracted attention in the early 1990s. In 1991, the Commonwealth government introduced the policy of exempting designated *integrated tourism resorts* (ITRs) from Foreign Investment Review Board (FIRB) approval. By combining residential and tourism accommodation in the design of an ITR, restrictions on foreign ownership of residential property can be avoided.

Apartments and units

The provision of serviced and all-suite apartments which offer separate and fully-equipped kitchen, living and bedroom areas, has increased during the past decade. Serviced apartments are a subset of holiday flats, units and houses. The main feature distinguishing them from holiday units is they provide cleaning and bed making services.

Holiday units are similar to serviced apartments in the type of facilities they offer. They are generally a collection of individual units within one building, which are managed by booking referral services and real estate agents. They include one, two, and three bedroom apartments; are generally self-contained, and often have access to a pool and a tennis court.

Holiday units and serviced apartments do not usually have breakfast available for guests. This distinguishes them from hotels, motels and guesthouses.

Guesthouses

Guesthouses comprise a subset of hotels and motels. As in the case of hotels and motels, accommodation is principally provided on a room or suite basis. Guesthouse style accommodation is a term suggestive of an earlier type of accommodation, pre-dating motels. They were popular at certain coastal destinations (for example, Coolangatta) and in rural and semi-rural areas.

Modern guesthouses tend to be smaller than hotels and offer moderate to high quality accommodation. There has been considerable growth in the last few years in this segment. In Tasmania, the number of guesthouses has increased from 8 in 1980 to 126 in 1992. The Blue Mountains to Sydney's west is another example of a region where the development of guesthouse accommodation has been strong recently (TOF 1994).

Caravan parks

Caravan parks have been popular for a number of decades. In the early days, they emerged at coastal tourism destinations and offered inexpensive holidays for domestic leisure tourists. The majority of caravan parks are owner-operated, and some of them are members of marketing groups such as the Big Four.

Some caravan parks offer a broad range of accommodation within the one complex. The range of possible accommodation can include fully serviced sites, cabins with or without ensuite, camp sites, barbecues, pools and tennis courts, and low level of guest services. A relatively recent development has been the provision of high quality — even 5 star — options within caravan parks.

Other accommodation types

The hostel market caters principally to the backpacker segment. Hostel accommodation is sold on a bed, rather than room, basis. It is particularly important in certain areas of Australia as it forms the basis of travel itineraries for large numbers of budget tourists. This type of accommodation also provides an example of the accommodation stock effectively responding to changing demand conditions — much hostel accommodation is converted from other uses, such as residential homes, allowing supply to adapt quickly to meet

growing demand. Case Study CS2 provides a detailed discussion of backpacker accommodation in Australia.

Bed and breakfast accommodation is typically provided in private homes with rooms let to paying guests on a short-term basis. A typical bed and breakfast facility has a small number of bedrooms, ensuite or shared bathroom facilities, breakfast included in the tariffs and otherwise a low level of guest services.

Farm-stay accommodation is becoming popular. Farm-stay establishments are located on working rural properties and vary in the level of service they provide from minimal to luxurious.

A less common form of commercial accommodation includes accommodation on various transport modes such as houseboats, trains and cruise ships. In each of these cases, the tourism experience is a combination of the transport service provided and the accommodation component. For many tourists the accommodation component is enhanced through its link to travel.

There are also accommodation establishments that are run by not-for-profit organisations. Typical examples of this type of accommodation include scout and church properties, ski club lodges, trade union holiday camps and corporate training centres. The Australian Youth Hostels Association offers hostel accommodation to its members on a not-for-profit basis.

Educational institutions (such as colleges and universities) also provide accommodation to people other than students. This accommodation service is sometimes restricted to attendees at conferences or during special events.

4.2.2 Official classifications of tourism accommodation

Comprehensive information for all the accommodation types described above is not reported on a consistent basis. Official data sources collect information on a restricted number of accommodation types. This section first proceeds to describe the ABS classification of tourism accommodation, then considers the AAA system of quality ratings.

The Australian Bureau of Statistics Survey of Tourist Accommodation

The ABS presently collects and separately reports data for the following accommodation categories:

- licensed hotels with facilities;
- motels and guesthouses with facilities;
- holiday flats, units and houses;
- caravan parks; and

- visitor hostels.

The ABS accommodation survey is published quarterly and the accommodation categories are based on the facilities provided (see Box 4.1). The ABS excludes from its survey all hotels and guesthouses that have fewer than five rooms per establishment or do not have attached facilities.¹

Box 4.1 ABS tourism accommodation categories

Hotels, motels and guesthouses generally have attached bathroom facilities and breakfast available for guests. Hotels are licensed to operate a public bar. Resorts, casinos and boutique hotels that have a bar are included with licensed hotels.

Holiday flats, units and houses comprise self-contained accommodation generally with cooking and bathroom facilities. Serviced holiday apartments may also provide cleaning and bed-making services. For units and holiday flats to be included in the ABS survey, owners, managers or real estate agents must have sole management rights to at least five units or houses for short-term letting.

Visitor hostels provide accommodation on a bed, rather than on a room, basis.

Caravan parks provide on-site caravans and cabins. These facilities can have shared or attached bathrooms and laundries. Caravan parks also provide powered and unpowered sites for visitors with their own caravans or tents.

Source: ABS Cat. No. 8635.0

The ABS does not have a separate category for bed and breakfast establishments and includes them with hotels and guesthouses if they meet the requirements for that category. Also, classifications such as farm stay, health and fitness establishments, time share accommodation, houseboats, institutional accommodation (colleges) and non-commercial accommodation are not included in ABS surveys.

The Australian Automobile Association quality ratings system

The AAA provides a system of quality ratings for tourism accommodation in the form of star ratings. The star rating system administered by the AAA is not a substitute classification for the ABS survey of tourist accommodation, rather, it provides a complementary means of describing tourism accommodation. The rating system is a broad indicator of quality, based on the standard of an establishment's facilities. Rating is voluntary and some accommodation establishments do not choose to be rated.

As at June 1994, the AAA had 15 640 accommodation listings on its database. About 81 per cent of these establishments qualified for an AAA rating between

¹ In this context facilities refers to the provision of a bath (or shower), a toilet in most guest rooms and having breakfast available for guests.

1 and 5 stars (sub. 92, p. 8). At that time the AAA database comprised the following accommodation categories:

- hotels/motels;
- camping/caravan parks;
- on-site accommodation in parks;
- holiday units/cottages/cabins; and
- bed and breakfast/guesthouses.

By comparison, the ABS tourist accommodation survey included 9616 accommodation establishments as of December 1995. Of these, 12 per cent were licensed hotels with facilities, 39 per cent motels and guesthouses with facilities, 28 per cent caravan parks, 5 per cent visitor hostels and 17 per cent holiday flats, units and houses (ABS Catalogue No. 8635.0).²

This comparison requires qualification. As noted above, the ABS and AAA classifications are not fully concordant. The AAA includes establishments with less than five rooms and holiday units that do not meet the criteria for inclusion in the ABS survey of tourism accommodation. Consequently the AAA database will be larger than the ABS survey.

AAA ratings are made on the basis of individual assessment by designated inspectors. As such they are sometimes disputed. Further, while the criteria used to distinguish different ratings may reflect the quality of the facilities, they may be poor indicators of overall service quality (Carr 1995, p. 9). An example of these criteria is the type of window coverings in an establishment. For instance, in isolated rural accommodation, the absence of window coverings might enhance the appeal of the accommodation, yet this feature would be reflected in AAA statistics by a lower star rating. Moreover, several participants have commented that the AAA ratings imperfectly address the needs of certain tourism groups including the hearing and visually impaired.

Despite some limitations, the AAA system of star ratings provides useful information for both tourists and accommodation operators. Further, evidence presented to the inquiry suggests that the AAA is responsive to industry suggestions for improving their service (sub. 34, p. 6).

² In order to be included in the ABS survey, owners, managers or real estate agents must have sole management rights to at least five units or houses for short-term letting. For this reason, the ABS do not record the number of establishments in this classification, rather they record the number of letting units. Percentages do not sum to 100 due to rounding.

4.3 Current accommodation stock

Data from the ABS tourism accommodation survey indicate that licensed hotels are the most significant accommodation category in terms of employment and financial takings (see Table 4.1). An issue in interpreting the data on takings must be noted. Takings do not include revenue from meals.

Table 4.1 Tourism accommodation, average number of establishments, capacity, employment and takings, 1995^a

<i>Accommodation category</i>	<i>Establishments (No.)</i>	<i>Capacity^b (No.)</i>	<i>Employment (persons)</i>	<i>Takings from accommodation (\$m)</i>
Licensed hotels	1 134	68 329	68 866	1 819
Motels and guesthouses	3 722	101 301	37 810	1 429
Holiday flats, units and houses ^c	1 611	39 249	5 851	494
Caravan parks ^d	2 708	288 464	6 297	462
Visitor hostels	441	27 070	1 697	57
Total	9 616	na	120 521	4 261

a Establishments and capacity are as at the December quarter 1995. Employment is averaged over the year ended December 1995. Takings are for the year ended December 1995.

b Rooms are an appropriate measure of capacity for the first two categories in the table only. Capacity for holiday flats, caravan parks and hostels is measured in number of units, site and bed numbers respectively, so it is not appropriate to sum the room capacity column.

c Defined as 'Letting entities'. This term refers to the number of owners or managers or real estate agents who have sole letting rights to at least five flats, units or houses for short term letting. This number is less than the number of establishments in AAA's database, because the number for holiday flats, units and houses are letting units rather than establishments. In addition, ABS excludes establishments that have less than five rooms or units or that do not have attached facilities. This means that a large number of bed and breakfast establishments, and units that are in AAA's database are not included in the ABS data set.

d Employment figure for short term caravan parks only. The employment figure for all caravan parks is 10 003.

na Not applicable, see note b.

Source: ABS Cat. No. 8635.0

Although motels and guesthouses have far more rooms, their economic impact, in terms of both employment and takings, is less than licensed hotels. As well as being larger than motels and guesthouses — an average of 60 rooms per establishment compared with 27 rooms per establishment — licensed hotels also employ more people per room.

In terms of takings, licensed hotels are the most significant accommodation segment in the ABS survey. In 1995, they represented 43 per cent of the total takings of all accommodation categories (see Table 4.1). Motels and guesthouses were the next most significant with about 34 per cent of the total. Takings for holiday flats, units and houses, caravan parks and visitor hostels combined, accounted for the remaining 23 per cent of industry takings in 1995.

On the basis of star gradings, 3 star accommodation was the largest segment in terms of the number of establishments, capacity, employment and takings in 1995. In terms of employment and takings, the next largest category was 4 star accommodation. Combined these categories accounted for almost 60 per cent of employment and 65 per cent of takings in hotels, motels and guesthouses in 1995 (see Table 4.2 and Figure 4.1).³ Some commentators combine the 4 and 5 star categories — a grouping which accounts for approximately half of employment and takings.

Table 4.2 Hotels, motels and guesthouses by star grading, establishments, rooms, employment and takings, 1995

<i>Star grading</i>	<i>Establishment^a</i> <i>(No.)</i>	<i>Available rooms^a</i> <i>(No.)</i>	<i>Employment^a</i> <i>(persons)</i>	<i>Takings^b</i> <i>(\$m)</i>	<i>Average room rate^c</i> <i>(\$)</i>
5 star	52	14 410	19 964	646	160
4 star	361	35 827	32 038	993	113
3 star	2 244	73 654	33 264	1 133	74
2 star	1 509	30 540	14 649	279	53
1 star	129	2 230	1 455	11	40
Ungraded	561	12 969	8 362	186	87
Total	4 856	169 630	109 732	3 248	na

a December quarter 1995

b Annual data for 1995.

c Annual average 1995. Calculated as total takings from accommodation divided by room nights occupied.

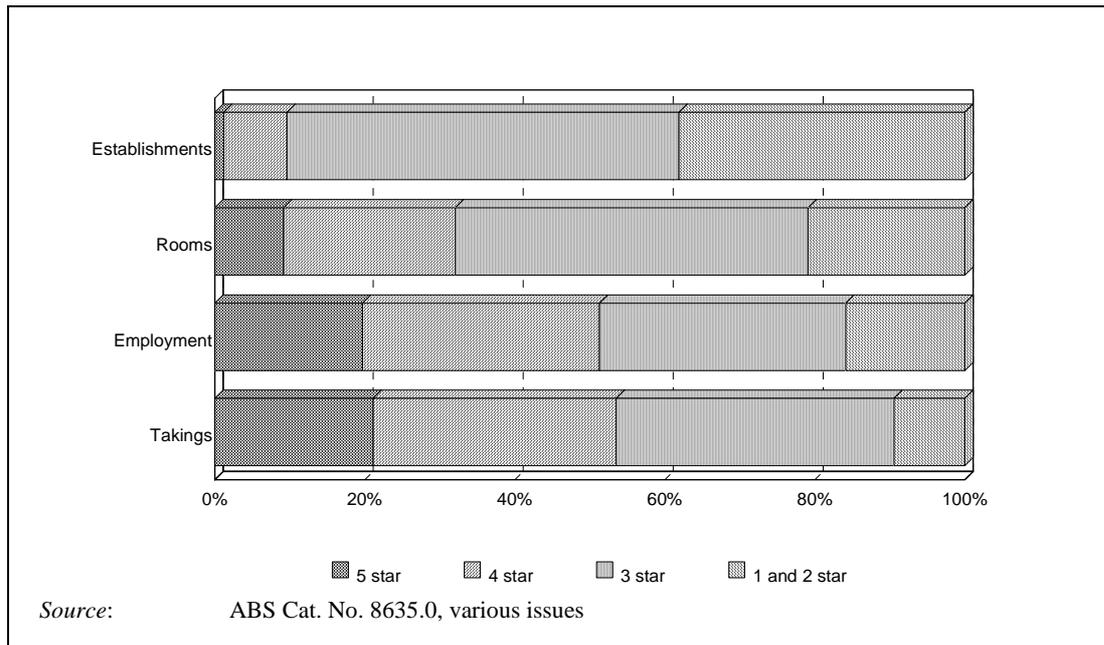
na not applicable

Source: ABS Cat. No. 8635.0 various issues

Notwithstanding the dominance of the licensed hotels, motels and guesthouses segment, other types of accommodation can be important at a regional level or in certain seasons. For example the annual influx of domestic tourists to tents, caravans, beach houses and units on Victoria's Mornington Peninsula has an intense, but short lived effect on the local economy. Economic indicators such as takings and employment per accommodation establishment tend to emphasise large hotels and do not capture the seasonal and regional importance of other accommodation segments.

Figure 4.1 Establishments, rooms, employment and takings by star grading, 1995

³ Room data refers to the December quarter of 1995 and takings are for the year ending December 1995.



Although their economic impact — in terms of employment and takings — was relatively small, there were a large number of caravan parks in 1995, supplying accommodation for tourists in many locations. Holiday flats, units and houses and visitor hostels also provided numerous options for both international and domestic tourists.

Table 4.3 shows recent occupancy rate, room rate and yield data for the accommodation types included in the ABS tourism accommodation survey.⁴

Licensed hotels had the highest average occupancy rate, room rate and consequently yield in 1995. The occupancy and room rates of motels and guesthouses and holiday flats, units and houses are comparable and considerably higher than for caravan parks and visitor hostels. By any of these measures, caravan parks and visitor hostels were significantly lower than any other accommodation type.

⁴ Yield is defined as room rate multiplied by occupancy rate. It does not measure profit per room or net return.

Table 4.3 Average occupancy rates, room rates and yield by accommodation type, 1995

	<i>Occupancy rate^a</i> (%)	<i>Room rate</i> (\$)	<i>Yield</i> (\$)
Licensed hotels	64.0	115	74
Motels and guesthouses	54.8	71	39
Holiday flats, units and houses	52.9	67	35
Caravan parks	43.9	10	4
Visitor hostels	46.4	13	6

Note Room rate and yield measured as average dollars per room for hotel, motels and guesthouses; per site for caravan parks; per unit for holiday flats and units; and per bed for visitor hostels.

a Measured as average unit, site and bed occupancy for holiday flats and units, caravan parks and visitor hostels respectively.

Source: ABS Cat. No. 8635.0, 1995

Table 4.4 presents average occupancy rate, room rate and yield for hotels, motels and guesthouses on the basis of star gradings for the December quarter of 1995. The table indicates that 4 and 5 star accommodation had the highest occupancy rates and room rates in this period.

Table 4.4 Average occupancy rates, room rates and room yield of all hotels, motels and guesthouses, December quarter 1995

<i>Star grading</i>	<i>Occupancy rate</i> (%)	<i>Room rate</i> (\$)	<i>Room yield</i> (\$)
4 and 5 star	74.7	130	97
3 star	58.5	75	44
1 and 2 star	44	52	23

Source: ABS Cat. No. 8635.0, December quarter 1995

The TFC calculated that, over the financial year 1994–95, the national average occupancy rate over all star gradings was almost 58 per cent. This is the highest level since 1981–82. The average national room rate was \$88, an increase of 6 per cent from 1993–94 (TFC, 1995b, p. 17). The TFC expect occupancy rates and room rates will continue to rise (TFC, 1995b, p. 17).

4.3.1 Regional differences

As discussed in Chapters 2 and 3, the impact of tourism across Australia is not uniform. Consequently, the location of accommodation is not expected to be uniform, but to follow (and influence) the geographic spread of tourism. Tables 4.9 and 4.10 present ABS data on the distribution of tourism accommodation by Australian States and Territories.

In 1995, New South Wales and Queensland had the largest number of hotel, motel and guesthouse rooms, accounting for more than half of the total national stock in these categories. Visitor hostels are heavily concentrated in Queensland and New South Wales, with more than half of the total capacity in these two states. The Northern Territory, Western Australia and Victoria also have significant amounts of visitor hostel accommodation, each containing more than 10 per cent of the national stock.

Queensland also has a large number of holiday units, with almost half the total national capacity (see Table 4.10). New South Wales had the largest number of caravan sites in 1995, followed by Victoria and Queensland.

The Cairns region in far north Queensland accounts for large shares of both the accommodation stock and the numbers of visitors to Queensland. In the September quarter of 1995, the far north Queensland region of Queensland accounted for slightly more than 13 per cent of the State's hotels, motels and guesthouses, 12 per cent of holiday flats, units and houses, 15 per cent of caravan parks and 31 per cent of visitor hostels (ABS Catalogue No. 8635.3).⁵ Alice Springs and Darwin attract large numbers of tourists and have relatively large shares of the Northern Territory's accommodation stock.

As well as focusing on single major destinations such as Cairns and Darwin, the regional importance of tourism accommodation is reflected in *tourism routes*. These tourism routes rely on accommodation as a necessary component of infrastructure — along with transport — permitting access for tourists. Nodes of budget accommodation in Sydney, Queensland, Darwin, Alice Springs and Petermann (containing Uluru), Adelaide, the Otway ranges and Melbourne have been identified as forming a common Australian backpacker route (BTR, 1995a).

Some regions have tailored their accommodation stock to meet niche or specialist markets. In their submission to the inquiry, Australian Farm and Country Tourism Incorporated described farmstay accommodation as one example of the successful development of regional accommodation (sub. 11, p. 1).

Another example of a successful segment often offered at the regional level is bed and breakfast accommodation. In 1995, 177 bed and breakfast establishments were offered in Australia's smallest state, Tasmania (sub. 81, Attachment A). At a national level, in 1993–94, host farms and bed and breakfast accommodation were estimated to turn over \$126 million (sub. 4, p. 33).

⁵ The Cairns region is defined here as the ABS statistical division, Far North Queensland.

Regions differ in terms of average room rates, occupancy rates and takings. New South Wales and Queensland earned the greatest share of hotel, motel and guesthouse takings during 1994–95. They accounted for slightly more than 60 per cent of the sector's takings during that period.

The Australian Capital Territory (65 per cent) and Queensland (63 per cent) had the highest occupancy rates during the period. Western Australia (60 per cent), New South Wales (58 per cent) and the Northern Territory (58 per cent) all had occupancy rates similar to the national average of slightly less than 58 per cent. Tasmania (54 per cent), South Australia (51 per cent) and Victoria (52 per cent) are currently experiencing relatively low occupancy rates. Notwithstanding the different levels of occupancy across states and territories, occupancy rates increased in every region over the previous twelve month period (TFC, 1995b, pp. 18 – 19).

New South Wales (\$90), Queensland (\$91) and the Australian Capital Territory (\$88) are experiencing average takings per room equal to, or higher than, the national average of \$88. Victoria (\$87) and the Northern Territory (\$84) differ only marginally from the national average. The remaining states of South Australia (\$76), Western Australia (\$81) and Tasmania (\$74) are significantly lower (TFC, 1995b, p. 19).

4.4 Developments in tourism accommodation

Inbound tourism has driven many of the developments in accommodation in the last decade. Nonetheless, as described in Chapter 2, domestic tourism remains the predominant component of total tourism.

Since the release of the draft report, participants have emphasised a climate of change in Australia's stock of tourism accommodation. Using contemporary information from the ABS combined with public input to the inquiry this section presents current developments in tourism accommodation.

4.4.1 Growth in the supply of accommodation

In aggregate terms the stock of tourism accommodation has been increasing over time. The rate of growth of various accommodation segments has varied, however. For purposes of consistency the analysis commences with the official ABS categories, then considers accommodation on the basis of star grading to provide a more detailed discussion.

Over the period 1975 to 1995, the total room capacity of the combined category licensed hotels, motels and guesthouses increased by 97 748 rooms. More than

half this increase occurred in motels and guesthouses (see Table 4.5). However, licensed hotels had a higher average annual increase in room capacity compared with motels and guesthouses resulting in their share of total capacity rising from 34 to 40 per cent over the period.

Table 4.5 Room capacity for hotels, motels and guesthouses, 1975 to 1995

<i>Accommodation category</i>	<i>Capacity 1975</i>	<i>Capacity 1985</i>	<i>Capacity 1995</i>	<i>Increase in capacity 1975–1995</i>	<i>Change 1975–1995</i>
	<i>(No.)</i>	<i>(No.)</i>	<i>(No.)</i>	<i>(No.)</i>	<i>(%)</i>
Licensed hotels	24 643	33 856	68 329	43 686	177
Motels and guesthouses	47 239	73 518	101 301	54 062	114
Total	71 882	107 374	169 630	97 748	136

Source: ABS Cat. No. 8635.0 various issues

The increase in room capacity for licensed hotels resulted from increases in both the number of establishments and their size. In particular over the period 1985 to 1995, the average rooms per establishment doubled from 31 to 60, reflecting the increasing number of larger 4 and 5 star establishments constructed during this period (see Table 4.6).

Over the period 1975 to 1995, the increase in room capacity for motels and guest houses was attributable to an increase in the number of establishments from 1 926 to 3 722 and less to an increase in establishment size from 25 to 27 rooms.

Table 4.6 Establishment numbers and rooms per establishment for hotels, motels and guesthouses, 1975 to 1995

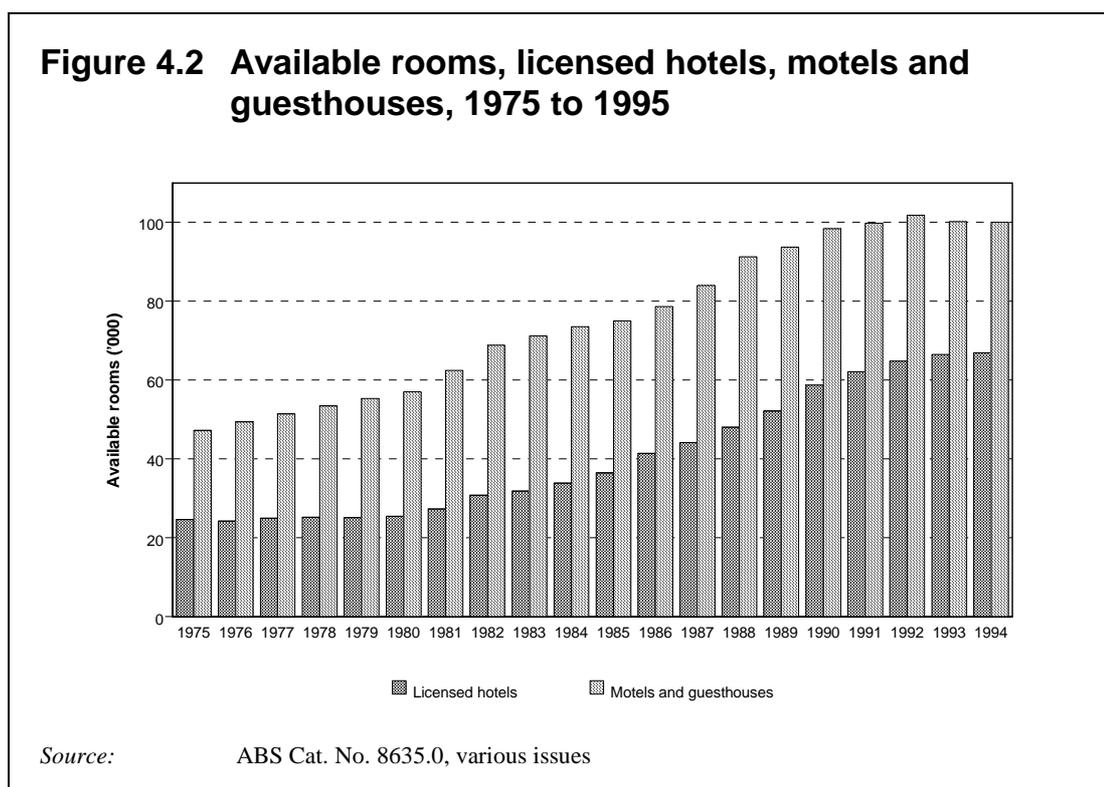
	<i>Estab. 1975</i>	<i>Rooms per estab. 1975</i>	<i>Estab. 1985</i>	<i>Rooms per estab. 1985</i>	<i>Estab. 1995</i>	<i>Rooms per estab. 1995</i>
	<i>(No.)</i>	<i>(No.)</i>	<i>(No.)</i>	<i>(No.)</i>	<i>(No.)</i>	<i>(No.)</i>
Licensed hotels	914	27	1 085	31	1 134	60
Motels and guesthouses	1 926	25	2 880	26	3 722	27
Total	2 840	25	3 965	27	4 856	35

Source: ABS Cat. No. 8635.0 various issues December quarters

As data in Chapter 2 show, domestic tourism accounted for the majority of growth in the first period — from 1975 to 1985 — and was the source of most of the demand for motel accommodation. Significant increases in inbound tourism in the second period — from 1985 onward — contributed largely to the increase in licensed hotels. This increase in the proportion of hotels within the combined hotels, motels and guesthouses category is illustrated in Figure 4.2.

Official data for the stock of holiday flats, units and houses, and caravan parks are only available since the mid to late 1980s. Their numbers increased since then (see Table 4.7).⁶ Of these categories, holiday flats, units and houses recorded 24 per cent growth over the period. The site capacity of caravan parks increased only slightly from 1988 to 1995.

There are no data to compare growth in visitor hostel capacity over this period as none were collected prior to 1991. However, data for the period December 1991 to December 1995 indicate that the number of beds in visitor hostels increased by about 6 per cent in total.



The data in Table 4.8 show that the majority of the growth in hotels, motels and guesthouses has occurred in the 3 and 4 star gradings. However, there are difficulties in interpreting the table, due, in part, to the fact that a large number of ungraded establishments in 1988 were graded by 1995 and some other establishments were downgraded.⁷

⁶ Comparable data series for caravan parks are available from 1986. Data for holiday flats, units and houses, and visitor hostels, are only available from 1988 and 1991, respectively.

⁷ Data by star grading are only available for all states and territories from 1987.

Table 4.7 Capacity by accommodation type, 1988 to 1995^a

<i>Accommodation category</i>	<i>Capacity 1988^b (No.)</i>	<i>Capacity 1995^b (No.)</i>	<i>Increase in capacity (No.)</i>	<i>Change 1988 to 1995 (%)</i>
Holiday flats, units and houses	31 538	39 249	7 711	24
Caravan parks	280 578	288 464	7 886	3
Visitor hostels	na	27 070	na	na

a December quarter.

b Capacity for holiday flats, caravan parks and hostels is measured in number of units, sites and bed spaces respectively.

na Not applicable.

Source: ABS Cat. No. 8635.0 various issues

Table 4.8 Hotels, motels and guesthouses, change in guestrooms by star grading, 1988 to 1995

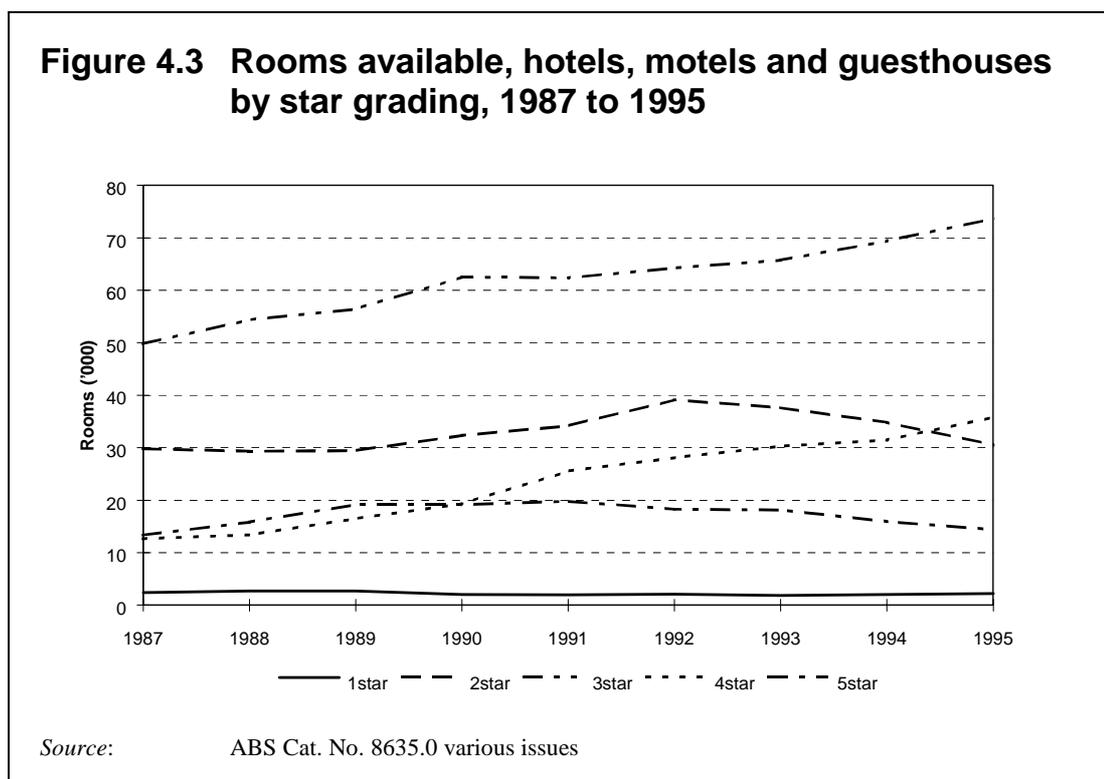
<i>Star grading</i>	<i>Available rooms 1988 (No.)</i>	<i>Share (%)</i>	<i>Available rooms 1995 (No.)</i>	<i>Share (%)</i>	<i>Change in available rooms 1988 to 1995 (No.)</i>	<i>Change (%)</i>	<i>Annual average change (%)</i>
5 star	15 835	11	14 410	9	-1 425	-9	-1
4 star	13 401	10	35 827	21	22 426	167	24
3 star	54 371	39	73 654	43	19 283	35	5
2 star	29 348	21	30 540	18	1 192	4	1
1 star	2 689	2	2 230	1	-459	-17	-2
Ungraded	23 675	17	12 969	8	-10 706	-45	-6
Total	139 319	100	169 630	100	30 311	22	3

Source: ABS Cat. No. 8635.0, various issues December quarters

The stock of 3 star accommodation remains the largest segment, offering 43 per cent of the total accommodation stock. The 4 star category has overtaken the 5 star category to become the second largest accommodation segment. Between December 1988 and 1995, 4 star accommodation increased by more than 167 per cent. In the same period, 5 star accommodation decreased relatively from 11 per cent of the national stock to 8 per cent, an absolute decrease in size of 9 per cent. This change can be partly explained by changes in star gradings discussed above.

The increase in hotel, motel and guesthouse room capacity has not been continuous, nor has it been evenly distributed across the star gradings. Figure 4.3 illustrates the national stock of rooms available for each star grading on an annual basis from 1987 to 1995. During the late 1980s, 3, 4 and 5 star accommodation increased, 1 star accommodation decreased and 2 star accommodation increased marginally.

Since 1990 the trend has changed. Over the period 1990 to 1995, the stock of 1 star accommodation has been largely unchanged. The stock of 2 star accommodation increased from 1990 to 1992, then decreased slightly over the next two years. From 1990 to 1995 the stock of 3 star accommodation has grown continuously. The stock of 4 star accommodation has also increased continuously from 1990 to 1995. Since 1991 the stock of 4 star accommodation has been larger than the stock of 5 star accommodation. Further, although the stock of 5 star accommodation increased marginally from 1990 to 1991, it has decreased each year since. As noted previously, this might be due in part to some 5 star accommodation being re-classified to 4 star accommodation.



Regional changes in the stock

Regional changes in the accommodation stock are most pronounced where there have been the highest increases in tourism. The bulk of growth in accommodation has been in New South Wales and Queensland.

From the mid 1970's to the present, Queensland has recorded the largest absolute increase in hotel rooms, followed by New South Wales, Victoria and Western Australia (see Table 4.9). During this period, Queensland accounted for 34 per cent of the national increase. This growth centred on the Gold Coast and the far north of Queensland including Cairns and Port Douglas (FNQPB 1994, p. 11).

Two case studies in this report provide detailed analysis of the changes in the Cairns accommodation market in the last decade. They detail how the stock of accommodation is capable of dynamic change. For example, Case Study 2 describes how conversion of residential accommodation has allowed a rapid expansion of backpacker hostels in the Cairns region in response to the increased number of backpacker visitors to the area. Case Study 1 identifies ongoing change in other types of accommodation. In particular it describes the process of refurbishment of the accommodation stock in order to maintain star ratings in a competitive accommodation market.

In the motel and guesthouse segment, New South Wales had the largest absolute increase, equal to 35 per cent of the national increase for this category. This was followed by Queensland and Victoria with 26 and 19 per cent of the national increase, respectively.

Queensland recorded the largest absolute increase of 4065 holiday units over the period (see Table 4.10), reflecting the continued growth of regions such as the Gold Coast and Sunshine Coast.

Table 4.9 Hotels, motels and guesthouses, guestrooms by State and Territory, 1975 to 1995

	<i>NSW</i>	<i>Qld</i>	<i>Vic</i>	<i>SA</i>	<i>WA</i>	<i>Tas</i>	<i>NT</i>	<i>ACT</i>
<i>Licensed hotels</i>								
1995	19 213	19 108	10 058	4 284	8 367	3 566	2 050	1 683
1975	7 820	4 342	4 437	2 303	2 958	1 988	na	795
Change	11 393	14 766	5 621	1 981	5 409	1 578	na	888
<i>Motels and guesthouses</i>								
1995	38 194	23 053	19 740	6 479	6 557	1 937	3 387	1 954
1975	19 004	9 098	9 604	3 174	3 978	1 376	na	1 005
Change	19 190	13 955	10 136	3 305	2 579	561	na	949

na Not available for NT in 1975.

Source: ABS Cat. no. 8635.1 to 8635.8 various issues December quarters

For the period 1988 to 1995, Western Australia and South Australia had the largest absolute increase in caravan park sites. In part this reflects the predominance of caravan and camping accommodation in remote areas in central Australia and the north west of Western Australia. As travelling in the Australian outback involves vast distances, a network of van sites and camping grounds in these areas represents a more appropriate style of accommodation than numerous hotels that would require more sophisticated inputs. New South Wales recorded a decline in the stock of caravan parks over the same period.

Queensland has the largest stock of visitor hostels, however this decreased by 165 bed spaces from 1991 to 1995. Victoria, South Australia, Western

Australia and Tasmania have experienced significant increases in hostel accommodation over this period (see Table 4.10).

Table 4.10 Holiday units, caravan parks and visitor hostels by States and Territories, 1988 to 1995

	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>NT</i>	<i>ACT</i>
<i>Holiday units^a</i>								
1995	11 021	3 676	18 784	2 581	1 297	830	293	767
1988	9 650	3 028	14 719	1 667	1 107	748	349	270
Change	1 371	648	4 065	914	190	82	-56	497
<i>Caravan parks^a</i>								
1995	94 963	67 710	54 905	30 063	24 406	6 440	8 972	1 005
1988	96 705	66 695	54 709	25 449	22 267	5 967	8 786	na
Change	-1 742	1 015	196	4 614	2 139	473	186	na
<i>Visitor hostels^a</i>								
1995	5 748	3 320	8 283	3 033	2 116	1 719	2 851	na
1991	5 515	2 484	8 448	2 652	1 511	1 381	2 757	na
Change	233	836	-165	381	605	338	94	na

a Capacity for holiday flats, caravan parks and hostels is measured in number of units, sites and bed spaces respectively.

The earliest data available for visitor hostels are for 1991. Data shown are for December quarter of respective years.

na Not available.

Source: ABS Cat No 8635.1 to 8635.8 various issues

With regard to changes according to star ratings, most of the national increase in 4 and 5 star capacity was concentrated in New South Wales, which contributed 40 per cent of the national increase (see Table 4.11). Disaggregated data are not available for 4 and 5 star accommodation prior to June 1990. But, data from the June quarter of 1990 until December 1995 show that 4 star establishments grew from 101 to 121 in that time and 5 star decreased, 19 to 13.

Queensland and Victoria contributed 28 and 22 per cent respectively of the increase in the national total of 4 and 5 star accommodation (see Table 4.11). Both 4 and 5 star accommodation increased in Queensland. In Victoria 5 star accommodation increased by one establishment while 4 star accommodation increased from 16 establishments to 72. South Australia also recorded a large relative increase in these combined accommodation segments, 5 star remaining unchanged while 4 star increased significantly.

During the period 1988 to 1995 there was a considerable increase in the 3 star segment also. Nationally the 3 star stock increased by about 35 per cent. Of the national increase, most was attributable to increases in Queensland, which contributed almost one third of the total. A significant increase in 3 star accommodation was also recorded for Victoria during this period. Conversely

the stock of 3 star accommodation in South Australia decreased for the same period.

These data, despite being for a short time series, suggest that the majority of the increase in accommodation in the late 1980s and early 1990s occurred in 3 and 4 star establishments. The ABS survey has the potential to mask some of these changes as it aggregates 4 and 5 star accommodation in the late 1980s in some Australian states.

There was a 18 per cent overall reduction in available rooms for the combined 1, 2 star and ungraded establishments from 1988 to 1995. However, New South Wales, the Australian Capital Territory and the Northern Territory had increases in these segments for the same period. As these data contain ungraded properties it is difficult to derive any conclusions from it. However, research conducted for the Commission in Cairns and Far North Queensland indicates that there is constant movement between the 1, 2 star and ungraded segments, particularly in the presence of a growing market for low priced accommodation for backpacker tourists.

Table 4.11 Change in available guestrooms by star grading by States and Territories, 1988 to 1995

	<i>NSW</i>	<i>Vic</i>	<i>Qld</i>	<i>WA</i>	<i>SA</i>	<i>Tas</i>	<i>NT</i>	<i>ACT</i>	<i>Total</i>
<i>4 & 5 star</i>									
1995	16 617	9 209	14 179	3 589	2 711	1 632	1 063	1 237	50 237
1988	8 127	4 584	8 378	3 512	929	1 252	1 244	1 210	29 236
Change	8 490	4 625	5 801	77	1 782	380	-181	27	21 001
<i>3 star</i>									
1995	25 475	13 447	16 155	7 205	4 777	2 649	2 059	1 887	73 654
1988	22 631	8 310	9 827	3 978	4 802	1 894	1 427	1 502	54 371
Change	2 844	5 137	6 328	3 227	-25	755	632	385	19 283
<i>1,2 star & ungraded</i>									
1995	15 315	7 142	11 827	4 130	3 275	1 222	2 315	513	45 739
1988	13 362	12 044	16 457	6 236	3 791	1 477	1 990	355	55 712
Change	1 953	-4 902	-4 630	-2 106	-516	-255	325	158	-9 973

Source: ABS Cat. No. 8635.0 to 8635.8 various issues

4.4.2 Future developments in tourism accommodation

Historical data show that both the aggregate supply and the mix of tourism accommodation in Australia have changed and can be expected to continue to change. Further, as the opening of a small number of large establishments can substantially alter the accommodation stock in a given region, it is possible for

changes to be relatively sudden and large. This was the case in Sydney in the 1980s.

The Tourism Forecasting Council reports that 3499 rooms were under construction in November 1995, with 1170 of those rooms expected to come on to the market by the end of 1995 – 96 (TFC, 1995b). Participants agreed that tourism accommodation is beginning to expand. Reports in the media also suggest a general expansion of tourism accommodation is underway. Rider Hunt commented:

... A total of 2019 new hotel rooms will reach the Australian market [in 1996] as part of a big upswing in development projects. (AFR, 25 January 1996, p. 35)

While this level of activity is well below the level of activity in certain destinations in the late 1980s, it nonetheless suggests that the stock of tourism accommodation is growing again.

The accommodation stock in Australia is increasingly focused on the middle and budget markets. This was noted by some participants at hearings. Mr. Connors of Thackral Holdings Ltd. commented:

There are hotels being built around Australia at the moment ... They are basically three and four star hotels ... My personal view is that you won't see too many more five stars. (trans. p. 1619)

Other participants supported Mr. Connors' view, linking the change in the type of stock with the increase in tourism to Australia from Asian countries.

Changes in the accommodation stock will have regional as well as national impacts. For example, Queensland's main tourism centres — Brisbane, Cairns and the Gold Coast — could gain from the development of about 1600 rooms in the next two years (AFR, 25 January 1996, p. 35). The accommodation stock in Western Australia will also expand, based on figures from the Western Australian Tourism Commission.

Yet not all types of accommodation have experienced growth. Some regions, such as the Whitsunday Islands, appear to be in decline (trans. p. 1617). This has led to sales of accommodation establishments at low prices, in the face of decreasing visitation. For example:

Since 1990 more than \$180 million worth of Whitsunday island resorts have changed hands ... typically the sales have been struck at massive discounts on development costs ... Tourism Forecasting Council figures indicate that Whitsundays received some 1 million domestic tourism nights in 1993, falling to about 780 000 in 1994. Between 1989 and 1995 the total of international visitors to the region fell by 18 per cent. (AFR, 9 February 1996, p. 5)

4.5 Conclusions

Tourism accommodation in Australia comprises a diverse mixture of commercial accommodation. It extends from the luxury of expensive city hotels to the austerity of camping out, in a swag, in an outback camping ground. A wide range of tourists use this accommodation.

Tourism accommodation has significant economic impacts both in terms of employment creation and revenue generation. Further, tourism accommodation serves an important function at the regional as well as national level.

The accommodation mix has changed significantly over the last two decades. From 1975 to 1985, motels and guesthouses provided most of the increase in room capacity, largely in response to the growth in domestic tourism. From 1985 to 1995 there has been considerable growth in inbound tourism and this has led to increased room capacity in 4 and 5 star hotels, and to a lesser extent, in 3 star accommodation.

At the same time as changes in the hotel, motel and guesthouse segment have been occurring, other changes have also happened. Some of these developments have included innovative segments such as backpacker hostels, all-suite hotels and farm stay accommodation. As a product of these changes Australia can now lay claim to an extensive, varied international standard stock of accommodation.

5 TOURISM ACCOMMODATION SEGMENTS

This chapter traces the history of tourism accommodation in Australia. In the early days the needs of itinerant workers were influential in the development of hotels. As cities grew in size, country retreats emerged. After World War II, with increasing affluence and car ownership, the motel appeared. In the 1980s, overseas visitors — and their needs — came to play a very significant role in the type of tourism accommodation provided.

5.1 Introduction

In previous chapters, the size, scope and the economic impact of tourism have been discussed. The previous chapter described the changes in the stock of tourism accommodation.

This chapter discusses some of the factors influencing the stock of tourism accommodation. After presenting a brief history of the demand, and the nature of the demand, for accommodation, it analyses some issues raised by inquiry participants.

5.2 Evolution of tourism accommodation

As noted in Chapter 4, tourism accommodation in Australia has evolved as a consequence of many influences.

The first significant influence on tourism accommodation in Australia was commercial travel. As a colony of England, much early Australian tourism accommodation reflected the preferences of English settlers as they moved about the country. Different standards of accommodation quickly developed. Grand hotels developed in major commercial centres. These were linked by coach routes interspersed with cheaper, purpose built lodgings, modelled after English inns.

The influence of commercial travel on accommodation remained strong throughout the early 1900s, although travel for leisure began to emerge. While largely the domain of the wealthy, private retreats grew in popularity, particularly in the nearby hills of Melbourne, Sydney and Adelaide, as well as coastal areas. Leisure travel, increasingly an influence on the development of

tourism accommodation before World War I, was again prominent between the world wars then languished during World War II.

After World War II all forms of travel and tourism increased. Tourism, and consequently accommodation, grew as Australia entered a sustained period of economic prosperity. The use of beach shacks and weekenders became popular with the moderately wealthy, while the 1950s heralded a new competitor to the hotel market, the motel.

Participation in tourism was possible for most social strata. Accommodation styles such as camping and caravanning were low cost and did not rely on expensive air travel, making them available to many. While remaining popular, these accommodation styles have diminished in their appeal. For many, annual family camping holidays at a local foreshore reserve have given way to holidays where other styles of accommodation such as apartments are used.

Tourism accommodation has been, and remains, important in regional Australia. From the very early days, country hotels (commonly known as pubs) were necessary for the gangs of workers building roads or railways, and other itinerant workers such as shearers. As mining expanded during the 1960s and 1970s, demand for accommodation—both permanent and short term—increased in numerous rural and outback locations. The vast distances in Australia meant that accommodation for business travellers and government employees was required throughout regional Australia. Some centres, notably Canberra, developed accommodation types designed specifically to meet the travel requirements of visitors on government business.

The 1970s also saw the development of new types of accommodation for domestic holiday makers. Serviced apartments developed in popular regions such as the Gold Coast, providing an alternative means of family accommodation to camping, caravanning and motels. Serviced apartments are competitive in terms of facilities and tariffs, and as developers could sell them under strata title arrangements, serviced apartments appealed to the small-scale investor.

Prior to the 1980s, the type of accommodation available in Australia was principally of a kind and price demanded by the domestic market, even in the major cities and high profile tourism destinations. There were few exceptions such as one or two internationally regarded island resorts. In recent years, the increasing number of overseas tourists has been reflected in significant changes in the type of accommodation provided.

Tourism accommodation has increasingly sought to appeal to both domestic and international tourists, and has adapted with new and more specialised accommodation products. For example, the specific requirements of Japanese

tourists travelling in groups had to be catered for. Small motels or hotels were not going to meet their requirements. The present styles of accommodation extend from budget priced hotel chains to family orientated resorts, to 5 star hotels on par with the world's best.

The significant growth of inbound tourists saw the introduction of large international standard hotels. Although there were some high standard hotels in earlier times, typically they were not large establishments and they did not necessarily attempt to cater for a broad range of tastes. In particular, large international style, high star-rated hotels became prominent in the second half of the 1980s.

Other noticeable changes have occurred. For example, the backpacker market is a particular segment which has grown markedly since the mid 1980s. It has brought forth a variety of hostel-type accommodation to meet this market (see Case Study CS2).

In summary, the inbound tourism market has been a significant influence on the type of accommodation built in the last decade, and it continues to influence developments and innovations in accommodation.

Some of the innovations in styles, architecture and location have been driven by the successful promotion, both abroad and in Australia, of the country as an *eco-tourism* destination and as a friendly and semi-rural retreat from the urbanisation of Tokyo, New York and London. The result has been lodges built in rainforests, bed and breakfast establishments and farm stays, to mention some.

5.2.1 Demand for tourism accommodation in Australia

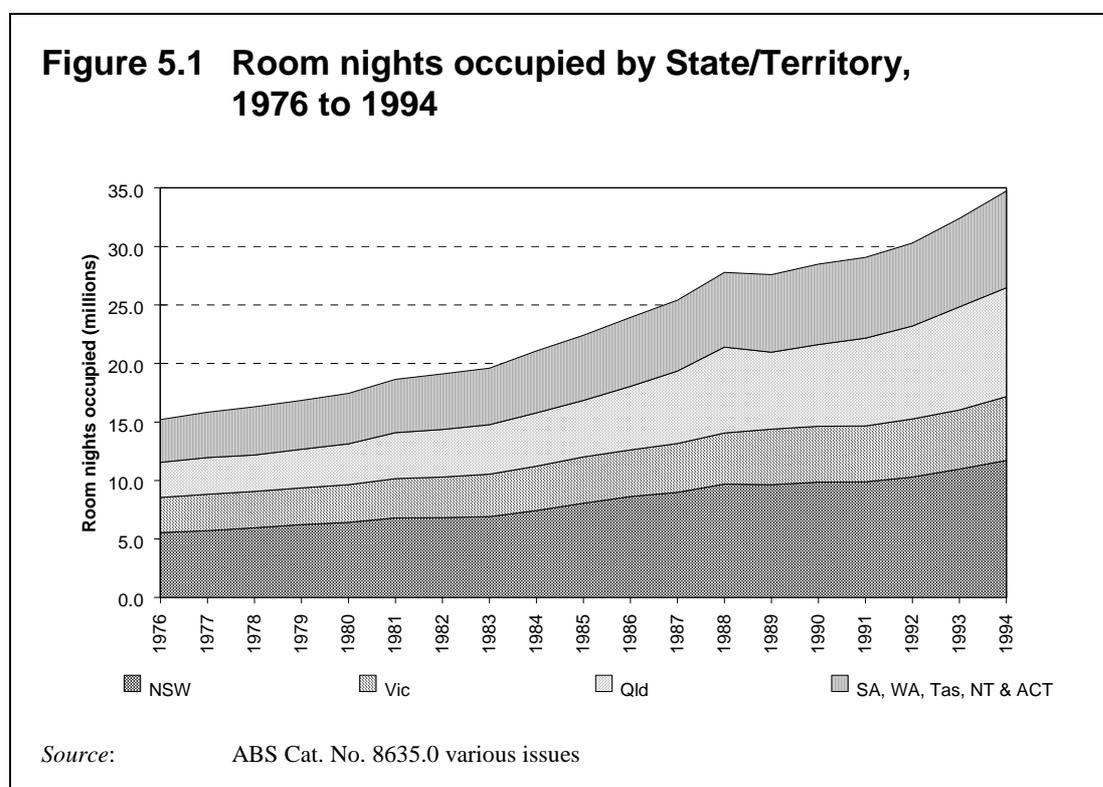
People travel to and within Australia for a number of reasons, for example holidays, visiting friends and relatives, business or attending conventions. The demand for tourism accommodation in Australia results from these travel decisions.

With some exceptions demand for travel services and accommodation are derived demands. That is, when a particular destination is the attraction, both travel and accommodation are necessary to enjoy the pleasures offered by the destination. One exception to the principle of derived demand is the *indulgent* weekend package, where the attraction is to stay in luxurious surroundings. Another is when the act of travel itself gives satisfaction and this can be important for many tourists.

Demand for tourism accommodation can be divided into segments; for example, by quality of accommodation sought and by purpose of travel. Characteristics

of demand differ in each segment. Business travellers and convention-goers are often reimbursed for their expenses, are therefore less sensitive to room rate changes and generally prefer the appropriate quality of accommodation located close to their place of business or convention. Non-business travellers, especially if they have a car at their disposal, are typically less concerned about the precise location of accommodation, exhibit greater sensitivity to room rates and could have a broader range of preferences with respect to costs and quality.

Although many statistical collections focus on the numbers of tourists that travel in Australia, the critical variables for the accommodation industry are the number of nights occupied and the level of tourism expenditure. As figure 5.1 shows, the majority of room nights spent in tourist accommodation are spent on the eastern states of Australia and this has been the case since tourism commenced in Australia.



In 1994, 3.1 million overseas tourists aged 15 years and over stayed 74.1 million nights in Australia. They each stayed an average of 24 nights in Australia. The number of visitor nights spent away from home by domestic tourists in 1994 was 208 million. Domestic tourists took 48.3 million trips in Australia and stayed away from home, on average, 4.3 nights.

However, only a small proportion of these visitor nights (by both overseas and domestic tourists) are spent in commercial accommodation. A large proportion

of nights are spent with friends and relatives. Also, overseas visitors working or studying in Australia for less than 12 months, and hence classified as tourists, might stay in rented houses, which are not included in the statistics on commercial accommodation.

In 1994, 60.9 million guest nights were spent in hotels, motels and guesthouses. Overseas visitors accounted for about 16.8 million of these visitor nights. About 23 per cent of total visitor nights spent in Australia by overseas tourists were spent in hotels, motels and guesthouses (TFC 1995a).

Domestic tourists spent 44.1 million nights in hotels, motels and guesthouses. By comparison to overseas tourists, 21 per cent of domestic visitor nights are in this type of accommodation.

Table 5.1 Overseas visitors, domestic trips and nights in hotels, motels and guesthouses, 1994 and 2000

<i>Year</i>	<i>Overseas</i>	<i>Domestic</i>
1994		
Number of arrivals/trips ^a (millions)	3.1	48.3
Average number of nights per visit/trip	24	4.3
Number of visitor nights ^a (millions)	74.1	208
Number of nights in hotels, motels and guesthouses (millions)	16.8	44.1
Per cent of total nights in hotels, motels and guesthouses	28	72
2000 FORECASTS		
Per cent of total nights in hotels, motels and guesthouses	41	59

a Visitors aged 15 years and over.

Source: BTR 1995d, ABS Cat. No. 8635.0 various issues

From the data in Table 5.1, it is estimated that 72 per cent of the total nights in hotels, motels and guesthouses were spent by domestic tourists, while only 28 per cent were spent by overseas visitors.

The TFC forecasts that overseas visitors will number 6.3 million for the year 2000 and estimates that each overseas visitor will stay for an average of 19 nights. The TFC estimate that the percentage of these visitor nights spent in hotels, motels and guesthouses will have increased to 26 per cent from 23 per cent. The proportion of all nights spent in Australia, attributable to overseas visitors is estimated to increase from 28 per cent in 1994 to 41 per cent in 2000.

5.3 Who uses what type of accommodation

Domestic tourism consists of a number of tourism segments. Each of these segments tends to use certain types of accommodation. It should be noted that an individual can move between segments according to the purpose of trip; that is, as a business traveller a person might seek a 4 star, inner city hotel but as a holiday-maker might settle for an apartment or caravan park.

Domestic business travellers are significant users of commercial accommodation, accounting for 12 per cent of all visitor nights in hotels and motels. They commonly use the higher priced end of the accommodation market (trans, p. 1619). In the wake of excess construction of high-star rated hotels in certain locations — such as Sydney — during the 1980s, discount prices were instrumental in attracting business travellers to use higher quality accommodation than they previously did.

However, as room rates for the higher quality hotels have commenced to rise recently, business travellers are reverting to lower cost accommodation.

... The five-star market has started to lift room rates and this is clearly having [a negative] effect on the ... corporate market. (AFR, 27 February 1996, p. 3)

There is also evidence of a general decline in the proportion of business travellers staying in hotels and motels and an increase in the numbers staying with friends and relatives (TFC, 1995b, p. 6).

Although domestic holiday makers use many different types of accommodation, about half of them stay in the combined category: hotels, motels and guesthouses. The remainder stay with friends and relatives or use their own camping equipment. Most domestic tourists visiting friends and relatives stay with those they are visiting, and therefore do not use commercial accommodation (TFC, 1995b, p. 6). The tendency of domestic holiday makers to use commercial accommodation appears to be rising (TFC, 1995a, p. 8).

The link between increased inbound tourism and the development of new styles of accommodation has already been mentioned. Particular international markets have been influential.

The increase in Japanese visitation influenced the construction of large international hotels in the 1980s. Sydney, Cairns, and to a lesser extent, Melbourne and the Gold Coast each had their deluxe accommodation stock augmented as a result of the rapid growth in Japanese tourism.

The growth of tourism from other Asian countries such as Indonesia, Malaysia, Singapore, Korea and Taiwan is influencing accommodation types in the 1990s. At present, many tourists from these countries travel in groups on package tours

and stay in accommodation which suits groups and particular budgets. This has influenced the construction of hotels to meet these requirements.

Certain segments of international tourists prefer to stay in relatively low priced accommodation, spending a high proportion of their total travel expenditure on tours or shopping. There are also those who stay longer — in total they might spend as much as others on accommodation, but their per night expenditure is relatively low; for example, backpacker tourism is linked closely with budget accommodation such as hostels and camping grounds. Large numbers of backpackers come to Australia from the United Kingdom, Europe, Scandinavia and North America and spend a high total amount on accommodation.

5.4 Making decisions on accommodation

The decision to travel, and what type of accommodation to stay in, is a function of influences other than a tourist's preferences alone. A number of parties may be involved in advising, influencing and ultimately putting together a *package* for a tourist. While it is a relatively simple transaction to purchase a package holiday from a retail outlet, the simple purchase belies the process that assembles the components into a single product. In stark contrast to tourists on a package holiday is independent travel, whereby only a fare is purchased, or the decision to travel is made and further details are determined as they become necessary.

The relationship between the tourist and the accommodation provider has a bearing on not only the type of accommodation made available, but also on pricing decisions.

5.4.1 Package tourism

Package tourism has existed as a travel option since the 1860s. Thomas Cook is thought to be the first seller of travel packages, whereby he sold transport as part of a package including accommodation, meals, entertainment and occasionally a guided tour.

Package tourism is an important component of the market for tourism accommodation in Australia. So called *inclusive packages* include transport, accommodation and in some cases meals and tours. They are purchased in the tourist's country of origin. Where an inclusive package is sold to a tourist, it is not obvious (without researching the issue) what attributes the tourist was seeking in making the journey, or what the tourist was willing to pay for each component — airfares, accommodation, etc. Obviously, packages are targeted to market segments (for example, tropical coastal environments) and socio-

economic classes (that is, cost is an important factor). Inquiry participants have argued that tourism wholesalers are able to influence the level of demand for tourism in Australia by promoting package tours to competing destinations.

... Wholesalers for any one season will focus on promoting destinations which ... provide the highest return. (Cairns Hilton, sub, 96, p. 2)

It was argued that this competition between tourism destinations represents a challenge to accommodation providers in Australia. It was also suggested that some overseas wholesalers sell packages below cost at certain times, content to reap commissions from ancillary activities such as shopping tours. For example, where shopping is offered as a supplement to a package deal, the tour wholesaler might receive a share of the shopping expenditure.

Table 5.2 shows the shares of tourists who came on an inclusive package tour to Australia from selected countries of origin.¹ Of the overall number of tourists to visit Australia in 1994, 56 per cent of those identifying themselves as holiday makers arrived on inclusive travel packages.

Some participants argued that the relative cost shares of package components puts increased pressure on accommodation providers competing for the same segments. For example, it was argued that where the airfare is a relatively small fraction of the total package, the price paid for accommodation can be higher. The Cairns Hilton (sub. 96, p. 2) suggested the following as a standard breakdown of the components of a package to Australia:

- air travel content 60 per cent;
- ground content 30 per cent (including accommodation, tours and transfers); and
- wholesaler's margin 10 per cent.

¹ An inclusive tour includes all of the price of airfares and some, or all, of the price of transfers, accommodation and tours taken as part of the package. Package tourists on all-inclusive tours still have some expenditure in Australia, although it is less than the expenditure of a tourist on a semi-inclusive tour. ABS data includes all person of any age visiting Australia. BTR data are survey based and includes only those aged 15 or greater.

Table 5.2 Visitors to Australia, shares by travel type, 1994

<i>Country of residence</i>	<i>Independent travel (%)</i>	<i>Inclusive travel package (%)</i>
United States	71	28
United Kingdom	90	10
Germany	80	19
Scandinavia	91	9
Other Europe	82	17
Japan	14	84
Korea	38	62
Taiwan	26	73
Thailand	48	50
Malaysia	68	30
Indonesia	79	19

Note: For a given country, independent and inclusive travellers may not sum to 100 due to rounding.

Source: BTR, 1995d, p. 37

The Cairns Hilton claimed that the air content can be as high as 85 per cent and that this squeezes the share of the ground content, a major part of which is accommodation (sub. 96, p. 2). Other participants noted that in competing destinations — such as Guam and Hawaii — the airfare component is a smaller part of the package price and that this might give these competitors an advantage over Australia as a destination. For this to hold, the cost of accommodation and tours needs to be the same in both Australia and the competing destination.

That aside, the relationship between the airlines and major accommodation providers is fundamental in determining the price of a package. That raises the issue of whether airfares to Australia (and other destinations) are competitively priced. The Australian Hotels Association argued that the relationship between airfares and accommodation providers is presently unbalanced.

... while airlines are the largest component of these packages and operate in a protected environment, hotels must operate in a free environment where the competition, to keep Australians holidaying in Australia ... and encouraging foreigners to come to Australia ... is quite fierce. (trans. p. 1816)

It was also suggested that where there is vertical integration of the airlines and accommodation providers, the interest of the vertically integrated businesses are not consistent with the interests of independent accommodation operators. The claim is that the vertically integrated businesses reduce the share of the package price related to accommodation in order to achieve more air passengers. If airlines are willing to accept losses on accommodation in order to increase the numbers of people travelling on their aircraft (and presumably make their profits on seats sold), this disadvantages accommodation owners who do not

also operate airlines. As the price breakdown of package deals is seldom revealed, it has not been possible for the Commission to ascertain the veracity of these claims.

5.4.2 Wholesalers

Mr. Wright of I.D. Tours offered a definition of tourism wholesalers. He described them as firms that assemble a number of individual tourism services into a single unique product, then apply their efforts to marketing that product through the production of substantial brochures distributed to retail outlets such as travel agents (trans, pp. 1696–1700). There are wholesalers specialising in both the domestic and international markets. Wholesalers receive commissions from the providers of the tourism services which constitute the packaged product.

Mr. Wright argued the importance of wholesalers thus:

... If [someone] has put together a package and put it into a brochure, then they are a wholesaler. They're acting in the form of a broker, but they have put a package together and put their own twist to it. They have put their own flavour to it and put it into a readable and bookable form. ... [T]he importance of the wholesaler is that they are in fact an investor in tourism of Australia Tourism Inc. (trans, p. 1699)

The term wholesaler is used in the tourism industry to describe a number of intermediaries in the transaction between the seller of accommodation (and other tourism services) and the tourist. The precise role of a given tourism wholesaler is not always clear.

Several participants argued that wholesalers influence both the demand for particular tourism products (for example, visits to Cairns) and can influence the price of, say, a hotel room.

Mr. Stroud of the Hotel, Motel and Accommodation Association of Australia described the influence of tourism wholesalers.

... I think it is well established that it is within the power of an overseas wholesaler the extent to which properties are included in brochures and these brochures which are distributed overseas are very important marketing tools. (trans, p. 1913)

It has been suggested that wholesalers can influence the demand for the total Australian market by removing Australian material from promotional lists. It was argued that they will remove Australia from promotional brochures if:

- accommodation operators cannot guarantee the availability of rooms (including during peak periods);
- accommodation operators increase their prices too quickly; and

- if accommodation operators do not continue to offer high commissions to wholesalers.

It was put to the Commission that in 1989 (after prices had increased in Sydney in 1988) wholesalers stopped promoting Australia.

What happened in 89 is the wholesalers said, “It’s too expensive. We are not coming to Australia. We will go elsewhere,” because we compete with the rest of the world. So they turned off and I can tell you from real experience the demand dropped. (Connors, trans, p. 1622)

However, an analysis of ABS data for this period does not show that room nights sold in Sydney declined at any stage during the period 1988 to 1995, although demand for the year 1988–89 did not increase (ABS, Cat. No. 8635.0, various issues). Over the same period, visitor nights to Australia have increased every year (TFC 1995a, p. 14). This suggests that the negative influence of wholesalers, asserted by some participants, was if anything modest and did not persist.

There is evidence that room rates declined over the late 1980s in certain markets including Sydney, and some participants have argued that this was due to the influence of wholesalers (Stroud, trans, p. 1914). The period 1988 to 1990 was influenced by many factors, including the World Expo and Bi-Centennial celebrations in 1988, the pilots’ strike in 1989 and the Gulf War in 1990. Given the number of different factors operating at this time it is difficult to determine what impact wholesalers had on demand.

In contrast to the views expressed above, wholesalers can have positive influences on the tourism accommodation industry. They can work with accommodation providers and other tourism sectors to develop attractive packages. One example of this in the domestic market is combining travel, theatre events and accommodation — generally during periods of relatively low demand for each of the three services.

The influence of wholesalers will vary according to destinations. For example, it was claimed that accommodation in Sydney is approximately 60 to 70 per cent wholesale business — both international and domestic — and the influence of wholesalers extends down to the 3 star level of accommodation (Connors, trans, p. 1621). Cairns was argued to be 80 per cent supplied by wholesalers, although it was not clear whether this was reflected only in the inbound market (Cairns Hilton, sub. 96, p. 2).

Wholesalers are more influential in what some term *immature* tourism source markets. Participants suggested that this influence is, in part, related to the need to develop the profile of Australia as a tourism destination in these markets.

... we are still relatively new in terms of a number of these [tourism] markets and until such time as we increase our profile ... we will always be using the existing distribution networks, and that imposes commercial reality in terms of pricing and the influence that those operators [wholesalers] impose upon the people that come through their agencies. (Bowie, trans, p. 1845)

Wholesalers are also influential where people prefer to travel in organised groups. To the present day, most Japanese tourists coming to Australia purchase packages. This gives Japanese tourism wholesalers significant power to influence the tourist and the providers of tourism services, including accommodation operators. Other markets (such as Scandinavia) exhibit a preference for independent travel and wholesalers do not have the same level of influence on the destinations visited, accommodation used or tours undertaken.

Even in markets where wholesalers are highly influential their influence is likely to diminish as markets mature over time.² Some of Australia's markets exhibit this trend (PATA, 1995, p. 33). Mr. Bowie of the Australian Hotels Association described this process:

... I think a lot of it has to do also with the maturity of the individual markets. By and large where you have an immature market or one that is trying to be developed ... the first guests are often through wholesalers because that's the way you access a market if you're trying to break into [it] ... as those markets develop and we lift our level of awareness within those markets ... you start moving to independent travellers away from group travel. (trans, p. 1845)

If accommodation providers choose to sell to wholesalers it is a commercial decision and this reflects the individual operator's risk and general management strategies. Some operators accept that agreements with wholesalers offer a more certain flow of revenue by comparison to relying on independent, or *off the street* customers. As wholesale prices are struck up to two years in advance, operators are certain of the tariff they will receive.

The influence of wholesalers might also diminish over time as new technology is adopted by retailers (travel agents) which circumvents them. Some developments in information technology enable the travel agent to easily make bookings directly with the accommodation operator, reducing the influence of the wholesaler. For example, advances in telecommunications technology allow the tourist — provided they understand the options — to make their own reservations without the assistance of another party in the transaction.

Wholesalers will continue to have a role in the market for tourism and accommodation in Australia. They offer large volume bookings, and will

² This term is used in keeping with the practice in academic literature and industry publications to refer to the changing preferences from package tours to independently organised tourism as increasing maturity of the market.

remain attractive to the accommodation operator, particularly in periods of excess capacity. As noted earlier, tourism wholesalers can also be expected to have more influence where they can influence a large share of the market for a destination, such as 4 and 5 star accommodation in Cairns which currently relies heavily on tourists from Japan.

5.5 Conclusions

Tourism accommodation is a diverse and segmented market, each segment catering for a different type of tourist. Historically the tourism accommodation industry has adapted to its changing role.

The adaptive process in the tourism accommodation industry can be described in terms of two phases. First, the tourism accommodation industry in Australia initially evolved in response to the domestic tourism segment. Although this phase of expansion was not always smooth, over the longer term supply responded to demand. Second, since the middle of the 1980s, a new layer of tourism has been a driving force in accommodation, the rapid growth in foreign tourism. These new tourists wanted new types of accommodation, generally preferring large, high quality hotels suitable for large groups of package tourists.

However, the accommodation market is maturing and Australia now has an international standard accommodation industry of increasing sophistication, better able to meet future challenges and opportunities.

6 ACCOMMODATION PROVISION AND THE NATURAL ENVIRONMENT

The uniqueness of the Australian natural environment is a major drawcard for international and domestic tourists, and the provision of accommodation is important for ensuring access to such attractions. This chapter focuses on the relationship between the built and natural environment. If not managed correctly, tourism accommodation developments have the capacity to destroy the environmental assets upon which they rely. For this reason, the costs and benefits of tourism accommodation provision must be fully understood to ensure development of the tourism asset in an economically and environmentally sound way.

6.1 Introduction

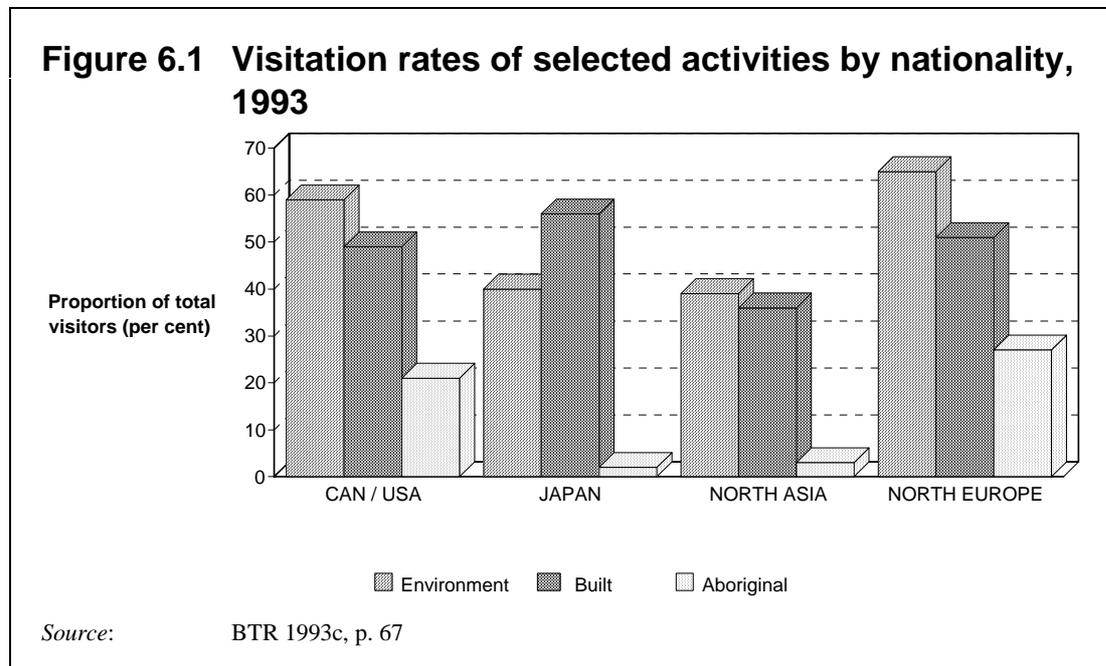
Part of the rapid growth of tourism is in response to the attractions and quality of the Australian natural environment. In providing accommodation for the expanding number of tourists careful planning is needed as there are many environmental costs and benefits associated with such development.

Such costs and benefits are not necessarily taken into account by property developers and a role for government is warranted to ensure that these effects are taken into consideration when making accommodation investment decisions.

6.2 The relevance of the natural environment to tourism

It is difficult to be precise about what attracts tourists to Australia (or attracts Australians to domestic holiday destinations) as different tourists prefer different holiday experiences, and the same person can on one occasion prefer the bush and on another the city. The natural environment, however, is an important drawcard with unique environmental attractions (including a number of World Heritage Areas) experiencing enormous growth in visitation over the last decade (Driml and Common 1995). Data from the Bureau of Tourism Research (BTR) further indicates the importance of the environment as a major tourism attraction — in 1993, 44 per cent of all foreign tourists visited a National/State Park or reserve of environmental significance (BTR 1993c). The BTR found that overseas visitors from different regions had significantly

different visitation rates to environmental settings, with Northern Europeans and North Americans showing greater interest in the natural environment than Japanese visitors (see Figure 6.1).



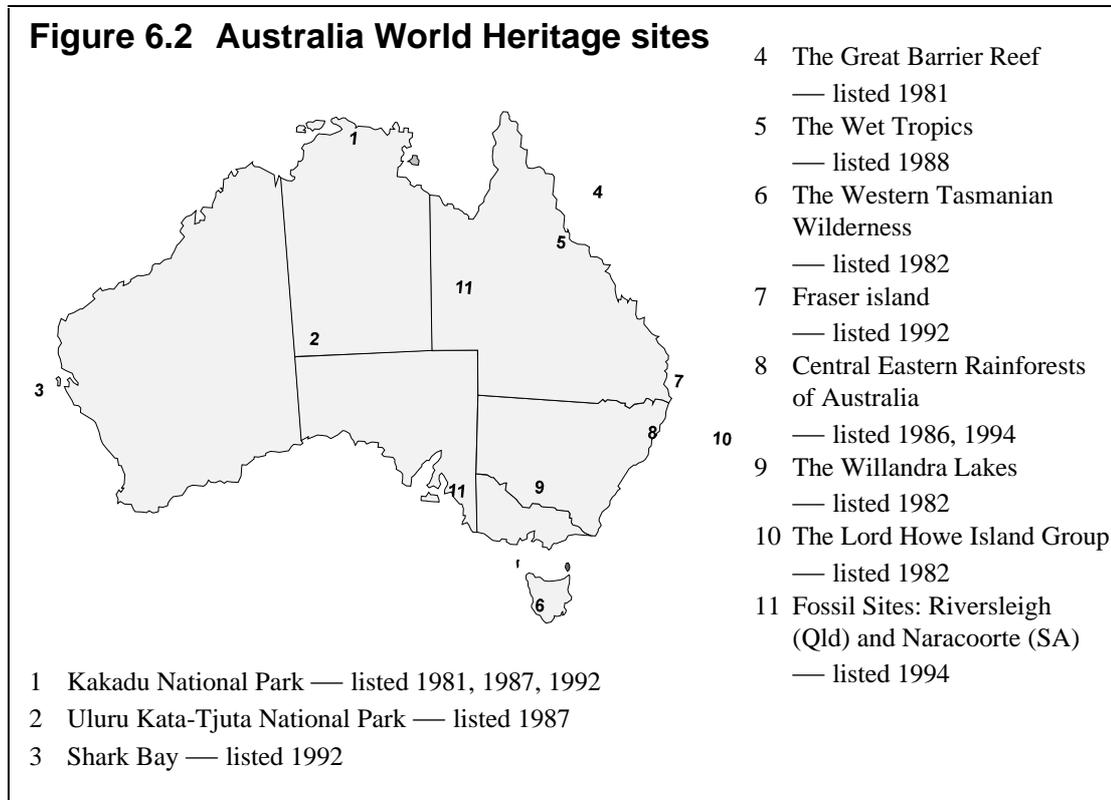
Research by Driml and Common (1995) highlights the importance of the World Heritage sites to Australian tourism (see Figure 6.2). Five World Heritage sites together (the Great Barrier Reef, the Wet Tropics, Kakadu National Park, Uluru National Park and the Tasmanian Wilderness) receive 5 million domestic and international visits per year. All experienced increases in visitor numbers over the last decade, for example, visitation to the Great Barrier Reef increased by 100 per cent from 1984 to 1992.

The importance of the natural environment as a stimulus to tourism growth can be represented by the Butler cycle, a model outlining the stages of development associated with tourism growth (see Figure 6.3).

Early visitors or 'explorers' are attracted to a destination because of its pristine state. There is no tourism infrastructure at this stage of the development cycle with the natural environment dominating the built. For instance, parts of far north Queensland exemplify this stage. Currently, there is very little tourism infrastructure in some areas which are popular with backpackers and exploration-oriented four-wheel drive tourists; the attraction of these areas being the remoteness and relative under-development.

At the *involvement* stage, the number of visitors to the area expands and the local population becomes increasingly involved in providing minimal facilities

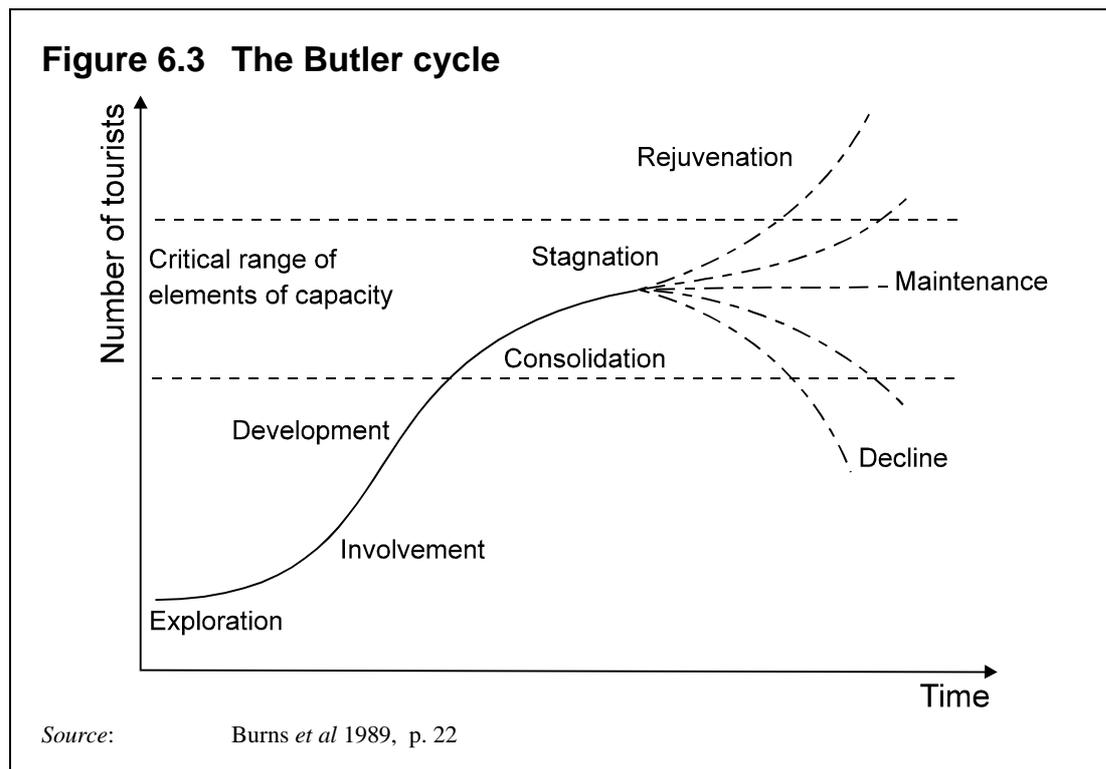
as they realise there are financial gains to be had from catering to tourists. This is followed by the *development* and *consolidation* phases.



At these later stages of the cycle, more elaborate facilities and accommodation establishments are provided and changes in characteristics of the area are very noticeable. According to Butler (1980):

Natural and genuine cultural attractions will probably have been superseded by imported 'artificial' facilities. The resort image becomes divorced from its geographic environment. (p. 8)

The development of the Gold Coast is a good example. The beaches of Surfers Paradise and Coolangatta attracted visitors from Brisbane as early as last century. What we now know as the Gold Coast then consisted of a number of small, separate, commercial centres for hinterland visitors and farmers until well into this century. With increasingly widespread ownership of private motor vehicles and a regular train service from Brisbane, the Gold Coast developed into a holiday (mainly camping) destination for Brisbanites in the 1950s. By the mid 1960s, the first high rise, Lennons Hotel at Broadbeach was built. By the early 1970s, extensive hotel, motel and unit development was underway and the Gold Coast had developed from a string of nodes to a strip development.



The built environment had come to dominate the natural such that the focus of the original attraction changed dramatically. Commensurate with this development, the type of tourist coming to the area has also changed. Those interested in a pristine sea-scape landscape would long since have moved on, first to the Sunshine Coast, then as it developed to Fraser Island.

Eventually *stagnation* can occur. An area while still popular, is no longer viewed as fashionable. This is likely to be followed by either further *decline* or *rejuvenation*. In order for rejuvenation to take place, an almost complete overhaul of facilities is needed — fundamental changes are needed to make the area attractive as a tourist destination again.

The Coolangatta end of the Gold Coast underwent this process. When the popular beach boarding houses became unfashionable some decades ago, they were replaced with a completely different style of tourism accommodation. However, once a destination has come to be dominated by the built environment, such as the Gold Coast, it is not possible to convert it back to a pristine natural area. In that sense, the Butler cycle is not a circle which is able to be closed.

The Gold Coast is one of the few tourist attractions in Australia which has continually managed to ‘re-invent’ itself and provide an on-going attraction for tourists. However, it attracts a very different segment of tourists than it did a generation ago.

If tourism accommodation development is uncontrolled, considerable damage, which in some instances may be irreversible, can occur. The unique value of the environmental resource may be lost forever—as Butler (1980) outlined:

Unless more knowledge is gained and a greater awareness developed of the processes which shape tourist areas, it has to be concluded ... that many 'of the most attractive and interesting areas in the world are doomed to become tourist relics'. (p. 12)

6.3 Benefits and costs associated with accommodation provision

Accommodation provision in environmentally sensitive areas is likely to have significant impact. The extent of this is dependent on the nature of the environment, the type of accommodation and scale of development. Some areas of environmental significance will be able to sustain greater development changes than others:

The precise impacts ... depend on local environmental parameters such as aspect, steepness, soil type and vegetation. Trampling causes more erosion on some soils than others ... [h]uman wastes are more likely to create problems in areas with thin soils; and pollution from human wastes is more likely to be significant in highly oligotrophic waters such as those of montane or sandy freshwater streams. (Buckley and Pannell 1990, p.27)

Direct environmental impacts aside, there are other benefits and costs to be considered. Many environmental attractions lie in remote areas which are difficult to access. Travel to these areas can be time consuming and arduous. Better access and accommodation provided near to the attraction can reduce travelling costs (which itself can be an environmental benefit) as well as having the positive effect of increasing the overall environmental awareness of the community.

There are also significant economic opportunities (such as increased employment) associated with the provision of tourism accommodation. Construction and operation of resorts, hotels and motels is often labour intensive. Further employment effects result for those providing associated service support. The economies of whole regions can benefit from such developments. These economic benefits are pertinent to all types of accommodation; however, as development associated with the natural environment is more likely to occur in rural or regional areas, the local effects may be more apparent.

Against these benefits there are negative effects resulting from accommodation provision. For instance, crowding can result. Additional accommodation

provision may increase visitor numbers to an area which may cause individual enjoyment of the destination to decline.

Changing land use values may also result and there may be social costs associated with this. Real estate values in certain areas may increase (for example as has happened in Cairns). Land for residential developments may become more expensive thereby forcing local residents to move further away where land is less expensive.

Accommodation developments may also impact upon the provision of local infrastructure; for instance, excessive demands can be placed on existing roads, public transport systems, water, electricity supply and sewage disposal systems. These costs may be recouped through government measures such as land taxes or rates.

Finally, there are other social costs to be considered. These include increased pollution and congestion, and tensions between residents and visitors.

The Australian natural environment is a major tourist attraction and the provision of accommodation in appropriate locations is important for ensuring access to sought-after sites. If not managed correctly however, tourism accommodation developments have the capacity to destroy the environmental assets upon which they rely.

6.4 Valuation of the natural environment

In attempting to assess the costs and benefits of the development of tourism accommodation it is important to put into the equation the value people place on environmental preservation and biodiversity.

Certain fundamental attributes of the environment (for example biodiversity, its intrinsic value and value to future generations) cannot be valued in economic terms. At best, it is possible to ascertain human values (pertaining to this generation) by the application of various measurement techniques.

In most cases the environment is not a good or service purchased in a supermarket or a hotel. A price can be fixed for the latter by reference to the 'market'. This is not the case for the environment. Notwithstanding the limitations of economic analysis in this regard, it is important that environments are not assigned a zero price; but whatever price is estimated it is important to make clear that it falls short of a total value of the environment. There are a number of examples of well-known Australian environments being subject to economic analysis (for example, see Hundloe, 1995).

6.5 Environmental decision making

Given the relationship between the natural environment and tourism (accommodation) developments, it is essential that appropriate decisions are made to ensure the continued viability of the environment as a tourist attraction.

To achieve this a detailed environmental assessment is needed. The ecological worth of a particular area needs to be evaluated and the carrying capacity determined. For instance, how many people engaged in what activities (subject to visitor management constraints) can be accommodated without significant environmental degradation? Following this, if development is deemed suitable, land use decisions can be made. It is important that authorities responsible for approving tourism developments consult with those responsible for environmental management. If the decision is made to proceed with the tourism development, this needs to be made on the basis of managing the day-to-day operations of the facility in a manner consistent with an agreed environmental objective. These issues are discussed in more detail below.

6.5.1 Environmental assessment

Before accommodation provision occurs (if it is to occur) baseline information should be gathered and a resource inventory of the environmental attraction should take place such that its environmental significance can be assessed. In some cases, the ecology of the area may be so fragile or, alternatively, unique that development and use of the attraction may be deemed incompatible with preservation. As the Western Australian Tourism Commission and Environmental Protection Authority outlined:

Early in the planning of a tourism development, an elementary environmental management plan should be developed ... this plan should include environmental assessments of the site and in the first place should be for the principal purpose of identifying local areas of high environmental sensitivity (to be avoided where possible) and low environmental sensitivity where the architect/planner can direct more intense development and use. (WATCEPA 1989, p. 11)

Having established the environmental worth of an area and having made a decision that tourism use can be made of an area, or at least part of the area, the next issue is to make an assessment about its carrying capacity.

Carrying capacity in its broadest sense can be defined as the maximum number of people who can make use of a particular site without causing an unacceptable alteration in the physical state of the environment or a decline in quality of the environmental experience gained by the visitors.

Carrying capacity will be affected by accommodation provision near or at sites of environmental significance. It is important to recognise that it is usually not the provision of accommodation per se which poses a threat to the environment, rather it is access to fragile areas, and the types of activities undertaken. For instance:

A growing body of research and evidence from well managed parks indicates that the environmental impact of visitors is not just a function of numbers, but depends on the activity undertaken, the various biophysical factors being affected and the effectiveness of site management parameters which are in place. (Brake and Williams 1990, p. 4)

The extent of accommodation provided should be viewed from this perspective.

6.5.2 The siting of accommodation

The appropriate siting of accommodation in environmentally sensitive areas is a difficult issue to resolve. The Queensland Department of Tourism, Sport and Youth and Department of Employment, Vocational Education, Training and Industrial Relations commented:

In some cases where environmental values are particularly high or very susceptible to harm, the emphasis should be placed on long term sustainability. It may not be appropriate to have large five star accommodation in close proximity to such areas and heavy usage by tourists may be inappropriate. (sub. 114, p. 8)

Frequently, areas of environmental significance have been given protective status as National Parks or World Heritage Areas. In many cases, but not all, accommodation provision is prohibited in such areas.

If accommodation developments are not allowed within a protected area, then providers of accommodation will be forced to look elsewhere — for instance, in areas immediately adjacent.

Major tourism developments at the edge of National Parks and similar conservation areas can detract from the enjoyment of the area's natural values — the very quality which attracts visitors. One option is to locate major tourism developments within or near gateway towns. This will minimise negative effects on the natural values as well as minimising infrastructure costs by enabling developments to connect to existing water supply, sewerage, gas, electricity and other services.

However, for some tourists being accommodated in a natural setting is part of the satisfaction they are seeking from their trip. This is evident in the demand for accommodation in rain forest areas such as the Wet Tropics. There are a small number of tourism accommodation providers who have put considerable effort into building environmentally sensitive accommodation in very close

proximity to protected areas, sometimes in pockets of private land surrounded by the protected area.

Importantly, accommodation provision within areas of environmental significance should not always be considered as a serious environmental threat. The Great Barrier Reef is a case in point. As Kelleher and Driml (1988) point out:

The size of the Great Barrier Reef is such that the concept of overdevelopment from tourism can hardly be ... considered a serious threat to conservation of the Great Barrier Reef. (p. 174)

There are around 3000 reefs and islands within the Great Barrier Reef Region. Twenty-one islands have resorts and a large number of reef sites are regular day trip destinations, most with permanently moored tourism facilities, while a large number of sites are visited intermittently. Concentration of activities in particular areas (governed by zoning plans which separate incompatible uses) and monitoring by the Great Barrier Reef Marine Park Authority have so far been successful in protecting the reef environment (see Box 6.1).

The Great Barrier Reef example illustrates that accommodation development within areas of environmental significance is not necessarily at odds with the ethics of conservation.

It is of fundamental importance, however, that accommodation provision is suitable for the environment in question. The present and potential development of accommodation in the North West Cape area of Western Australia (see Attachment 6.1) raises a number of issues which would require investigation before decisions to proceed with new accommodation developments were made.

6.5.3 Accommodation type

The type of accommodation chosen should be appropriate for the area in question. The environmental impact of the accommodation should be considered carefully.

The Victorian Department of Conservation and Natural Resources (1995) draft guidelines for tourism facilities, state that in parks and conservation reserves only certain types of built accommodation will be allowed:

In parks and conservation reserves built accommodation will be limited to low-impact styles and standards ... [o]vernight facilities will generally be limited to camping and basic cabin or hut accommodation; in special circumstances self-contained cabins and small lodges will be developed ... accommodation will be sited so as to reduce the requirement for and impact of access roads, service corridors and development. (VDCNR 1995, p. 9)

Box 6.1 Accommodation provision in the Great Barrier Reef Marine Park

The Great Barrier Reef Marine Park is established under the Commonwealth Great Barrier Reef Marine Park Act 1975. This legislation, among other things, specifies the Authority's functions which include: preparing zoning plans which designate activities in specific zones. The primary goal of the Authority is:

To provide for the protection, wise use, understanding and enjoyment of the Great Barrier Reef in perpetuity through the development and care of the Great Barrier Reef Marine Park. (Kelleher and Driml 1988, p. 172)

A central tenet of Marine Park management is zoning. The concept of zoning was introduced as the best solution to resolving the dual goals of protection and allowing a range of uses. Through the use of zoning, conflicting activities are separated. The level of protection varies from almost complete absence of restriction on activities within some zones, to zones within which almost no human activities are permitted.

Tourism is allowed to occur under permit within all except 'preservation' and 'scientific research' zones, that is in 99.8 per cent of the Marine Park. Tourism use includes overnight accommodation on boats.

Proponents of accommodation projects or others which are likely to create significant environmental impact are required to prepare environmental impact statements. An example of the approach to impact assessment was that undertaken for the world's first floating hotel which was anchored on a reef east of Townsville in 1988. As Kelleher and Driml (1988) commented:

As the facility [was] the first of its kind, the potential impacts needed to be carefully identified and assessed. The permit which allows the hotel to operate in the Marine Park requires the operators to adhere to a Resort Management Plan and to undertake an Environmental Monitoring Program so that any impacts which may occur will be detected and appropriate action taken. (p. 173)

Pigram (sub. 35) believes that some of the best examples of environmentally-friendly (or compatible) accommodation are to be found in the Great Barrier Reef.

Two exclusive resorts on Bedarra Island off the Queensland coast are among Australia's most environmentally friendly tourism developments. The structures represent a different approach to resort architecture, using local materials and nature-responsive design. The intention is to offer visitors the chance to retreat from the outside world and recharge themselves through close contact with the surrounding island landscape and rainforest. (p. 7)

Likewise, the Friendly Beaches Lodge in Tasmania and the Heron Island resort (another Great Barrier Reef tourism destination) provide examples of accommodation provision which cater specifically for the environmental sensitivities of the local area (see Box 6.2).

Box 6.2 Environmentally sensitive tourism accommodation

The Friendly Beaches Lodge offers basic shelter and facilities for guests interested in walking trips in the Freycinet National Park. It makes use of photovoltaic cells (which convert sunlight into electricity) and batteries for lighting, entertainment equipment and ventilation. More energy intensive activities such as cooking and refrigeration utilise bottled LPG gas. This illustrates how a mix of energy sources has allowed this lodge to operate without links to an electricity grid or through use of a generator. Additionally, the lodge makes use of a composting toilet so that less water is required as the Freycinet National Park is in a low rainfall area (average 600mm per year).

Heron Island is a small coral cay located on the Great Barrier Reef. The village-style P&O resort shares the island with a University marine research station and a National Park which includes a ranger base. By agreement, P&O has responsibility for the supply of services to the whole of the island. In order to protect the environment the company has applied stringent anti-pollution measures. This includes a waste management system that sees all contaminated waste chilled and kept stable until it is transported via barge to the mainland. All other waste is separated and baled for recycling. Consequently, the island is litter free and bore tests and reef edge monitoring have shown no measurable effects from human habitation.

Source: Department of Tourism 1994

While accommodation should be developed in accordance with environmental determinants, there are social issues to consider and these are discussed in the following sections.

6.5.4 Access considerations

Accommodation developments should be suited to the environment in which they are placed, however, there are broader social welfare matters to be considered. It has been argued that the accommodation chosen should cater for the needs of all members of the community. For instance, as O'Neil (1989) argued:

... [T]here is a social justice issue associated with the type of development chosen for some parks and reserves. There is a new elitism implicit in the trend toward so-called wilderness areas which, to preserve undeveloped, so-called wilderness qualities, can only be accessed by a small proportion of the Australian population ... [M]any of the ... reservation proposals can be accessed only by the young and fit, and indeed only by affluent people who can afford the necessary helicopter or 4 Wheel-Drive safaris to get to these locations and then hike out. (p. 7)

The two issues raised here are the ease of access and the cost of access and accommodation. In reference to National Parks, Acts of Parliament in each state set out certain obligations concerning the use and conservation of these areas. In essence, the various Acts instruct managers to conserve natural and

cultural values and encourage the community to enjoy and understand these values.

Likewise, for World Heritage Areas, Schedule 2, Article 5, of the Convention for the Protection of the World Cultural and Natural Heritage (1972) states the following:

To ensure that effective and active measures are taken for the protection, conservation and presentation of the cultural and natural heritage ... each State Party ... shall endeavour [as appropriate]:

(a) to adopt a general policy which aims to give the cultural and natural heritage a function in the life of the community ...

As stated previously, appropriately designed and sited accommodation has an important role in ensuring community access to areas of environmental significance. It is important, however, that the type of accommodation provided does not disadvantage certain groups within the community. For example, if the only accommodation to be provided in or near an environmental attraction is a high standard wilderness lodge rather than a camping facility, it is likely that significant sections of the community will be excluded on the basis of ability to pay.

If one of the social objectives of the World Heritage and National Park systems is to encourage a nature conservation ethic in the community at large, this entails providing a variety of facilities that potentially satisfy all of the accommodation needs of the full range of potential visitors.

6.5.5 Ensuring the profitability of accommodation in environmentally significant areas

As argued, accommodation developments should be environmentally sensitive and, where appropriate, a range of accommodation facilities should be provided to ensure that to the extent feasible all groups in society have the potential to access areas of environmental significance. Given these considerations, it is important that accommodation providers are able to operate their businesses in a profitable manner.

If environmental standards for a particular accommodation development are too costly to implement and segments of the population are unwilling to pay the price which such standards dictate, then the accommodation development may be considered inappropriate for the location in question.

When equity issues are considered, governments may act to ensure that some accommodation is provided at less than full cost.

Alternatively, accommodation providers may be able to reap monopoly profits from being granted sole rights to areas of environmental significance. Governments need to question whether it is appropriate that such gains accrue to private interests (accommodation providers) — given that these gains stem from the environmental attraction in question and that public monies are used in maintaining the environmental quality.

6.5.6 Co-ordinating decision making

The development of accommodation affects different groups of people in a variety of ways. At the local level, business is likely to support new developments while the community may well be divided in its response. If an environmentally sensitive area is particularly valuable, then stakeholders will include national and possibly international interests, even future generations.

The decision on providing accommodation in, or in close proximity to, World Heritage Areas raises the issue of whose interests are at stake and what level of government is best able to make the decisions. As a general principle, the decision should rest with the level of government which best represents the interests at stake. With regard to World Heritage Areas, the Commonwealth Government has ultimate responsibility to the world community. However, sound co-operative arrangements, or devolution of powers, can achieve the desired outcome.

The Intergovernmental Agreement on the Environment (IGAE) aims to provide a basis for a co-operative approach to environmental management in Australia. It sets out the roles of respective parties and establishes the ground rules under which the Commonwealth Government, state, territory and local governments will interact on the environment, as well as including a broad set of principles to guide the development of environmental policies.

In particular, Schedule 2 provides the basis for joint collaborative efforts which facilitate rational and environmentally sound land use decisions and approval processes. It includes a common set of principles which should apply to land use decision making (including consultation with all affected parties and dispute resolution procedures).

While the IGAE has the potential to streamline government decision-making processes, it has yet to achieve this potential.

Reconciling the interests of various levels of government, while taking into account community expectations and meeting international responsibilities, is a difficult task — notwithstanding the IGAE. It is probably no more difficult than in Wet Tropics World Heritage Areas (see Box 6.3).

Box 6.3 Different stakeholder interests: the Wet Tropics World Heritage Area.

The Wet Tropics is the most complex of Australia's World Heritage Areas as it contains 677 different parcels of land including private and leasehold property, National Parks, State Forests, Aboriginal land and Council reserves. Additionally, there are 14 local authorities (including two Aboriginal Community Councils) with part of their area in the Wet Tropics. The city councils of Cairns and Townsville also have a significant interest in the World Heritage area.

The Wet Tropics Management Authority (WTMA) is a statutory authority. There is a Board and a small staff with the responsibility to ensure that Australia meets its international obligations under the World Heritage Convention. Much of the day to day management of the area is undertaken by the principal land holders involved, which are Queensland Government Departments.

The Draft Wet Tropics Plan was released for comment in early October, 1995. A very basic issue for the WTMA is to balance its roles of both preserving and presenting the value of the Wet Tropics. This raises questions as to the siting of accommodation and such facilities as walking tracks. These matters are yet to be resolved.

Source: WTMA 1994 and 1995

Accommodation provision should have regard to the impacts on the environment in which it is situated. This applies to both the original siting decision and to ongoing operations.

Co-operation between different levels of government is essential to ensure that appropriate accommodation-siting decisions are made.

6.6 Conclusions

The uniqueness of the Australian natural environment is a major tourist attraction and the provision of accommodation is important for ensuring access to such attractions. If not managed correctly visitor impacts resulting from tourism accommodation developments have the capacity to destroy the environmental assets upon which they rely.

Accommodation provision should be suitable for the environment in question and the carrying capacity of the area should be clearly identified. However, the provision of accommodation developments, close to, or even in (as with the Great Barrier Reef) areas of environmental significance are not necessarily incompatible with conservation values. Where possible, the types of accommodation provided should cater for all segments of the community because one of the social goals of heritage preservation is to allow all to experience it.

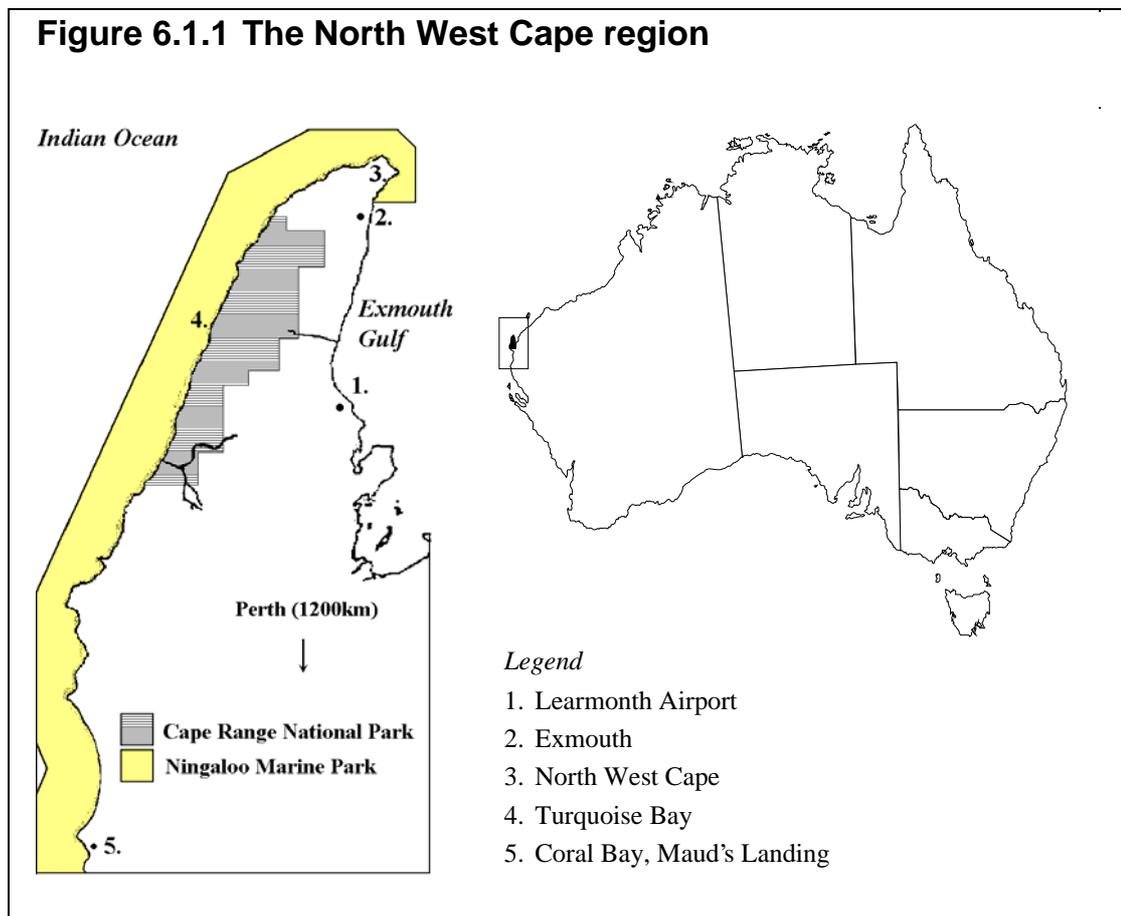
Close co-operation between different stake-holders is essential to ensure appropriate accommodation decisions. When different government jurisdictions are involved, the IGAE establishes the framework. It has not been used to its fullest extent to date.

Recommendation 1

The Commission recommends that the procedures and processes that are established by the Intergovernmental Agreement on the Environment (IGAE) are put in place immediately.

Attachment 6.1 Accommodation and development in the North West Cape area

The North West Cape area is situated some 1200 km north of Perth, on the west coast of Australia and encompasses both land and marine environments. It may be broadly defined by the extent of the Ningaloo Marine Park, including the North West Cape peninsula and the coast south to the Tropic of Capricorn. The area includes the town of Exmouth, the airport at Learmonth, Cape Range National Park, the developments at Coral Bay, land under the control of the Department of Defence, and land under leasehold and freehold tenure (see Figure 6.1.1).



The main attractions of the North West Cape area include a prime quality coral reef, excellent fishing and a sense of isolation. Exmouth and Carnarvon to the south are gateways to the area.

The area has traditionally catered for small numbers of nature-loving Western Australians mainly visiting during the winter months. However, the last few years have seen a dramatic increase in the number of backpackers and other

‘adventurous’ tourists. The growing use of the area may damage the environment unless sound management strategies are implemented.

The area may be characterised as being in the ‘involvement’ phase of the Butler cycle. Some accommodation is available, mainly in the form of camping facilities and basic built accommodation in Exmouth and Coral Bay. Tour facilities (four-wheel-drive exploration, diving, charter fishing) are available.

There have been significant efforts to manage the area in the face of its growing popularity with tourists. The Ningaloo Marine Park and Cape Range National Park were created to ‘provide for as much public enjoyment of this wild and wonderful place as is consistent with its maintenance and protection for all time’ (CALM 1988, p. 6). The fringing and outer reefs and a number of striking geological formations on land constitute significant environment values.

There is increasing interest in development of the area. Such developments would make the area more accessible to visitors either by improving access or providing accommodation. Among a number of accommodation proposals, there are proposals to develop an integrated resort at Maud’s landing (including different types of accommodation, a marina, a landing strip and a golf course) and the upgrading of the passenger and luggage handling facilities at the Learmonth airport to enable it to service wide-bodied aircraft.

In contrast to these development proposals, there are plans to extend Cape Range National Park to the south and east of its present boundaries. While camping is strictly limited and regulated within the Park boundaries in order to maximise the campers’ enjoyment of the environment, unregulated camping occurs along the beach south of the Park. This uncontrolled camping has the potential to damage the environment through overcrowding of certain areas and the lack of adequate infrastructure (road and waste collection).

Any development in this area must contend with the costs associated with its remoteness and the relatively low level of existing infrastructure. For example, any development of accommodation outside of Exmouth or Coral Bay would require the installation of permanent staff quarters in addition to the tourism accommodation itself. Because of the proximity of coral reefs and their sensitivity to changes in the environment, it is important that any accommodation development include environmentally responsible ways of dealing with sewage. Similarly, appropriate solutions must be devised for disposing of household waste associated with any new accommodation.

Access pervades the issues associated with the provision of accommodation in a relatively remote area such as the North West Cape. Additional accommodation improves access for tourists, facilitating their enjoyment of a particular site. However, in some cases the construction of accommodation may result in

restricted access to a site. For example, accommodation has been proposed at Turquoise Bay, within the boundaries of Cape Range National Park. Such a development could result in restricted access for day visitors to that beach as well as the adjacent coral reef.

The proposal for Turquoise Bay could significantly change the attributes of the site. Not only from an ecological aspect but also from a tourist amenity perspective, preservation of the area might be a more appropriate option than developing accommodation there.

Frequently, the information regarding the impact of an accommodation project and all its direct and indirect effects on the environment is not available. Because a project may result in the loss of significant values associated with a site, the decision to allow development to occur must be taken with caution. If there is a high level of uncertainty and the potential costs are relatively high in comparison to the benefits, the precautionary principle should apply. It could be argued that the information required to decide on accommodation in the North West Cape area is not currently available.

At a minimum, significant information on carrying capacity of various sites and resources is required. For this, a number of baseline studies may be required. For instance, little is currently known about the turtles that nest there or the whale sharks that migrate seasonally to the area. Such studies would at least provide a basis with which to compare any changes in behaviour or population levels that tourism may have on these species.

To the extent that there is significant uncertainty about the effect of tourism activity on some of the attractions in the area, and that accommodation contributes to facilitating access to these attractions, the analysis of costs and benefits of a project must carefully evaluate the outcomes and the likelihood of each outcome. In the face of uncertainty, research should be undertaken with the aim of avoiding irreversible decisions.

To the extent that the Marine Park or Cape Range National Park can be affected by the development of accommodation within the Park or outside of it (as well as many other issues), it is important to have a significant degree of cooperation between the different management authorities and jurisdictions concerned. The experience gained from management of the Great Barrier Marine Park Authority may provide a useful guide in this matter.

7 APPROVALS AND STANDARDS

This chapter deals with certain approvals processes and standards that regulate the construction and operation of tourism accommodation facilities. A number of these procedures are widely applied throughout the economy so that any unnecessary impediments are generic rather than specific to tourism. The procedures pertaining to standards outlined in the chapter are specific to tourism but they mainly concern improving the business performance of tourism accommodation rather than regulating their ongoing operations. Reference is made to a case study provided by the industry concerning operating licences and their application to a group of five Queensland island resorts.

7.1 Introduction

Appropriate approvals and standards are necessary to ensure that new tourism developments can be established with a minimum of delay, while recognising all legitimate interests. In the establishment phase, land use planning and development approval processes are relevant. Once new developments are established, operating regulations and licenses required for the operation of the businesses are relevant. Such licences are, obviously, important for existing tourism operators.

Ensuring that standards are appropriate for new types of accommodation is important. For instance, over the past five years Australia has experienced rapid growth in the backpacker and bed and breakfast accommodation segments of the industry. Government and regulatory measures (where appropriate) need to be flexible and responsive in keeping pace with such emerging trends.

While outside the province of government, quality control systems and star-ratings (operated by the Australian Automobile Association) are important matters for individual operators and the industry as a whole.

7.2 Land use and development approvals

The responsibility for approving most new developments (a new hotel for instance) generally rests with local government authorities. The development approval process aims to address the development of land within existing

planning zones. Under land use planning schemes, development approval is either automatic (that is, a certain land use is permitted by right) or it requires consent. In situations where consent is required, the proponent would need to satisfy the relevant authorities and neighbouring land holders as to the compatibility of the proposed development with existing land uses.

Land use planning is primarily a means for resolving, avoiding or forestalling conflicts of interest over land use. It is an instrument for identifying, representing and protecting the interests of those indirectly affected by land use; in particular, the wider community and future generations. It is a recognition of the inability of land markets to cope with equity issues (how the land should be allocated), externalities (side effects caused by incompatible land-uses in the same area) and the use of common property resources (land which anyone is free to use). Land use planning typically involves two stages, zoning and development approval.

7.2.1 Zoning

Land use zoning is an administrative tool used in the regulation of development. The regulation of land and building development in Australia is primarily a local government activity using delegated authority from state and territory governments. There is considerable variation across Australia in the level of authority and autonomy given to local government to regulate land use.

Zoning regulations determine the type of land use in a particular locality. They are designed to separate incompatible land uses — for instance, abattoirs from residential developments.

7.2.2 Development approval processes

The established development approval processes are not unique to tourism and considerable attention has been paid by governments to assessing the efficacy of the development approval process — in particular, the speed with which approvals occur (see DIEA 1990, Graham 1991, Shiels 1991, OLG 1992, and IC 1993).

However, according to some participants in this inquiry, the speed of the approval process for tourism accommodation developments remains an issue. The Victorian Department of Premier and Cabinet commented:

Extensive delays occur to seemingly attractive tourism projects as they become caught up in development assessment, approvals and appeals processes ... planning red tape is seen as the biggest impediment to many tourist projects ... (sub. 98, p. 47)

The National Centre for Studies in Travel and Tourism stated:

During the National Centre's recent strategic planning projects for regional tourism in Queensland, an issue raised time and time again by workshop participants has related to a perceived increasing time lag between site identification, planning approval and commencement of development projects. (sub. 149, p. 2)

The Macquarie Bank (1995) stated that:

The time lags and complexity of the development process as it affects tourism infrastructure creates a need for all levels of government and the private sector to streamline the development process to reduce the time and cost involved.

Previous studies suggest that the current approvals system can deal with the vast bulk of standard approval applications — mainly houses, flats, small office and commercial developments in a relatively short time (DIEA 1990). Approvals such as these occur through well developed guidelines. However, problems can occur when applications do not conform to the usual framework. For instance:

The greatest delays occur ... with small rural councils that experience large and unfamiliar development applications, for example, resort developments in small coastal towns. (DIEA 1990, pp. 12–13)

There is merit in streamlining the involvement of government authorities in development applications. The Tourism Task Force was a keen advocate of streamlining the current process (sub. 118, p. 26) as was the Tourism Council of Australia (TCA) (sub. 155, p. 11). The Building Owners and Managers Association (BOMA) said:

It is proposed governments introduce an integrated system of approvals ... Applicants should be able to make a *single* application to the local council that addresses all aspects of their development proposal. (BOMA 1995, pp. 29–30)

BOMA also stressed the cost of delays associated with the development approval process and submitted a case study of a development proposal on Curtis Island off the Queensland coast near Gladstone. The Commission does not wish to pass judgement on this particular project proposal, but the BOMA case study does illustrate a general problem of costs and delays associated with seeking a range of approvals from three different tiers of government, particularly when there is unclear demarcation of responsibility between them:

The case study finds that referral, concurrence and fragmentation are inefficient and contribute to lengthy delays and holding costs. (sub. 170, p. 6)

A different issue raised by some participants is that there is no uniform view at the local government level about what is a desirable tourism development. The Motor Inn Motel and Accommodation Association commented:

... Local Government is a major factor impacting on tourist development. There should be established a very clear means of building development ... [f]or example, there are something in the order of 152 local government areas within New South Wales, all of

whom can set their own totally independent and separate requirements on tourist accommodation, its development, what is required ... (sub. 78, pp. 9–10)

It has been argued that the provision of backpacker accommodation faces similar problems. The AAA commented:

Members of the backpacker industry have expressed concern over the current lack of consistent national guidelines for approval processes. Rather, there exists across the country a plethora of often complex and inconsistent planning regulations. (p. 10)

However, the Commonwealth Department of Tourism (DoT) Draft Development Guidelines for Backpacker Accommodation (1995) note that this situation is addressed in some situations:

Some councils have recognised the continuing growth in backpacker tourism and have responded strategically, identifying specific precincts as suitable for this form of accommodation ... Councils with a documented strategy for the location of backpacker accommodation are better placed to service both prospective developers and concerned residents. (DoT 1995c, p. 5)

The cities of Port Phillip (Victoria) and South Sydney (NSW) are two councils that have defined specific areas where they see backpacker accommodation as an appropriate use.

There is much to recommend the application of standard procedures in seeking development approval. What many participants appear to be referring to however is not procedures as such, but rather that different local authorities are likely to come to different decisions as to the preferred type of tourism accommodation. To the extent this reflects the view of local residents, it is compatible with accepted principles of democratic government.

There is merit in streamlining the participation of authorities involved in development applications.

Planning approval processes should be standardised so that similar procedures are adopted in all jurisdictions.

7.2.3 Floor space ratios

It was argued that floor space ratios, particularly in central business districts of capital cities, discriminated against the development of tourism accommodation (sub. 170, p. 8).

It is true that floor space ratios are different for hotels than for other buildings. There may be sound reasons for the differences. Detailed evidence on any impact is not available. However, floor space ratios could warrant re-examination to ensure that they are not providing unnecessary impediments to hotel development.

7.3 Operating regulations

The TCA provided the inquiry with a case study of a company operating five Queensland island resorts and the cost to the company in obtaining a range of operating licenses and permits from Local, State and Commonwealth authorities. The TCA concluded that:

In summary this small Queensland based island resort operator must observe 48 Commonwealth, State and Local Government regulations to conduct its tourism related operations. In total the company must apply for and monitor around 300 licenses. (sub. 155, p. 11)

Two matters would appear to be relevant in this regard. One is that the island resorts fall into different local government jurisdictions and, hence, there might be different local requirements which reflect the views of local residents. The second is that most of the licences relate to matters such as health standards in resort kitchens. The TCA argued that, instead of specific licences for, say, each kitchen on all of the resorts, a 'bubble' licence be issued. The concept is that one such licence would cover the conduct of the same activities at each resort. On the evidence presented to the Commission it is not possible to judge whether this is a practical or desirable approach. It would still be necessary to regularly inspect all establishments.

7.4 Industry quality standards

To a large extent, the competitiveness of the tourism industry is linked to the issue of quality. How tourists (both domestic and inbound) perceive the experience in terms of value for money (including the standard of, and service in, hotels, motels etc) will determine whether they continue to visit certain areas and use particular accommodation establishments or go elsewhere.

If sub-standard accommodation or a lack of professionalism is experienced, others in the industry can be harmed. Reporting on a survey of accommodation providers, the Tasmanian Department of Tourism, Sport and Recreation (DTSR 1994) claimed that some accommodation providers were having an adverse flow-on impact on the reputation of more professional operators:

Many small accommodation providers were viewed as hobbyists with little investment and little time for planning. Other operators saw these part time businesses skimming the cream off the peak season with little commitment to marketing, service or to the industry. They felt this attitude and lack of professionalism was harming the reputation of tourism in Tasmania. (p. 23)

An industry self-management approach is an appropriate means of ensuring satisfactory standards. However, it needs to be recognised that self-regulation is

most effective in markets where consumers largely make repeat purchases — customers can penalise accommodation providers for poor quality service by taking their custom elsewhere. Travel booking agents can help inform potential tourists in other cases.

While the star-rating system (discussed below) is widely recognised and applied as a measure of quality (or a method of allowing potential tourists to make comparisons on a quality-price basis), some are seeking a more comprehensive approach to quality assurance. The representative of the Australian Farm and Country Tourism Inc. commented:

It is easy enough to standardise in terms of [accommodation]. But when the service that you are providing includes an experience which is much more subjective, trying to assess it from a ratings point of view ... [creates] difficulty ... The issue is one of trying to find a ratings system or standards system that can incorporate both the standard of accommodation and the value of the experience that the visitor will have. (trans. p. 431)

Self-regulation can take a variety of guises, from industry codes of practice to accreditation and rating systems. Service quality can be improved through less direct measures such as improved management and performance recognition schemes. Some of these schemes are discussed in the following sections.

7.4.1 Rating of accommodation

As outlined in Chapter 4, a nationally consistent rating system administered by the AAA exists in each state and territory. The AAA rating service provides valuable information relating to standards of accommodation provision, thus improving consumer options for making informed choices. However, this system is based on the range and standard of facilities and not the quality of service provided. For instance, a tourist may stay in a hotel or motel which has appropriate physical facilities for the relevant star rating, but the service provided may be sub-standard according to the tourist's expectations.

The AAA believes its ratings system is flexible and a useful tool in monitoring quality. For instance, properties which have had their ratings reduced at time of inspection are able to restore their rating by providing an undertaking to improve standards to the requisite level. The AAA commented:

This is an indicator of how the classification system is playing a very important role of maintaining and improving the standards of accommodation in Australia ensuring our competitiveness in the international market. (sub. 92, Attachment 1, p. 7)

However, some participants have expressed concerns relating to the adequacy of the current ratings system to cater for all forms of accommodation. The Australian Reservation Service argued that there were shortcomings with bed

and breakfast star ratings because there was nothing within the rating system that allows for a measure of ambience. (trans. p. 375)

The rapid growth of the so-called ‘hosted’ accommodation sector (bed and breakfast establishments and farm host accommodation) with its emphasis on service rather than facilities has meant that it has been difficult for the ratings system to keep pace with changes. In an attempt to address this, the Victorian Tourism Operators Association is developing an accreditation program for the hosted accommodation sector.

All-encompassing quality standards cannot be developed with ease. While there are merits in improving the appropriateness of current ratings systems, there are other approaches which can be used to improve the overall quality experience.

7.4.2 Quality management systems

Much of the effort to improve quality in the past, both in Australia and overseas, has been directed at improving the physical attributes of tourism services: in the case of tourism accommodation, the standard of facilities, and ancillary services like shopping and car parking.

More recently, the emphasis has changed to enhancing customer perceptions about all aspects of the service being provided — most especially, the quality of person to person interaction involved in delivering the service. Management programs designed around the customer through the deployment of all staff have come to be known as quality management systems. As Hopkinson (1995) commented:

For large, medium and small businesses within the liquor and hospitality industry, an interesting and relatively new issue relating to the improvement of management is quality assurance or quality management systems. (p. 6)

Quality management based on internationally recognised ISO 9000 series standards provides world wide recognition that organisations have reliable and consistent procedures for delivering a quality product or service — overseas certification within the ISO 9000 guidelines for the hotel sector is growing in prominence. For instance, since 1993 the Singapore Tourist Promotion Board has been actively encouraging hotels to certify within ISO 9000 quality management guidelines (STPB 1994).

Standards Australia and Tourism Training Australia (TTA) have recently produced a handbook, *Excellence in Hospitality*. The aim of this handbook is to outline the steps involved in enabling any establishment, whether large or small to develop a quality management system. Following the steps outlined in this

manual allows a pathway to certification within the national and international quality service guidelines as set out by the ISO 9000 series.

7.4.3 Recognition of excellent service

The Australian Tourism Awards are given for excellence in various aspects of tourism provision. The Awards are organised by the TCA.

The awards are divided into a number of categories which include accommodation. For instance, the 'Specialist Accommodation Award' caters for farm holidays, home stays, house boats, bed and breakfast accommodation as well as colonial and heritage accommodation. A number of health, safety and service criteria need to be addressed for award eligibility. In relation to service, information provision and catering for people with special needs (for example language assistance and disabilities) are included within this category.

The awards are important as they provide an incentive for the ongoing improvement of standards and service in the industry. They represent a benchmark against which similar accommodation services can be compared. Finally, an award informs tourists that a very high quality of service will be provided.

7.5 Provision for the disabled

Tourism for many Australians is synonymous with taking holidays — and all people have the right to participate in the community in which they live. This includes disabled holiday makers. Recent legislative measures aim to ensure that disabled members of the community are not disadvantaged and this has important implications for tourism accommodation provision.

7.5.1 Legislative requirements

The *Commonwealth Disability Discrimination Act 1992* makes it illegal to discriminate on the grounds of disability. It covers, among other things, access to goods, services and premises used by the general public. The Commonwealth legislation is mirrored through complementary State and Territory legislation.

With regard to accommodation there is also the Building Code of Australia (BCA). It requires that hotels and motels provide facilities for disabled people. For instance, in an establishment of 10–49 units, one unit with disabled facilities

must be provided, two accessible units if the building contains 44–99 units, and three where there are more than 99 units.

7.5.2 Adequacy of provisions

People can suffer from a range of disabilities. The Australian Bureau of Statistics (ABS) indicated that in 1993, approximately 3 million people or an estimated 18 per cent of the population were classified as having a disability. Some 100 000 people in the Australian community require wheelchairs and up to another 500 000 have other forms of mobility impairment (sub. 54, p. 7).

Notwithstanding the everyday demand for specialist accommodation, the current extent to which it caters for demand is likely to be inadequate during special events:

During special events for people with disabilities, supply is stretched beyond its limit. (sub. 34, p. 4)

The Sydney Paralympics are to be held in the year 2000 and it is expected that some 6000 participants with disabilities, including 1200–1500 wheelchair participants will visit (sub. 54, p 7). Given that a proportion of these athletes and spectators will wish to travel elsewhere in Australia, a supply and demand imbalance for disabled accommodation may result in metropolitan and regional areas.

Despite legislation to improve availability and access to accommodation for the disabled community, some participants have identified problems. For instance, the Self Help for Hard of Hearing People (SHHH) commented:

Consideration should also be given to portable auxiliary aids for hearing impaired people available at reception to be used in guest rooms as required (eg: TV set with decoder, telephone handset with coupler and volume control, alarm / alerting devices, assistance listening device for TV). (sub. 123, p. 2)

The National Industry Association for Disability Services (ACROD) claimed that while 4 and 5 star hotels provide access, budget accommodation is somewhat limited (sub. 34, p. 4). Murray and Sproats (1990) suggested:

The cheaper forms of accommodation such as ‘backpacker’ motels are often in old buildings with narrow doors and many steps — considerable barriers to economical holidays for the disabled ... While building regulations now demand that new buildings be accessible, these new facilities are usually in the upper class and charge prices outside the budgets of most disabled travellers. (pp. 10–11)

In order to assess the adequacy of accommodation availability for the disabled, a study of the travel patterns and hence accommodation demands of disabled people is necessary. It is not known with accuracy what proportion of the

disabled population travel, nor whether that proportion would change much in response to the provision of additional facilities for the disabled.

Weiler and Muloin (1989, p. 21) suggested that if the 'average' disabled person took only one pleasure trip a year, this would represent about 5 per cent of all domestic travel in Australia. In contrast, Zywicki and Zywicki (1986) believed that 13 per cent of all travellers have some kind of disability. Furthermore, participants to this inquiry have commented that demand for disabled accommodation is increasing. NICAN said¹:

Travel for people with disabilities is increasing tremendously with the introduction of tour companies which are specialising in travel for people with disabilities. (trans. p. 1742)

A further difficulty faced by the disabled tourist is the extent of information on the availability of disabled accommodation. According to ACROD Limited, information from the AAA database indicates that in 1992 there were 1781 establishments which could cater for disabled travellers (sub. 34, p. 3).

The reliability of information, or its usefulness, was also raised as an issue. The School of Leisure and Tourism Studies, University of Technology (Sydney) commented:

[Disabled people] staying in commercial accommodation did not find the information about the accommodation accurate ... It is suggested that the information inaccuracies [are] largely caused by a communication breakdown as to what constitutes 'accessibility' ... (sub. 54, p. 10)

NICAN stated:

There is currently no accurate, central and accessible bank of information on accessible tourism opportunities (including accommodation, travel, attractions etc) in Australia. (sub. 31, p. 2)

In October 1995, Mr. Bruce Cameron published a comprehensive travel guide ('Easy Access Australia') for the disabled, which includes floor plans of accommodation facilities. In his submission to the inquiry, Mr Cameron indicated that this floor plan approach provides more comprehensive and reliable information about what constitutes 'accessibility' than the present system used by the motoring associations which is based on accessibility symbols (sub. 177, p. 2).

There is still scope for improving information dissemination about the availability of disabled accommodation. The Commission believes that it is the responsibility of specialist organisations such as ACROD and NICAN to take

¹ NICAN is a national information service in the area of recreation, sport, tourism and arts for people with disabilities.

the initiative on this matter and develop initiatives in consultation with relevant government agencies, industry bodies and motoring associations.

7.6 Conclusions

Tourism is a growth industry and it is important that appropriate regulations and planning processes are adopted so that land is dedicated to its optimal use and conflict over land use is minimised. Land use zoning decisions should ensure that accommodation is compatible with uses in surrounding areas. This does not mean, however, that tracts of land should be set aside predominantly for tourism-related use.

With reference to development approval processes, there is merit in streamlining the involvement of authorities involved in development applications. Setting up integrated development approval systems would help where different tiers of government are involved.

There are some development controls, such as floor space ratios, that appear to be different for hotels than for other buildings. These controls require re-examination to ensure that they do not provide unnecessary impediments to hotel development.

It is appropriate that accommodation standards are maintained. Quality and the customers' perception of quality can have a major effect on the financial performance of the individual accommodation provider (through repeat business) and for the industry generally. To operate successfully, accommodation providers need to establish high quality standards of management and service delivery. This can be acknowledged through the AAA rating system, through the establishment (where appropriate) of quality management systems and through the Australian Tourism Awards.

Access to suitable accommodation for the disabled is an important issue and despite government legislation some participants in the inquiry identified problems. Current disabled accommodation stocks are likely to be inadequate during special events.

8 TAX AND TOURISM ACCOMMODATION

This chapter outlines the tax arrangements pertinent to tourism accommodation. As with most sectors of the economy there are many taxes impacting upon accommodation provision — these can be direct or indirect. The chapter confirms, however, that the tourism accommodation industry pays no more indirect tax than the all-industry average.

8.1 Introduction

The impact of taxation policy on the tourism accommodation industry can be analysed from both an efficiency and an equity perspective. However, the nature of the tourism product (of which accommodation is a part) and the associated definitional and data limitations make evaluation of tax impacts difficult. Accordingly, the analysis of tax impacts is necessarily restricted to using data which best represent the tourism sector.

To establish whether the tax rates and allowances for the accommodation sector are appropriate, efficient, or equitable requires a detailed understanding of the overall tax system. Each and every specific tax, particularly indirect taxes designed for economy-wide application, cannot be expected to have an equal impact on all industries. Likewise, it is misleading to examine taxes in isolation from one another and from other aspects of economic policy, in particular the expenditure side of government budgets. For example, there are a number of specific government-funded measures such as marketing programs that directly assist the tourism industry. In this regard, tourism might be advantaged relative to some other industries.

Taxes change the cost of a product to consumers and the net return to producers. Tourism accommodation providers, while being initially responsible for payment of taxes, may end up passing the taxes on to consumers. The extent to which this occurs depends on demand and supply factors; in other words, the parties who actually pay the tax may not be the same as those who bear the burden of the tax. Determining who ultimately bears the burden of tax is a complex task.

8.2 Tax principles

Taxes have two roles. The main one is to raise revenue for governments. The second one is to change the relative price of a particular good or service to encourage or discourage its production or consumption. For example, it could be argued that taxes on tobacco are purposefully set at a high level to discourage smoking. If there is no particular reason to encourage or discourage the production or consumption of a commodity, then it is a useful rule of thumb to set taxes so that they are neutral; that is, they do not cause a change in the relative prices of goods and services. This is known as the efficiency principle.

Taxes also affect the distribution of income and can be assessed as to whether they do this in an equitable manner. Two criteria are commonly used to define equity for tax purposes. The first is horizontal equity, which means individuals with similar incomes should pay similar amounts of tax. The second is vertical equity whereby those in more favourable economic circumstances pay relatively more.

Tax implementation should also be administratively simple, with collection and compliance costs ideally being a small proportion of the revenue collected.

8.3 Impact of taxation

Participants have claimed that the tourism accommodation sector faces an unfair tax burden. For instance, the Australian Hotel Association (AHA) has commented:

Current taxes and possible additional taxes on the accommodation sector impose or would impose significant hardship on an industry with the greatest potential to generate foreign exchange and domestic employment. (sub. 91, p. 5)

The Motor Inn, Motel and Accommodation Association stated:

[The] Accommodation industry [is] over-governed and over-taxed. This is not recognised at Local, State and Federal Government levels. (sub. 78, p. 1)

Mr John Ingram of the Cairns Hilton Hotel further suggested:

Casinos and hotels are two of the highest taxed industries in Australia. (trans. p. 1397)

An inquiry into the impact of Australia's tax regime on the tourism industry was undertaken recently by the House of Representatives Standing Committee on Banking, Finance and Public Administration (HRC 1995). Submissions by the AHA and Hilton Hotels in response to the Commission's Draft Report focused on the absolute rather than the relative tax burden. The focus of this report and the HRC '*Taxing Relaxing*' Report (which a number of submissions to the Industry Commission inquiry quoted from) is on whether tourism is taxed

unfairly relative to other sectors of the economy. In this regard, the full text of the last three key conclusions from page 66 of the HRC report, are reproduced in Box 8.1.

Box 8.1 Key conclusions of HRC *Taxing Relaxing* inquiry

- The emergence and growth of the Australian tourism industry over the last decade has coincided with Government attempts to rationalise the taxation system. As a result, tourism may not have enjoyed the range of tax breaks and concessions historically available to emerging industries. The taxation treatment of tourism appears to be less favourable than several older industry sectors, most notably mining, agriculture and manufacturing. This point was reinforced regularly throughout the inquiry as participants itemised a range of concessions that have been granted to these industries.
- Nonetheless, it is difficult to argue that tourism has been targeted unfairly through the taxation regime or that it should be eligible for special tax breaks or concessions. In this context, it has been argued that the interests of tax equity would be better served by closing down inappropriate concessions in other industries, guaranteeing inter-sectoral equity in tax policy.
- The tourism industry is complementary to other sectors in the economy, and not in competition with them. Because all industries play a role in tourism through the provision of goods and services to travellers, the Committee has endeavoured to ensure that its recommendations are equitable and do not single out any sector for special treatment. Equity within the taxation regime will positively affect the way tourism is planned and managed in Australia.

Source: HRC 1995, p. 66

In contrast to the HRC report, the focus of this current inquiry is more specific with particular emphasis being given to tax arrangements and their impact upon the accommodation sector.

It is not a simple task to assess whether the accommodation sector faces a tax impact which is excessive in some sense. The term excessive can have two meanings — one that it is unfair (see Box 8.2) and the other that it is inefficient. Efficiency is judged according to whether taxes are neutral in not favouring or impeding production or consumption of a good or service.

Tax arrangements impact upon accommodation provision in two ways, either directly or indirectly. Direct taxes, such as income or company taxes, are levied directly on individuals, households or enterprises. Indirect taxes are levied on goods and services. The tax is paid indirectly because the tax is normally embodied in the price of the good or service.

The effects of direct taxes are borne by all sectors of the economy, so that the impacts which the accommodation sector faces are the same as those faced by other sectors in the economy.

Box 8.2 Equity of taxation — some further considerations

For accommodation provision the taxation regime may appear harsh relative to other industries; however, to describe it as inequitable rather than inefficient it needs to be demonstrated that some individuals suffer (relative to others) as a result. Any suffering is, at worst, likely to be a short-run phenomenon. This is because no-one forces investors to enter or remain in the industry. If the taxation regime meant that tourism accommodation investors suffered lower returns relative to other industries, less than normal profits would result and participants in the accommodation market would find alternative investments. Some accommodation providers would leave the industry and, in the long-run, normal profits would be restored. Any adverse effects resulting from sudden changes in tax policy will be confined to the short-run adjustment period.

In contrast, the impact of indirect taxes differs between sectors of the economy. As noted previously, the legal incidence of the tax (who is responsible by law to pay the tax) will often differ from the economic incidence (who ultimately bears the cost of the tax). For instance, with accommodation provision, suppliers are legally responsible for the payment of certain taxes but consumers are likely to pay some of the tax through higher room prices. The extent to which this occurs depends on the relative supply and demand response to changes in room prices and associated services.

In the following sections, indirect and direct taxation measures which impact specifically on the tourism accommodation sector are examined in the context of the taxation principles outlined above.

8.4 Indirect taxes

Accommodation providers (and other businesses) are subject to a variety of indirect taxes imposed by all three levels of government — Commonwealth, State and Local.

According to Australian Bureau of Statistics (ABS) data for the ANZSIC category, ‘accommodation, cafes and restaurants’, more than 85 per cent of the indirect taxes collected for this category are accounted for by three taxes, payroll tax, land tax and fringe benefits tax (see Table 8.1).

The impact that fringe benefits tax, wholesale sales tax, payroll tax, land tax and stamp duties have on the accommodation sector is discussed below.

8.4.1 Fringe benefits tax (on accommodation)

Fringe benefits tax (FBT) is levied by the Commonwealth Government and is payable by employers on the value of certain fringe benefits that have been

provided to their employees. The purpose of FBT is to ensure that employer-provided fringe benefits are taxed on the same basis as wage and salary income so that equity is maintained within the tax system.

Table 8.1 Indirect taxes on accommodation, cafes and restaurants, 1991–92 to 1993–94

<i>Indirect tax category</i>	<i>1991–92</i> <i>(\$m)</i>	<i>1992–93</i> <i>(\$m)</i>	<i>1993–94</i> <i>(\$m)</i>
Payroll tax	81	80	83
Land tax	68	66	65
Fringe benefits tax (FBT)	19	30	31
Stamp duty	13	15	22
Motor vehicle taxes	2	3	3
Other	4	5	6
Total	187	199	210

Source: ABS unpublished data

FBT can impact in two distinct ways. First, it can impact directly on the tourism accommodation industry (for instance, through the FBT treatment of accommodation provided for staff who are living on site). Second, it can impact indirectly by affecting the pattern of spending in the wider community. Direct effects are considered in this section. Indirect effects are considered in Section 8.7.2.

Impact of FBT on accommodation

The Tourism Council of Australia (TCA) alleged that there were anomalies in the FBT treatment of employer-provided accommodation for staff living on site:

There are some anomalies with the current FBT arrangements that are illogical and which adversely impact not only on the tourist industry but on business in general. (sub. 155, p. 7)

Under the *Fringe Benefits Tax Assessment Act 1986*, a fringe benefit is broadly defined and includes a right, privilege or service. The Act defines a housing right as the right to occupy or use a unit of accommodation as the person's usual place of residence.

Like all other fringe benefits, a housing fringe benefit granted to an employee is taxed at the highest marginal income tax rate. The employer pays the FBT and an income tax deduction is allowed to employers based on the taxable value of the fringe benefits.

Since the changes to the FBT rules on 1 April 1994, many employers have stopped providing non-cash benefits and have given employees an amount in cash instead. Such 'cashing out' has occurred under the current FBT rules

because there is no longer any advantage in employers paying their employees in the form of fringe benefits rather than cash.

Not only do higher income employees no longer face any incentive to take remuneration in the form of fringe benefits, but employees on less than the top marginal income tax rate face a disincentive, and are better off having these benefits cashed out. Indeed the TCA claimed that where 'cashing out' is both feasible and in the employee's best interest (by reason of the employee's less than top marginal tax rate) this has already been done.

At the Draft Report hearings, participants suggested that hotels and motels could not operate successfully without a manager living on site, but that managers did not like living on site and given the choice would live elsewhere. In these circumstances, employers need to provide some enticement for managers to live on site. However, if accommodation is provided free of charge and is used as a manager's usual place of residence, the accommodation is subject to FBT under the Act. The manager would be receiving a benefit by avoiding the cost of maintaining another residence. Removing FBT in these circumstances would simply enable the employer to pass an un-taxed benefit to the manager, the very approach that FBT has been designed to prevent. In any event, employers who do not wish to pay FBT always have the option of providing a similar benefit to their employees in the form of cash and charging rent for the accommodation provided for the on-site manager.

As noted by the Commonwealth Treasury (sub. 5, p. 7), FBT on normal housing fringe benefits is applied to the tourism industry in the same manner as other industries. A manager clearly receives a housing fringe benefit when he or she occupies rent-free accommodation as a usual place of residence. The Commission believes that levying FBT on the value of free accommodation provided for managers living on-site does not discriminate against the operators of hotels and motels, so that there is no reason to change the present FBT treatment of rent free accommodation provided for hotel managers living on site.

Fringe benefits tax affects all industries and does not discriminate against tourism accommodation.

8.4.2 Wholesale sales tax

Wholesale sales tax (WST) is a Commonwealth tax imposed on goods consumed in Australia regardless of whether they are produced in Australia or overseas (CCH 1995, p. 1340). The tax is imposed on the last wholesale sale of goods that have not previously been used in Australia. The sale or delivery of

goods intended for export are exempt from WST application. As Harding (1992) claimed:

The WST has been the subject of some controversy, as many goods are exempt from the WST tax base while services are also untaxed. (p. 1)

With respect to this Inquiry, Mr. John Ingram of the Cairns Hilton commented:

[R]egarding WST ... [w]hen we purchase goods and products, fixtures and fittings, we are perceived as a wholesaler and we pay WST. Those products are not sold on; they are fixtures and fittings in the hotel but we still have to pay WST tax on these items. If you are talking about the manufacturing industry or anything like that, different rules apply. (trans. p. 1397)

The AHA also noted:

In contrast to the exemptions received by other industries for plant and equipment which are placed in factories, the fit out for hotels and all equipment does not attract exemption. There is no equity in this and its imposition is counterproductive to the search for an improvement in the Australian economy. (sub. 157, p. 24)

Inputs to the service industries (for instance tourism) fall within the ambit of WST, unlike in those other industries where the tax is paid on the output. With respect to input exemptions which other industries receive (for example manufacturing), WST is essentially a tax on final manufactured products. However, in order to limit the 'cascading effect' of the WST through successive stages of the production process, producers of manufactured goods are able to claim exemptions on many of their inputs. As the Commonwealth Treasury has commented:

Without this input taxation of the services sector, the WST would create a large distortion in the relative prices between the goods and services sectors of the economy. (sub. 5, p. 10)

The Commission notes that the tourism industry is treated in the same way as many other service industries (for example road transport and financial services) which are also subject to WST on their inputs. It further notes that where WST is payable on a business input, the tourism operator is eligible to claim an income tax deduction through depreciation allowances for capital items (see Section 8.6).

8.4.3 Other indirect taxes (state taxes)

There are other indirect taxes levied by state governments which impact upon accommodation provision. This section considers payroll tax, land tax and stamp duties.

Payroll tax

Legislation in each state and territory allows for payroll tax to be levied on wages provided by employers to their employees. Tax free thresholds vary, for instance in Queensland the threshold is \$700 000 while in New South Wales and Victoria it is \$500 000 and \$515 000, respectively. Rates also differ, from 5 per cent in Queensland, to 7 per cent in NSW, Victoria, Tasmania, the ACT and Northern Territory (Ryan 1994, p. 21).

The nature of the tax exempt thresholds causes the level of payroll tax to vary depending on the size of the enterprise (see Table 8.2).

Table 8.2 Average payroll by employment size groupings for the accommodation industry, 1991–92

<i>Employment size (Persons)</i>	<i>Wages and salaries (\$m)</i>	<i>Businesses^a (No)</i>	<i>Average payroll (\$)</i>
0–4	44.7	1 708	26 171
5–9	86.3	1 402	61 555
10–19	98.0	621	157 809
20–29	71.7	231	310 389
30–39	50.6	101	500 099
40–49	35.6	51	698 039
50–59	23.1	33	700 000
60–69	27.9	24	1 162 500
70–79	26.7	21	1 271 428
80–89	12.9	9	1 433 333
90–99	13.9	8	1 737 500
100 and more	713.3	105	6 793 333
Total	1 204.9	4 314	

a Number of businesses as at the end of June 1992.

Source: ABS unpublished data

Based on Table 8.2, it would appear that accommodation establishments which employ 40 or more people (mostly 4 or 5 star establishments) would account for most of the payroll tax paid by the sector. This means that approximately 251 establishments (6 per cent of the total number of accommodation establishments) which account for 57 per cent of employment are responsible for most payroll tax raised from the accommodation sector.

With respect to this issue, Hilton Hotels Australia commented:

The issue of equity again arises particularly when considering the impact of payroll tax ... We would ... suggest that the impact of a disproportionate burden of payroll tax is compounded by the fact that the industry, especially at this level [4 and 5 star level], is both labour and capital intensive ... [o]ther service industries may well equally

approach the hotel industry standard of a 40 per cent labour cost against total revenue, but they certainly would not face the same on-going high investment costs. (trans. p. 5)

The AHA further noted:

[Payroll taxation] ... is discriminating against the larger hotels ... it is difficult to see the equity in this. (sub. 157, p. 25)

There is no evidence to suggest that the accommodation sector is labour intensive compared to the economy-wide average. Although the industry uses large quantities of both capital and labour, it is impossible, by definition, for an industry to be both labour and capital intensive, since these are ratios of labour to capital and vice versa.

While the Commission acknowledges that a large proportion of the total amount of payroll tax paid in the accommodation sector is accounted for by a small number of accommodation establishments, this does not support the claim, that tax treatment of these institutions is in any way 'unfair' (see Box 8.2). The appropriateness or otherwise of payroll taxes has to be analysed in a broad economy-wide perspective to properly ascertain any efficiency implications. This is more appropriately undertaken in the context of a major review of Commonwealth and State tax regimes.

Land tax

Land tax is an annual tax on the owners of certain types of land of certain value. It is imposed by all states and the ACT, but not the Northern Territory. Although land tax laws vary from state to state, the tax is generally levied on the unimproved value of land. Land taxes have often been argued to be less distorting than other taxes. They are thought to have little impact on allocative decisions because the supply of land is fixed (Musgrave and Musgrave 1987). In other words, unlike the supply of labour or the manufacture of physical capital, the amount of land available cannot be influenced by tax.

With respect to this inquiry, the AHA commented:

The Commission seems to dismiss the importance of this cost. In the context of the Commission's inquiry, it could consider recommendations to local government agencies regarding exemptions in the interest of developing hotels which not only generate jobs and revenue themselves, but also downstream businesses. (sub. 157, p. 25)

No evidence has been supplied to the Commission to support the contention that land tax is levied disproportionately on tourism-related properties. However on a broader scale, the Commission commented in its *1993–94 Annual Report* (IC 1994a) that the efficiency and revenue consequences of land tax are compromised by the excessive exemptions which apply. In particular, as a

result of the many exemptions that have been granted land tax has a narrow base and is essentially a tax on the corporate sector. Some commentators have suggested that land tax should be applied far more widely and this would permit a reduction in income taxes (Day 1995).

The Commission believes that the granting of exemptions from land tax are inappropriate in many cases. In the interests of overall tax efficiency, any government related exemptions warrant close scrutiny. This is best addressed by reviewing the tax in its entirety, rather than considering its effects on a single industry.

Stamp duty

The Tourism Task Force (TTF) commented:

Stamp duty schedules discriminate against property related transactions and thereby investment in tourism property. (sub. 95, p. 26)

Stamp duty is a tax imposed by states and territories at either a fixed or *ad valorem* rate on various transactions. Traditionally stamp duty is a tax on the creation of documents necessary to evidence transactions such as share and land transfers.

Stamp duties can affect property related transactions (not restricted to tourism accommodation) although no evidence has been presented to this inquiry that they significantly affect accommodation providers' decisions to buy or sell tourism properties.

Nevertheless, as the Commission has commented previously in its *1993–94 Annual Report* (IC 1994a), there is scope for efficiency improvements in stamp duty application across all industries. In particular, the Commission comments that, over time, financial and legal agreements and transactions have become more complex and the stamp duty system has had difficulty keeping pace with such innovations (IC 1994a, p. 82). These effects are likely to impact upon a broad range of industries and any analysis should be from this perspective.

8.5 Does the accommodation industry face a higher than average indirect tax level?

The level of indirect taxes faced by industries varies as does the level of direct and indirect subsidies. In some cases, a higher or lower tax level is designed to take into account the costs or benefits that production or consumption of the industry's product imposes on the rest of the community. For example, tobacco taxes contribute towards health costs associated with the consumption of tobacco, while petrol taxes are used, in part, to fund roads. The objective of

raising revenue in a way which least distorts economic activity can also lead to tax rates varying, with high taxes imposed on those goods where the level of consumption is least affected by price changes. The tax system can also seek to meet equity objectives by ensuring that those on higher incomes pay more in tax, for example, by having marginal tax rates that increase with income, or by taxing luxury goods more heavily than necessities.

It would not be appropriate for the Commission to seek to assess what the appropriate tax level is for the accommodation industry alone. Such an assessment would require a broad ranging inquiry into all the interlinked elements of the tax system, including reference to the expenditure side of government budgets. It also would include an assessment of who ultimately pays, for instance the extent to which a tax is passed on by the accommodation provider to tourists.

Consequently, the focus here is on assessing the contention that the indirect tax level borne by the accommodation industry is higher than average. However, as noted above, the Commission is not asserting that this is an appropriate benchmark for equity or efficiency.

8.5.1 Assessment of indirect taxes

The main difficulty in determining whether tourism accommodation faces a higher than average indirect tax burden is obtaining suitable data with which to make valid comparisons with other sectors of the economy and the all-industry average.

The Australian Bureau of Statistics does not collect indirect tax data which are directly representative of the accommodation sector. Until more disaggregated data recently became available, the highly aggregated category 'recreation, personal and other services' had been used as a proxy for the tourism industry in an attempt to illustrate the indirect tax impact which the industry faces (Carmody 1995). In its first submission to the inquiry in May 1995, the TCA said:

On the basis of ABS national accounts data and excluding income taxes, the 'recreational, personal and other services' industry currently faces an *ad valorem* equivalent indirect tax burden (net of subsidies) about 54 per cent higher than the all industry average, and is only one of two industries (the other being wholesale and retail trade) facing above average business taxes. (sub. 57, p. 5)

In its second submission to the inquiry in January 1996, the TCA noted that the 'recreation, personal and other services' category was the most disaggregated category available at the time of its first submission. The 'recreation, personal and other services' category is not a satisfactory proxy for the tourism industry

or the accommodation sector, because the category includes a very wide range of economic activities and it is not possible to distinguish tourism, or tourism accommodation, from other components of the category.

Recently it has become possible to obtain data on a more disaggregated basis, namely for the ANZSIC category, 'accommodation, cafes and restaurants'. The level of indirect tax paid by the 'accommodation, cafes and restaurant' sector as a proportion of industry output (GDP at factor cost) is substantially less than for other sectors and for the all-industry average (see Table 8.3).

Table 8.3 Indirect taxes¹: a comparison, 1991–92 and 1993–94

	<i>Indirect taxes</i>		<i>GDP at factor cost</i>		<i>Percentage</i>	
	<i>1991–92</i>	<i>1993–94</i>	<i>1991–92</i>	<i>1993–94</i>	<i>1991–92</i>	<i>1993–94</i>
	<i>(\$m)</i>	<i>(\$m)</i>	<i>(\$m)</i>	<i>(\$m)</i>	<i>(%)</i>	<i>(%)</i>
Accommodation, cafes and restaurants	187	210	7 753	8 186	2.4	2.6
Recreation, personal and other services ²	2 836	3 483	20 501	22 167	13.8	15.7
Retail trade	1 499	1 601	26 897	30 233	5.6	5.3
Manufacturing	6 242	6 740	48 883	55 813	12.8	12.1
Manufacturing ^a	4 146	4 345	48 883	55 813	8.5	7.8
All industries	50 140	57 450	342 583	377 527	14.6	15.2
All industries ^b	41 027	47 036	342 583	377 527	12.0	12.5

a Manufacturing (sales tax excluded)

b All industries (sales tax excluded)

Source: ABS unpublished data and ABS Cat. No 5204.0

Within the 'accommodation, cafes and restaurants' category, the rate of indirect tax for 'accommodation' could be very different from that for the other three ANZSIC sub-components, namely 'pubs, taverns and bars', 'cafes and restaurants' and 'clubs (hospitality)'. The lack of detailed data on indirect tax presents a problem when attempting to estimate indirect taxes for the accommodation sub-component only.

However, an indication of the relative size of the accommodation sub-component within 'accommodation, cafes and restaurants' can be obtained from the 1991–92 *ABS Survey of Hospitality Industries* (ABS 1994c). This survey indicates that the gross product for accommodation (\$1.7 billion) is approximately one quarter of the gross product for the 'accommodation, cafes and restaurant' category (\$6.3 billion). Indicative calculations illustrate that

¹ In Table 8.3, the 'wholesale trade' sector, has been excluded on the basis of payment of sales tax from which other industries are exempt (save manufacturing and the all-industry average). The manufacturing sector and all-industry average have been adjusted to account for this.

² The 'recreation, personal and other services' category comprises accommodation, cafes and restaurants, culture and recreation, and personal and other services.

even if the accommodation sector paid all the indirect taxes in the ‘accommodation, cafes and restaurant’ category, it still would fall below the all-industry average for 1991–92 (see Box 8.3).

Box 8.3 Is accommodation highly taxed?

If the accommodation component of ‘accommodation, cafes and restaurants’ pays all the indirect taxes of the sector, indicative calculations suggest that the indirect tax burden as a proportion of industry output in 1991–92 is equivalent to 11 per cent.

The accommodation sector makes a contribution to GDP of \$1.7 billion. If all of the indirect taxes (equivalent to \$187 million) were paid by the accommodation component — the percentage of tax paid as a proportion of GDP would equal $(187 / 1700)$ or 11 per cent.

If this is compared with the all-industry indirect tax average of 14.6 per cent (12.0 per cent adjusted for sales tax) in 1991–92 (see Table 8.3), in this hypothetical scenario, the accommodation industry does not appear to face a level of taxation which exceeds the average for the economy.³

This illustrative example does not indicate who is ultimately responsible for tax payment. For instance, suppliers of accommodation may pass most of the tax share on to consumers through higher room prices. The extent to which this occurs depends on supply and demand elasticities.

Two separate studies have attempted to measure the absolute level of indirect tax which larger enterprises in the accommodation sector face (see Box 8.4). It is difficult to assess how representative the results of these studies are, but they provide some information regarding the absolute level of indirect tax that the 4 and 5 star segment of the accommodation market faces.

There is some evidence suggesting that the tax impact faced by accommodation providers varies according to the segment of the industry. The 4 and 5 star segment may face a larger tax share compared with lower-rated accommodation establishments. As a payroll tax threshold (based on a level of tax exempt wages) exists in each state, *a priori*, it can be expected that the larger accommodation providers (which employ more labour) are subject to greater taxes than their smaller counterparts.

³ Comparisons of this nature should be interpreted with care. The all-industry average of 14.6 per cent for 1991–92 is calculated using GDP at factor cost (indirect taxes and subsidies are accounted for) while the indicative calculation is based on industry product (GDP) which does not account for indirect taxes and subsidies.

Box 8.4 Estimates of indirect tax upon large tourism accommodation providers

Two studies of the effect of tax on accommodation have been undertaken recently, one by the Building Owners' and Managers Association (BOMA) NSW (1995) and the other by Horwath and Horwath (1993).

The BOMA (1995) survey examined the actual operating cost data of four major 4–5 star hotels (Accor Asia Pacific, Country Comfort, Mirvac Limited and Regent International) in CBD regions. The data were collected for 12 months to June 30 1994 and only taxes paid and detailed in the accounts of each hotel were considered. A major finding was:

- The annual government tax revenue from 4-5 star CBD hotels is approximately \$10 000 per room. The BOMA survey claimed that after bearing all operational and investment risks, hotel owners received about \$12 000 per room before interest, depreciation and company tax.

The Horwath and Horwath (1993) study developed a model of a hypothetical hotel to assess the impact of government taxes and charges. This hypothetical hotel is located on the Gold Coast, has 300 rooms, is of an international standard and cost \$74.2 million to construct (including land and construction costs). The methodology assumes a stabilised average occupancy rate of 75 per cent and a room rate of \$135 in the fourth year of operation. Based on these assumptions, the following conclusions were drawn:

- Indirect taxes have a significant effect on operational and pre-company tax profitability. It is estimated that in the first ten years of operation, the hypothetical hotel incurs indirect taxes worth approximately \$17.7 million (in constant dollars). Once operations have stabilised, this represents \$1 of indirect taxes for every \$10 of revenue earned; and
- Removing all indirect taxes would not be sufficient to provide an attractive return to the investor. Consequently, the impact of these taxes needs to be put in perspective with the various other factors that impact on the profitability of hotels.

Source: Horwath and Horwath 1993 and BOMA 1995

The Commonwealth Treasury has stated that as the tourism industry (as distinct from accommodation) is an amalgam of different activities, the tax level faced is likely to be similar to that for the economy as a whole. The Treasury expressed this point as follows:

While we have not been able to specifically quantify the tax burden facing the tourism industry, it would be unlikely to vary significantly from that facing Australian industry in general; the tourism industry being a collection of all facets of Australian industry. (sub. 5, p. 15)

In conclusion, the Commission believes that there is no evidence to suggest that tourism accommodation pays an unfair level of indirect tax.

Based on the available data, tourism accommodation pays no more indirect tax than the all-industry average.

8.6 Direct tax

The direct taxes (namely income and company tax) which the accommodation sector faces are similar to other sectors in the economy. However, tourism accommodation (referred to as short-term traveller accommodation in the tax rules) is treated differently within the special capital (depreciation) allowances category.

Capital gains taxation has many economy-wide effects, but as discussed below, no evidence has been provided to this inquiry which suggests that the accommodation sector is disadvantaged relative to other industries.

8.6.1 Depreciation

Participants in the inquiry have suggested that current depreciation allowances are not generous enough. For instance, the TTF claimed:

Write off regimes do not reflect commercial realities ... (sub. 95, p. 26)

In relation to depreciation allowances for accommodation, the Building Owners' and Managers Association (BOMA) submitted to the HRC (1995) that rates of depreciation did not reflect the actual economic life⁴. BOMA made similar representations to the present inquiry (sub. 170) and its position was supported in submissions from the TCA and a number of other organisations. The following three recommendations were put to the inquiry by these participants:

- A thorough review of all safe harbour rates⁵ for items in Tax Ruling 2685/1217⁶ with a view to simplifying rates into a small number of bands that on average reflect actual economic life;

⁴ Economic life and effective life are two different concepts of depreciation. Under the existing taxation system, the period over which an asset can be depreciated is predominantly determined by what is termed the effective life of the asset. Effective life is the period over which an item can be physically used for income-producing purposes. However, depreciation not only arises from physical deterioration but also from economic or technological obsolescence, which can equally erode an asset's income-producing ability. The concept of economic life recognises not just physical deterioration of an asset but functional obsolescence as well.

⁵ Safe harbour rates are effective life values published by the ATO which can be used by taxpayers as an alternative to making their own assessment of effective life. The term

- The immediate introduction of a single, five year write off rate for fixtures and fittings in hotel and leisure properties (as an interim measure while this review was being conducted); and
- If recommendation one was to be rejected, then BOMA recommended the adoption of a single depreciation rate of 6 per cent to encompass all three elements of accommodation properties namely, structures, plant and equipment, and fittings and fixtures.

Since 1 July 1991, taxpayers have been able to opt for self-assessment of depreciation rates and use either effective (safe harbour) life estimates published in Tax Ruling 2685, or else make their own assessment. The Appendix to the BOMA submission uses the effective (safe harbour) life of 16 years for electric lifts and elevators as an example.

The rate automatically used or allowed by the Australian Tax Office (ATO) in the case of electric lifts and elevators is 13 per cent using the straight line or prime cost method⁷. In this example, 13 per cent prime cost implies a life of only 7.5 years⁸ which is much less than the published safe harbour life of 16 years. Therefore, if a taxpayer is to be better off under self-assessment, the economic life which he or she estimates will need to be less than the 7.5 years implied by the automatically allowed depreciation rate of 13 per cent.

The ATO has outlined in Tax Ruling 2685 factors which may be taken into account in making a self-assessment of effective life. They include:

- potential physical life;
- expected circumstances of use by the particular taxpayer;
- predictable obsolescence; and

'safe harbour' is applied because unlike self-assessed effective life values, the safe harbour values are free from possible challenge by the ATO.

⁶ Tax Ruling 2685, published in 1992, substantially updated provisions in Tax Ruling 1217. The BOMA submission has used up-to-date figures for effective (safe harbour) life taken from Tax Ruling 2685.

⁷ There are two methods under which depreciation may be claimed. These are the 'straight line' (prime cost) method or the reducing balance (diminishing value) method. Prime cost depreciation is calculated as a percentage of the item's cost. Diminishing value depreciation is calculated initially as a percentage of the item's cost and thereafter as a percentage of the written down value.

⁸ In deriving a prime cost or straight line depreciation rate, the effective life of an asset can be converted to a simple 'raw percentage' as the reciprocal of the effective life in years, multiplied by one hundred. For example, if the estimated effective life of an asset is 25 years, the straight line rate would be 4 per cent. Alternatively, the prime cost rate can be converted to effective life in years, by dividing the prime cost percentage (4 per cent) into one hundred.

- whether the effective life is restricted by the duration of a particular project.

Tax Ruling 2685 was released in 1992 to incorporate the changes to depreciation rates announced in the *One Nation* (Keating 1992) statement of that year and does not explicitly refer to economic life, the concept preferred by BOMA. However, in recognising obsolescence and circumstances of use as factors to be taken into account during self-assessment, the ATO is effectively, if not explicitly, using the concept of economic life. Economic life is necessarily determined on a case-by-case basis and therefore does not lend itself to publication by the ATO in the form of fixed or guideline rates.

In its submission to the inquiry, BOMA presented evidence from a study it commissioned to determine the economic life of building structures, plant and equipment, and fixtures and fittings. The BOMA submission does not contain a full account of the methodology used in this 1988 study. Nevertheless, it is clear that as part of the study, asset lives were attributed to the various components of hotel accommodation including buildings and fixtures etc., using three different bases: estimated economic life, effective life as calculated under self-assessment, and effective (safe harbour) life published in Tax Ruling 2685.

The Industry Commission has assumed that the estimated economic life is a BOMA-endorsed best estimate that was established by BOMA's consultants when undertaking the 1988 study, and that the estimates under self-assessment presented in the BOMA submission are an average of typical self-assessment by BOMA members.

The study methodology involved estimating the contribution to total cost (as a percentage) of about 45 individual cost items. Each item was given an estimated life and then weighted according to its contribution to total cost. Finally, the data were grouped for convenience of exposition into the three broad asset categories shown in Table 8.4.

Table 8.4 Estimated average asset lives for 4 and 5 star accommodation

<i>Asset category</i>	<i>Proportion of total cost (per cent)</i>	<i>Effective life safe harbour (avg. years)</i>	<i>Effective life self assessment (avg. years)</i>	<i>Economic life BOMA estimate (avg. years)</i>
Structures	39.83	25.00	25.00	24.90
Plant	22.65	24.51	22.40	17.40
Fittings and fixtures	37.42	14.09	9.71	5.24
Weighted average life (yrs.)		20.83	18.71	15.86

Source: BOMA sub. 170, p. 4

BOMA suggested in their submission that the results in Table 8.4 indicate that the weighted average economic life is 15.86 years for hotels, and therefore approximately 3 years shorter than the 18.71 years claimed on average under self-assessment and about 5 years less than the 20.83 years that could be claimed using effective (safe harbour) rates.

Based on these calculations, economic life has the quickest write off period which is why BOMA is recommending economic life as the preferred basis for calculating depreciation rates. The BOMA estimated economic life to be 15.86 years (see Table 8.4). The reciprocal of the BOMA estimates converts to a prime cost or straight line depreciation rate of approximately 6 per cent and thereby comprises BOMA's third recommendation.

Evaluation of BOMA Recommendations

In discussing economic life, the BOMA study (or the interpretation of it in their submission) appears to have confused the difference between effective (safe harbour) life, and the effective life values implicit in the schedule of prime cost depreciation rates allowed by the ATO and published in Tax Ruling 2685.

It is apparent from the appendix to the BOMA submission that the emphasis in the 1988 study was on economic life rather than on actual depreciation rates. Section 54A requires the Commissioner of Taxation to make a determination of the effective lives of particular items of plant, which taxpayers can adopt as an alternative to making their own estimate of effective life. However, these effective (safe harbour) lives are only published as a baseline guide for those opting for self-assessment. They are not used to calculate the actual schedule of allowed (prime cost and diminishing value) depreciation rates listed in Tax Ruling 2685. Therefore, effective (safe harbour) life is an inappropriate base for BOMA to use in judging whether or not the actual scheduled depreciation rates used by the ATO are sufficiently generous.

The actual schedule of allowed depreciation rates published in Tax Ruling 2685 are accelerated rates and therefore have no direct relationship to the published effective (safe harbour) lives used as a guideline for self-assessment. In other words, the actual allowed straight line rates are not simple 'raw percentage' rates calculated as the reciprocal of the published effective lives; rather, they are accelerated rates, purposefully introduced as a matter of government policy.

Prior to 1992, the rates allowed by the ATO were accelerated rates, and these rates were increased still further in the *One Nation* statement. Further, the schedule rates both before and after the *One Nation* statement are more generous than would be obtained by calculating the reciprocal of economic life as calculated in the submission from BOMA. The schedule of accelerated rates in Tax Ruling 2685 is also more generous than would be obtained under the self-assessment lives contained in the BOMA submission.

Indeed, if the BOMA recommendations were implemented, the industry would be worse off than under the existing arrangements.

In conclusion, BOMA have focused on various measures of life in their submission as the basis for comparison, whereas they should have used actual allowed (accelerated) depreciation rates as their basis for comparison. It is these accelerated rates that led the Commonwealth Treasury to comment that the existing rates are generous:

Depreciation allowances for plant and equipment have been accelerated beyond effective life rates. The new rates are particularly generous for assets with long effective lives. (sub. 5, p. 8)

Policy principles

The concept of economic life is supported in principle by the Industry Commission. However, its administration presents a number of difficulties for the ATO and accounting practitioners. Obsolescence, and therefore economic life, can only be determined on a case-by-case basis. Self-assessment allows for the use of economic life, although it too raises a number of administrative issues.

BOMA suggested that self-assessment was fraught with the hazard of having a self-assessed rate contested by the ATO, with the result that taxpayers were reticent to claim depreciation to which they may be entitled.

Self-assessment will not be worthwhile to taxpayers unless the ATO allows significantly shorter lives than the effective (safe harbour) lives. The Commission is in no position to make judgements about the administration of self-assessment, either in individual cases or more generally.

BOMA also referred to the need to simplify rates into a small number of bands reflecting economic life. Simplicity should reduce compliance costs. There have been some administrative changes since 1988 aimed to achieve greater simplicity, but more important is the potential trade-off between administrative simplicity and the ability to reflect economic life. Case-by-base substantiation to determine economic life may be incompatible with a simplified rate. A simplified rate might need to be set a little less generously, whereas if a relatively generous rate is being sought, it is reasonable for the burden of substantiation to be a little higher than under an automatic or simplified approach.

Summary

The Commission received no evidence that current depreciation rates for accommodation are not generous enough.

The Industry Commission is sympathetic to the need to use the economic life concept to reflect obsolescence that is unique to a particular situation, but notes that the option of self-assessment to achieve this outcome is already in place. The Commission is not in a position to judge whether the self-assessment procedures are being administered satisfactorily.

Simplifying depreciation rates so as to reduce compliance costs is supported in principle by the Industry Commission, but again, action has already been taken to achieve this. Further, the Commission notes that when a relatively generous rate of depreciation is being sought, a fairly rigorous process is appropriate to substantiate claims. Accordingly, there may be an incompatibility between simplification and case by case substantiation used to fully reflect economic life.

On the evidence presented, depreciation allowances for tourism accommodation are not too low and they are at least as high as they would be if set in accordance with the concept of economic life.

8.6.2 Capital gains tax

Capital gains tax is a term used to describe a set of provisions within the *Income Tax Assessment Act* that determine how a net capital gain is included as assessable income. It is essentially an even-handed treatment of income received as a capital gain. The TTF commented:

An exemption to CGT [Capital Gains Tax] is ... proposed for properties held for more than seven years to promote long term investment in the tourism industry. (sub. 95, p. 26)

The HRC (1995) recommended that capital gains tax be deferred on the capital gain realised on the sale of a trading business if the gain is 'rolled over' into another business.

However, the Commission believes that if capital gains tax did not exist investors would be more interested in investments where most of the returns are from capital gains rather than from current income. As Head (1985) claims:

Concessional treatment of capital gains, as compared with other types of income from capital, distorts investment decisions in favour of those sectors and industries in which the largest proportion of the overall return to capital can be expected to accrue in the form of capital gains ... There can be little doubt ... that the allocation of resources in Australia has been seriously distorted ... in the direction of speculative real property development at the expense of economically more productive activities. (p. 7)

The Commission believes that a capital gains tax removes this incentive and appropriately promotes indifference between investment return received as income or as capital gain.

8.7 Other tax matters

There are other tax matters worth considering. The mutuality principle, FBT on food, tax holidays and accommodation (bed) taxes are considered in the following section.

8.7.1 Differential tax treatment of clubs and hotels

At the Draft Report hearings held in Canberra in February, the differential tax treatment of clubs and hotels became a major point of contention between the AHA and the Registered and Licensed Clubs Association of Australia (RLCAA). Specifically, it was claimed by the AHA that the income tax advantage enjoyed by clubs was enabling them to build accommodation from a tax-advantaged position and thereby compete unfairly with other accommodation providers. The RLCAA responded vigorously to the statements by the AHA about favourable tax treatment.

According to the AHA:

The hotel industry is particularly disadvantaged by inequalities in tax with other industries reflected in the tax principle of mutuality which allows licensed private clubs to compete with hotels on a tax advantaged basis. (sub. 91, p. 5)

There are two bases on which clubs can receive favourable tax treatment, first, as a tax exempt sporting club, and second, under the tax principle of mutuality. Both are explained below.

Sporting clubs

Clubs can receive favourable tax treatment because of their status as a sporting club. Those clubs which can demonstrate that they have been established for the encouragement or promotion of a game or sport are eligible for an income tax exemption under Section 23(g)(iii) of the *Income Tax Assessment Act 1936*.

The tax principle of mutuality and club operations

In its submission to the inquiry, the RLCAA included a leaflet produced by the ATO explaining the tax rules applicable to licensed clubs under the principle of mutuality.

Where a group of people contribute to a common fund created and controlled by themselves for a common purpose, the tax principle of mutuality provides that any surplus arising from the use of that fund is not treated as taxable income. The principle recognises that income consists only of earnings derived from external sources. It does not comprise monies set aside by club members for their own benefit.

Where the principal aim of a club is to provide facilities for its members, the principle of mutuality applies to all transactions between the club and its members. Such transactions include payments received from members for services provided by the club (for example dining facilities). Similar transactions with non-members are not covered by the mutuality principle. In essence, licensed clubs are only assessable for tax on income earned from trading with non-members (CCH 1995)⁹.

For general trading activities such as dining or bar activities, it is not possible to attribute receipts or expenses separately to members and non-members. Therefore, for income tax purposes, administrative arrangements have been put in place by the ATO to allocate the percentage of member and non-member income.

For the tax principle of mutuality to apply, the club must have a number of attributes, one of which is that the club rules must prohibit any distribution of surplus funds to its members. Because clubs do not have to return a profit to their members, they have more discretion in how they operate than does a private firm. For example, in charging for drinks and meals, clubs can choose to charge so as to just cover costs and not make a profit at all. Alternatively, they can charge the market price for drinks and meals, or else charge above cost but less than what the market will bear and thereby make a small profit (albeit a

⁹ The income tax exemption for sporting clubs applies whether income is derived from members or non-members. The principle of mutuality is therefore not applicable to a tax exempt sporting club.

lesser 'profit' than is possible). This 'profit' is the surplus referred to above which is for members' use in their mutual interests.

Unlike privately owned hotels, which seek to make (and generally distribute) a profit, clubs can re-invest their profits to fund the growth of their clubs. Clubs can also use the discretion on pricing referred to above to increase their sales of, say, food and drinks in competition with private providers.

The tax principle of mutuality and the provision of accommodation

The AHA expressed a particular concern that some of the larger licensed clubs are now extending their scope of operations beyond what they claimed were 'traditional' club activities, for example the provision of accommodation. Clubs such as Panthers (NSW) and the Tuggeranong Rugby Club (ACT) were cited specifically. The AHA argued that because of tax advantages, licensed clubs are able to provide accommodation and associated facilities at lower prices than their competitors (AHA, sub. 91).

No direct evidence on relative accommodation price levels was provided to the inquiry, but there was nevertheless evidence provided of a significant increase in new accommodation construction underway (and hence potential market share) by clubs, particularly in NSW. The AHA said that over 1000 new rooms are planned by the clubs sector or about one-third of the total planned new construction of rooms in Australia at present. This strong interest by clubs in building new accommodation is occurring at a time when new investment by the private sector is at low levels. One possible inference from this is that clubs are facing a more favourable investment decision than private accommodation providers.

Tax revenue

The AHA suggested that if the tax principle of mutuality did not apply to clubs up to \$500 million of additional government revenue would be collected.

The AHA provided data on tax payments and other financial information for 14 clubs in support of its estimate (sub. 174). However, the Commission notes that there are thousands of clubs throughout Australia and considerable extrapolation is required to derive the AHA's \$500 million estimate from a limited sample of only 14 clubs.

Membership enforcement

The AHA was concerned that accommodation was being sold to non-members on the pretext that they were members, thereby artificially reducing the proportion of club revenue subject to income tax:

... through favourable treatment by the taxation system and the questionable approach by clubs to membership enforcement, licensed private clubs are able to undermine the viability of the hospitality and wider tourism industry in Australia (sub. 157 p. 31)

At the public hearings, the RLCAA suggested that there may be some misunderstanding regarding enforcement. This is because under certain circumstances, clubs can use either a visitors' book or a survey method agreed to by the ATO as an acceptable means of estimating the proportion of members and non-members entering a club and hence the proportion of revenue subject to tax (members and non-members are assumed to account for the same value of purchases per head). The Industry Commission did not receive any firm evidence that the enforcement procedures were not working satisfactorily

Summary

From the perspective of the current inquiry, the development of accommodation by registered clubs, especially in areas not favoured by private developers, increases the diversity of accommodation available to tourists. Further, the provision of accommodation by registered clubs is a means of reducing the impact of potential accommodation shortages.

The principle of mutuality is soundly based. However, given the changing nature and scope of some large clubs the Tax Commissioner may need to review their eligibility for access to concessions under the mutuality principle.

8.7.2 FBT (on food and entertainment)

As discussed in Section 8.4.1, FBT can impact upon accommodation provision both directly and indirectly (through broader economy-wide effects). When indirect effects are considered the inclusion of entertainment expenses within the ambit of FBT could affect the accommodation industry. The provision of entertainment can be defined as the provision of: food, drink or recreation (that is, amusement, sport or similar leisure-time pursuit); and the provision of travel or accommodation connected with or to facilitate such entertainment (Arthur Andersen 1995).

In respect of food and drink related entertainment, many accommodation houses provide restaurant and bar facilities and revenue generated from these activities is an important source of income. Food and beverage facilities must be provided to ensure a certain star-grading of a hotel. The ability to obtain additional revenue from non-resident guests and external functions is important in improving the profitability of these operations.

Some expenditure on business entertainment (for instance, employees of a company at a business lunch in a hotel) is liable to FBT, while in other cases the

same activity conducted ‘in-house’ (for example in a corporate dining facility) is seen as a legitimate business expense and is both tax deductible and not subject to FBT¹⁰. The impact of these arrangements can affect people’s choices as Levy (1994) said:

The result is a ... major incentive for large organisations to provide entertainment, such as cocktail parties, happy hours, Christmas parties etc on their own premises. The winners will be the catering companies; the losers are restaurants, hotels and clubs. (p. 29)

Hilton Hotels Australia Pty Ltd commented:

The result is inefficient and discriminatory from our perspective. Not only is business entertainment in our restaurants and bars adversely affected by the legislation, but the legislation directly leads to unproductive, expensive dedicated facilities lying idle in hotels when boardrooms, offices and non-dining dedicated office space is used for dining purposes, often with significant waste in terms of transport, set-up time and effort. This is neither equitable nor efficient ... (sub. 154, p. 8)

An accurate assessment of the effect of the inclusion of entertainment within the ambit of FBT cannot be made for the accommodation sector. Hotels located in the inner precincts of cities may be more adversely affected as these are more reliant on business trade than motels in the country. Further, the restaurant industry is more likely to be affected than the accommodation sector.

FBT application also affects other industries and any unintended ‘side-effects’ of FBT rules are not necessarily confined to the accommodation sector. The Commission believes that these effects should be analysed on an economy wide basis as opposed to a piecemeal industry approach.

8.7.3 Tax holidays

Some participants commented that tax holidays (for example, exemptions from various taxes such as payroll taxes) can assist in stimulating investment in the tourism accommodation sector. For instance, Ryder Hunt commented:

The major barrier to the provision of new tourist hotel rooms is the low returns in the first two or three years. State [g]overnments can assist in lifting this barrier by providing tax holidays of the kind that they offer to RHQs or to attract industries to relocate interstate. (sub. 126, p. 106)

¹⁰ The range of benefits that can be exempted from FBT has been expanded following an Administrative Appeals Tribunal ruling in January 1996 — case 2/96. This ruling affects ‘minor benefits’ which according to the ATO includes benefits of less than \$50 (for instance petrol accounts, lunches, car parking etc). This case could lead to changes in the tax treatment of many forms of business entertainment, for instance company paid employee lunches as long as they are ‘infrequent’.

The TTF on the other hand argued that offering tax incentives to entice investors into tourism is unsustainable:

We don't believe tax breaks are required to entice developers ... we don't want a tax driven industry. (BRW 1995, p. 31)

As argued in Section 8.5, there is no evidence to suggest that tourism accommodation pays a higher level of indirect tax than the all-industry average. There is no rationale on this basis or any other for special treatment for the accommodation industry through tax exemptions. Likewise, the HRC (1995) *'Taxing Relaxing'* inquiry found that the tourism industry has not been targeted inappropriately by the taxation regime and that it should not be the recipient of favourable concessions.

At present, state governments offer various tax assistance measures (tax holidays) for some firms. The nature of these tax incentives vary between states — broadly, state governments assess specific projects on a case by case basis. In some instances, there is scope for new accommodation developments to fall within the ambit of these schemes. The exact nature of these schemes and their economic implications are being examined in a current Industry Commission Inquiry, *State, Territory and Local Government Assistance to Industry*.

In general, offering special concessions such as tax holidays to particular industries diverts scarce resources from other industries where the resources could be more productively used. From an economy-wide perspective, if inappropriate tax concessions exist in other industries, these should be removed in the interests of inter-sectoral efficiency and equity in tax policy.

8.7.4 Accommodation (bed) tax

An accommodation (bed) tax can be defined as a tax applied on providers of accommodation. It is typically an *ad valorem* tax assessed as a percentage of the price of an occupied room.

The rationale for accommodation taxes varies. In some instances, they are imposed to fund marketing — the rationale being that tourism requires substantial promotion to be effective and direct beneficiaries (accommodation providers) should contribute to this promotion. Tourism marketing levies are imposed on selected accommodation providers in the Northern Territory and the Gold Coast. At Port Macquarie, a business levy has been imposed on all business properties in the area and these funds are used specifically for the promotion and development of tourism within the local government area.

Accommodation taxes may also be imposed to cover infrastructure costs associated with tourism. The underlying principle of such a tax is that of 'user

pays'; for instance, tourism accommodation may require additional expenditure by governments on provision of water, sewerage and roads.

Finally, accommodation taxes may be imposed simply to raise revenue. In response to 1995-96 Commonwealth Government budget deficit concerns, the Australian Council of Social Services (ACOSS) proposed that a 5 per cent tax on hotels and motels be considered. ACOSS estimated that the revenue collected from a tax of this nature would amount to approximately \$300 million in 1996-97 (ACOSS 1995, p. 25).

The ACOSS proposal was rejected by the Commonwealth Government. Despite this, some participants in this inquiry still view accommodation taxes as an area of policy concern. The TTF commented in relation to accommodation taxes:

Proposals to levy indirect taxes (bed taxes) solely on one segment of the tourism industry, namely accommodation, would be grossly discriminatory and should be resisted. The accommodation sector already substantially subsidises the remainder of the tourism industry. A further impost could not be justified. (sub. 95, p. 26)

The AHA stated:

... [P]ossible additional taxes, for example, a bed tax, on the accommodation sector impose or would impose significant hardship on an industry with the greatest potential to generate foreign exchange and domestic employment. (sub. 91, p. 30)

If an accommodation tax was imposed, both tourists and owners of accommodation would be affected. The magnitude and incidence of the tax (whether borne by consumers or suppliers of accommodation) depends on the change in demand in response to a rise in price (the so-called 'own price elasticity of demand').

8.8 Conclusions

Based on available data there is no evidence to suggest that tourism accommodation pays a higher level of indirect tax than the all-industry average.

The inquiry could find no evidence that depreciation allowances for plant, equipment or for buildings used in tourism-related industries is less favourable than for other sectors of the economy or that depreciation rates are unreasonable in terms of economic life.

Tax rates of depreciation should be broadly related to economic rates of depreciation. The Commission supports the findings of the House of Representatives Standing Committee on Banking, Finance and Public Administration (HRC 1995) in that increasing special capital allowances for

short-term accommodation would be inequitable, given that they are treated no less generously than other buildings which are also used on a 24 hour basis.

While taxed differently to hotels and other accommodation establishments, there is no evidence to suggest that licensed clubs are at a competitive advantage.

An accommodation tax would be shared between consumers and suppliers of accommodation and at present the evidence is not available to estimate the relative shares.

9 THE ACCOMMODATION MARKET FUNDAMENTALS

Hotel occupancy rates are increasing in some key destinations and demand for tourism accommodation is expected to continue to grow strongly, yet the current level of investment in new hotels is low compared to the last decade; however, it is increasing. This chapter outlines some of the demand and supply relationships which form the basis for investment in the tourism accommodation industry.

9.1 Introduction

Some inquiry participants expressed concern that in the short to medium term future the demand for tourism accommodation will outstrip supply resulting in serious shortages, particularly in the major tourism destinations.

This concern is based on observations that:

- demand for accommodation, especially from international visitors, is expected to continue growing strongly;
- occupancy levels in existing accommodation in some important destinations are rising rapidly;
- there are lags of up to three years between commencement and completion of major construction projects; and
- the current level of investment in tourism accommodation, as measured by building commencements, is historically low.

Coupled with these observations is the perception that in some locations the climate for new investment in tourism accommodation is unfavourable, with some existing hotels being sold for less than their replacement cost. In other locations, for example the Gold Coast, there is significant new investment.

This chapter examines some of the demand and supply relationships which form the basis for investment in the tourist accommodation industry. The emphasis is on the larger-sized hotels.

In order to highlight the important fundamental characteristics of the market much of the analysis is generalised — for example reference is made to room rates as if one price applied to all whereas, in reality, absolute price levels, and price changes, vary for a multitude of reasons within and between establishments.

9.2 Determinants of demand

The demand for hotel accommodation has various sources including business travellers, domestic holiday-makers and foreign visitors. The level of business activity, household income, costs of travel (particularly airfares and fuel costs), weather, politics, special events, travel fashions and exchange rates all affect people's decision to travel and therefore their demand for tourism accommodation while travelling. Two economic relationships are important in explaining demand. One is the relationship between the cost of a room and the level of demand and, in particular, how the level of demand changes as room rates change. The second comprises shifts in demand, such as year to year and seasonal movements in demand.

The responsiveness of demand to changes in the room rate is typically measured by the price elasticity of demand. As a general rule, as price increases demand declines, and vice versa. What is of interest is the *amount* that demand changes in response to price changes. For example, if there is a 10 per cent increase in the cost of a room and this causes a less than 10 per cent decline in the number of hotel guests, then gross revenue increases even though there are less rooms sold. In this case demand is said to be inelastic with respect to (own) price. The alternative situation is one in which if, say, the cost of a room drops by 10 per cent demand increases by more than 10 per cent. This is called elastic (own) price demand.

There are few estimates of this type of elasticity for accommodation alone but a wide range of estimates in the literature for price elasticities of travel. Some studies suggest the demand for travel is inelastic with respect to price, having a value less than -1, but others estimate a price elasticity greater than -1. A recent study by Divisekera (1995) presents price elasticities for travel (air fares) and other tourism services separately. The travel price elasticities range from -1.23 for United Kingdom tourists to -3.66 for Japanese tourists, and the other tourism services price elasticities range from -0.75 for the United States tourists to -3.56 for tourists from Japan.

On the basis of the available evidence it is not possible to make an assessment of the price elasticity of demand for tourism accommodation in Australia. Assessments for different market segments, such as type of traveller or region of Australia, will differ. Elasticities also change over the range of the demand curve.

An estimate of a price elasticity of demand for accommodation for Australia in aggregate may not imply that the demand for a specific type of accommodation in a specific regional or localised market has the same elasticity. For example, tourists may respond to room rate increases in one type of accommodation in a specific regional market by choosing less expensive accommodation in the region or by spending less time in the region (and going somewhere else). Thus demand for accommodation in general can be inelastic but demand for a specific type of accommodation in a specific location may be elastic. Elasticities are likely to be even higher for a particular hotel which changes its room rates independently of its nearby competitors. In addition, there will be different elasticities for business and leisure travellers, for domestic and overseas tourists, and for visitors from different countries. For example, Mr Cummings said:

It certainly seems to have been a factor in the Japanese market that parts of the market were built on a very high degree of price competitiveness. It does not seem to have been such a factor in the other markets — ... Europe, North America, places like that ... (trans. p. 28)

Shifts in demand occur because of such events as business cycles, exchange rate movements, advertising, demographics and income growth. For example, predictions of increases in the number of foreign tourists rely on increases in per capita income in South East Asian countries and increases in the numbers of those age groups that have greater propensities to travel. Alternatively, recession in Australia may bring fewer business travellers. A strong Australian dollar may reduce visits by foreign tourists and make overseas travel for Australians less expensive. These factors, and others, affect the composition of demand for a given type of tourist accommodation and create growth trends and year to year volatility in the demand for tourist accommodation generally.

For some locations, seasonal swings are pronounced, for others, they are small. These variations in demand may result in periods when some customers are turned away to find accommodation elsewhere, and in periods when rooms are vacant. Both Tasmania and the Northern Territory, for example, have pronounced seasonal variations, influenced largely by climate. Advertising aimed at groups likely to tour in traditionally off-peak times may contribute to smoothing seasonal demand patterns, thereby increasing the use of hotel capacity throughout the year.

9.3 Short-run considerations

In the short run, the number of hotel rooms available is fixed. New hotels require time to be designed and built. Consequently, supply cannot increase rapidly in response to increases in demand. In addition, as hotels are long-lived and costly assets, existing hotels will not be closed in response to temporary weaknesses in demand.

Fixed supply in the short run means that competition can drive room rates down (in theory to the level of variable operating costs) when occupancy is low.

9.3.1 The relationship between occupancy and price

Operating costs can be roughly divided into variable and fixed components. Variable operating costs are those which increase with the number of rooms occupied and include the costs of cleaning rooms and linen, water and electricity use, and the wear and tear on fixtures and fittings. These costs provide the lower bound for room rates when occupancy is low. It is not worthwhile for a hotel to take in guests at prices below variable operating costs. Fixed operating costs are those incurred because the hotel is open — hotel management, reception, maintenance etc. Variable operating costs are low relative to fixed costs, consequently total costs increase only gradually as occupancy increases.

Even as occupancy rates increase from low levels, competitive pressures initially keep room rates at levels which do not cover both fixed and variable costs. It is only when rooms attract a scarcity value that room rates increase significantly, eventually exceeding total operating costs.

The exact turning point when room rates, reflecting the scarcity value of rooms, change from being low and increasing gradually to being high and increasing steeply is an empirical issue. However, there are two general effects that follow. First, when occupancy is low across the accommodation sector, the market can absorb large increases in demand with little upward pressure on room rates, but if occupancy is high, increases in demand will place considerable upward pressure on room rates. Second, periods of high occupancy are necessary for industry profitability because it is only when rooms are relatively scarce that industry can sustain the room rates that provide normal profits over the long run.

Increases in demand place very little upward pressure on room rates if occupancy is low, but when occupancy is high and demand growth is outstripping increases in supply, strong upward pressure on room rates is expected to result.

Periods of high occupancy are necessary for industry profitability because it is only when rooms are relatively scarce that industry can sustain the room rates that provide profits over the long run. Expected long run profitability is a precondition for future investment.

The following chapter examines investment in the last decade and the factors underlying the increase in investment during the period 1989 to 1992, with the main focus being Sydney. Over this period the percentage increase in supply exceeded the percentage increase in demand for several years, resulting in declining occupancy. The impact of that increase in supply can be seen in Table 9.1. As occupancy rates declined from 1988 to 1992 room rates also fell.

Table 9.1 Occupancy and real room rate, 4 and 5 star hotels in Sydney, 1988 to 1995

	<i>Room nights occupied</i>		<i>Room nights available</i>		<i>Occupancy (%)</i>	<i>Real room rate (\$)</i>	<i>Change (%)</i>
	<i>No. ('000)</i>	<i>Change (%)</i>	<i>No. ('000)</i>	<i>Change (%)</i>			
1988	1 901		2 295		82.8	210	
1989	1 892	0	2 642	15	71.6	204	-3
1990	2 237	18	3 381	28	66.2	185	-9
1991	2 421	8	4 107	22	59.0	159	-14
1992	2 813	16	4 875	19	57.7	139	-12
1993	3 240	15	5 180	6	62.6	129	-8
1994	3 791	17	5 207	1	72.8	129	0
1995	3 780	0	4 832	-7	78.2	135	5

Source: ABS Cat. No. 8635.1 various issues

The Cairns Hilton described the process as follows:

The first thing is for the new hotels to go out into the marketplace and to come out with an offer to obviously attract clientele to stay with them — a special offer; the existing hotels to survive ... have got to create volume. By creating volume you come up with offers and then you suddenly get this downward spiral ... and it just goes down and down ... Even now hotels in Sydney have not reached the level of room rates they had prior to the expansion. (trans. p. 1396)

Even when occupancy increased in 1993, most real room rates continued to fall for a variety of reasons including commitments to forward sales. Owners and managers were slow to react to the changed circumstances, and it was not until 1995 that average room rates increased. As occupancy increases further, it could be expected that room rates will rise more rapidly. The extent of this increase in room rates will depend on the importance of the factors constraining increases in room rates.

Figure 9.1 illustrates the relationship between occupancy and room rates for 3 star and 4 and 5 star accommodation in Sydney and Melbourne between 1988 and 1995. The process described above is most pronounced for the Sydney 4 and 5 star market, but is also evident in Melbourne and in the 3 star accommodation markets.

High levels of investment in the construction of 4 and 5 star hotels caused occupancy and room rates to decline.

In a period of falling occupancy new operators offer discounts to attract customers, while existing operators are also forced to offer discounts to compete. Furthermore, discounting can be pushed into the future if wholesalers negotiate low forward rates with operators who are anxious to maintain occupancy in the future.

This behaviour was exacerbated by the type of management agreements between owners and hotel operators which were common in the recent past. Such agreements had the effect of providing operators with incentives to maximise revenue rather than gross operating profit.

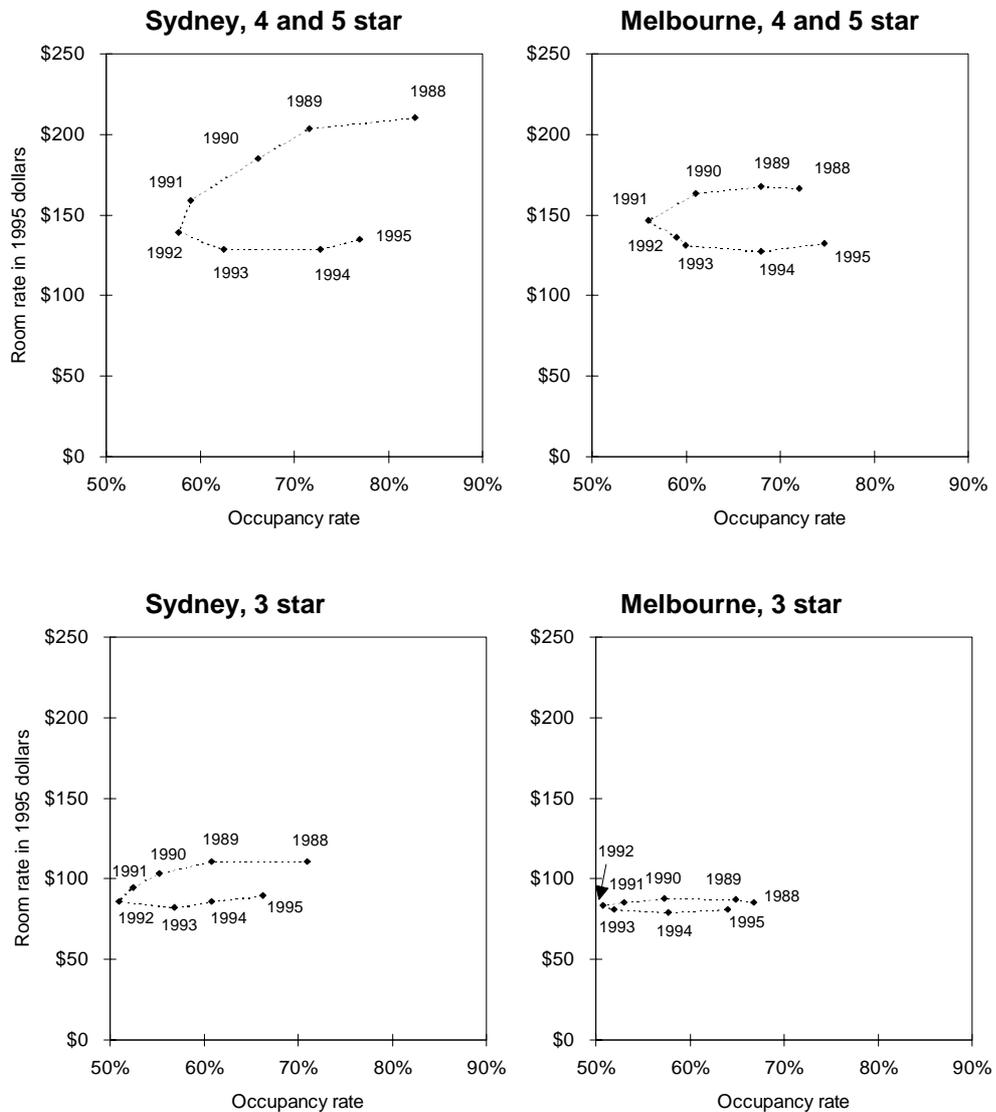
More recently management agreements have been written to give operators an incentive to consider all possible ways of maximising profits (or reducing losses) rather than maximising gross revenue.

As stated, at low occupancy levels operators are reluctant to increase room rates as they can lose customers to their competitors, and unless operators can differentiate themselves on either location or quality, room rates can remain relatively low over a wide range of occupancy levels.

However, at high occupancy rates hotels are able to change the mix of guests from the different market segments in order to maximise profits. For example, if a hotel can replace low-tariff airline crews with high-tariff holiday-makers, average room rates can be increased substantially with similar occupancy levels.

The expectation of high occupancy levels might reduce the proportion of rooms sold forward to wholesalers for group bookings as operators could be more prepared to retain rooms for high-yielding independent travellers, but prior forward commitments to wholesalers can delay the implementation of this strategy. Also, at high occupancy levels, hotels might make fewer rooms available to guests requesting discount rates.

Figure 9.1 Occupancy and real room rate, hotels, motels and guesthouses, 1988 to 1995



Source: Based on ABS cat 8635.1 and 8635.2 various issues

9.3.2 Other factors affecting the price of rooms

In 1995 room rates were substantially lower than in 1988, although occupancy levels were similar. While much of this discrepancy can be explained by competitive forces (explained above) and lags in the price adjustment process,

there are other factors which are leading to less price pressure on room rates as average occupancy levels rise.

Hotel operators are now adopting a variety of strategies to reduce short term fluctuations in demand. For example, it is now a common practice to advertise discount room rates in off-peak periods. These are often offered as part of a package which also includes discount air transport and theatre tickets. While such practices may increase the total demand for hotel accommodation, to the extent that they shift demand from previous peak periods they reduce the scarcity value of rooms (and hence their price) at such times.

Another factor which has influenced the average price paid for hotel rooms is the changing composition of international visitors. The number of visitors from Asian countries other than Japan has increased substantially, especially in relation to visitors from North America and Europe. Visitors from these Asian countries are likely to take group tours, while those from Europe and North America are more likely to travel independently, and room rates paid by independent travellers are likely to be higher than those negotiated for group bookings. The effect of these changes in the visitor mix is that although the average level of occupancy has not necessarily changed, the average price paid for accommodation is lower.

Although room rates will generally reflect variable operating costs and a premium for room scarcity, in practice they are also determined by factors such as demand uncertainty, the market mix, forward selling of rooms, marketing strategies and other commercial pricing practices. Some of these matters are discussed below.

Hotel operators will be cautious in changing room rates when they do not know general demand conditions. If they set their room rates too high compared to their competitors they lose business. If they set them too low compared to their competitors they will keep business but may have had a similar amount of business at a higher room rate. In addition, hotel operators may not be able to raise or lower room rates in precise response to unexpected deviations from typical seasonal patterns.

When wholesalers play a significant role, room rates can be slow to change because wholesale rates are agreed on well in advance (from several months to nearly two years).

The extent to which potential tourists will substitute between different types of accommodation and different locations will affect the ability to raise room rates. A number of considerations are relevant; for example, whether the tourist is seeking a particular travel experience (which is determined by location) or is somewhat indifferent as to experience or location and the availability of

accommodation in any location. For some tourists there is a willingness to substitute types of accommodation as a response to price/availability factors.

The degree of substitutability in response to an increase in price will depend on whether the price increase relates to an individual hotel, a region or Australia as a whole. For an individual hotel in a major tourist destination there will be many substitutes so individual operators will be unwilling to raise their prices unless their competitors within the region also increase prices. To the extent that a number of regions in Australia are direct competitors for particular market segments, hotels in those regions will be constrained in raising their prices unless prices are also increased in other parts of Australia.

For Australia as a whole, operators may be constrained in raising their prices if Australia is directly competing with other destinations. As with competition within Australia, much depends on the market segments being targeted; for example, some tourists might be seeking little more than relaxation in a tropical coastal setting (which means there is considerable choice), while others might want to experience pristine coral reefs (for which Australia has few competitors).

9.4 Long-run supply and investment

Investment in tourism accommodation is a long-term investment. It is costly and cannot be reversed easily. The buildings are purpose built, there being very few examples of hotels being converted to other uses. Yet they serve a demand that can be highly variable across weeks and between seasons. Variable demand will lead to low occupancy, rooms rates and profits in some months and years and high occupancy, room rates and profits in other months and years. The owner of tourist accommodation must manage the profitable and the lean years to obtain an overall satisfactory return on the investment.

Investment in tourism accommodation involves a complicated decision making process based on the economic factors that underpin the market. There are complex interrelationships between demand and the short-run and long-run supply of tourism accommodation. For example, an investor's expectations of future rooms rates will affect whether investment in a new hotel proceeds, but future room rates will depend on the total level of investment in hotels (the number of rooms built) and hence on the decisions of other investors.

Investment in large hotels is 'lumpy', that is, either, say, 200 rooms are built or none at all — although this factor assumes less significance the larger the existing stock of rooms. Furthermore, recent developments have favoured smaller hotels, often boutique hotels, compared with the 1980s. Also, some of

the recent developments have occurred as additions to existing hotels. But this is often not possible due to physical or design constraints.

High construction cost, lumpiness, and the fluctuating nature of returns from a major investment make the timing of investment critical. A long-term view of expected returns is essential. But good timing for an individual investment will also depend on the timing of competing accommodation investment proposals. For example, Thakral Holdings told the Commission that although the firm has suitable land in Darwin and is optimistic about growth, investment in that location at this time was being postponed because two other competing hotels are currently under construction (trans. p. 1619).

9.4.1 Investor's perspective

A rational potential investor will consider the flow of outlays (the major one being the cost of construction of the hotel) and the expected flow of income, and on a discounted cash-flow basis decide whether or not to proceed with construction. The ease of obtaining finance, and its cost, can have a significant influence on this decision. However, not all investment in tourism accommodation is undertaken on the basis of the investor/owner retaining the property and running it as a business; that is, seeking to make profits over the longer term. Some investors build hotels with the intention of selling them soon after construction and making a return on their investment in the form of a capital gain.

Prospective hotel investors seek to earn a long term rate of return on the accommodation investment which is no less than they could obtain from an alternative investment. In central business districts it can be the expected relative return on office buildings versus tourism accommodation. For example, a difference between Sydney and Melbourne in the period of high levels of construction was that in the former hotels were viewed as attractive while office buildings were attractive in the latter.

For investors there is a target rate of return equal to the risk free rate prevalent in capital markets plus a risk premium commensurate with uncertainty in tourism. For investment to proceed, the expected net present value of the proposed investment must be positive given this target rate.

In a 'text-book' investment market, the decision to invest would entail a simple comparison of the costs of investment and the anticipated future income flows of the investment. In reality, investment decisions are affected by financial factors, such as the timing of the cash flow, the liquidity of the asset in terms of its ability to be converted into cash, the equity and debt structure of the

enterprise, and the business relationship between the accommodation's owner and its operator.

The cost of the accommodation investment includes the construction costs of physical assets and the return to the investor's efforts. The cost of refurbishment must also be taken into account. Finally, the lag between 'ground breaking' and hotel opening can be more than two years for some types of accommodation, and this has to be built into the cash-flow calculations.

Future profits depend on a number of things including future room rates, occupancy rates and operating costs. Prospective investors do not know these things in advance. Instead, they make decisions based on their beliefs and expectations. Thus, the lag between ground breaking and hotel opening also creates an information gap in the planning process that increases the riskiness of the investment. Because of the potentially high cost of delays at such times it is important to ensure that external factors, such as the approvals process, do not unnecessarily retard construction.

Although investors aim for a target rate of return, the actual return can be higher or lower than the target if market conditions differ from expectations. Forecast errors in the planning process would have (and have had) repercussions on actual market room rates and subsequent investment decisions. Thus, the estimated profitability must be robust to a range of possible market outcomes.

Investment decisions will also reflect the most recent information available. For instance, if demand is persistently stronger and occupancy rates higher than expected, room rates will tend to rise and the actual rate of return would tend to rise above the required rate of return. If the actual rate of return persistently exceeds the required rate of return, prospective investors are likely to revise upwards their expectations about future profitability in the industry, stimulating greater investment.

From an investor's perspective, projected room rates, occupancy rates and costs are crucial factors in determining the expected profitability of a prospective investment. From an industry-wide perspective, however, it is the interaction of demand and supply that determines future room rates, occupancy rates and the profitability of new investment.¹ For example, room rates and occupancy rates

¹ In some locations a single new large hotel can have a noticeable effect on supply and price. In these cases, the profitability of new investment must incorporate this aspect into projections of future room rates.

depend in part on seasonal and yearly patterns of demand. Building a room that is likely to be occupied in peak times may also mean building a room that is likely to be empty in slack times. In this case, the full cost of the investment will only be recovered in peak times when room scarcity and a premium for room scarcity exists.

It is a normal feature of the market for accommodation that there will be shortages at some times in some locations. Such shortages do not justify government intervention.

9.5 Conclusion

The market for tourist accommodation is typified by a significant investment in a long-lived asset that satisfies a demand that is variable and unpredictable. As a consequence, the industry earns above average profits in some periods and in other periods earns little profits or even suffers a loss. Periods of high occupancy are necessary for industry profitability because it is only when rooms are relatively scarce that the industry can sustain the room rates that provide profits over the long run and create the expectations needed to justify new investment.

In market segments where wholesalers play a key role room prices can be slow to adjust to changing markets conditions. Construction lead times can result in a slow supply response. In these circumstances, demand and supply interactions will not be smooth and in some key destinations there are likely to be shortages until new accommodation is built.

Policies which help smooth the path, such as better information and improved town-planning processes, would be beneficial.

10 INVESTMENT DURING THE LAST DECADE

This chapter examines the investment decisions faced by owners of tourism accommodation in the last decade. During this period owners were affected by both poor investment decisions and unexpectedly adverse economic conditions. The chapter then considers the impact that this ten year period had on the current investment climate and the lessons that can be learnt for future investment in tourism accommodation.

10.1 Introduction

The stock of tourism accommodation has increased substantially in the last decade. Australia has now a diverse stock of accommodation from caravan parks and regional motels to international hotels of a high quality. However, the transition from dependence on the domestic market with only a small international market to a slowly increasing domestic market and a rapidly growing international market has not been smooth.

Investment decisions are based on the expected returns over the period of the investment. For investment in tourism, expected returns can be strongly influenced by current trends in tourism demand. While domestic tourism has grown reasonably steadily in recent decades, international tourism has not yet settled down to a predictable level and pattern. This increases the risks of building accommodation to meet the international visitor market.

As tourism investment is both a property investment and an operating business, there can be periods where tourism investment is affected by the factors that encourage property investment such as the expectation of short term capital gains and the ready availability of finance.

The outcomes of the investment decision can be affected in a number of ways by external conditions, for example changes in interest rates. These can change what appears to be a reasonable decision, based on reasonable expectations at that time, into a financial failure.

This chapter examines some of the factors influencing tourism investment over the last decade. The chapter examines the response of an industry which had previously catered primarily to a domestic market, to the substantial increases in international visitors.

10.2 The impact of economic conditions

Tourism investment decisions over the last decade (1985 to 1995) were made in a period when there were significant changes in economic conditions. These included:

- the depreciation of the Australian dollar, especially in relation to the Japanese yen;
- substantial increases in share prices early in the period, followed by the 1987 stock market crash;
- substantial increases in property prices up to 1989, followed by significant declines after that time;
- substantial increases in interest rates between April 1988 and May 1989; and
- the recession of the early 1990s.

Investment decisions were influenced by both the cost and availability of funds, both of which were affected by deregulation of the financial system. Between 1983 and 1987 the following changes occurred:

- the Australian dollar was floated;
- 16 overseas banks received licences to operate in Australia;
- the state banks, previously involved primarily with housing and personal loans, expanded the scope of their operations; and
- banks generally were concerned about increasing their market share.

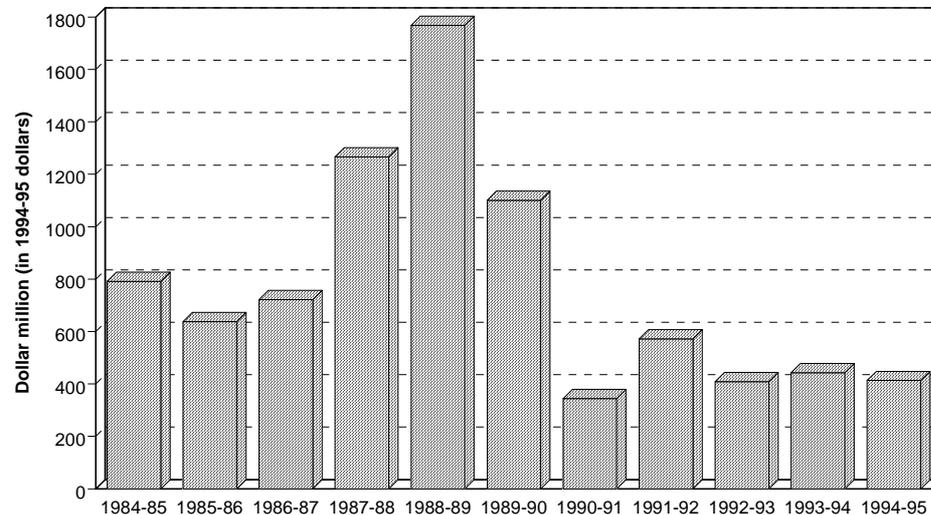
In addition, other events affected tourism. For example, the Bicentennial celebrations and World Expo led to substantial increases in international arrivals in 1988. These events were followed by the airline pilots' strike of 1989 and the Gulf War of 1990–91.

10.3 The pattern of investment over the last decade

The ABS publishes statistics on commencements for all tourism properties. Commencements are an appropriate indicator of the decision to invest in new capacity. Data on accommodation under construction and completions are also published, but the discussion in this chapter is concerned with the factors affecting the investment decision.

For Australia as a whole, commencements peaked in 1988–89 at a level of \$1.9 billion (see Figure 10.1). Commencements subsequently fell considerably to \$1.1 billion in 1989–90 and then to a low of \$341 million in 1990–91. Since then, commencements have remained at a relatively low level.

Figure 10.1 Tourism accommodation building commencements, Australia, 1984–85 to 1994–95



Source: ABS 1994d and unpublished data

10.3.1 Regional patterns of commencements

The pattern of commencements has varied considerably between major destinations (see Table 10.1). Perth, Canberra and Hobart had major commencements in the mid 1980s with limited development since.

Cairns had a relatively high level of commencements from 1986–87 to 1988–89 with negligible commencements in the period to 1993–94. During 1994–95 the development of the convention centre and casino has led to increased activity. Despite the rapid growth of Cairns in recent years, the level of investment on the Gold Coast has been significantly higher than in Cairns in most years.

The Gold Coast had nearly \$150 million of commencements in 1984–85 and peaks of over \$200 million in 1987–88 and 1991–92. Commencements in both 1992–93 and 1993–94 were negligible. From 1985 to 1992, 12 major international hotels opened on the Gold Coast.

Compared with other destinations, Melbourne has had a relatively steady rate of commencements, except for a surge in 1988–89 (see Figure 10.2). Brisbane has also shown a relatively stable pattern. Figure 10.2 shows investment in Sydney, Melbourne and Brisbane. This investment was influenced by the strength of Japanese investment, which was limited in Melbourne and restricted to Daikyo's investment in the Sheraton in Brisbane.

Table 10.1 Building commencements by location, 1984–85 to 1994–95, (\$ million, 1994-95 dollars)

	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93	93-94	94-95
Sydney	19	119	118	352	616	655	90	102	90	56	43
Melbourne	103	40	45	52	319	58	29	68	26	188	30
Brisbane	60	14	27	52	82	11	7	6	174	14	45
Gold Coast	144	1	82	197	147	75	78	210	3	2	39
Cairns	23	26	81	45	98	10	2	8	28	12	62
Adelaide	14	76	7	47	67	5	7	10	3	4	2
Perth	131	40	6	16	2	7	5	4	3	17	36
Greater Hobart	0	50	4	10	0	1	0	1	1	1	0
Canberra	8	69	47	7	10	5	3	0	3	0	5
Other	291	204	305	487	426	273	123	163	79	150	151
Total	792	638	741	1 266	1 768	1 137	341	573	399	423	413

Source: ABS 1994d and unpublished data

Commencements in Sydney reached an historical peak of \$677 million in 1989–90. In that year the value of commencements in Sydney exceeded the value of commencements in the rest of Australia. In contrast, the number of commencements in Sydney in 1984–85 was only 2 per cent of the total for Australia. Since 1990–91, the level of commencements in Sydney has been relatively low.

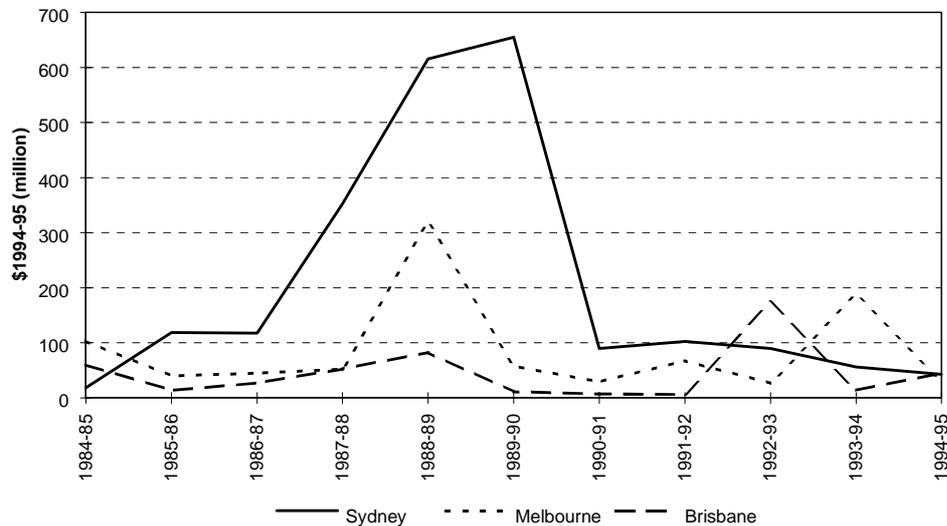
Investment during the last decade can be interpreted in three periods (see Figure 10.1):

- the years of relatively steady commencements from 1984–85 to 1986–87;
- the years of increased levels of commencements from 1987–88 to 1989–90; and
- a period of relatively low level of commencements from 1990–91 to 1993–94.

Not only was the external environment different in each of these three periods but the individuals and companies involved were often different.

The remaining sections of this chapter piece together this mosaic of changes in both the economic environment and the investors themselves. The final section then considers the impact that this ten year period has had on the current investment climate, and the lessons that can be learnt for future investment in tourism accommodation in Australia.

Figure 10.2 Building commencements for Sydney, Melbourne and Brisbane, 1984–85 to 1994–95



Source: ABS 1994d and unpublished data

10.4 Commencements from 1984–85 to 1986–87

During this period the numbers of overseas visitors were growing steadily and economic conditions were relatively buoyant compared with the recession conditions of the early 1980s (see Figure 10.3). In investment terms, it was a period of relatively steady growth in a number of locations.

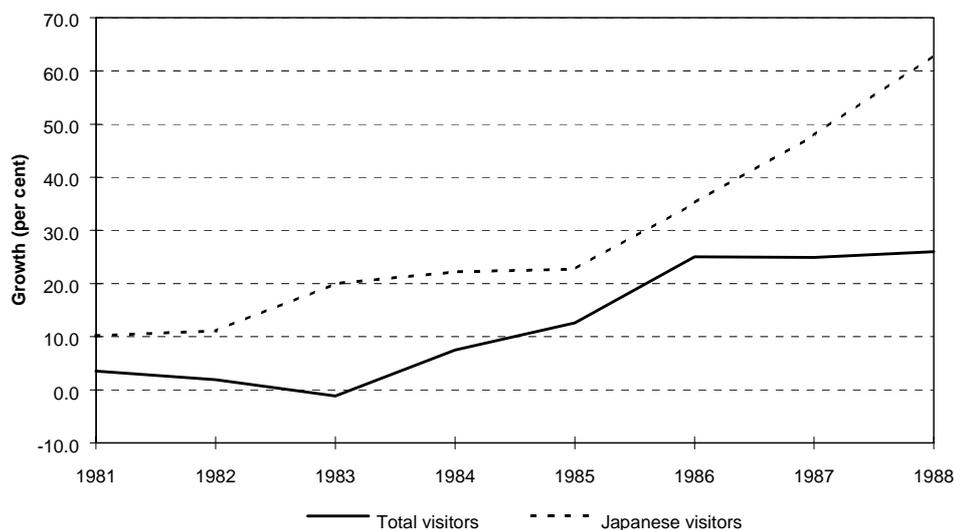
In Sydney commencements during this period were minimal. The Regent and the Inter-Continental had already opened. Both these hotels were approved by the Foreign Investment Review Board (FIRB) on the basis that there would be 50 per cent Australian equity and joint Australian/foreign control. The gradual relaxation of these controls over time had an impact on the increased level of foreign investment in later years.

Commencements in Perth were highest in 1984–85 at \$134 million. Canberra and Hobart had the majority of commencements by 1986–87 and 1987–88 respectively with limited development since that time. Adelaide had a relatively high level of commencements in the years 1985–86 and 1987–88 with limited activity since that time except for 1988–89.

In this period a number of major international-style hotels were commenced on the Gold Coast, including Jupiters Hotel and Casino and the Ramada Hotel.

Although Jupiters was 77 per cent Australian owned, approval was required from the FIRB for the foreign ownership component. These developments opened the Gold Coast to the international market, especially the Asian market.

Figure 10.3 Overseas visitors, per cent growth, 1981 to 1988



Source: Tourism Forecasting Council 1995a, p. 6

Another major feature of the period was the development of the Cairns area, mainly by Australian owners.¹ For example, Quintex undertook the Mirage developments in both Cairns and the Gold Coast, producing a new, highly contemporary style of accommodation. The sale of the Mirage Hotels at Port Douglas and Main Beach in March 1989 was a financial success, in contrast to the later failure of the Quintex company. The initial sale of 49 per cent of both properties to Nippon Shinpan and Mitsui for \$433 million was more than the total cost of construction. The remaining 51 per cent of both properties was sold in January 1991 at the considerably lower price of \$123 million.

10.5 Commencements from 1987–88 to 1989–90

Important factors that affected the level of Australian investment during this period included:

- dramatic increases in the number of overseas visitors;

¹ The term Australian owners should be interpreted with some caution. The actual sources of capital in a large development project may be quite difficult to identify.

- increasing occupancy and room rates for tourism accommodation;
- the expectation of substantial capital gains as asset prices were rising; and
- availability of finance.

The expected net income from tourism property was influenced by forecasts of numbers of overseas visitors to Australia. Overseas visitors increased by 13 per cent in 1985 and 25 per cent in 1986. Investors commencing construction in 1987–88 would have made their investment decisions some time prior to that. At that time Australia was experiencing annual increases in overseas visitors of more than 20 per cent with overseas visitors from Japan increasing at an even faster rate (see Figure 10.3).

The growth in room rates and room yields in Sydney for the years 1983 to 1987 is shown in Figure 10.4. It should be noted that it includes all standards of hotel and motel accommodation. During these years supply was relatively constant, so the increasing demand led to rising occupancy and room rates. The room rate for 4 and 5 star hotels in Sydney increased from \$122 in 1987 to \$161 in 1988, while occupancy remained relatively constant. These increases in room rates formed the basis for forecasts of future room rates.

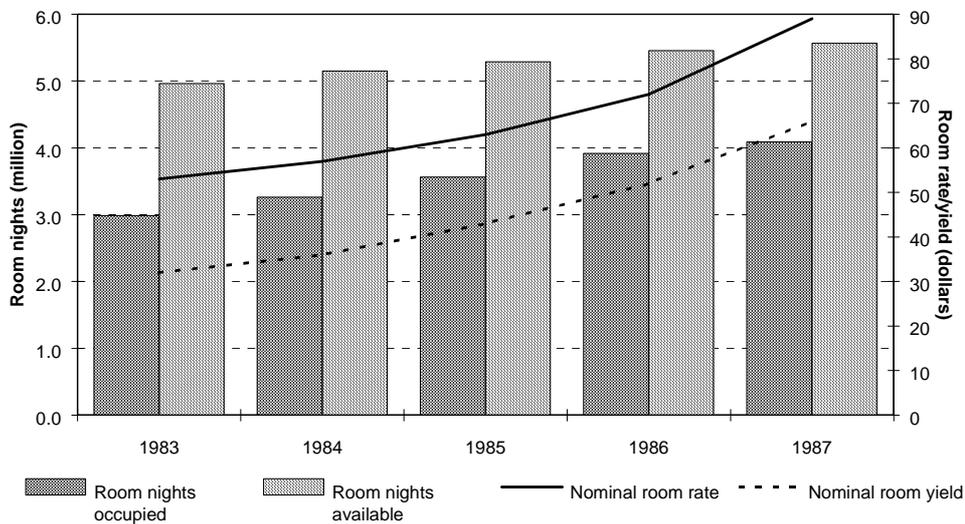
In other destinations there were increases in the supply of 4 and 5 star properties. As there were no official statistics by star grading at the time, it was not easy to determine whether the increasing room rate was partly a reflection of the existence of more expensive properties in a changing composition of tourism accommodation. For example, an increase in the proportion of 4 and 5 star properties in the total stock of properties would lead to an increase in the average room rate for all properties without any increase in the level of room rates for any one of them.

After the stock market boom ended in October 1987, funds were transferred from the stock market to the property market. This led to increases in property prices and the expectation of further increases. The Department of Tourism (DoT) discussed the relative importance of capital gains in the late 1980s as follows:

In the late 1980s a number of highly geared investors developed expensive inner city hotels and new resorts principally as property or real estate investments, with operational income perceived as a secondary objective or even having no significance in the decision-making process. (sub. 89, p. 23)

The increased availability of finance arose from the impact of financial deregulation. The major banks and finance companies competed for market share, with AGC (a subsidiary of Westpac) taking a particular interest in the tourism market. The state banks, either directly or through a merchant banking arm, also competed aggressively for market share.

Figure 10.4 Room nights available, room nights occupied and nominal room rate and yield all hotels and motels, Sydney, 1983 to 1987



Source: The Tourism Olympic Forum, p. 121

In this period, the developers of tourism properties were often Australian — the entrepreneurs of the late 1980s operating through listed companies, and individual owners who generally had accumulated assets in businesses other than tourism accommodation. Japanese owners also developed a number of properties during this period.

Many of the individuals involved in tourism accommodation development had experience in related businesses, such as successful restaurants, and believed that they could make a success of a tourism property. However, they may not have had the experience of constructing a large building or operating a large hotel. Many of these individuals went into receivership, either during the construction phase or shortly after.

The Tourism Task Force (TTF) considers the importance of recognising the mistakes of the 1980s as follows:

The tourism industry in Australia was attracting a lot of unprecedented attention in the 1980s. It is only logical that it also attracted a lot of the investment dollars being thrown around. It also attracted developers and investors with no previous experience or expertise in the industry.

This must be acknowledged if repetition of the same mistakes is to be avoided and if future investment is to be better conceived, more professionally managed and thus more profitable for all involved. (TTF 1992, p. 14)

The banking system may have accentuated the problems faced by inexperienced developers. During this period the banking system did not appear to have the appropriate expertise to assess investment proposals in the industry. Proposals were sometimes assessed on their ability to achieve capital gains, rather than their ability to achieve sustainable cash flows. Subsequently, falling property prices, partly due to lower than expected cash flows, caused some properties to be written down in value. Further, as interest rates increased, businesses were unable to service their debt. A spiral of decreasing asset values and higher costs of borrowing led to insolvency and failure for some owners.

The Royal Commission into the Tricontinental Group of Companies said:

The risks associated with lending for new, start-up business ventures are obvious – with no track record, no established cash flows and few assets, new business ventures involve a high degree of risk. Much of Tricontinental's lending for new business ventures was in fact property-related, particularly hotel and tourist resort development. (DPC 1991, p. 88)

Losses in the property market were not restricted to tourism property. There were also substantial falls in commercial property during the period. Much of the commercial property had been financed through unlisted property trusts, so the losses were often borne by small investors.

10.5.1 The influence of Japanese investment

Changes in the availability of funds were not restricted to Australia. Daly and Stimson (1994) commented on the behaviour of Japanese banks in this period:

Japanese banks had entered world markets searching for market share, achieved through high gearing, low margins, and doubtful prudential practices (as in foreign property lending). (p. 428)

Economic conditions in Japan were such that there were considerable incentives to invest abroad. Investment was not restricted to Australia.

The Tourism Task Force (1992, pp. 14–15) in a report on investment in tourism gave the following causes for the increase in Japanese investment from the mid 1980s:

- low interest rates in Japan;
- deregulation of financial institutions in Japan allowing investors to move funds overseas more easily;
- shortage of real estate opportunities in Japan;
- Japanese banks, in an environment of appreciating capital values, relaxed their underwriting standards; and

- strengthening of the yen.

In July 1986 the Treasurer announced a number of significant relaxations to policy on foreign investment. The net benefits test and Australian equity requirements for takeovers and new businesses in the tourism sector were suspended. Proposals were to be automatically approved unless they were contrary to the national interest.

Some Japanese owners such as Kumagai Gumi built tourism properties with the expectation of selling them on completion and did not intend to be long term owners of properties (see Box 10.1).

Box 10.1 Kumagai Gumi

Kumagai Gumi is a construction company that developed major projects such as the Sydney Harbour Tunnel and the Perisher Blue Ski-tube. It is a Japanese-owned company, holding assets of \$8 to \$10 billion in Australia. It developed hotels in the late 1980s in a period when projections of increases in room rates forecast a profitable future for hotel operations. Kumagai, being a construction company, did not intend to retain the hotels on completion but to sell them.

The first hotel developed was the Sydney Renaissance which was sold to another Japanese company before it opened in 1989. The other hotels built at this time were the Hyatt Coolum, an integrated resort, the Canberra Hyatt (refurbished), the Hotel Nikko (now the Landmark) in Potts Point and the Sheraton in Hobart. At the same time it also built office buildings, retail complexes, such as Melbourne Central, and undertook other major projects.

Kumagai Gumi sustained capital losses on the value of assets; foreign exchange losses; and operating losses.

It differs from other Japanese owners of this period in that it actually built rather than purchased existing properties. Kumagai Gumi's experience of making substantial losses over the period, however, was shared by many other Japanese owners, especially in the Sydney area.

There were Japanese owners who purchased properties that had already been constructed, usually by Australian owners. For example, EIE purchased a number of properties when asset prices were still high (see Box 10.2).

10.5.2 The impact of higher interest rates

During this period many Australian investors were faced with significant increases in interest rates especially from April 1988 to May 1989 when the 180 day bank bill rate increased from 11.7 per cent to 18.4 per cent. Many owners went into receivership which left the properties in the hands of financial institutions.

Box 10.2 EIE — a Japanese purchaser of hotels

EIE was able to obtain substantial loans from Japanese banks including the Long Term Credit Bank, one of the largest banks in the world. At one time EIE had dealings with 65 different banks in Japan. (Daly and Stimson 1994)

It was more concerned with the potential capital gains from the purchase than the ability to service the debt from the operations of the property. Its former strategist, Dr Bungo Ishizaki, was quoted in March 1995 as follows:

I do take a lot of responsibility and I have a lot of remorse for concentrating absolutely on capital gains-type investment and ignoring the ability to service debt. (*Australian Financial Review*, March 3 1995)

EIE purchased the Regent Hotel, Sydney for \$145 million in 1987 and then sold it to a subsidiary for \$270 million in 1989. The property is now under the supervision of The Long Term Credit Bank of Japan.

EIE purchased Sanctuary Cove in 1988 for \$341 million. This property is now also with the Long Term Credit Bank. EIE were also involved with the Park Hyatt which it sold for \$120 million (\$750 000 per room) to another Japanese company in July 1990.

Three major Australian listed companies went into receivership (see Box 10.3). As listed companies, they raised equity funds from share holders, but unfortunately they were often also dependent on debt funding. With large developments in progress they often did not have the cash flow to withstand the substantial increases in interest rates in this period.

The development of tourism accommodation as an Australian-owned industry has suffered from the inability of major listed companies to survive the downturn in the industry in this period. Some listed companies, such as Jupiters Ltd and Burswood have survived, partly due to their investments in relatively profitable casino hotels.

10.6 Commencements from 1990–91 to 1994–95

The major features of this period were:

- the reduced growth in overseas visitors compared with the period to 1988 (see Figure 10.5)
- the reduced rate of growth in domestic travel due to prolonged recession conditions;
- the reduction in the level of Japanese investment as Japanese financial institutions came under pressure from falling property and equity prices in Japan; and

- the sale of existing properties to Asian investors at prices substantially below replacement value.

Box 10.3 Australian developers**Girvan**

Girvan constructed a number of hotels including the Cairns Holiday Inn, Peppers-on-Sea at Terrigal (now the Holiday Inn Crown Plaza) and the Northbeach Hotel, Wollongong. In 1989 Girvan was involved in tourism projects with a combined value of \$1.1 billion.

Between floating in December 1987 and entering receivership in January 1990 the company lost \$800 million. Its largest secured creditor was the State Bank of New South Wales. The State Bank of South Australia was also a creditor.

The Brisbane Holiday Inn, the Dockside Project in Brisbane and the Rosehill International were under construction when Girvan went into receivership.

Greetings

Greetings began with a 28 room hotel in Perth in December 1984. By December 1988 this company had 922 rooms with expected growth to 2600 rooms from developments under construction. Greetings intended to develop a number of hotels under the brand of Club One. It went into receivership in January 1990.

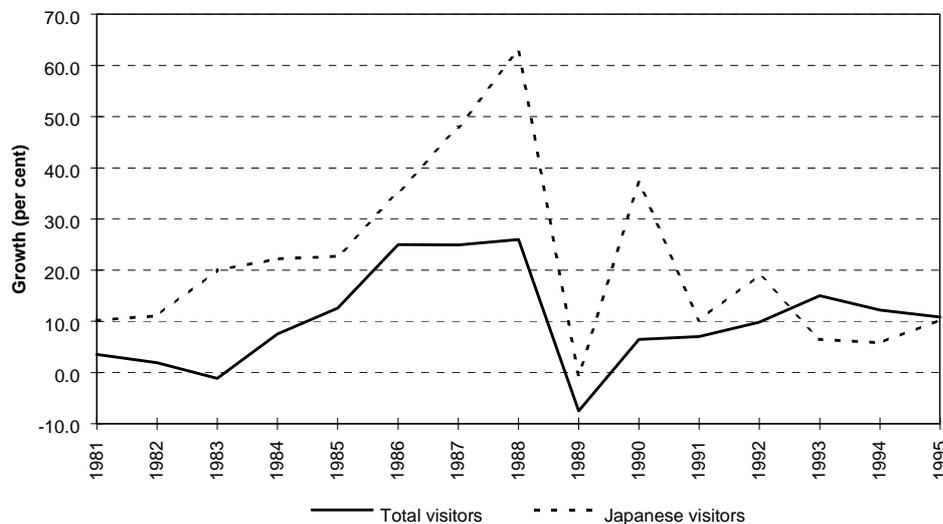
Interwest

Interwest was founded by John Avrams, a Shepparton hotelier. Interwest was involved in the development of Eden on the Park (now Centra on the Park), the Eden on the Yarra (now Centra on the Yarra) in Melbourne, the Twin Waters Resort on the Sunshine Coast and the Coral Coast Resort at Palm Cove. In May 1989 it was involved in the development of six resorts at the one time. This scale of development was designed to support the development of an Eden resort chain. Interwest also purchased hotels in central business districts such as Lennons in Brisbane.

John Avram's optimism in 1989 about the future of tourism was expressed as follows:

Projections being put out for tourism will be exceeded beyond everyone's wildest dreams if the Government provides the infrastructure ... (BRW, 19 May 1989)

Interwest went into receivership in January 1990. At that time Interwest consisted of five interrelated companies, some of which were trading successfully. The Twin Waters resort had been financed by Tricontinental. When Tricontinental withdrew finance for this development, the nature of the security provided to secure the loan forced the other companies into receivership.

Figure 10.5 Overseas visitors, per cent growth, 1981 to 1995

Source: Tourism Forecasting Council, 1995a, p.6

The reduction in the rate of growth of overseas visitors, influenced in 1989 by the pilots' strike, led to less optimistic forecasts of future growth in overseas visitors. This led to a reappraisal of the impact of international tourism on both future occupancy rates and room rates.

The availability of properties at a price considerably below replacement cost has been a major factor behind the decline in investment in tourism properties. A feature of these sales has been the sale of tourism properties by Australian financial institutions. Relatively few properties have been purchased by Australian financial institutions — most properties have been sold to foreign investors.

The Department of Tourism noted that the Commercial Property Monitor reported that, since 1989, more than 25 per cent of the value of all hotel properties sold in Victoria and almost 20 per cent of those sold in New South Wales had been sold under 'distressed conditions' (sub. 89, p. 23). In Queensland there were 18 hotels with 3600 rooms controlled by banks and receivers as at August 1992 (BRW, 14 August 1992).

Recent investment has been centred around casino hotels with large scale projects underway in both Sydney and Melbourne. The profitability of existing casino operations has been a significant factor driving these new developments.

10.7 Changing ownership

The development of tourism accommodation produced a number of reluctant owners of tourism property. Some of these owners were constructors (and therefore first owners) who had anticipated selling on completion. Others were lenders who became second owners, when the first owners went into receivership. Others were lenders who became third owners, when the second owner went into receivership.

At one time the Westpac Banking Corporation was the largest hotel owner in Australia. Westpac (or its subsidiary AGC) was the lender to a number of hotel investors who went into receivership and Westpac subsequently became the owner of these properties. The sale of the Westpac properties to Thakral Holdings is documented below.

It was not only Australian banks that made loans to companies that went into receivership or required supervision from the lender. The Long Term Credit Bank of Japan is currently either the owner or 'supervisor' of a number of Australian tourism properties.

Like Westpac and a number of major Japanese banks, Kumagai Gumi found itself as a reluctant owner of businesses with no potential purchasers. Kumagai Gumi was at a disadvantage compared with operators who had substantial experience in hotels. Kumagai was both first owner and then a reluctant owner, as it waited for an appropriate time to sell its properties. It has remained as first owner until the timing has been appropriate to realise the capital losses (or capital gains can be made). Capital losses had to be offset by capital gains in other operations to ensure that overall the company had a profit in Japan. Companies making losses in Japan are not given government contracts.

Japanese accounting standards require that losses are only realised on the sale of the asset, compared with Australian standards where properties are revalued at balance date. This has been an incentive for Japanese companies to hold onto tourism properties as asset prices fell. Also, Japanese companies have been able to retain unprofitable properties, as they were part of a much larger operation able to bear the operating losses on parts of their businesses.

In contrast, many Australian owners went into receivership as the revaluation of the assets at balance date produced reported losses to shareholders and made additional borrowing more difficult.

A feature of the decade, but more particularly the 1990–91 to 1994–95 period, has been the purchase of existing properties by overseas investors. These owners have often purchased properties from the financial institutions who assumed control of the property when previous owners went into receivership.

These owners have taken a counter-cyclical approach to tourism purchases. They have been prepared to purchase properties when room yields were relatively low. These 'third' owners have been predominantly Singaporean, with some third owners from Malaysia and Indonesia. These investors are often substantial property owners in their own countries and elsewhere in Asia, with Australia forming a small portion of their overall portfolio.

Box 10.4 Daikyo

Daikyo is a Japanese company with extensive property interests in Japan. It purchased a number of hotels in the Cairns area after construction or in the latter stages of construction. Its major purchases included the Cairns International, just before Tricontinental would have appointed receivers, the Matson Plaza and the Cairns Hilton. There was some resistance to the extent of Daikyo's holdings in the Cairns area. At one point the Queensland Government was refusing to allow it to purchase the Matson Plaza (previously the Four Seasons). The Queensland Government's position, however, was over-turned by the Commonwealth Government.

Daikyo has further interests in the Cairns area with the purchase of a cruise company, Great Adventures, and Green Island resort. It purchased Great Adventures from the receivers of Dreamworld in 1990 and in 1994 was reported to have invested \$100 million in Green Island Resort and a fleet of boats to ferry tourists to the island and the outer Great Barrier Reef.

This vertical integration of tourism operations has assisted Daikyo in absorbing the low yields on hotel properties in the Cairns area. In addition, it has developed residential properties and a golf course.

Singaporean investors have advantages in that they can borrow at relatively low interest rates in Singapore against balance sheets showing diverse interests. Their risk is reduced because Australian hotels are only a small component of their overall portfolios. They also have access to substantial equity.

Singaporean investors have experienced the tourism cycle in Singapore and seen substantial increases in room rates after a period of relatively low room rates. The decline in property values in Australia has made investing in Australia seem relatively inexpensive.

This foreign investment in existing properties has reduced the number of properties in the hands of receivers. The sale of existing properties at prices below replacement cost depresses investment in new construction. Thakral Holdings (see Box 10.5) purchased the Westpac portfolio for some \$450 million in 1994, making it the largest owner of hotels in Australia.

The purchasing of a property at less than replacement value (often less than 50 per cent) gives the new owner the opportunity to obtain a reasonable return on the property at current room rates. As room rates increase, there is the opportunity for substantial returns in the future.

In addition, the new owners have the opportunity to both improve room yields and reduce operating costs. For example, Altair noted:

... [one Sydney hotel] which under its receiver-manager suffered a loss of a million dollars in its last year of receivership and in its second year [of new ownership] the partnership between the hotel company and the new owners will give it a \$4½ million net profit. (trans. pp. 33–34)

Box 10.5 Thakral Holdings

Thakral Holdings is listed on the Australian stock exchange with institutional investors having some holdings. The majority holder in the company is the Thakral family from Singapore.

The Thakral properties (at 1 April 1996) were:

- The Atrium, Darwin – opened 1988
- Hindley Parkroyal, Adelaide – opened 1990
- Holiday Inn Menzies, Sydney (plus retail component) – opened 1963
- Mermaid Waters, Gold Coast
- Novotel, Launceston
- Novotel Melbourne on Collins (plus retail component) – opened 1992
- Novotel Northbeach, Wollongong – opened 1989
- Novotel Brighton Beach, Sydney (plus retail component) – opened 1990
- Pan Pacific, Gold Coast (plus retail component) – opened 1989

All properties, except the Holiday Inn Menzies, were purchased from Westpac in March 1994. Four of the properties have large retail components.

All properties were purchased at a price which was below replacement cost. For example, Pan Pacific was purchased for \$79 million compared with an initial cost of some \$204 million.

Westpac was anxious to dispose of the properties and assisted Thakral with the purchase, through access to a \$250 million loan and a guaranteed income stream for five years.

The negotiations to purchase the properties were undertaken as room rates for hotels were still falling in many areas of Australia, but by the time the purchases were completed, room rates had begun to rise.

10.8 Current ownership patterns

In terms of the number of rooms, the Thakral Holdings Group (THG) is the largest owner of tourism accommodation in Australia. It owns nine properties and the major shareholder in THG owns two other properties. These eleven hotels consist of 2591 rooms, an average of 235 rooms per property.

The Australian Tourism Group (ATG) and Accor Asia Pacific (AAPC) are the second and third largest owners of hotel rooms. Each company owns 22 properties, the largest number of properties held by any one owner in Australia, however, AAPC only part-owns some of these properties. In general, both companies' properties are smaller than THG's and average 70 rooms per property. There are five other owners with more the 1000 rooms.

The three largest owners of accommodation, in terms of the number of properties and rooms — THG, ATG and AAPC — are all publicly listed Australian companies, however THG and AAPC both have significant foreign ownership. The largest shareholder in THG is the Singaporean company Thakral Investments Pty Ltd with 28 per cent and the largest shareholder in AAPC is the French company Accor SA with 25 per cent. For the purposes of this inquiry they are considered to be Australian companies as they are listed on the Australian Stock Exchange.

Among the 20 largest shareholders in AAPC are National Mutual, MLC, AMP and the NRMA. The NRMA is also a shareholder in THG, and AMP is a shareholder in ATG.

Table 10.2 Major owners of accommodation properties

<i>Owner</i>	<i>Rooms (No.)</i>	<i>Properties (No.)</i>
Thakral Holdings Group (THG) and associated interests	2 591	11
Australian Tourism Group (ATG)	1 612	22
Accor Asia Pacific (AAPC)	1 541	22
Daikyo Inc	1 368	5
United Overseas Land	1 234	4
Hai Sun Hup	1 065	4
MUI and associated companies	1 057	5
Amalgamated Holdings	1 032	7

Source: JLW Transact, November 1995, personal communication

A small number of properties are directly owned by Australian financial institutions. These include the Regent Melbourne which is owned by AMP, the Capital Parkroyal in Canberra which is owned by Bankers Trust, and the Wentworth in Sydney and the St Kilda Road Travelodge in Melbourne which are owned by National Mutual.

Foreign ownership is most pronounced where larger properties are concerned. The Japanese owned properties tend to be larger, as shown by the list of the twenty largest properties in Australia (See Table 10.3). Eight of these twenty properties are Japanese owned, two are Singaporean owned and six are Australian owned. Eleven of the twenty properties are in the central area of Sydney.

Most of the Singaporean owned properties were purchased in 1993 and 1994. A number of purchases have been from Australian financial institutions, including Commonwealth Funds Management, SGIC South Australia and the former State Bank of South Australia.

10.9 The overhang of the 1980s

Generally the part of the market most affected by the investment boom of the 1980s was the 4 and 5 star hotel segment. In Australia's largest tourism accommodation market, Sydney, numbers of available rooms for 4 and 5 star accommodation increased by 112 per cent between 1988 and 1992.

Nominal room yields were \$133 per room in 1988 but had fallen to \$74 per room by 1992. It was not until 1993 that numbers of available rooms in Sydney's 4 and 5 star hotels had levelled off and only in 1994 that yields started to increase.

The Commission is currently developing a dynamic model of demand and supply in the Sydney hotel market to help identify the economic factors which influenced investment in 4 and 5 star hotels during the period 1987 to 1994 (see Box 10.6).

The impact of the Sydney accommodation market on other destinations was outlined by the Motor Inn Motel and Accommodation Association:

Whilst it may be suggested that an over supply of accommodation in for example Sydney, would only impact on the Sydney market, the facts are totally contrary to this. With the ever increasing number of international visitors to Australia, inbound tour operators are comparing price between for example, what they are offered accommodation for in Sydney and what they are offered accommodation for in Cairns and when the over supply in Sydney and Melbourne developed, it impacted on the whole of Australia, not only in the major international tourist destinations, but also on the domestic destinations, driving room rates substantially below where they should be for an economically viable operation. (sub. 78, p. 11)

Table 10.3 Twenty largest hotels in Australia, November 1995

<i>Name</i>	<i>Number of rooms</i>	<i>Year opened</i>	<i>Owner</i>	<i>Owner country</i>	<i>Manager</i>
Hotel Nikko Darling Harbour	645	1991	Galibal Pty Ltd (Shimizu Corporation and Sumitomo Life)	Japan	Nikko
Hotel Conrad & Jupiters Casino	634	1985	Jupiters Ltd	Australia	Conrad
Holiday Inn Crown Plaza	630	1984	Hamilton Island Ltd	Australia	Holiday Inn
The Regent, Sydney	620	1980	Nisshin Kaisha	Japan	Regent
Sydney Renaissance Hotel	620	1989	Kyo-ya Oceanic Co Ltd	Japan	Ramada
Grand Hyatt Melbourne	617	1985	Lustig and Moar	Australia	Hyatt
Sydney Hilton	613	1975	Sunrise Resources Ltd	Hong Kong	Hilton
Hotel Inter-Continental, Sydney	594	1985	Saison Seiyo & Apsley Park Hotel (Lord McAlpine)	Japan/UK	ICHR
ANA Hotel Sydney	573	1992	Lillyvale Pty Ltd	Japan	ANA
Sheraton on the Park, Sydney	561	1992	ITT Sheraton	US	Sheraton
Novotel Sydney on Darling Harbour	530	1991	Long Term Credit Bank	Japan	AAPC
Landmark Hotel Sydney	470	1991	United Overseas Land	Singapore	SPHC
Wentworth - A Rydges Hotel, Sydney	443	1968	National Mutual	Australia	Rydges
Melbourne Hilton on the Park	443	1974	Golden Wheel	Malaysia	Hilton
Holiday Inn Menzies, Sydney	436	1963	Thakral Holdings	Australia	Holiday Inn
Sheraton Brisbane Hotel and Towers	435	1984	Daikyo Inc	Japan	Sheraton
Burswood Hotel, Perth	430	1987	Burswood Property Trust	Australia	Burswood
Sheraton Perth Hotel	415	1973	Sumitomo Life	Japan	Sheraton
Carlton Crest, Brisbane	411	1971	Carlton International Pty Ltd	Singapore	Carlton
Ramada, Gold Coast	404	1985	Kokusai Motor Australia Pty Ltd	Japan	Ramada

Box 10.6 Modelling the Sydney 4 and 5 star hotel market

The Commission has developed a dynamic model of demand and supply in the regional (Sydney) hotel market. The purpose of the model is to help identify the economic factors that contributed to the rapid growth in the number of 4 and 5 star hotel rooms in Sydney from 1987 to 1994. A conclusion of the research is that the following factors were important:

- forecasts of demand growth based on recent trends were higher than the demand growth that actually occurred;
- the lag between hotel construction and hotel opening precluded an immediate market correction to revised demand forecasts; and
- the general investment climate was overly optimistic, as seen in the rapid appreciation of real estate values in Sydney and the strong Australia-wide investment in new fixed capital.

The model simulates actual room rates, occupancy rates and room supply in Sydney from 1987 to 1994. The model simulates these variables best when demand is assumed to be price elastic and investors base their demand forecasts on historical growth rates. Given an assumed price elasticity of demand, model results are generally similar for a wide range of assumptions about hotel construction costs. The model simulates the variables even better when it is assumed that investors expected future sale prices for hotels to increase in line with other real estate values in Sydney.

It should be noted that a price elastic demand for accommodation in the specific Sydney 4 and 5 star market is compatible with a price inelastic demand for tourism accommodation in the Australian market in aggregate, or even in the wider Sydney market (see section 8.2 for a discussion of demand price elasticities).

Source: For details see forthcoming Industry Commission Staff Information Paper on the Sydney 4 and 5 star hotel market.

10.10 Conclusions

Many of the developers in the second half of the 1980s were individuals who had amassed some wealth in other businesses and believed that they could successfully develop and own a major hotel. Few of them had previous experience of hotels and few of them had access to sufficient funds to absorb losses during the early years of operating a hotel. These losses were exacerbated by adverse economic conditions.

Finance was readily available to finance tourism developments as the banking system competed for market share. Tourism properties planned in periods of relatively low interest rates could not withstand substantial increases in interest rates. Owners were forced into receivership as they did not have the financial backing to withstand a period of negative cash flows.

Some parts of the banking system during this period did not appear to have the appropriate expertise to assess investment proposals in the industry. Feasibility studies based on optimistic forecasts of future room rates and occupancy were often not scrutinised appropriately. Many proposals were assessed more on the ability to achieve capital gains, rather than the achievement of sustainable cash flows.

Properties were developed with unrealistic expectations of capital gains and insufficient attention to the possible impact of adverse economic conditions on operating incomes. The industry was affected by both the general fall in asset values and the impact of lower returns of the operating businesses as occupancy and room rates fell.

In the late 1980s some investment decisions of hotel developers appear to have been based on poor market intelligence and/or on the expectation of capital gains.

Many Australian companies, both listed and non-listed were forced into receivership. This provided the opportunity for foreign investors to purchase existing properties, many at prices below replacement cost.

From this decade Australia was left with a stock of quality hotels and a growing understanding of the financing and operations of large hotels. However, financial institutions were left with a reluctance to finance hotel investments.

11 PROFITABILITY OF TOURISM ACCOMMODATION

A key factor affecting future investment in tourism accommodation is the industry's recent financial performance and expectations of future profitability. Available data on profitability are not comprehensive. This chapter reports various measures of profitability available for the tourism accommodation industry and provides some comparisons with other Australian industries and with tourism properties in competing destinations.

11.1 Introduction

The recent history of tourism accommodation is characterised by a period of substantial growth in demand, much of which can be attributed to growth in the level of international tourism. Supply of accommodation also experienced a period of substantial growth followed by limited growth as the level of investment declined.

At the same time, profitability of many accommodation providers has been low — participants in the inquiry often used the term 'profitless growth' to describe the current state of the industry. However, there are indications that profitability has improved with recent increases in room occupancy and price levels. Improved profitability of an individual establishment can also derive from a reduction in the value of the property — perhaps through sale at less than replacement cost.

This chapter reports various measures of profitability available for the Australian tourism accommodation industry and provides some comparisons with other international tourism destinations.

11.2 Available data on profitability

Detailed data on the profitability of some individual companies can be obtained from annual reports of listed companies. However, there are few listed companies in tourism accommodation therefore this source is of limited value.

The Australian Bureau of Statistics (ABS) undertakes surveys of some businesses in the accommodation sector as part of its *Economic Activity Survey*

and it undertakes more comprehensive surveys at regular intervals. The information gathered includes revenue, expenses and interest on debt. Consequently, the data can be used to calculate a return on assets for the sector and this can be compared with other sectors of the economy.

Some indicators of profitability are published regularly by the ABS and are used widely in the industry in feasibility studies. These are occupancy rates, room rates and room yields by star grading and location.

Consultants to the industry collect some information on individual properties but this only includes data on operating profits with no data for return on assets. These data are not necessarily representative of the industry and are not generally published by star grading and location.

11.3 ABS surveys

The ABS collects data on management units in the accommodation industry.¹ A management unit may own or manage a number of tourism properties. The performance results for each of these properties are combined in the results for the management units. In 1991–92 there were some 4314 management units in the accommodation sector. A survey of these management units includes tourism properties that are not included in the ABS accommodation survey, for example, properties with less than five rooms. Other establishments, surveyed individually in the accommodation survey, are combined as a management unit.

ABS hospitality survey 1991–92

As noted previously, the ABS undertook a specific survey of the hospitality industries in 1991–92.² In 1991–92, 4314 businesses in the accommodation sector employed over 74 000 people with wages and salaries of \$1.2 billion and gross income of nearly \$4 billion (see Table 11.1).

The 20 largest businesses accounted for 21 per cent of employment and 30 per cent of the wages and salaries. These 20 largest businesses accounted for 28 per cent of the gross income.

¹ A management unit is the largest type of unit within an enterprise group which controls its productive activities and for which accounts are kept. A management unit equates, in most cases, with the largest type of management accounting unit (eg a division) within an enterprise or group.

² The hospitality industries include accommodation, cafes and restaurants and licensed clubs. Data can be extracted separately for accommodation.

The ABS survey shows that most of the losses in 1991–92 (after taking into account interest on debt) were concentrated in the largest businesses. Of the \$319 million of losses in the accommodation sector in that year, about one third were attributable to the four largest businesses in the sector. A further third of the losses were attributable to the next 16 largest businesses. Further the ratio of losses to gross income was significantly higher for these large 20 businesses than for the remaining 4294 smaller businesses in the accommodation sector.

Table 11.1 Profitability of the accommodation sector, 1991–92

<i>Businesses ranked by gross income</i>	<i>Businesses as at end June 1992 (No.)</i>	<i>Employment as at end June 1992 (No.)</i>	<i>Wages and salaries (\$m)</i>	<i>Gross income (\$m)</i>	<i>Operating profit/loss (\$m)</i>
Largest four	4	6 621	151.4	517.7	-104.4
Second largest four	4	2 504	61.2	196.2	7.6
Third largest four	4	2 467	62.6	155.2	-70.8
Fourth largest four	4	2 284	49.2	132.9	2.9
Fifth largest four	4	1 786	42.1	108.1	-42.7
Remainder	4 294	58 474	838.4	2 871.6	-111.8
Total	4 314	74 136	1 204.9	3 981.7	-319.2

Note The publication uses operating profit/loss but the profit/loss is taken after deduction of interest.

Source: ABS Cat. No. 8674.0, 1991–92

The distribution of the losses shows that losses were incurred throughout a substantial part of the industry, although the losses in absolute terms were concentrated amongst the largest businesses. Sixty-one per cent of businesses made profits in 1991–92, while 35.8 per cent made losses. Few businesses (1.5 per cent) reported profits above \$500 000.

In this period Australia was in the midst of a recession and hence 1991–92 is not a representative year, although international tourism was not adversely affected. Furthermore, the survey followed a period of substantial expansion of capacity, which outstripped demand growth. An examination of room yields shows that, in many destinations, room yields were at their lowest during the years 1991 and 1992.

ABS survey of business operations

The ABS undertakes an annual survey of business operations (known as the *Economic Activity Survey* or EAS). The Commission obtained unpublished

data for 1993–94 for 57 large businesses in the accommodation sector.³ It was not possible to isolate data for all businesses in the accommodation sector, as data on all businesses were only available for all businesses for the ANZSIC classification, ‘Accommodation, Cafes and Restaurants’.⁴

The results for the 57 large businesses are shown in Table 11.2. In 1993–94, these 57 businesses had sales of \$1.7 billion and labour costs of \$640 million. These businesses represent a sizeable proportion of the accommodation sector, as in 1991–92 sales for the accommodation sector as a whole amounted to \$4 billion and wages and salaries \$1.2 billion.

Table 11.2 Profitability of large businesses in the accommodation sector, 1990–91 to 1993–94

<i>Performance measure</i>	<i>1990–91</i>	<i>1991–92</i>	<i>1992–93</i>	<i>1993–94</i>
Number of operating businesses	42	46	47	57
	<i>(\$m)</i>	<i>(\$m)</i>	<i>(\$m)</i>	<i>(\$m)</i>
Sales of goods and services	1 447	1 569	1 482	1 742
less cost of sales	975	981	896	974
Trading profit	472	588	586	768
plus interest and other operating income	37	80	97	122
less labour costs	484	590	571	640
less depreciation and other operating expenses	97	126	122	141
Earnings before interest and tax	-72	-48	-10	109
less interest expenses	95	200	241	251
Operating profit before tax	-167	-248	-251	-142

Source: ABS, Survey of Economic Activity, unpublished data

After taking account of other income and expenses (including depreciation), these businesses had earnings before interest and tax (EBIT) of \$109 million in 1993–94. Interest expenses amounted to \$251 million leaving an operating loss before tax of \$142 million.

A comparison with the three previous years shows that operating losses were less in 1993–94 than for the previous two years. The data available show the impact on profitability of the period of low occupancy and low room rates. It could be expected that with occupancy and room rates increasing since then

³ Large businesses include all management units which employ more than 200 persons or have assets worth more than \$200 million.

⁴ The Economic Activity Survey involves a complete enumeration of large businesses but only samples smaller businesses. The size of the samples does not allow data to be published for accommodation separately.

financial performance will have improved, but more recent data will not be available until June 1996.

In 1993–94 the 57 largest accommodation businesses had a negative profit margin⁵ (in fact a loss) of –7.6 per cent. The all industry average profit for that year was 10.6 per cent (see Table 11.3).

The total assets of these businesses was \$4 billion giving a negative return on assets of –3.6 per cent. This was lower than other industries and the all-industry average. The investment rate is the proportion of industry gross product used to acquire capital. This rate was 8.8 per cent for large businesses in accommodation, which was lower than any other sector (see Table 11.3).

Table 11.3 Industry ratios of large businesses, a comparison 1993–94

<i>Industry sector</i>	<i>Profit margin (%)</i>	<i>Return on assets (%)</i>	<i>Investment rate (%)</i>
Accommodation	-7.6	-3.6	8.8
Accommodation, cafes and restaurants	-1.7	-1.4	13.9
Retail trade	1.7	6.1	16.1
Transport and storage	6.3	3.9	22.7
Manufacturing	7.7	8.2	25.3
Personal and other services	6.5	4.5	44.8
All industry average	10.6	3.6	28.2

Note: Accommodation, cafes and restaurants includes cafes and restaurants; pubs, bars, taverns and licensed clubs, as well as accommodation.

Source: ABS Cat. No. 8140.0, 1993–94 and unpublished data

11.4 Room yield

Room yield is a measure of the average daily takings per available room. It is defined as the product of the room occupancy rate and the room price. For an individual property with an average occupancy rate of 80 per cent and an average room price (of occupied rooms) of \$120, the room yield is \$96. From this definition it follows that:

- for a given room price, the room yield will increase (decrease) as occupancy increases (decreases);
- for a given occupancy rate, the room yield will increase (decrease) as the room price increases (decreases);

⁵ The profit margin is operating profit before tax as a percentage of operating income. Operating income is the total of sales of goods and services, interest income and other operating income.

- for a given level of demand and room price, an increase (decrease) in supply of hotel rooms reduces (increases) both the occupancy rate and the room yield for the average hotel; and
- for a given room price, when demand increases at a greater rate than supply of hotel rooms the room yield will increase.

Room yields are used by the industry as one basis for comparison between establishments. On their own they provide no information on profitability because they take no account of costs.

Table 11.4 shows 4 and 5 star room yields for a number of destinations. For Sydney, Melbourne and Perth, both increased occupancy and increased room rates have contributed to increased yields whereas for the Gold Coast, a decline in both occupancy and price reduced the real room yield. For Brisbane, a decline in occupancy was not sufficient to outweigh the effect of a substantial room rate increase on room yield, and for Cairns, declining occupancy was almost totally offset by an increase in room rate.

Figures 11.1, 11.2, and 11.3 show yields for properties according to destination and star grading. In Figure 11.1 the impact of an increased supply of 4 and 5 star hotels in Sydney and Melbourne is reflected in declining yields until 1994. For Cairns, the increased yield from 1990 is the result of a steady supply with increased demand.

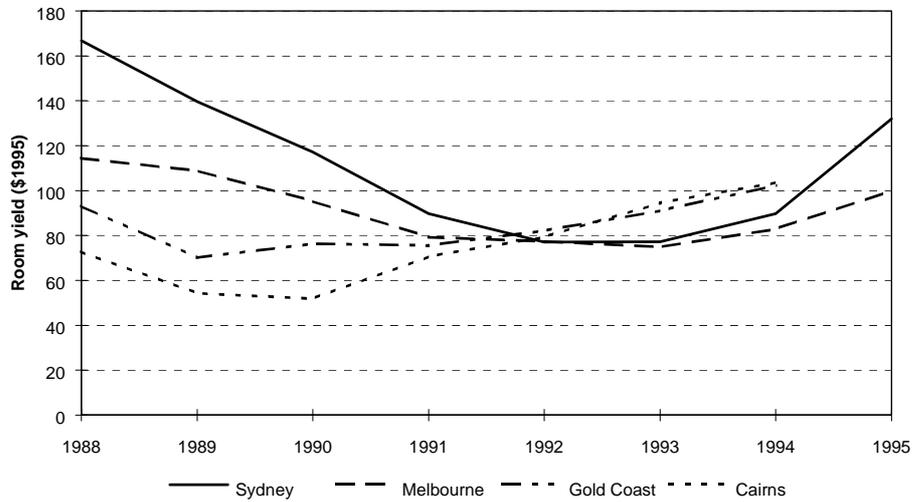
Yields for 3 star properties follow similar patterns to 4 and 5 star properties.

Table 11.4 Occupancy, room rate and room yield, 4 and 5 star hotels, 1994 and 1995

	<i>Occupancy</i>			<i>Real room rate</i>			<i>Real room yield</i>		
	<i>1994</i> <i>(%)</i>	<i>1995</i> <i>(%)</i>	<i>Change</i> <i>(%)</i>	<i>1994</i> <i>(%)</i>	<i>1995</i> <i>(%)</i>	<i>Change</i> <i>(%)</i>	<i>1994</i> <i>(%)</i>	<i>1995</i> <i>(%)</i>	<i>Change</i> <i>(%)</i>
Sydney	72.8	77.3	6	129	135	5	90	100	11
Melbourne	68.0	74.7	10	127	132	4	87	99	14
Perth	78.8	80.8	3	120	124	3	94	100	6
Gold Coast	79.5	78.2	-2	129	127	-1	102	99	-3
Brisbane	78.3	75.6	-3	115	127	10	90	96	7
Cairns	83.5	79.8	-4	124	130	4	104	103	0

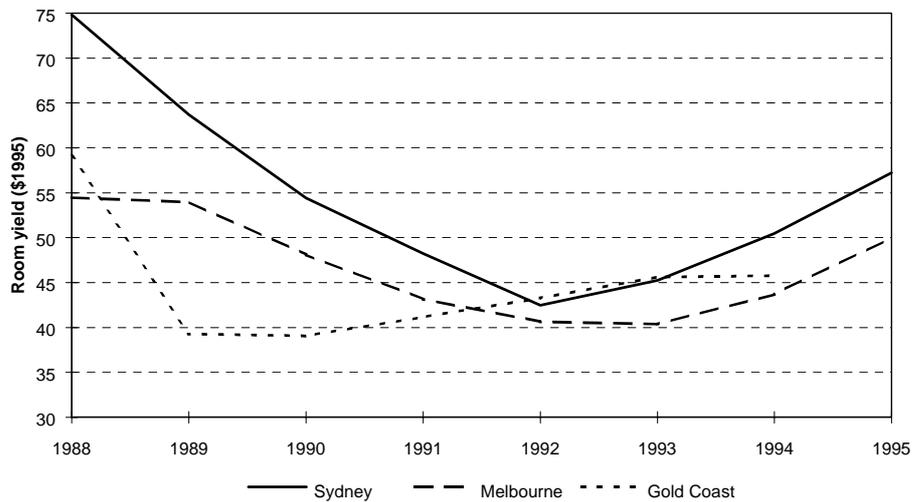
Source: ABS Survey of Tourist Accommodation, unpublished data

Figure 11.1 Real room yields (\$1995), 4 and 5 star hotels, motels and guesthouses, 1988 to 1995



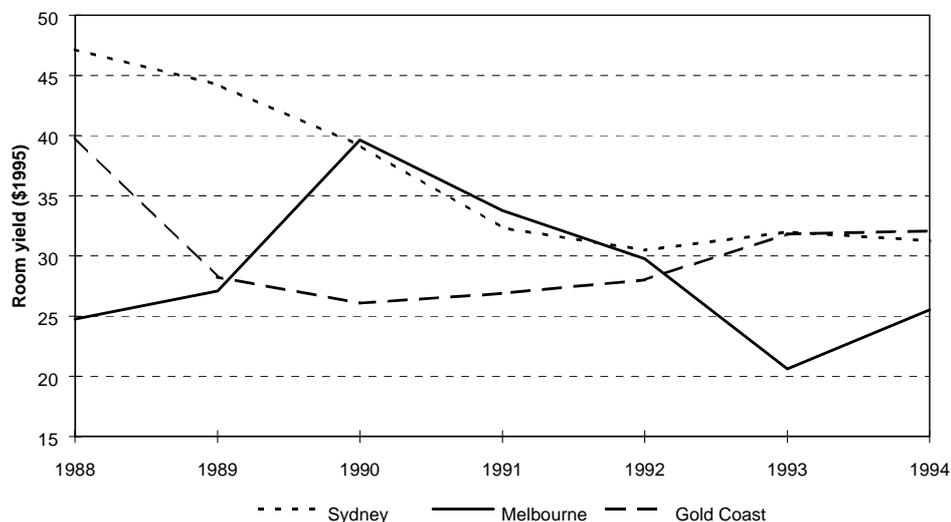
Source: ABS Survey of Tourism Accommodation, unpublished data

Figure 11.2 Real room yields (\$1995), 3 star hotels, motels and guesthouses, 1988 to 1995



Source: ABS Survey of Tourism Accommodation, unpublished data

Figure 11.3 Real room yields (\$1995), 1 and 2 star hotels, motels and guesthouses, 1988 to 1994



Source: ABS Survey of Tourism Accommodation, unpublished data

11.5 Gross operating profit

There are a number of measures of profitability used in the industry. These include gross operating profit for individual properties. This measure is used widely in the industry, especially to assist in the determining the purchase price which is reasonable to pay for existing properties.

Horwath Asia Pacific obtain profitability data on individual hotels on the understanding that the data remain confidential on an individual property basis. The Commission contracted Horwath Asia Pacific to extract summary data for the Commission's specific needs.

The accounts for individual properties are divided into what the industry calls 'departments', such as the Rooms Department, the Food and Beverage Department and other Minor Operating Department. The revenue and expenses for each of these departments are used to determine the operating profit for each department. There are then a number of undistributed operating expenses that can be allocated to a particular department. These expenses are deducted from the profits of the departments to provide the gross operating profit.

The gross operating profit, after deducting the fees paid to the management company, is the return to the owner before subtracting property taxes,

depreciation, interest and taxes. Gross operating profit gives a comparison between the profitability of individual properties that is independent of the purchase price of the asset. Using this measure, comparisons can be made between properties in different destinations and with different star gradings.

Horwath Asia Pacific (1995) summarised data on the current profitability (or gross operating profit) of 4 and 5 star hotels for the years 1993 and 1994 (see Table 11.5).

Table 11.5 Profitability of 4 and 5 star properties by star grading, 1993 and 1994

<i>Star grading</i>	<i>Gross revenue per available room (\$)</i>	<i>Gross expenses per available room (\$)</i>	<i>Gross operating profit per available room (\$)</i>	<i>Gross operating profit as a percentage of revenue (%)</i>
5 star	65 518	56 825	9 233	14
4 star	50 401	37 924	12 477	25

Note: For properties with no data available for 1994, 1993 data was used to ensure that the sample size was adequate.

Source: Horwath Asia Pacific 1995

The data showed that gross operating profit per available room was higher for 4 star hotels than for 5 star hotels. This is due to higher operating expenses per available room (for the latter) which is not fully compensated for by higher revenue per room.

Given the higher construction costs for 5 star hotels, it could be expected that interest expenses would be considerably higher for 5 star hotels. This would give an even lower rate of return for 5 star hotels.

Analysis of profitability data was also undertaken by location (see Table 11.6). Gross operating profit per available room varied between locations. Sydney had the lowest gross operating profit per available room and Cairns the highest — although, given the small sample size for Cairns this needs to be interpreted cautiously.

Table 11.6 Profitability of 4 and 5 star properties by location, 1993 and 1994

<i>Location</i>	<i>No. of prop. (No.)</i>	<i>Room rate (\$)</i>	<i>Occup. rate (%)</i>	<i>Yield per available room (\$)</i>	<i>Gross operating profit per available room (\$)</i>	<i>Gross operating profit as a percentage of revenue (%)</i>
Sydney	20	130	65	84	9 479	17
Melbourne	11	119	63	74	13 266	23
Brisbane	5	120	78	94	12 913	17
Gold Coast	6	109	76	82	10 388	17
Cairns	3	115	80	92	17 933	34

Note: For properties with no data available for 1994, 1993 data was used to ensure that the sample size was adequate.

Source: Horwath Asia Pacific 1995, pp. 10 and 18

11.6 Ownership and management

A key factor affecting the level of profitability in the tourism industry is the relationship between owners and managers. The relationship between these two groups is determined by the management agreement (see Appendix D). The nature of these management agreements has changed greatly in recent years.

Old style management agreements were based on the manager receiving a percentage of gross revenue. Under these arrangements there was little incentive for the manager to reduce expenses so profits (which accrue to the owner) were not maximised. The manager could be well rewarded and yet the owner could be making substantial losses. These old style agreements were made when owners were forced to purchase expertise from a limited number of overseas management companies. As the industry has matured this expertise has become more readily available and owners have been able to counter the market power of managers.

New style management agreements are based on the management company receiving a percentage of the gross operating profits. In this type of agreement the management company has an incentive to reduce expenses and adopt yield management strategies that maximise yield. The change in the nature of these management agreements has been a key factor in improving the level of profits in the industry and therefore maximising returns to the owners.

11.7 International comparisons

Horwath Asia Pacific obtained data from a number of locations in the Asia–Pacific region. The data were based on the categories identified in the Uniform System of Accounts for Hotels, which is the generally accepted format for reporting financial information on hotels. Data for all properties are in Australian dollars.

Three cities were selected in the Asia–Pacific region for comparison with destinations in Australia. These were San Francisco, Singapore and Hong Kong. The 13 hotels in San Francisco represent full-service hotels located either downtown or at Fisherman’s Wharf. The five Singapore properties represent upper-tier hotels, of which there are 15 in total. The five Hong Kong properties are high tariff ‘A’ and ‘B’ properties of which there are 22 in total. These comparisons are shown in Table 11.7.

Gross operating profit is expressed as a dollar amount per available room and as a percentage of revenue. In each case the three overseas cities have higher gross operating profit per available room than the Australian cities. Similarly, gross operating profit as a percentage of revenue is higher.

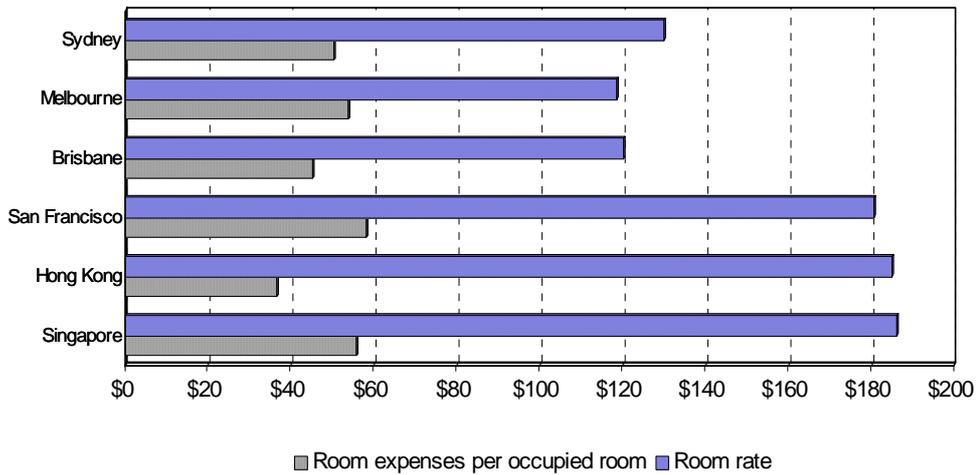
Table 11.7 Profitability of hotels in large cities by location, 1993 and 1994

<i>Location</i>	<i>Room rate</i> (\$)	<i>Occupancy rate</i> (%)	<i>Yield per available room</i> (\$)	<i>Gross operating profit per available room</i> (\$)	<i>Gross operating profit as a percentage of revenue</i> (%)
Sydney	130	65	84	9 479	17.4
Melbourne	119	63	74	13 266	23.5
Brisbane	120	78	94	12 913	17.1
San Francisco	181	75	135	20 770	27.6
Singapore	186	66	127	23 212	28.2
Hong Kong	185	84	155	40 239	35.2

Source: Horwath Asia Pacific 1995, pp. 10 and 18

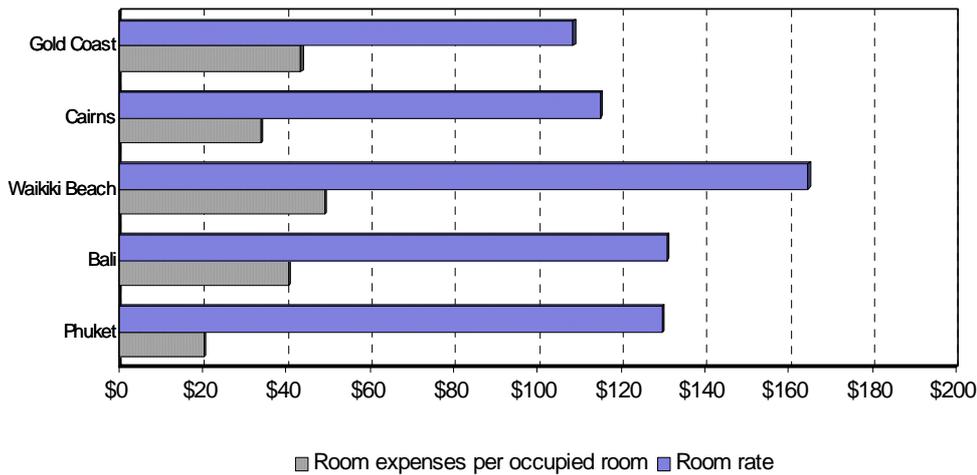
Table 11.7 indicates that room rates were 50 per cent higher in San Francisco, Singapore and Hong Kong than the Australian cities. Both San Francisco and Hong Kong also had higher occupancy rates so room yields were relatively higher than room rates for these cities compared with Australia. Despite relatively low occupancy the yield was higher for Singapore.

Figure 11.4 Large cities, room rates and expenses per occupied room, 1993 and 1994 (4&5 star hotels)



Source: Horwath Asia Pacific 1995, pp. 10-13

Figure 11.5 Resort areas, room rates and expenses per occupied room, 1993 and 1994 (4&5 star hotels)



Source: Horwath Asia Pacific 1995, pp. 10-13

Three resort areas were selected in the Asia-Pacific region against which to compare Cairns and the Gold Coast. These were Waikiki Beach, Bali and Phuket. The seven Waikiki hotels are all full-service hotels (see Table 11.8). The five Bali properties represent upper tier–deluxe hotels of which there are 14 properties in total. The three Phuket properties represent upper tier hotels of which there are 22 in total.

The comparison of Australian resorts with overseas destinations shows that Phuket, Thailand has the highest gross operating profit per available room, despite having the lowest yield. Cairns has the highest room rate of the five resort areas but a lower gross operating profit per available room than both Waikiki and Phuket.

Table 11.8 Profitability of hotels in resort areas by location, 1993 and 1994

<i>Location</i>	<i>Room rate</i> (<i>\$</i>)	<i>Occupancy rate</i> (<i>%</i>)	<i>Yield per available room</i> (<i>\$</i>)	<i>Gross operating profit per available room</i> (<i>\$</i>)	<i>Gross operating profit as a percentage of revenue</i> (<i>%</i>)
Gold Coast	109	76	82	10 338	17
Cairns	115	80	92	17 933	34
Waikiki	165	82	135	23 447	30
Bali	131	66	86	8 551	15
Phuket	130	61	79	24 489	45

Source: Horwath Asia Pacific 1995, pp. 10 and 18

Table 11.9 Large cities, department revenues as a share of total revenue, 1993 and 1994

<i>Location</i>	<i>Rooms</i> (<i>%</i>)	<i>Food</i> (<i>%</i>)	<i>Beverage</i> (<i>%</i>)	<i>Other</i> (<i>%</i>)
Sydney	56	24	11	9
Melbourne	55	21	12	12
Brisbane	43	31	18	8
San Francisco	67	17	6	10
Singapore	56	31	6	7
Hong Kong	50	31	8	11

Source: Horwath Asia Pacific 1995, p. 12

The composition of revenue varies significantly. Revenue from room sales is the most important source of revenue. Room revenue was generally higher as a share of total revenue in San Francisco reflecting higher yields. Singapore and Hong Kong hotels are clearly more dependent on food sales than the other

hotels in the sample except for Brisbane. Australian hotels are more reliant on beverage sales than overseas hotels in the sample.

Table 11.10 Resort areas, department revenues as a share of total revenue, 1993 and 1994

<i>Location</i>	<i>Rooms (%)</i>	<i>Food (%)</i>	<i>Beverage (%)</i>	<i>Other (%)</i>
Gold Coast	43	25	15	7
Cairns	63	21	6	10
Waikiki Resorts	66	20	5	9
Bali	55	28	9	8
Phuket	54	21	9	15

Source: Horwath Asia Pacific 1995, p. 12

Expenses per occupied room were compared (see Figures 11.4 and 11.5). This comparison showed that the expenses were similar for Australian and most overseas destinations. This shows that the higher profits per room in overseas destinations were due to higher room rates, rather than lower expenses. In fact, both San Francisco and Singapore had higher expenses per occupied room than Australian cities.

The expenses per occupied room were similar for resort areas and competing destinations, although Phuket had lower expenses per occupied room than both the Gold Coast and Cairns, and Bali had lower expenses than the Gold Coast.

11.8 Conclusion

Expected profitability is a key factor for the future of Australian tourism properties. The level of profitability was low in a survey undertaken in 1991–92. The most recent survey in 1993–94 shows that profitability was still low, at least for the 57 largest businesses.

Australian tourism properties have lower room rates than competing destinations. This has helped Australia to retain a competitive position within the Asia–Pacific region.

Expenses per occupied room are similar for Australian cities and competing destinations, although Phuket has lower expenses per occupied room than both the Gold Coast and Cairns, and Bali has lower expenses than the Gold Coast.

Tourism accommodation is characterised by many suppliers without a high concentration of ownership and control. It is highly competitive within Australia and is competitive in price terms with international destinations.

12 FUTURE INVESTMENT IN TOURISM ACCOMMODATION

This chapter examines some of the factors which will influence future investment in the major tourism accommodation segments (in particular, hotels, motels and guesthouses). Particular attention is given to the adequacy of information on which to base investment decisions and to the future availability of finance for major tourism accommodation construction projects.

12.1 Introduction

The impact of the rapid increase in supply of tourism accommodation on occupancy, room rates, yield and profitability has been discussed in previous chapters. Despite recent improvements in profitability indicators, the overhang of poor investment decisions in the past is still adversely affecting profitability and investment in some parts of the industry.

The number of properties sold at below construction cost declined in 1995. There is no longer a large pool of properties for sale that offer a better investment return than the construction of a new property, although there are still some.

The usual starting point for new investment is that a feasibility study must be able to demonstrate sufficient expected profit to provide an adequate return. Current owners are likely to use acceptable returns on their existing properties as their yardstick for further investment. New investors with limited experience in the industry are likely to be cautious, particularly given recent history. New investors are likely to expect quite definite indications of improved profitability before committing themselves.

Financial institutions lost money on tourism developments in the recent past. Consequently, these institutions are also taking a more cautious approach to investment in the sector. When tourism development companies went into receivership, financial institutions were unable to sell the properties they held as security at a price that was sufficient to cover their loans.

Accordingly, the expected return now required by financial institutions is higher than it might previously have been. The risk premium required for investment in tourism properties is now believed to be considerably higher than for alternative investments such as commercial and retail properties.

12.2 Is Australia competitive for new tourism investment?

Investment depends on expected profitability which, in turn, depends on, among other things, movements in room rates. When room rates are low a destination may be competitive from a consumer perspective, but may not be attractive for investment purposes (unless it can be purchased at a low enough price to make the low room rates profitable).

To the extent that Australia's relatively cheap accommodation costs are taken into account by tourists when they are formulating their travel plans, low room rates have helped Australia to retain, or even increase, its share of international tourists and to induce Australians to travel at home.

As described earlier, much of the growth in investment that occurred was a peculiar product of the 1980s. More importantly, it occurred in circumstances that are unlikely to be repeated in the foreseeable future. Therefore, the issue now is to consider whether, in the future, Australia will be competitive not only from the consumer perspective but also in terms of attracting investment.

New construction requires an expectation of appropriate returns on equity for the prospective owners. Also, financial institutions require that the feasibility studies demonstrate that their loans will be relatively secure; that is, that the market value of the tourism property will not fall below the amount of the loan.

Expected returns depend on, among other things, forecasts of demand. To forecast demand requires predicting future travel demand patterns as well as likely room rates. These two key factors stand out as being most likely to shape the future. Both these parameters are important, although not equally so. They are discussed separately in the following sections of the chapter.

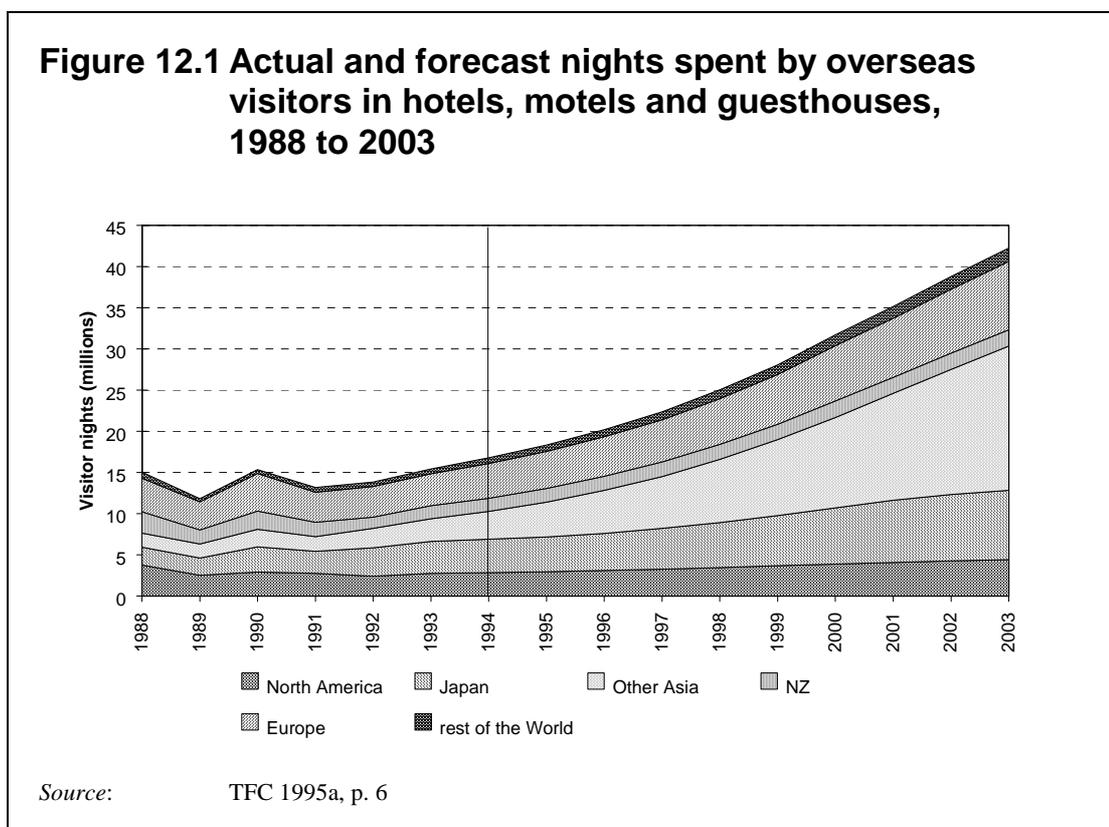
12.3 Forecasts of accommodation demand

Forecasts are required for both international visitors and domestic trips.

The recent history of growth in international visitors has led to forecasts of continuing growth into the next century. These forecasts by the Tourism Forecasting Council (TFC) are based on, among other things, the rates of growth in GDP in the countries of origin. Like any forecast, predictions about future travel patterns involve a degree of uncertainty.

Australia is attractive as a tourism destination and is geographically in a region with rapidly increasing incomes. Therefore, such uncertainty as exists is more likely to be about rates of growth rather than whether there will be growth.

The expected growth in international visitors has been discussed briefly in earlier chapters. The forecast of 6.3 million overseas visitors in 2000 translates into more than 121 million nights per annum from overseas visitors. These forecasts, together with forecasts of domestic nights, are summarised in Figures 12.1 and 12.2. It must be emphasised that at present only approximately one-quarter of overseas visitors stay in hotels, motels and guesthouses with the remainder staying either in other types of commercial accommodation (for example, rented units) or with friends and relatives. In the future, this pattern is not expected to change significantly and the 121 million visitor nights in 2000 are forecast to generate over 30 million visitor nights in hotels, motels and guesthouses.



The key feature about growth rates in travel demand and visitor nights spent in hotels, motels and guesthouses, is that domestic demand is the larger component. It is also the segment of accommodation demand that is fairly constant in its growth. Despite its smaller absolute size, the international component is the faster growing sector and the one that is most likely to be the source of any imbalances between accommodation demand and supply.

12.3.1 Factors influencing the forecasts

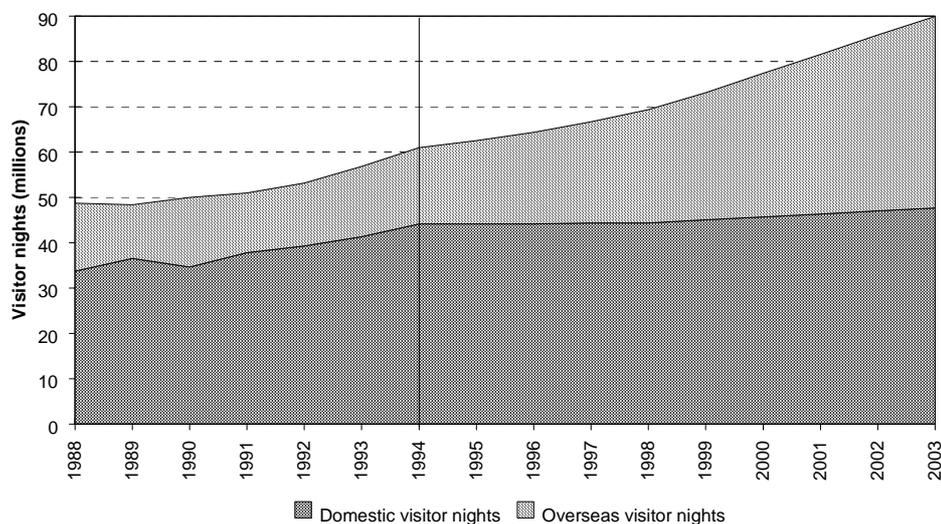
The forecast increase in the demand for accommodation in hotels, motels and guesthouses depends on:

- the increase in international visitors;
- the number of visitor nights in Australia; and
- the percentage of visitor nights spent in hotels, motels and guesthouses.

International visitor numbers are forecast to grow at different rates for different market segments. For example, the Asian market other than Japan (known as Other Asia) is forecast to grow at 16 per cent per annum over the period 1993 to 2000, while the North American market is forecast to grow at only 5 per cent.

For most market segments, the relative number of visitor nights and the percentage of visitor nights in hotels etc. is forecast to remain fairly constant over the forecast period. However, for the Other Asian market the forecasts are based on a substantial increase in the percentage of nights in hotels, motels and guesthouses. The number of these nights is forecast to increase from some 20 to 43 per cent.

Figure 12.2 Actual and forecast visitor nights spent in hotels, motels and guesthouses, 1988 to 2003



Source: TFC 1995a, p. 15, 1995b, p. 5

As a generalisation, the Other Asian market is regarded by the industry as being more price sensitive than other markets. The wholesalers for these Asian

markets are also regarded as able to negotiate lower prices than for other foreign markets (TCA, sub. 155, att. 3, p. 1). The Canberra Tourism Commission lent some support to this view:

The Asian market is primarily a high volume – low yield market, with the Asian wholesalers seeking substantial discounts on all components of the tour. (sub. 100, p. 31)

The forecasts published in April 1995 are due to be updated in 1996. Some parameters underlying the forecasts have changed since the previous forecasts. One is that — to some minor extent — the relative competitiveness of Australia compared with other destinations has changed due to a strengthening of the Australian dollar.

The possible impact of the recent increases in room rates will need to be incorporated into the forecasts. It is unclear to what extent previous forecasts (for Australia as a whole) have adequately taken into account the effect of price variables. For example, Carmody (1995) cautions:

Forecasts of physical demand growth (numbers, nights, etc.) that do not allow for price increases needed to make existing tourism infrastructure viable (especially accommodation) will not be realised. Price increases in many cases are needed to increase property valuations to the point where new investment is an attractive proposition. Such increases will pare back growth in visitors to the numbers able and prepared to pay such prices. (p. 2)

Forecasts being undertaken by Access Economics for the Tourism Council Australia and the Tourism Forecasting Council will take price effects into account and will do this for regional markets (sub. 155, Att. 1, pp. 3–4). This should improve the basis for future investment decisions.

12.3.2 Implications for investment

The forecast increases in demand influence investors' expectations. In many destinations such as Melbourne, Gold Coast, Darwin and Perth there is substantial new investment occurring. However, the level of investment in Sydney is still historically low.

In Chapter 9 the lags in the response of price to changes in demand and the response of supply to increases in expected profitability were discussed. For Sydney, the period in which increases in supply outstripped demand growth continued up to 1992. Therefore it can be expected that new investment in that market may be delayed somewhat.

Increases in room yields in Sydney should continue as high occupancy levels allow hotels to replace package tour guests (who generally pay low room rates) with independent travellers who pay higher room rates. The impact of current

high occupancy levels will be reflected in higher room rates in 1996 for independent travellers but perhaps not until 1997 for inbound package travellers.

Lags in supply are reduced for those projects that have already received development approval. The period of relatively low investment has led to an increase in the number of projects with development approval but for which construction has not commenced. Also, the time required to construct hotels has declined as the level of expertise in both design and construction has improved.

As room rates increase in Sydney there will be times when some tourists may not be able to obtain the standard of accommodation, in the location of their choice, at prices they expected to pay. This situation may last for several years. But periods of high occupancy are required to produce the increases in room rates required for past and future investment to be profitable.

Price increases in Sydney will have an impact on the achievement of the April 1995 forecasts. There could be dampening in the growth of the number of overseas visitors to Sydney, but a higher proportion of visitors with higher expenditure on accommodation.

The impact of these factors on the rest of the tourism industry is difficult to determine due to deficiencies in expenditure data both for domestic and overseas visitors. The extent that visitors prepared to pay higher prices for accommodation also spend more on other goods and services is difficult to determine.

12.4 Adequacy of existing data

The major source of data on tourism accommodation is the ABS. It undertakes a quarterly survey of tourism accommodation (STA), which has data on stock variables such as occupancy, room nights occupied and takings. These variables can be used to derive room rate and room yield. These latter variables are the ones used to estimate expected revenues in feasibility studies.

If the ABS could publish, on a star grading basis, room rate and yield data, this would be useful. Furthermore, it would be helpful if the ABS data were available in database format.

The TFC publishes forecasts of visitor nights in hotels, motels and guesthouses, but these are for Australia as a whole — there are no estimates for particular destinations, although there are plans to move in this direction.

Two stages are involved in obtaining regional or destination-specific forecasts. The first stage is to estimate the number of visitors expected from particular

places of origin. For inbound tourists these estimates will depend on the economic conditions in the countries of origin, the attractiveness of the particular destination, air links, marketing expenditure etc.

The second stage is to obtain estimates for:

- length of stay for different market segments; and
- percentage of visitor nights expected to be spent in different types of accommodation for these market segments.

These two estimates, together with the forecasts of international arrivals can produce forecasts of visitor nights (and hence room nights) for a particular destination.

The International Visitor Survey collects data on visitor nights in hotels, motels and guesthouses for different market segments. However, data are not collected on the star grading or other characteristics of the accommodation. If the industry is to meet the needs of changing market segments, for example the Other Asia segment, additional data on the type of accommodation currently used would be valuable.

The data on expenditure by overseas visitors are complicated by the treatment of expenditure by visitors on package tours. A better understanding of how package tour expenditure is allocated to airfares, accommodation and other goods and services is required.

More accurate forecasts of accommodation demanded by domestic visitors requires a substantial increase in the resources allocated to data collection. The Domestic Tourism Monitor is the current data source for details of trips and nights spent away from home. However, the data collected are limited. There are no detailed data collected on the type of tourism accommodation used by respondents.

Another data limitation pertains to estimates of the effect of price changes on accommodation demand. The Department of Tourism said:

The Department is unaware of any significant work undertaken to estimate the elasticities in the accommodation sector and considers that research in this area may assist the industry to determine its pricing policies. (sub. 89, p. 22)

A range of interested parties (including potential developers and investors, existing owners, marketing bodies and government infrastructure suppliers and planners) would benefit from the availability of more sophisticated and destination-specific data on which to base forecasts. It is recognised that this would add to the costs of data collection.

In principle, the costs of data gathering should be allocated according to the value of the information to the users. In most cases both the private and public

sectors will be users. It would be an extremely difficult (and costly) task to determine on a case-by-case basis an appropriate user charge. In practice, for other than clearly industry-specific information, it is reasonable that the information gathering be undertaken by government agencies, especially when it is likely that the private sector would not have the incentive to collect the optimal amount of data.

In light of the current size and growth rate of tourism there is a need for better information. Such information is necessary to assess the impact of policy-induced influences on the industry's performance. It would also be valuable for the private sector as a better foundation on which to base its demand forecasts and investment decisions and is needed by governments in planning infrastructure provision.

12.4.1 Satellite accounts

There are areas where industry and the Government can cooperate to improve the information for future investment decisions. However, there are other areas where considerable resources would need to be reallocated to improve the information available.

Many policy issues in tourism accommodation, and tourism more generally, require an understanding of the impact of tourism on other sectors of the economy. In the Australian and New Zealand Standard Industrial Classification (ANZSIC) tourism accommodation is an ANZSIC class, however many other aspects of tourism are included in other ANZSIC classes.

The lack of comprehensive data on tourism as an industry has made it difficult for the Commission to assess the industry's claim that it is overtaxed compared with other industries. It has also been difficult to assess the extent to which other parts of the tourism industry are dependent on the provision of accommodation.

There are several questions that require better information than is currently available before they can be answered. They include:

- what proportion of general business activity results from tourism?
- what is the value added of the industry sectors involved in tourism?
- how important is tourism to non-tourism industries?
- how much of national GDP is contributed directly and indirectly from tourism?
- how many jobs result directly and indirectly from tourism?

- what are the wages and salaries resulting from tourism? and,
- how much does tourism spending contribute to tax revenue?

One approach to answering these questions is through the development of Tourism Satellite Accounts (TSAs). TSAs encompass an accounting system in which statistics on significant and measurable aspects of tourism may be collected, assembled and presented (see Box 12.1).

Box 12.1 Tourism Satellite Accounts (TSAs)

The key component of the model is a derived input-output model of the economy taken from a tourism perspective. Because it is a reformulation of the input/output tables, the model provides the means for examining tourism activities within the broader economic structure. Tourism is still seen within the economy as a whole and so the TSAs allows for analysis of tourism against the rest of the economy and vice versa.

The TSAs specifically measures the domestic supply of tourism products, the use of products as intermediate inputs and final demand, and capital formation and employment by tourism suppliers, based on the input/output framework.

Source: ABS 1995a, pp. 1–5

The ABS is currently undertaking research on the development of TSAs. However, approval for TSAs to be incorporated in the forward work program of the ABS has yet to be obtained.

The TTF noted the importance of satellite accounts:

The TTF is ... encouraged by the ABS commitment to develop Tourism satellite accounts. The availability of such accounts will be an important tool for Government and industry alike. Policy decisions are currently being made in an information vacuum. However, for specific projects, the tourism satellite accounts are unlikely to provide accommodation operators and developers with any practical assistance. The accounts have a far more important role in assisting the development of informed public policy in relation to the tourism sector ... (sub. 95, p. 16)

The development of TSAs requires the expansion of statistical collections to incorporate additional data on expenditure. This is particularly important for domestic tourists where the data are collected at infrequent intervals; for example, the TCA requested that the BTR collect expenditure data on a quarterly basis so that seasonality could be better understood. (trans. p. 1795)

Recommendation 2

The Commission recommends that the Australian Bureau of Statistics be asked to hasten the development of Tourism Satellite Accounts. Data collected for this purpose will have a wide range of uses within both government and the private sector.

12.5 The potential for increases in room rates

One of the information deficiencies mentioned above pertains to the effect of price changes on demand. There is a potential dilemma in basing decisions on future investment knowing that room rates for certain types of accommodation will need to increase but not knowing if — or to what extent — these increases might dampen demand. For certain parts of the accommodation market, unless room rates increase, expected returns will be insufficient to stimulate new investment.

In most cases, room rates are set in an environment which is highly competitive. This means that a single hotel faces the prospect of losing substantial business to its competitors if it raises room rates on its own. Only when there are very high occupancy rates, to the point of shortages in peak periods, will individual hotels be able to raise their prices without fear of being left with empty rooms. Thus high occupancy, at least in peak periods, should be seen as a necessary precursor to a return to adequate returns, and in turn to investment in new accommodation.

It is most unlikely that there will be high occupancy levels for Australia taken as a whole. As previous chapters have shown, a range of accommodation segments (particularly those catering for the domestic market in regional Australia) operate at relatively low occupancy rates and this is considered the norm. However, there will be shortages in some key tourist destinations especially during peak periods. Some visitors who would have been prepared to pay the prevailing price, but who tried to book accommodation close to the time of travel, will be turned away. In these circumstances it could be expected there would be the incentive to increase room rates.

However, some participants were concerned that, even with high occupancy rates, it is difficult to increase room rates due to the level of international competition. As pointed out previously, Australian accommodation providers compete not only for overseas tourists but for Australian residents who might be tempted to go overseas for holidays.

The Australian Hotels Association argued:

The competition from abroad is vigorous, particularly in the Asian region from where a large segment of the tourists come. To lead opinion makers to any other view is a huge impediment to hotels continuing to compete in the market place. (sub. 157, p. 10)

The effect of increases in room rates on the future demand for accommodation from international visitors is presently not known and would be difficult to determine. This is partly because accommodation is only a component of the tourist's overall budget. It is also because the Australian tourism market has many different segments, which are growing at different rates. The effects of increased room rates will vary between each of these market segments.

These concerns emphasise the importance of developing a better understanding of price effects, as well as improving knowledge on what the tourists are seeking from their travel decisions.

12.6 The availability of finance

Given there are expectations of increased demand, an important factor influencing the level of investment in tourism properties is the availability of finance. The Commission was provided with evidence of the reluctance of financial institutions to provide funds for the construction of tourism properties as a consequence of their experience in the 1980s. As outlined previously numerous banks and finance companies became the default owners of tourism properties as the original owners went into receivership.

Lending institutions are now more cautious when tourism properties are involved. Prospective borrowers need to produce credible feasibility studies which show adequate rates of return — a difficult task in the light of both the losses of the last decade and recent low levels of profitability.

In order to create a climate more conducive to institutional investment in tourism assets, the Tourism Task Force commissioned the Macquarie Bank to identify impediments to institutional investment in tourism. The Task Force believes that identifying, understanding and overcoming such impediments to be the single greatest challenge facing the Australian tourism industry.

The Macquarie study identified the following as significant impediments to institutional participation as providers of finance to Australia's tourism industry:

- track record of poor profitability;
- lack of liquidity of tourism assets;
- market immaturity and volatility;
- inequitable owner–operator relationships;

- poor confidence in industry information;
- low barriers to entry; and
- a limited understanding of the investment profile of the industry.

The Macquarie Bank identified the main factors to be the poor investment track record of the industry and a lack of understanding on the part of institutional investors of the current improvements in the sector and the potential for future income and capital growth.

The Macquarie Bank advised the industry to cultivate a relationship with institutional investors — to communicate with them and to provide information on the financial returns and potential for investment, in a timely and professional manner.

Some financial institutions are still not fully familiar with tourism investments but the tourism industry has initiated action to remedy this situation. There are no regulatory or institutional impediments to access to finance for tourism accommodation.

12.7 Concessional access to land

The Tourism Task Force has called for concessional access to Government-owned land in Sydney. The Hotel, Motel and Accommodation Association supported the TTF but noted that this approach was restricted to central Sydney.

Basically in Sydney at the moment there are a number of sites that have for a number of years been leased by or from government which has enabled the property to be built in that location, which otherwise wouldn't have been. One of the major inhibiting factors is the cost of land, particularly within and surrounding the CBD. We are not suggesting at all that accommodation operators should be able to get access to government land at ridiculously low rates at all because it would then prove to be very unfair for existing players in the field, but there could be some means of minimising the acquisition, or the lease cost, of the land, particularly when you look at the return to government that would flow from increased accommodation within those areas. (trans., pp. 1899–1900)

The Tourism Task Force (TTF) commented that site acquisition costs are a significant impediment to the construction of new accommodation:

Building technologies have come a long way during the past 12 years. Significant savings are now available as advanced construction methods enable contractors to deliver projects before time and under budget ... The key obstacle faced by accommodation developers today is not building costs, but site acquisition costs. It is simply not possible to develop a commercially viable and competitive accommodation facility on preferred sites in and around the Sydney CBD, the site costs are simply too high. (sub. 118, p. 21)

In order to help address this the TTF argues that state and federal governments can play an important role:

A variety of measures have been proposed, such as tax breaks, however the TTF believes concessional access to land is the most effective means of support. Tax incentives can be taken away and do not address the real issue of start up costs ... Without lowering site costs you will never reach the operational stage.

The NSW State Government ... has embarked on a project of identifying possible government owned sites that can be used to build hotels ... The TTF is also keen to involve the Federal government in the site identification exercise. (sub. 118, pp. 21-22)

If site-acquisition costs are viewed as excessive, then the designated development may not be appropriate for the site in question and may be better suited elsewhere. That is, the 'opportunity cost' of the site has to be considered — which in this case, is the value of the land, for say, other commercial uses. In other words, if a tourism accommodation developer believes he/she cannot afford to pay as much as, say, a developer of office accommodation or a factory, the use of the land for tourism purposes would not be justified on economic grounds.

The Commission believes that it is inappropriate for governments to set aside designated crown land for tourism accommodation. From an economic perspective land is likely to be put to its most valuable use if all potential users are allowed to bid for it (either as freehold or leasehold property) on equal terms. Unless tourism accommodation developers are willing to pay more in leases or for ownership than other developers, citizens would be worse off if tourism is favoured.

Making land available at concessional rates to a certain class of developers could reduce the ability of existing operators to increase room rates and cause other potential developers to revise downwards their expectations of future profitability. This proposal could thus be self-defeating in terms of encouraging investment in tourism accommodation.

This is not to deny that there are some land use decisions which only governments can make. These include zoning decisions, such as separating incompatible uses, traffic planning etc.

There is no case for governments to subsidise the provision of tourism accommodation through preferential access to land or by any other means.

12.8 Conclusions

The discussion in this and previous chapters points very clearly to the fact that increased demand will play the crucial role of raising room rates up to a level where future investment is judged to be profitable.

For some locations and accommodation types, the time for expansion of supply could be now. This would be the case where the level of demand is such that existing establishments are profitable and any increase in supply would be in concert with expected increases in demand.

For other locations and accommodation types, the time might not be right. On the available evidence, a number of the large, high star-rated hotels, which in the past have not been able to charge a high enough tariff to cover their construction costs as well as running costs, have been sold at prices low enough for them to soon be in a position where they are profitable. The time for a steady increase in supply might not be far away.

There could be yet other locations and types of accommodation which are grossly over-supplied and further investment might not be profitable for the foreseeable future.

There are, however, real world complexities facing investors. For the investment community in general, a desirable strategy is to have a smooth process of adjustment of supply to meet demand. For this to happen a number of prerequisites exist. One is the existence of soundly based forecasts, not just of tourist numbers and nights, but forecasts according to market segments and specific destinations. That stated a word of caution is warranted. The science-cum-art of forecasting will not provide precision and individual investors will not always make perfect decisions. That is the nature of business generally.

Fashions change — some destinations become preferred while others lose their appeal. Changes in the cost of travel (which might be associated with fuel prices and/or technological advancements) are likely to influence choice of destinations and the affordability of various styles of accommodation. Increasing disposable income (in source countries for international tourists and in Australia for domestic tourists) have similar effects, and so do changes in exchange rates. Added to these factors (which can be estimated with varying degrees of certainty) are unexpected events such as wars and natural disasters.

Other than allowing demand to catch up with supply and seeking and using better information than that which was available in the past, what else can, or should, be done? Is there a role for government in smoothing out what have been somewhat erratic movements in demand and supply?

Except for providing better information on which to base demand forecasts — something which benefits a vast range of parties including government service and infrastructure providers — the answer is probably ‘no’.

In terms of potential impediments, the only one to be given any prominence by the industry was taxation. As discussed previously, there is no convincing evidence that tourist accommodation is being disadvantaged by taxation policy. An examination of other government activities which have the potential to influence the construction or the operation of tourist accommodation has so far not unearthed any impediments.

It is possible to be somewhat optimistic about the future. The various factors which drove the construction of too much highly-priced accommodation in the past are no longer evident, or have diminished in influence. However, there may be still an ‘overhang’ resulting from the experience of the financial institutions. These institutions are certainly more prudent than they were in the past, but the industry has taken action to improve the understanding between investors and tourism developers.

It also appears that those people who prepare feasibility studies (which form the basis of investment and financing) are being more realistic than some of them were in the past. It might be expected that the professions which oversee and advise on investment are being more rigorous in the present era.

While an overhang may not be desirable it could be expected to disappear once demand caught up with supply and room rates increased to a profitable level — as appears to be happening now. All the other changes would make for more realistic and less wasteful investment decisions in the future.

Government action, particularly in providing better information, should provide the basis for more timely investment decisions in the future. The one thing that would not benefit the tourism accommodation industry at the moment is for governments to subsidise the construction of more hotels. If further investment takes place before profitability returns, there will be a delay in room rates rising to profitable levels.

13 EMPLOYMENT IN TOURISM

Labour is a major input to the tourism industry, and in many operations may represent the most significant variable cost to operators. Furthermore, in many services produced in the tourism industry workers cannot easily be replaced by machines. It is likely that the productivity of workers will be an influence on the competitiveness of the tourism industry. It is, therefore, appropriate to examine the characteristics of the tourism workforce and any factors that may influence labour productivity and the efficient operation of the tourism labour market.

13.1 Introduction

The performance of labour markets is a focus of concern for individual industries and for the nation as a whole. As the Commission stated in its commentary on the performance of Australian industry in 1994:

How well labour markets operate is both an important indicator and determinant of economic performance. More than other markets, labour markets are social institutions with important social and economic dimensions. Levels of employment and unemployment are a central community concern. In addition to the social dimension, it is important that labour markets operate efficiently so as to assist in generating and sharing wealth. (IC 1994b, p. 65)

Australia — like most OECD economies — faces high unemployment. In March 1996, 810 900 people or 8.9 per cent of the workforce were unemployed. One of the reasons for the growing interest in the tourism industry is its employment-generating potential. Tourism's contribution may be particularly valuable where the jobs created offer opportunities to specific demographic and geographic groups that are disproportionately affected by unemployment (for example, regional, youth, aboriginal or low skilled workers). If this employment generating potential is to be realised, the industry will require a world class workforce in terms of productivity and skills.

This and the next three chapters address the issues of labour market efficiency, workforce productivity and skills formation. Chapter 14 addresses the issues of productivity and efficiency in the tourism labour market. Chapter 15 discusses the institutional arrangements for training in the tourism industry. Chapter 16 considers issues of demand for and supply of tourism training, and attitudes

towards training by employers. This chapter provides an overview of the characteristics of employment in tourism.

13.1.1 Labour statistics

The characteristics of employment in tourism can be determined by examining the nature of the jobs and the people that perform them. Any job has two basic dimensions: the type of work done and the industry in which it is performed. Generally, the type of work (for example, food preparation, cleaning or general maintenance) can be aligned to an occupation, even if that occupation does not relate to a specific qualification (such as labourers).

It is difficult to analyse the characteristics of employment in tourism using the current data collections of the Australian Bureau of Statistics (ABS). Although the ABS collects labour force data under the Australian Standard Classification of Occupations (ASCO), few occupations are confined to the tourism industry. For example, only a proportion of the services of cooks, pilots or taxi drivers are provided to tourists.

The ABS also collects labour force data under an industry classification known as the Australian and New Zealand Standard Industrial Classification (ANZSIC). However, tourism is not an industry in the conventional sense and does not exist as a discrete industry classification for statistical collection purposes. That is, there is no category (or group of categories) under ANZSIC that can be taken to unambiguously represent the tourism industry, rather, tourism activity contributes to employment in many industries, to varying degrees.

Tourism-related occupations

The identification of classifications in ASCO that are 'tourism-related' occupations is difficult. With the exception of classifications such as 'travel agent', not all people employed under seemingly tourism-related ASCO classifications will be actually working in the tourism industry. For example, bar attendants, depending on the location of their employment and other factors, are likely to serve both tourists and local residents. Some occupations that might be considered tourism-related are included within wider ASCO classifications that contain a large number of occupations but are obviously not tourism-related. For example, 'tour guides' are part of ASCO classification 6699, which also includes 'funeral director', 'beauty therapist' and 'masseur and masseuse'.

A selection of occupations that can be described as 'tourism-related' is presented in Table 13.1. For the reasons discussed above, this list is not an

exhaustive list of all tourism occupations, nor can employment in these occupations be totally attributed to tourism.

Table 13.1 Tourism-related occupations, February 1995

<i>ASCO</i>			<i>Employed</i>
<i>Code</i>	<i>Occupational classification</i>	<i>Occupations</i>	<i>Persons</i>
1503	Restaurant and Catering Managing Supervisor		26 967
1505	Accommodation and Tavern Managing Supervisor	Hotel/Motel Manager, Caravan Park Manager	28 180
4705	Cooks	Supervisors, Cooks, Chef, Qualified Cook and Apprentice Cook	66 280
6503	Bar Attendants	Supervisors and Bar Attendants	54 692
6505	Waiters and Waitresses	Supervisors, Formal Service Waitperson, Drink Waitperson and General Waitperson	81 636
6507	Travel Agents	Travel Agents (Commercial) and Tourist Officer	20 369
6609	Travel Stewards	Supervisors, Flight Attendant, Marine Steward and Railway Steward	7 017
8903	Luggage Porters	Supervisor Luggage Porters and Luggage Porters	5 793
8915	Housekeepers	Executive Housekeepers and Domestic Housekeeper	4 622
8919	Kitchenhands		115 905

Source: ABS unpublished data

Tourism-related and enabling industries

A similar industry classification approach has been used to identify ANZSIC industries that would be expected to be either 'tourism-related' or 'tourism-enabling' industries.¹ These industries can in turn be grouped under three sub-sectors to allow differences to be compared. These three sub-sectors (and the ANZSIC classifications which they comprise) are presented in Table 13.2.

The 'hotels and catering sector' includes industries that are mainly involved with the provision of hospitality services such as accommodation or cafes and restaurants. The 'tourism and leisure sector' includes those industries that provide leisure facilities to tourists such as casinos and zoos and theme parks. The tourism and leisure sub-sector also includes some tourism-enabling industries such as retailing recreational goods that facilitate tourism and leisure activities (see Table 13.2). Finally, the 'travel and passenger transport sector'

¹ Tourism-related industries are ANZSIC industry classifications that would be expected to have a significant proportion of total turnover accounted for by direct tourist expenditure, such as accommodation. Tourism-enabling industries, on the other hand, facilitate tourism but do not exist solely to provide services to tourists; transport industries are tourism-enabling industries. Clearly the distinction between tourism-related and enabling industries is subjective and can become blurred at the margin.

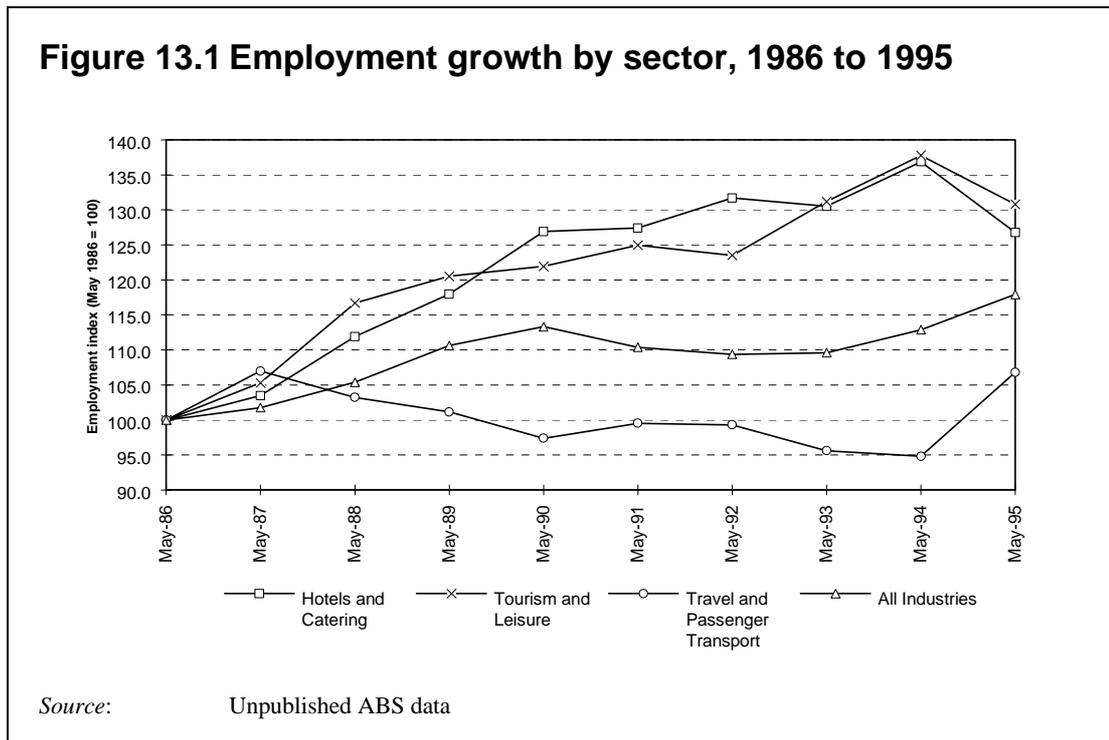
includes industries concerned with getting tourists to and from destinations — it includes industries such as travel agency services, domestic and international air transport and long distance bus transport.

Table 13.2 Tourism-related and tourism-enabling industries

<i>ANZSIC Industry classification</i>		
<i>Hotels and Catering</i>		
512 Specialised Food Retailing (excluding 5121, 5122, 5124 and 5126) ^a	Tourism-related industries	
571 Accommodation		
572 Pubs, Taverns and Bars		
573 Cafes and Restaurants		
574 Clubs (Hospitality)		
<i>Tourism and Leisure</i>		
922 Museums		
923 Parks and Gardens		
924 Arts		
932 Gambling Services (excluding 9321) ^b		
933 Other Recreation Services		
911 Film and Video Services (excluding 9111 and 9112) ^c	Tourism-enabling industries	
524 Recreational Good Retailing (excluding 5242 and 5243) ^d		
525 Other Personal and Household Good Retailing (excluding 5251, 5253, 5254, 5255) ^e		
531 Motor Vehicle Retailing (excluding 5311 and 5312) ^f		
<i>Travel and Passenger Transport</i>		
612 Road Passenger Transport		
620 Rail Transport		
640 Air and Space Transport		
650 Other Transport (excluding 6501) ^g		
663 Services to Air Transport		
664 Other Services to Transport (excluding 6642, 6643, 6644 and 6649) ^h		
a	Includes liquor retailing, takeaway food retailing and specialised food retailing nec.	
b	Includes casinos and gambling services nec.	
c	Includes motion picture exhibition.	
d	Includes sport and camping equipment retailing, photographic equipment retailing and marine equipment retailing.	
e	Includes antique and used good retailing and retailing nec.	
f	Include trailer and caravan dealing.	
g	Includes transport nec.	
h	Includes travel agency services.	
nec	Not elsewhere counted.	
Source:	Based on ABS classifications	

13.1.2 Employment trends

During the period May 1986 to May 1995, total employment in all tourism-related and enabling industries increased by more than 23 per cent, compared with the all industry average of just below 18 per cent (see Table 13.3). However, for more than half of this period, the travel and passenger transport sector declined. Taken individually, the hotels and catering, and tourism and leisure sectors demonstrated almost 27 per cent and 31 per cent employment growth respectively, almost twice the all-industry average (see Figure 13.1 and Table 13.3).



There are a number of different trends evident among sectors and between male and female and part-time and full-time workers. For the hotels and catering sector, the greatest growth was in employment of part-time workers, particularly among male workers. For the tourism and leisure sector, part-time employment also showed the greatest growth, but it was mainly among female workers. Finally, the travel and passenger transport sector exhibited a slower rate of growth in employment, with a fall in male employment and an increase in female employment (see Table 13.3).

Table 13.3 Employment growth by sector, May 1986 to May 1995

	<i>Females</i>			<i>Males</i>			<i>All employees</i>
	<i>Full-time</i>	<i>Part-time</i>	<i>All</i>	<i>Full-time</i>	<i>Part-time</i>	<i>All</i>	
	(%)	(%)	(%)	(%)	(%)	(%)	
Hotels and catering	15.2	33.8	26.0	15.1	67.5	27.7	26.8
Tourism and leisure	22.5	56.8	37.6	20.2	45.8	24.3	30.8
Travel and passenger transport	51.8	17.3	42.0	-5.0	67.6	-1.3	6.8
All tourism-related and enabling industries	22.3	38.3	30.6	8.9	62.2	17.5	23.5
All industries	19.1	46.1	29.3	5.6	76.5	10.5	17.9

Source: Unpublished ABS data

13.2 The demand for labour

The Commonwealth Department of Employment, Education and Training (DEET) has produced estimates of tourism employment for 1993 and projections for labour force demand in the year 2003. In 1993, DEET estimated that tourism employed about 517 000 people, which represented around 6.7 per cent of employment in Australia (DEET 1995, p. 10). Tourism employment is projected to grow to about 650 000 by the year 2003, an increase of just over 25 per cent.² This growth is slightly higher than for the economy as a whole, thus tourism's share of total employment is expected to increase a little to around 6.8 per cent (DEET 1995, pp. 12–13).

The demand for labour, both in terms of numbers and characteristics, is a derived demand. That is, the demand for labour is determined by the demand for the tourism product. When demand for this product increases, so too does the demand for labour (all other things being equal). Similarly, if there is a change in the type of tourism product demanded, the type of labour demanded will change. For example, if there is an increased demand for guided nature-based trips, the demand for qualified guides will increase. However, if this is nothing more than a switching of preferences by tourists (from, say, guided urban tours) the aggregate demand for labour may not have changed.

Workers, of course, vary a great deal in their talents, formal education, experience and attitudes. An important factor that influences the sort of attributes required is the nature of the business. For instance, large hotels provide different services to those provided by small motels, and consequently

² The DEET projections model uses certain assumptions and forecasts, which include the Bureau of Tourism Research's estimates of growth in tourism expenditure, the Tourism Forecasting Council's projections of domestic visitor trips and overseas arrivals and the projections embodied in *Working Nation* (DEET 1995, pp. 3–4 and 11).

each requires different types of staff; the skills required in the travel sector are very different to those needed in the catering sector. In their joint submission, the University of Queensland and Griffith University pointed to some of the effects of business size on type of employment available.

Individual workplaces are characterised by wide variations in labour force numbers, from under 10 to several hundred employees, with similarly wide variations in the quality of employment. ... There are considerable differences between the highly capitalised top end and the poorly capitalised, cost-focused lower end. (sub. 19, p. 5)

The effect of size is illustrated by the restaurant and catering sector, which is:

... dominated by small businesses, with 90 per cent of all restaurants and cafes employing less than 20 persons. In fact, average employment per restaurant or cafe is 8 persons. The workforce is also characterised by a high percentage (48 per cent) of part-time or casual labour, a high representation of women (55 per cent) and a significant proportion (25 per cent) of full-time staff as working proprietors or partners. (NRCA, sub. 15, p. 1)

Factors such as location will determine how easy it is for employers to satisfy their staff requirements. The NT Tourism Industry Training Council (NTTITC) argued that location severely limits some organisation's effective labour supply:

Operators in regional and remote areas traditionally face difficulties recruiting trained and experienced staff. Lack of provision of suitable accommodation for staff often compounds the recruitment and retention problem. (sub. 28, p. 8)

The Western Australian Hospitality and Tourism Industry Training Council argued that small business operators based in the regions:

... require a broader skills base as employers often undertake broader tasks and roles, and therefore have broader job descriptions. (sub. 63, p. 1)

Another factor influencing employment is the background of managers. One example of this is offered by the joint submission from the Queensland Department of Tourism, Sport and Youth and the Queensland Department of Employment, Vocational Education, Training and Industrial Relations:

Many factors affect the perceptions of potential employers towards trained staff including their own level of training (or lack thereof), their level of awareness of training available and their personal experiences of trained staff, both past and present. Each of these factors may have positive or negative influences on the employers' appreciation of trained staff. ... [A] 'training culture' is most prominent at the upper end of the market, however, for some smaller or marginal enterprises, economic circumstances are such that they have very few resources to expend on training and or wages sufficient to attract trained staff. (sub. 114, pp. 20–21)

However, in their submission at the Darwin public hearing, NTTITC suggests that there is some evidence of a change in attitude by management:

Over the 7 years that I have been here I can see a change in the mentality of a lot of employers in their attitude to recruiting staff. It used to be, 'Anyone with some skills we will take them. We only need them for 3 months of the year' and now they are saying, 'Hang on. This 3 months is 6 months, 9 months, 12 months. We want people who are going to stay.' (trans. p. 168)

Employers will have a view about the sort of people they wish to employ and these views will vary. Who they actually employ will also be influenced by who is available.

13.3 The supply of labour

Labour supply has qualitative and geographic dimensions. For instance, because of differences in skill, apprentice cooks are poor substitutes for executive chefs and would not be considered part of the supply of executive chefs. On the other hand, kitchenhands in Hobart are not economic substitutes for kitchenhands in Darwin even though they have the necessary skill levels. In some circumstances the nature of tourism demand may compound these factors making recruitment and retention of suitable staff difficult for some tourism operators:

The tourism industry is concentrated according to tourist attractions and these are heavily influenced by geography. In particular, the industry will have some concentrations of employment in remote areas, such as Ayers Rock. It is not alone in this respect, of course — mining is another example. (Norris *et al* 1995, p. 6)

Remote locations can present a particular problem. For example, the Commission was advised that at a particular point in time there were once 20 vacancies for chefs at Uluru. However, it is usually possible to overcome geographical constraints on the supply of labour by offering high enough wages and/or entitlements. Many young people, especially, are mobile.

13.3.1 Characteristics of the tourism workforce

Age profile

At May 1995, about 30 per cent of employees in all tourism-related and enabling industries were between 15 and 24 years old, compared with about 20 per cent for the all-industry average (see Table 13.4). There are, nonetheless, significant differences across the three tourism sub-sectors identified previously. There are also differences between male and female workers and between full-time and part-time workers.

The youthfulness of employees in the industry is particularly evident among part-time employees in the hotels and catering sub-sector, and to a lesser degree in the tourism and leisure sub-sector. However, the inverse is true for travel and passenger transport operations, which have an older workforce and hence a smaller proportion of employees aged 15 to 24 years (see Table 13.4).

Table 13.4 Proportion of employees aged 15 to 24 years, May 1995

	<i>Full-time</i>		<i>Part-time</i>		<i>Total</i> (%)
	<i>Female</i> (%)	<i>Male</i> (%)	<i>Female</i> (%)	<i>Male</i> (%)	
Hotels and catering	5.4	6.9	16.8	10.2	39.4
Tourism and leisure	6.9	7.6	7.8	3.7	26.0
Travel and passenger transport	3.5	3.6	0.4	0.8	8.3
All tourism-related and enabling industries	5.5	6.5	11.3	6.7	29.9
All industries	5.3	7.5	4.3	2.7	19.8

Source: Unpublished ABS data

Gender

Female employment dominates the hotels and catering, and tourism and leisure sectors — particularly in part-time employment (see Table 13.5). On the other hand, employees in the travel and passenger transport sector are overwhelmingly male, although unpublished ABS data suggest that the proportion of female employment has increased steadily since 1986.

Table 13.5 Employment by gender, May 1995

	<i>Female</i>			<i>Male</i>		
	<i>Full-time</i> (%)	<i>Part-time</i> (%)	<i>Total</i> (%)	<i>Full-time</i> (%)	<i>Part-time</i> (%)	<i>Total</i> (%)
Hotels and catering	21.1	33.7	54.8	30.9	14.2	45.2
Tourism and leisure	25.6	25.8	51.4	39.3	9.3	48.6
Travel and passenger transport	19.0	5.9	24.9	68.5	6.5	75.1
All tourism-related and enabling industries	21.9	26.4	48.3	40.2	11.5	51.7
All industries	24.7	18.5	43.2	50.5	6.3	56.8

Source: Unpublished ABS data

The female domination of employment in the hotels and catering, and tourism and leisure sectors is restricted to part-time employment. If part-time jobs involve lower skilled tasks and less secure jobs, this may represent a marginalisation of female employees. However, it may also represent a preference for flexible working conditions to meet family commitments as evidenced in the following quote:

... a number of women with families stated that the existence of shift work within the industry meant that they could continue in employment without the necessity of finding someone to look after their children outside school hours. In these cases it was generally found that the employer had arranged shifts to suit the requirements of the employee. (KPMG Peat Marwick 1991, p. 35)

Employment status

Casual and part-time employment is widely used in the tourism industry as a management strategy. As Timo argues, casual and part-time employees:

... allow hotel departmental managers to specify labour demands aligned more closely to product demands within the organisation as well as to pressure arising from the product market. In this way, labour can be purchased on 'as needed' or 'just-in-time' basis ... (sub. 129, p. 6)

Table 13.6 Employment status, May 1995

	<i>Full-time</i>			<i>Part-time</i>		
	<i>Female</i>	<i>Male</i>	<i>Total</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
	(%)	(%)	(%)	(%)	(%)	(%)
<i>Employees</i>						
Hotels and catering	21.1	30.9	52.0	33.7	14.2	48.0
Tourism and leisure	25.6	39.3	64.9	25.8	9.3	35.1
Travel and passenger transport	19.0	68.5	87.6	5.9	6.5	12.4
All tourism-related and enabling industries	21.9	40.2	62.2	26.4	11.5	37.8
All industries	24.7	50.5	75.2	18.5	6.3	24.8
<i>Full-time equivalents^a</i>						
Hotels and catering	30.2	47.8	78.0	15.6	6.4	22.0
Tourism and leisure	31.8	53.2	84.9	11.1	4.0	15.1
Travel and passenger transport	19.5	74.6	94.1	2.8	3.1	5.9
All tourism-related and enabling industries	28.3	55.0	83.4	11.6	5.0	16.6
All industries	27.3	61.8	89.0	8.3	2.7	11.0

a Full time equivalent employees are calculated by multiplying average hours per week by the number of employees and dividing by 38.

Source: Unpublished ABS data

Tourism Training Australia estimated that more than 50 per cent of employment in the hospitality sector is casual (TTA, sub. 85, p. 7). However, it is difficult to verify this assertion using ABS labour force data, which does not distinguish between permanent and casual employment. Rather, the definitions used by ABS draw a distinction between full-time and part-time work.³

³ The Australian Bureau of Statistics defines full-time employees as 'permanent, temporary and casual employees who normally work the agreed or award hours for a full-time

The data in Table 13.6 illustrate the relatively high level of part-time employment in tourism-related and enabling industries when compared to the all-industry average (16.6 per cent and 11 per cent respectively).⁴ There are also significant differences between tourism sub-sectors and between male and female employees. The hotels and catering sector has a relatively high reliance on part-time employees compared to the travel and passenger transport sector. Similarly, part-time employment is higher for female employees when considering tourism-related and enabling industries as a whole.

Part-time or casual work should not be seen as necessarily a 'second class' form of employment. As Hilton Hotels Australia points out in their submission:

There is no typical profile of a part-time or casual employee. Many are students supporting their studies. Others are employed elsewhere on a full-time basis and working to supplement their incomes. A significant proportion are married working outside the home contributing second incomes. Many are single parents balancing work with their domestic responsibilities. There are also those who choose to work casually as a lifestyle decision.

In every one of these cases, the casual work, while being secondary to some other commitment (study, family, other employment or travel) is nevertheless an important activity that provides social or economic benefits to the individual. (sub. 154, p. 13)

In addition, as Timo points out, part-time or casual employment may be a precursor to permanent employment:

Casual employment is the main port of entry into the core workforce. Casual employment serves as a de-facto probationary period where hotel management can assess an employee's attitude, appearance and aptitude before making a commitment to provide full-time employment. (sub. 129, p. 7)

Union membership

The Australian Liquor, Hospitality and Miscellaneous Workers Union (LHMWU) and the Australian Workers Union (AWU) are the two major unions in the tourism industry.

With the exception of the travel and passenger transport sector, union membership for tourism-related and enabling industries is generally low compared with the all-industry average, particularly among female and part-time employees (see Table 13.7).

employee in their occupation and received pay for any part of the reference periods. If agreed or award hours do not apply, employees are regarded as full-time if they usually work 35 hours or more per week' (ABS 1986, p. 180).

⁴ This difference is diminished when part-time employment is weighted by average weekly hours worked. This is because part-time employees in tourism work fewer hours than part-time employees work on average in other industries.

Low membership may reflect the difficulty unions have recruiting support in an industry characterised by a dispersed, small and relatively part-time and transient workforce. Hilton Hotels Australia argues that low levels of unionisation may also be the result of:

... other factors including employees' perceptions about unions themselves and/or the fact that in a service industry that depends so much on behind the scenes mutual respect and support, there is no need for third party intervention and that dispute resolution mechanisms work effectively and that salaries and wage levels are understood, accepted and perceived as fair and equitable. (Hilton, sub. 154, p. 12)

Mr Eades also argues that:

Low levels of unionisation do not in fact necessarily indicate that employees are in a poor bargaining position. It is important to note the influence of the scattered nature of many operations and the lack of interest on the part of most employees as well as the inability of the union to effectively recruit. (Eades, sub. 131, p 12)

Table 13.7 Union membership, August 1994

	<i>Female</i>			<i>Male</i>		
	<i>Full-time</i>	<i>Part-time</i>	<i>All</i>	<i>Full-time</i>	<i>Part-time</i>	<i>All</i>
	(%)	(%)	(%)	(%)	(%)	(%)
Hotels and catering	17.4	14.9	15.7	16.8	15.2	16.1
Tourism and leisure	8.9	11.0	10.1	15.9	10.0	14.6
Travel and passenger transport	42.8	14.8	37.0	67.3	20.5	65.3
All tourism-related and enabling industries	19.8	13.9	16.2	35.7	14.5	29.9
All industries	36.3	24.5	31.3	40.5	18.3	37.9

Source: Unpublished ABS data

Skill levels

As discussed above, it is difficult to identify the skill level of tourism employees using standard ABS classifications (see Section 13.1.1). However, the qualification profiles of those occupations identified in Table 13.1 as tourism-related suggest tourism has a relatively low proportion of employees with post-school qualifications (see Table 13.8). It also shows a significant difference between the qualification profile of tourism-related occupations and that for 'recreational, personal and other services'. This suggests that the common practice of using 'recreational, personal and other services' as a proxy for tourism may be misleading.

Information supplied by the ABS indicates that employment in tourism-related occupations includes many people who are still at school. For example about 7 per cent of employees in the tourism-related occupations (or about 10 per cent

of those without formal post-school qualifications) are still in full-time secondary education. In addition, tourism provides employment for students in the process of obtaining post-school qualifications. These employees will be included as having no post-school qualifications.

Table 13.8 Qualification profiles of tourism and other industry sectors

<i>Sector or industry</i>	<i>Degree or higher (%)</i>	<i>Trade qual. (%)</i>	<i>Certificate, diploma and other (%)</i>	<i>No post-school qual. (%)</i>
Tourism (defined by occupations) ^a	4.4	11.0	14.1	70.6
Recreation, personal and other services ^b	9.4	16.3	17.6	56.7
All industries ^c	13.6	16.4	17.0	52.9

Note: Tourism qualifications as at 1994. All other qualifications are the average of employed persons aged 15 to 64 over the period 1991–93.

Source: (a) Unpublished ABS data; (b) Cullen R.B. 1994; and (c) ABS Cat. No. 6235.0

The qualifications profile of an industry is related to the rate at which qualified people enter and leave the industry. Although there has been a significant increase in the number of students undertaking bachelor degree courses in tourism (a proportion of whom will take up tourism jobs), there is also a relatively high rate of departure of qualified people from the industry. It is therefore difficult to predict the trends in the tourism qualification profile.

13.4 Characteristics of tourism jobs

Labour intensiveness

An industry is labour intensive if in dollar terms more labour than capital is used to produce the product or service.

The Bureau of Tourism Research (BTR) recently conducted an investigation into labour intensity in tourism. It found that in 1993–94, for every \$100 paid to labour in tourism industries about \$70 was paid to capital, compared to around \$80 paid to capital in the all-industry average (Skene 1995, p. 4). Although this suggests that tourism is slightly more labour intensive than the economy in general, the BTR found that labour intensity varied across tourism sectors:

... some industries with a major stake in tourism, retailing for example, were highly labour intensive in 1993–94 compared with the economy-wide (and even tourism) average, others such as restaurants, hotels and clubs were not. (Skene 1995, p. 4)

BTR also noted that labour intensity in an individual sector can vary from year to year because of changes in factor payments such as wages and the return on capital (Skene 1995).

Hours worked

In May 1995, employees in tourism-related and enabling industries worked on average 34.1 hours per week, which was slightly below the all-industry average of 35.9 hours per week. The exception was employees in the travel and passenger transport sector, who worked 39.3 hours per week on average, which was significantly higher than the all-industry average (see Table 13.9).

Table 13.9 Average weekly hours worked, May 1995

	<i>Full-time</i> (hours)	<i>Part-time</i> (hours)	<i>Female</i> (hours)	<i>Male</i> (hours)	<i>Persons</i> (hours)
Hotels and catering	48.4	14.8	27.0	38.6	32.2
Tourism and leisure	44.9	14.8	28.6	40.3	34.3
Travel and passenger transport	42.2	18.7	35.1	40.6	39.3
All tourism-related and enabling industries	45.8	15.0	28.2	39.6	34.1
All industries	42.5	15.6	29.5	40.7	35.9

Source: Unpublished ABS data

Significant changes in patterns of working hours have occurred in tourism-related and enabling industries over the last decade (see Table 13.10). The most obvious change is an almost 13 per cent increase in average hours of part-time employees, which is above the all-industry average growth of 10.6 per cent. However, the hours of full-time staff have increased by less than the all-industry average.

Table 13.10 Change in average weekly hours worked, May 1986 to May 1995

	<i>Full-time</i> (%)	<i>Part-time</i> (%)	<i>Female</i> (%)	<i>Male</i> (%)	<i>Persons</i> (%)
Hotels and catering	2.8	13.0	3.1	-4.5	-1.2
Tourism and leisure	3.0	13.0	-0.3	0.7	-0.6
Travel and passenger transport	13.1	12.0	8.3	12.8	11.3
All tourism-related and enabling industries	5.5	12.8	2.9	1.8	1.2
All industries	8.7	10.6	6.9	5.2	4.7

Source: Unpublished ABS data

Labour mobility

High labour turnover is a feature of the tourism industry. A recent report by Blake Dawson Waldron found that turnover rates for hotels can be as high as

200 per cent for casual staff and 70 per cent for permanent staff (sub. 90, Att. C, p. 6). Previous studies have found considerable variation across tourism sectors with voluntary turnover rates highest in the restaurants and accommodation sectors at 46 and 79 per cent, respectively (KPMG Peat Marwick 1991, pp. 22–23).

Estimates based on ABS data are presented in Table 13.11 and 13.12. These estimates are likely to under-estimate the true turnover rate because ABS survey data do not include casual employees. However Table 13.11 provides some insight into differences across sectors and over time. First, the ABS data suggest that employees in the hotels and catering and tourism and leisure sectors are more likely to change employer or location than employees in other industries. The opposite is true for the travel and passenger transport sector. Second, job mobility in these sectors has increased since 1988.

Table 13.11 Labour mobility — changed employer or location, February 1988, 1991 and 1994

	<i>Proportion of employees who changed employer or location</i>		
	<i>1988</i>	<i>1991</i>	<i>1994</i>
	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>
Hotels and catering	20.9	26.6	25.6
Tourism and leisure	17.0	26.7	24.8
Travel and passenger transport	17.9	17.1	18.5
Any other industry	17.6	21.3	21.7
Industry not applicable ^a	21.1	22.6	21.8

a Industry not applicable indicates individuals were not working in any industry classification at the time of the survey.

Source: Unpublished ABS data

The ABS data also provide insight into employees' work history. Table 13.12 shows that of the people employed in tourism-related and enabling industries in February 1994 who had changed employer or location in the previous year most had been working in the same or another tourism sector. For example, about 57 per cent of people who took new jobs in hotels and catering establishments had merely changed jobs in the same industry (Table 13.12).

The ABS data also suggest that a relatively large number of those taking jobs in hotels and catering were previously unemployed, studying or not participating in employment for other reasons. For example, about 17 per cent of new hotels and catering employees, compared to 10 per cent of new employees from all other industries, came from the 'industry not applicable' classification (Table 13.12). This supports the perception that tourism jobs are a relatively

important entry point into the workforce (with the exception of the travel and passenger transport sector).

Table 13.12 Labour mobility — source of employees, February 1994

<i>Industry of employment 1994</i>	<i>Industry of employment 1993</i>					<i>Total</i>
	<i>Hotels and catering</i>	<i>Tourism and leisure</i>	<i>Travel and passenger transport</i>	<i>All other industries</i>	<i>Industry not applicable^a</i>	
	(%)	(%)	(%)	(%)	(%)	(%)
Hotels and catering	56.9	2.6	0.3	23.2	16.9	100
Tourism and leisure	5.3	48.6	0.0	35.9	10.2	100
Travel and passenger transport	5.0	1.1	67.5	21.0	5.4	100
All other industries	4.4	2.2	0.4	83.2	9.8	100

note: Table refers to the percentage of employees who changed employer or location in the twelve months prior to February 1994, by industry of employment twelve months prior to February 1994. So for example, 56.9 per cent of persons employed in hotels and catering in February 1994, who had changed employer or location during the previous year, were employed in hotels and catering twelve months prior.

a Industry not applicable indicates individuals were not working in any industry classification at the time of the survey.

Source: Unpublished ABS data

Although high turnover may have real costs for employers and the industry as a whole, it may also arise from the needs and desires of the industry and its employees.

For an individual employer the costs of turnover include the administrative costs of recruitment and the impact of instability on the morale and productivity of remaining staff (NRCA sub. 15). Furthermore, the cost of staff turnover is increased by strategies that increase labour productivity and consequently the value of employees. For example, the Cairns International Hotel (CIH) argued that:

... [through multi-skilling and multi-hiring] individuals are given the opportunity to perhaps work longer, to have more skills and to earn more money, it's seen as an opportunity for us to retain them, get subsequent greater increases in productivity not only from their on-the-job performance but, for the hotel's operation, one of the greatest drops in productivity we have is because of labour turnover, both the tangible and intangible measures of constantly having to replace people. (trans. p. 1187)

Estimates of the average turnover cost for hotel staff range from \$4000 for a casual room attendant to nearly \$16 000 for permanent management level staff (see Table 13.13).

Turnover also has implications for the industry as a whole. For example, if employees are leaving the industry, turnover may represent a loss of skill and experience to the industry. Although such turnover represents a cost to the

industry, it may be efficient from an economy-wide perspective if the workers are moving to employment where they are more productive. Research suggests that much of the turnover in tourism is voluntary on the part of employees:

The tourism industry appears to be characterised by significant levels of staff turnover, due primarily to voluntary resignation, particularly in the accommodation and restaurant sectors. ... The majority of individuals resigning voluntarily were seen to be seeking alternative employment within the industry, primarily to obtain better career opportunities and higher wages. (KPMG Peat Marwick 1991, pp. 29 and 57)

Table 13.13 Average turnover cost per employee for sample hotels in Melbourne, 1994

<i>Position</i>	<i>Permanent employees</i>		<i>Casual employees</i>	
	<i>Hourly Wage^a</i>	<i>Range of turnover cost^b</i>	<i>Hourly Wage^c</i>	<i>Turnover cost</i>
	(\$)	(\$)	(\$)	(\$)
Room Attendant	9.43	4 303 to 5 000	11.79	3 955
Waiter	9.98	4 575 to 5 000	12.48	4 145
Chef ^d	18.70	7 197 to 11 739	21.00	6 788
Management	24.95	9 474 to 15 884	na	na

a Hourly wage according to the Hotels, Resorts and Hospitality Award 1994.

b The upper range includes the use of an employment agency and a fee based on a percentage of the employee's annual salary. Line employee at 15 per cent, middle management at 10 per cent and upper management at 15 per cent.

c Casual rates do not take into account penalty rates.

d Chef salary range from 11.18 to 21.00.

na Not applicable.

Source: Deery and Iverson (1995), p. 16

A second impact of turnover on the industry is through its influence on training. As the National Restaurant and Catering Association (NRCA) argued:

High staff turnover and reliance on casual labour has acted as a disincentive for employers to expend time and money on staff training. (sub. 15, p. 2)

On the other hand, there is research and anecdotal evidence that suggests benefits for both employers and employees from some level of turnover. For example, in the hospitality industry turnover:

... is not necessarily seen as dysfunctional and therefore a problem for the industry: for management it can provide the means of controlling their labour market; for employees it can be seen as a means of gaining work experience within the industry. (Deery and Iverson 1995, p. 1)

The benefits of voluntary turnover for career and staff development were also supported by the Australian Hotels Association (AHA) who argued:

The larger organisations can more easily accommodate people's career expectations, but in a smaller organisation there aren't the opportunities for advancement or for other

skill-type opportunities. For instance, in a small suburban hotel if a person is employed as a bar attendant, then there are very few opportunities for them to be promoted to a supervisor ... (trans. pp. 950–951)

This type of voluntary turnover is likely to be more common in some occupations than in others. In particular, the AHA noted that for chefs, the nature of their work encouraged labour turnover:

[Even in large establishments], after they have mastered those menus within that establishment, either to gain better experience, move to a more senior position or to deal with a new type of cuisine. ... It's quite typical within the area of chefs that they would quite often spend a time in Europe, then they might move to work in the Caribbean and they may then go and run their own facility — it's an area of our industry where by its very nature there is a lot of global movement. Australians follow that pattern and tend to leave, many of them, and get experience in Europe and elsewhere. (trans. pp. 951–952)

It is difficult to draw conclusions on what is an appropriate level of turnover. It has been argued that:

A reduction in staff turnover levels would ... reduce direct and indirect costs to the employer [and] provide a more stable workforce with associated opportunities for career progression and training ... (KPMG Peat Marwick 1991, p. 58)

A number of submissions argued that the turnover in the industry was not excessive, but rather due to the characteristics of the industry. For example, Hilton Hotels argued that:

.. it is important to understand that while labour turnover in our industry is high in comparison with other industries, there are a number of unique factors in the nature of our industry that contribute to that — not all of which are entirely undesirable. (Hilton, sub. 154, p. 21)

In particular, the AHA argued that:

Regard needs to be given to two factors when determining the reasons and effects of the relatively high turnover of staff in the hospitality industry:

- (a) differences between small and large employers; and
- (b) differences between casual and permanent employees. (AHA, sub. 157, p. 41)

On the one hand, a number of submissions agreed with the following view:

... the most common reason for labour turnover in our industry is career advancement. ... Within large employers there are likely to be a number of career paths and options open to those aspiring to a career. (Hilton, sub. 154, p. 14)

However, other submissions recognised that the industry is characterised by small employers, and that these:

... smaller employers are hindered in facilitating career development for their employees, therefore, contributing to the turnover figures. (AHA, sub. 157, p. 42)

It was argued that the characteristics of employment in the industry influence measured turnover rates. In particular:

Casual employees in both small and large establishments are considered as the main contributors to the high turnover rate in the tourism industry. (AHA, sub. 157, p. 42)

Yet Hilton Hotels argued that there was:

... no evidence yet to suggest that labour turnover would fall if casual employment was converted to full time as is popularly assumed. (Hilton, sub. 154, p. 22)

Another reason offered in submissions was the job search behaviour of people attracted to tourism jobs:

... the nature of the industry is such that it sounds appealing to those who have never worked in it. ... It is not, however, until they have dealt with stressful and complex situations with, often, demanding guests and a multi-cultural mosaic of co-workers in a team context that they learn if they really do enjoy working with people. ... It is not, therefore, surprising to learn that a significant number, possibly up to 50 per cent of those hired in the industry leave within three months. (Hilton, sub. 154, p. 22)

These arguments suggest that although turnover is higher in the tourism industry than in many other industries, this may meet the needs and desires of the industry and the people employed in it.

Average weekly earnings

Average weekly earnings for tourism-related and enabling industries were about 27 per cent (or \$140) below the all-industry average in August 1994 (see Table 13.14). This difference in wages is much greater than any difference attributable to hours worked (see Table 13.9). There were, however, significant differences between sectors. For example, the travel and passenger transport sector exhibited average weekly earnings well above the all industry average. Although these employees worked relatively more hours per week, the earnings differential is likely to result from the dominance of mature and high skilled employment in this sector. Earnings in the hotels and catering sector, on the other hand, were almost 45 per cent below the all-industry average, which may reflect the higher proportion of young and low skilled employees in this sector and to a lesser extent the fewer hours worked.

Male full-time employee earnings exceeded female full-time earnings for all sectors in tourism-related and enabling industries. In contrast, earnings for female part-time employees were greater than male part-time employees in all sectors except the travel and passenger transport sector. This is likely to be the result of higher average hours worked by female part-time employees in these sectors (see Table 13.9).

Table 13.14 Average weekly earnings, August 1994

	<i>Full-time</i>			<i>Part-time</i>			<i>All Employees</i>
	<i>Female</i>	<i>Male</i>	<i>Total</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>	
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	
Hotels and catering	417	468	447	165	140	157	283
Tourism and leisure	441	543	503	196	149	184	380
Travel and passenger transport	514	692	654	387	414	397	632
All tourism-related and enabling industries	443	571	525	180	155	172	375
All industries	521	653	608	234	199	225	514

Source: Unpublished ABS data

On balance, employees in the hotels and catering and tourism and leisure sub-sectors appear to be low paid. This seems not to be the case for employees in the travel and passenger transport sub-sector. As the Restaurant and Catering Industry Association of Australia argues in their submission:

There are two important factors which have an impact on a lower than average weekly rate of pay: level of skill and incomplete restructuring process. ... [That is,] the average pay for an industry will be affected by the relative proportion of unskilled and semi-skilled workers to skilled workers. ... [F]or tourism there is a high proportion at the lower end of the industry. [Second] ... awards such as the Restaurant Employees (NSW) Award, Catering (NSW) Award and Western Australian award covering restaurants have not been restructured [in line with the national wage principle], which would affect the industry average. (RCIAA, sub. 143, pp. 1-2)

13.5 Conclusion

The examination presented in this chapter allows a number of conclusions to be drawn about the characteristics of employment in the tourism industry.

In the first instance it is clear that although employment in tourism has grown faster than the economy average over the last ten years, the characteristics of this employment are significantly different from employment in Australia as a whole. That is, when compared to the all-industry average the tourism workforce has relatively:

- low average weekly earnings. This may result from low skilled jobs or a dominance of youth and part-time employment;
- high proportion of young and female employees and a high proportion of part-time (casual) employment. This may result from the hours and flexibility of part-time employment fitting the needs of these individuals to match work and other commitments, and from employers' need to more efficiently match labour supply to consumer demand;

- high levels of labour mobility. Although this could imply poor job security and career prospects within individual enterprises, it is also likely to reflect the needs of the industry and the desires of employees working in that industry.
- low levels of unionisation — may result from the scattered and transient nature of the workforce as well as attitudes of employees, unions and employers.

In all these respects, the travel and passenger transport stands out as an exception, whereas these characteristics are especially true for hotels and catering.

It has been argued that low paid part-time and casual jobs, high labour mobility and low unionism suggest a workforce with poor job security, career prospects, and bargaining position. However, it can also be argued that workers are paid market-determined wages, and that flexible working times fit well with the other lifestyle choices of the workforce (such as family or study) or that tourism jobs are used as an entry point into the workforce (especially into low skilled positions and for previously unemployed people re-entering the workforce). If this is the case, tourism jobs offer valuable opportunities to individuals that may not be available in other industries.

Although the tourism workforce as a whole is significantly different from the aggregate labour market, there are also considerable differences across tourism sectors. That is, while the hotels and catering, and tourism and leisure sectors are both consistent with the characteristics described above, the travel and passenger transport sector is very different in most respects. Employment in the travel and passenger transport sector is typically dominated by older, male, full-time workers who are highly unionised and highly paid when compared with the all-industry average. There are also differences between the hotels and catering, and tourism and leisure sectors. However, these differences are smaller in magnitude. For example, the hotels and catering sector has a relatively younger workforce than the tourism and leisure sector, but both sectors have relatively young workforces when compared with the all-industry average.

Compared with the workforce on average, and excluding travel agents and passenger transport workers, the tourism workforce is relatively young, female, low paid and has relatively little formal education.

14 THE TOURISM LABOUR MARKET

This chapter examines the efficiency of the tourism labour market and considers the issue of productivity of the tourism workforce, the role of awards and the implications of awards and enterprise bargaining for flexibility. It does so within the context of the current industrial relations system. These are matters of interest for two reasons. The first is the impact that efficient labour markets can have on unit labour costs and the profitability of tourism operators. The second is the potential that productivity growth has for raising the overall standard of living in Australia.

14.1 Introduction

The tourism labour market is highly diverse. It varies from the predominantly male, unionised, high skilled and permanently employed transport sector to the relatively female, young, low skilled and casual hotels and catering sector. Within the latter, jobs range from housekeepers to managers in 5 star hotels, and from employment in the Sydney CBD to a job in an outback cafe. Thus the tourism labour market is a series of sub-markets, with more or less mobility between them.

Tourism labour markets are not fundamentally different from other labour markets, but labour markets have different characteristics from commodity markets. Unlike other factors of production, labour or the services of labour cannot be separated from the individual employee himself or herself. The effectiveness of the individual worker is determined by a complex array of human interactions, motivations and responses by employees and employers. In contrast to machines, the productivity of workers usually rises with 'use' (that is, experience) rather than depreciates, as workers learn many of their skills on the job. Employers need to recruit, train and motivate their workforce, choosing among a pool of potential employees, none of whom is exactly the same as another. These features affect the way in which labour markets operate and influence the description and assessment of specific labour market efficiency and productivity issues which are discussed in the chapter.

14.2 Overview of tourism labour markets

The tourism labour market is segmented by geography and job skill requirements. These sub-markets will intersect with each other and with the wider labour market to a greater or lesser degree. As noted in Chapter 13, the majority of jobs in the hospitality sector require relatively low levels of skill (such as kitchen hand). They are thus jobs which can be done by almost anyone. Other jobs are more specialised and require considerable training or experience (such as hotel manager, tour operator and chef). The pool of people with such skills is smaller and takes some time to expand.

For employers, the cost of recruiting — advertising, relocation and training — effectively places bounds on recruitment possibilities within the labour market. Riley (1991) suggests that for employers, the effective size of the labour market depends on:

... the degree of specialisation of the organisation. If the skills required are very specific to the organisation, then there is a choice between fishing in a small pond or doing a lot of training. If the skills are generally held in the wider population, the market will be larger and it is a case of trawling with a large net. (p. 8)

Employees and jobs are not standardised

Each worker is a unique combination of innate ability and personality, plus the specific skills acquired through education, training and experience. When firms recruit, they select among people with varied abilities which are to some extent unknown at the time of recruitment. Participants emphasised that, because tourism was a service business, the attitudes of employees were of great importance, and these are particularly hard to ascertain in advance. Similarly, applicants must choose between positions based on expectations, which will sometimes be disappointed. For these reasons some turnover in employment is to be expected. The main Federal awards which cover the tourism industry provide for employees to be dismissed without notice if they are judged to be inefficient within the first fourteen days of their engagement. Many employers in the industry also recruit their permanent employees from among their pool of casual employees, thereby using casual employment as a form of screening.

The nature of labour

The productivity of workers is determined by their skills and their attitudes. Many skills are learned on the job, partly informally and sometimes through structured training provided by the employer. These skills possessed by the employee might only be useful to an employer so long as the employee remains with the firm in which they were learnt. Much depends on the extent that the skills are firm-specific. The level of skills which an employee is able to develop

on the job can be seen as part of the rewards for working. Employers who offer high levels of skill development can expect to attract higher quality job applicants at a given wage. Workers may want to bargain over the provision of skills development as part of pay and conditions.

As observed in Chapter 13, there is a high rate of turnover among employees in tourism and this is likely to make employers reluctant to spend a great deal on increasing the skills of their employees, since employees who leave take their skills with them.

A further implication of the inability to separate labour from the labour service is that the employee retains significant control over the level of effort, initiative and cooperation he or she contributes to the workplace. This suggests that employee motivation, supervision and satisfaction are important determinants of labour productivity. Employers may use a range of measures to elicit the maximum effort from employees, ranging from supervision and the threat of dismissal to promoting *esprit de corps*, mutual respect and the promise of advancement. These are, of course, not mutually exclusive.

Asymmetric bargaining power

It is sometimes argued that workers have unequal bargaining power in employment relationships. In situations of high unemployment or where there is generally an excess supply of suitable labour, this is likely to be the case because:

The worker, ... needs a job badly and quickly. The employer can afford to wait, and can pick and choose among a surplus of applicants. Thus, the employer has a dominant voice in setting conditions of employment. (Reynolds *et al* 1986, p. 7)

Garvey (1994) argues that the issue is not simply whether or not the employer is large and powerful relative to the worker. Rather, the worker's bargaining power depends on the value of the worker to the employer:

A worker who is in small demand or whose skills are also owned by many others will receive lower wages ... the poverty of such a worker is due to the fundamental facts of supply (many others can perform the same service) and demand (the services are not extremely valuable to many employers), and not to the capriciousness of an individual employer. (Garvey 1994, p. 16)

The value of the employee to the employer — and therefore the employee's bargaining power — is also linked to the level of aggregate demand in the economy. When demand is low, alternative employment opportunities are limited. This reduces the bargaining power of the worker. Offsetting this somewhat are the costs to the employer of losing existing workers. These costs include searching for suitable new employees (including those with the right

attitudes) and the loss of skills which have been developed at the employer's expense.

In the tourism industry, many jobs (such as kitchen hands, housekeepers and the lower classifications of food and beverage attendant) involve tasks with a relatively low skill requirement and there is a correspondingly large supply of labour able to fill these positions. There are also seasonal patterns of demand for tourism's output. It is therefore likely that many employees in the industry will be in weak bargaining positions. Some, if not all, may be able to improve their bargaining power and earnings by obtaining higher skill levels, through formal education or on the job.

14.3 Labour costs

Although not the only determinant of a firm's competitiveness, unit labour costs¹ have a significant influence on it. This influence is likely to be large in tourism operations where unit labour costs represent the major short-run variable cost.

The productivity and price of labour (wages and entitlements) are the key determinants of unit labour costs. That is, raising the productivity or lowering the price of labour will reduce unit labour costs and make firms relatively more competitive, provided the quality of labour does not fall by more than its price.

The productivity of labour depends on the quantity and quality of capital that employees work with, technical innovation, management practices and the quality and effort of labour itself. The price of labour comprises: money wages (including award and over-award rates of pay and overtime), non-money wages (such as free meals or accommodation), the costs of hiring, firing and training and labour on-costs (such as payroll tax, workers' compensation insurance and employer superannuation contributions). Both the price and productivity of labour are influenced by the working of the labour (and training) market and workplace flexibility. Capital formation depends on the profitability of the industry and the efficiency of the capital market. The quality and skills of labour can be improved through formal and informal training. Chapters 15 and 16 discuss training arrangements for the tourism industry. This chapter discusses the working of the labour market and workplace flexibility.

¹ That is, the labour cost per unit of output. For example, the cost of labour (including wages, entitlements and on-costs) per meal served in a restaurant.

14.3.1 Labour productivity and unit labour costs

Increases in labour productivity are an important factor in improving unit labour costs and through this the profitability and competitiveness of individual tourism operations, the wages and conditions of employees, and employment prospects in the industry. An improvement in labour productivity generally means producing more output with the same amount of labour or the same output with less labour.

The importance of improving labour productivity was supported in the joint submission by the Queensland Department of Tourism, Sport and Youth and the Department of Employment, Vocational Education, Training and Industrial Relations, who argued that the tourism industry:

... will always require large amounts of labour which are not easily replaced by technology. Workplace reform, based on harmonious employer–employee relations is considered the most practical approach to maximising efficiency and productivity. (sub. 114, p. 17)

Other commentators have acknowledged the implications of labour productivity for employment:

The extent to which any given growth in demand for tourism services will translate into demand for labour will depend in part on the output per employee that is possible given applicable production techniques. (Carmody 1995, p. 11)

However, measuring labour productivity in tourism is difficult because quality of service is an important dimension and is especially difficult to quantify. An increase in the quality of the tourism product, without increasing input or output quantity, is also an increase in productivity. Failure to account for these intangible attributes of the tourism product may lead to spurious measures of productivity:

The major problem would appear to be that because qualitative factors such as customer satisfaction or service quality are seen as more difficult to measure, they are left out of any calculations of productivity gain and it has been thus assumed that service sector industries such as hospitality do not make a significant contribution to overall productivity in Australian industry. (Charlesworth 1994, p. 20)

14.3.2 Labour market efficiency

In the broadest sense, a labour market is efficient if there are no re-arrangements possible that would enable more output (or, more precisely, a higher-value of output) to be produced with the existing level of inputs, including the quantity and quality of labour. In the longer term, an efficient labour market is one which also encourages the development of skills in workers to the point where

their increase in productivity matches the cost of acquiring those skills, spread over their working life.

In some submissions to the inquiry, it has been claimed that unit labour costs are high in Australia compared with overseas tourist destinations. However, a comparison of hotel operating costs (of which labour is a large component) between Australia and a sample of overseas destinations showed Australia to be quite competitive.

It has also been argued that quality of service is an increasingly important aspect of competitiveness in some parts of the industry. However, the industry is characterised by high levels of casual and part-time employment, low levels of formal education and training, and high levels of staff turnover, none of which provide incentives for investment in workforce skills, or are conducive to workforce loyalty, commitment and service quality. This difference between stated views (that training is important to improve productivity) and observed behaviour (which suggests many employers do not value training highly) may reflect an industry in transition.

The concept of an efficient labour market

For a number of reasons, it is not straightforward to assess whether or not a particular labour market is working efficiently.

Some of the usual symptoms of inefficiency may exist even in efficient labour markets. For example, efficiency suggests that workers are employed to the point where the extra value they add is equal to the wage rate they are paid, over the expected duration of the employment period. However, *human capital theory* (see Appendix H) suggests at any particular point in time a worker's wage may not equal his or her marginal productivity in the presence of either employer or employee investments in training.

Job search theory suggests that people engage in a process of 'job sampling' in order to find one that yields the greatest benefit. This produces some unemployment, as people leave jobs which they find to be unsuitable, even in efficient labour markets. Further, efficiency implies that there are not persistent queues of people seeking a particular form of employment. But efficiency wage theory concludes that it can be profit maximising for firms to pay above the market wage in order to attract a queue of applicants from which they can then hire the best people, and in turn have their employees work to their maximum because they are keen to retain their jobs.

In an efficient market it would be normal to expect prices to adjust to remove persistent shortages and surpluses of labour. Persistent unemployment can imply wage rates that are out of equilibrium. However, the level of

unemployment can reflect some fundamental macro-economic problems. It is not sensible to expect any one industry, including the tourism industry to absorb the entire, economy-wide, stock of unemployed people.

There is no simple test, then, of whether wages and conditions of employment in tourism are inefficiently high or low at any particular time of the business cycle. If there are persistent shortages of workers in particular locations or with particular skills, then this may be taken as *prima facie* evidence that the wages and conditions of employment are inefficiently low for those locations or skills.

Society also has objectives in addition to efficiency, relating to equity or income distribution. Social objectives are reflected in measures that enshrine the notion of a normal working day and paid leave and provide the basis for minimum wages. These measures may alter prices and conditions of employment away from those generated by an unfettered market. In this context, labour market efficiency is a case of constrained optimality, that is, efficiency within the constraints of social norms.

Given these social constraints, symptoms of an inefficient labour market include constraints on the supply or mobility of labour, non-competitive behaviour, over or under investment in skills development and the existence of queues and shortages. If such exist, there is reason to seek to understand why that is the case and, if the constraints are motivated by social policy norms, whether the social policies are being promoted in the most efficient ways.

Constraints on labour supply

Institutional arrangements that limit workplace flexibility (such as restrictions on total hours of work) effectively constrain the supply of labour.

Working arrangements (such as normal working hours) that reflect the outcome of negotiations between the demands of employers and the preferences of employees may be efficient. If on the other hand, working arrangements exist for historic reasons, they may not reflect a socially desirable outcome. Some submissions have drawn attention to the issue of penalty rates as evidence of working arrangements with a long history. Some argued that they are no longer appropriate, or at least need rethinking.

Hilton Hotels argued that because of government and employee expectations that the gains from workplace reform should be shared:

There is ... no possible way that penalties (on weekends, public holidays and evenings) could be reduced without there being some mechanism to pass on the savings in some other way. (Hilton, sub. 154, p. 15)

The existence of penalty rates is not *prima facie* inefficient. However, having penalty rates fixed in awards means that only by chance will they be set at optimal levels.

Labour mobility

Labour mobility can be measured using a number of indicators such as job and geographic mobility.

Job mobility is higher in the tourism labour market than in the labour market as a whole. In addition, job mobility appears to have increased in recent years (see Chapter 13, Section 13.4). Geographic mobility, however, appears to be lower for tourism employees compared with the labour market as a whole. There are a variety of possible explanations, including the ease of finding work in current locations and the low incentive for relocation given the low pay rates in the sector and the relatively short length of time that a worker can expect to stay in a new job. Although it is difficult to say what level of mobility is socially efficient (see earlier comments), there is no *prima facie* evidence to suggest that job mobility is restricted in tourism labour markets.

Non-competitive behaviour

Symptoms of non-competitive behaviour are practices such as the existence of high wage rates that cannot be explained by high productivity, or unusual job security, for example for members of certain unions. Although some awards contain provisions that give union members preferential treatment, the Commission found little evidence that this translated into higher wages or job security for union members. Similarly, although employers can have some monopoly power in local labour markets (especially in regional areas or jobs requiring unusual skills such as some aspects of tour guiding), the Commission found little evidence of employers who were able to depress wages and conditions by reason of their local monopoly as an employer of labour.

Unions and industry associations can facilitate more efficient labour markets by improving information flows and providing a consultative framework. Unions, for example, can keep members informed of changes to awards, the procedures required for enterprise bargaining and examples of the sort of changes that have been negotiated elsewhere. They also have their traditional role of increasing workers' bargaining power in negotiations with employers. Industry associations also play a role in providing information to members about interpretation of awards, the conduct of enterprise bargaining and use of flexibility provisions within the awards, and examples of changes negotiated in other enterprises.

With the exception of the transport sector, union membership in tourism industries is low compared with all other industries (see Chapter 13, Table 13.7). This, together with the fact that competition for jobs is largely unconstrained, means that it is unlikely that the unions are able to tip the balance of bargaining power in their favour. Also, although membership of employer industry associations is wide-spread in some sectors (most notably accommodation establishments), there is no single industry body that acts as an industrial advocate for the sector as a whole. In most areas, especially in accommodation and hospitality, there are many employers and many job applicants: the labour market is competitive, although the outcomes are constrained by the industrial relations system and social norms.

Queues and shortages

One symptom of an inefficient labour market is the existence of long term unemployment and unfilled vacancies. Norris *et al* (1995) found no discernible difference between the expected unemployment duration for people who had been employed in tourism and people who had been employed in other industries. The one exception was males employed in the 'restaurant, hotels and clubs' industry, who exhibited shorter unemployment duration.

There were however, a number of submissions that referred to shortages of chefs. Because there are no restrictions in paying above award wages, this may have more to do with the formal and informal training environment than it does with the level of pay for the particular type of chef who is in short supply. The issue of shortages of qualified chefs is discussed in detail in Chapter 16.

14.3.3 Workplace flexibility in tourism

The flexibility to tailor workplace practices and employment conditions to the circumstances of individual firms and employees has potential benefits for both groups, and for the economy as a whole. Greater flexibility can improve the productivity of labour, reduce unit labour costs and thereby raise the standard of living, and:

... transform work in ways which empower workers, enhance the experience of working life and contribute to greater harmony between employers and employees. (Harley 1995, p. 1)

The benefits of greater flexibility are widely acknowledged in the Australian context, where the details of the rules of employment have been prescribed in considerable detail. What is less often discussed is that additional workplace flexibility is not always efficient. Workplace flexibility can be costly for those who bear the consequences. For example, increased employer discretion over

when and how many hours an employee works is efficient only if the increased productivity exceeds the cost to the employee of not having a regular schedule, or of working hours that are particularly arduous or of not knowing from one week to the next what his or her weekly income will be. 'Just-in-time' supply of labour, where the employer calls up workers at very short notice and sends them home if business is quieter than expected, can reduce labour costs to the firm but would impose costs on many employees. To illustrate, one cafe concluded a bargain that included the provision that:

... employees who are not rostered for duty may be required by the employer, without extra payment, to hold themselves available to be called in to work, provided that an employee so required shall not be obliged to hold themselves available after 12:00 midday or 6:30 pm as the case may be. (The Bathers Pavilion Enterprise Agreement, clause 4.4)

This was part of an agreement which increased the base rate of pay. Clearly, this provision restricts what the employees can do on their day off, and is efficient only if the gains (to the employer, possibly via an expansion in the industry, and to the customer) exceed the cost to the employees. If the employees received some offsetting compensation, sufficient to have them freely agree to the standby provision, it can be presumed that there is a general gain.

The 'no-disadvantage' test is designed to ensure that workers are fully compensated in such circumstances. It has the advantage of ensuring that the change is a real efficiency gain and not one that is outweighed by the cost to the employee. It protects employees from being persuaded under duress to accept changes that make them worse off. While the Commission has no evidence of the likelihood of such duress occurring, it notes that many employees are young, female and casual and that union membership is low. These circumstances make workers relatively vulnerable at a time of high unemployment.

The drawback of the 'no-disadvantage' test is that it considers the interests only of the existing employer and employees. Suppose there is a situation where restrictive or generous conditions of employment exist which have no basis in either efficiency or fairness. These conditions increase the cost to the firm and to the customer and limit demand and employment opportunities. The total of the costs to all the affected groups may exceed the gain to the current workforce. The 'no-disadvantage' test would prevent a reduction in such conditions or restrictions even if a reduction would have a net advantage overall.

Thus the 'no-disadvantage' test ensures that any change or package of changes is efficient, but it does not enable all potential efficiency-enhancing moves to be made. In order to reduce the risk that efficiency-enhancing changes are

thwarted by the test, the scope of the conditions which may be traded one for another should be wide.

In the case of the tourism industry, there is no evidence to suggest that (with the possible exception of the transport sector) conditions of employment are unduly generous. There may, however, be a potential for an aggregate efficiency gain which fails the ‘no-disadvantage’ test in a review of award levels of penalty rates.

Box 14.1 Approaches to workforce flexibility

External numerical flexibility

Employers meet changes in demand by adjusting the workforce size. Strategies to increase short-term external numerical flexibility include the use of casual and part-time labour or contracting out of traditionally in-house functions such as laundry services, for employees, the ability to reconcile work and non-work commitments through greater mobility.

Internal numerical (or working time) flexibility

Employers meet changes in demand by adjusting the quantity and timing of labour, but without engaging or dismissing labour. Strategies basically centre around flexible rostering for overtime and shift work, and scheduling rostered-days-off and annual leave to coincide with low demand, for employees, the ability to reconcile work and non-work commitments by adjusting the timing and duration of work.

Functional flexibility

Employers meet changes in demand by moving labour between functional areas within the organisation. This strategy requires workers to have both the skills and willingness to move between tasks. That is functional flexibility requires a multi-skilled workforce and the removal or reduction of functional demarcation barriers.

Wage flexibility

Employers meet changes in demand by linking remuneration, and therefore unit labour costs, to output rather than hours worked. Typical approaches in other industries include piecework, bonus or profit sharing schemes.

Procedural flexibility

Establishing consultative mechanisms that are appropriate to a firm’s individual circumstances and capable of negotiating the implementation of the other forms of flexibility.

Note: Workplace flexibility is discussed in greater detail in Appendix F

As Box 14.1 illustrates, there are many approaches that firms can use to achieve workforce flexibility. A recurring theme in submissions is the need for flexible working hours, which can be achieved through a number of strategies, including the use of casual labour, flexibility in rostering arrangements, multi-skilling employees or linking wages to product demand. As discussed below, the use of

casual employment as a major strategy to achieve workplace flexibility may have implications for skills development in the industry.

A number of submissions explained the need for flexibility in terms of the unique characteristics of the tourism industry. For example, the Cairns Hilton Hotel (CHH) argued that:

Our market is very different, the way our business comes and goes through the day is very different to what it is to the city hotels. Because we are a 24-hour airport we have the majority of arrivals arriving between 3 am and 9 am in the morning and then everyone disperses out on the day tours and the city is quiet during the day — and then everyone comes back in the evening, and then you get the activity happening again. So the actual peaks and troughs of the business over the period of the day are fairly spread out. (CHH, trans. p. 1410)

Other submissions argue that unsophisticated management, as much as market characteristics, are driving the call for increasingly flexible workplaces:

... the ‘flexibility’ the industry ‘requires’ is often a result of bad management and bad planning. Staff are expected to be available or to be ‘on call’ for duty without receiving any benefits for doing so. (UQ, sub. 33, p. 4)

There is also anecdotal evidence that some employees seek the type of flexibility that comes from casual work or multi-hiring (see Box 14.3) For example, Mr Nils Timo suggested that:

... the industry attracts a high level of itinerant employees who see an opportunity to travel and see an opportunity to work in an industry that has few skill barriers, therefore they can travel, and they can hop along. Many employees do that. Generally speaking, the lower the age, the more likelihood that they will be itinerant. (Timo, trans. p. 1346)

Ultimately, tourism operators’ needs for flexibility and the potential for productivity gains are likely to arise from some combination of workplace culture, market conditions and employer characteristics each of which can have some element of uniqueness for individual enterprises. This suggests that any strategy to reform workplace practices will be most effective if negotiated at the enterprise level without undue duress for both parties.

The next section examines the influences of tourism awards on workplace flexibility. It is followed by Section 14.5 which focuses on the effects of enterprise bargaining on workplace flexibility.

The Commission is, in this inquiry, asked to examine the impact of industrial awards and agreements on costs and flexibility in the tourism industry. In doing so, it has consciously chosen not to form judgements about the desirability or otherwise of the entirety of the existing structure of industrial tribunals and of awards as instruments for regulating the labour market. All developed countries regulate their labour markets in some way, and methods of regulation vary over time.

Whether the unique Australian system of a comprehensive set of awards administered by industrial tribunals and supplemented by various forms of bargaining and payment over the award is the best available at this time is beyond the scope of this inquiry.

The inquiry has instead focussed on understanding better what is meant by workplace flexibility, on exploring the forms and degrees of workplace flexibility within the tourism labour market and on examining the changes which have occurred in recent years.

This has been done in the context of the existing institutional framework of awards and industrial tribunals. The recently elected Government has signalled its intention to change aspects of the industrial relations system, but in doing so to retain both the system of awards and the Australian Industrial Relations Commission (AIRC) (see Box 14.2). In the course of the following discussion, issues arise which have a more general interest. Nonetheless, they are discussed in a precise way only in the context of the tourism labour market.

Box 14.2 Federal Governments' Industrial Relations Policy

In its pre-election industrial relations policy document *Better Pay for Better Work*, the Coalition Government identified industrial relations reform as a high priority. The key elements of this policy that influence the awards system and enterprise bargaining in tourism are:

- the awards system and safety net wage increases for employees who choose to stay with that system will be maintained;
- awards will continue to act as the benchmark of minimum standards for enterprise agreements;
- the Australian Industrial Relations Commission is to expedite a more efficient review of awards to remove obsolete or excessively prescriptive provisions;
- the existing system of Certified Agreements will be streamlined;
- Australian Workplace Agreements will be introduced to replace Enterprise Flexibility Agreements;
- Australian Workplace Agreements will be simpler than Enterprise Flexibility Agreements and will exclude uninvited union involvement. Furthermore employees will be able to enter into Australian Workplace Agreements individually.

Source: The Coalition's Industrial Relations Policy, *Better Pay for Better Work*, pp. ii-iii

Casual employment and skill development

Compared to other industries, tourism relies heavily on casual employment. One major reason put forward in submissions related to the industry's need for the flexibility to meet customer demand that does not flow evenly or predictably

across the day, the week or the year. The employment of casuals allows employers to accommodate this variability in demand, since casuals can be hired and fired with little notice (although they cannot be dismissed unfairly).

Casual employment has other benefits for employers and employees. For example, some employers draw their permanent employees from their pool of casuals. Casual employment gives the firm a chance to assess workers carefully before offering a permanent position. For employees, casual employment (with its wage premium) is attractive to people who wish to balance work and non-work commitments such as family, study or other jobs.

However, submissions also recognised that this flexibility comes at a price. For example, in their recent report, Blake Dawson Waldron found that:

Management and employees express the view that in general casuals were less committed and motivated, were not as well trained or skilled and tended to have a significantly higher turnover rate than permanent employees. (sub. 90, Att. C, p. 15)

Skills developed on-the-job, either informally or through formal instruction, are a major part of the total stock of skills in the industry. Participants argued that the comparatively low skill of casual employees is likely to be related to the reluctance of employers (and employees) to commit resources to an employment relationship with an uncertain future:

... the large amount of casual employment in the industry contributes towards the lack of skills that we have in the industry ... because employers are not going to make a commitment, in the main, to training casual employees as they would full-time employees. (Drysdale, trans. p. 883)

Other things being equal, an employer will be more likely to provide on-the-job training for a permanent employee, including one who works part-time, than a casual. The employees are also less likely to be interested in undertaking training for a casual position than for a permanent position.

Awards define the distinction between casual and permanent (full-time or part-time) employment. It is important for the provision of efficient levels of on-the-job training and skills development that awards do not provide an inducement to employ casuals in place of part-time staff. The main award restriction in the employment of part-time staff is a limit on the variability of hours that they can be required to work from one week to the next.

In the Federal Hotels Award, casuals must be paid a premium that varies from 25 per cent² for work during normal hours to 150 per cent for work on public

² The 25 per cent premium for casuals working ordinary hours compensates for an absence of entitlements to holiday pay, sick pay and termination payments, reduced job security and uncertainty over hours to be worked.

holidays. About ten per cent of the casual premium may be seen as compensating for uncertainty over the quantity, if any, of hours to be worked. The only restriction on ordinary hours for the employment of casuals is that they may work no more than 38 hours per week ‘on the class of employment for which the casual is employed’ (clause 16.2) and each engagement shall be of at least two hours.

Part-time employees in the Federal Hotels Award also receive a ten per cent premium for work in ordinary hours that is not cumulative with other penalty payments. However, the hours for part-time employees are somewhat more restrictive than for casuals. For example, the normal hours for part-time employees must be:

[Employed] ... not less than three hours and not longer than eight hours per day, not less than three nor more than five days per week, and not less than fifteen hours each week, nor in excess of 30 hour per week. (clause 16.3.1)

However, by agreement between employer and employee and/or the union, part-time employees can work:

- a) not less than twelve hours and not more than 32 hours per week; or
- b) not less than 48 hours and not more than 128 hours each four week period, subject to the restriction that on any one day they work not less than three hours nor more than eight hours and not more than nineteen days in each four week period and shall work no more than ten days in succession without a rostered day off. (clause 16.3.7)

Hours worked in excess of these normal hours are to be paid at overtime rates.

If the restrictions on hours of work for part-time staff are costly to employers, they encourage the substitution of casuals for permanent staff. As noted, such substitution is likely to reduce the level of on-the-job training provided by employers, as well as the interest employees themselves have in undertaking training.

Provisions that bias towards the employment of casual employees are likely to reduce the commitment of employers and employees to training. The likelihood of such a bias will be reduced if award provisions governing hours of work of permanent employees, including permanent part-time employees, are similar to those applying to casual employees.

14.4 Awards in the tourism industry

Awards are legally enforceable documents that specify the conditions and obligations in the employment relationship. They constrain management’s prerogative to direct labour and reduce wages — they also specify the

obligations of employees (such as the requirement to perform tasks as directed by management and to give notice of resignation). The content of an award is arrived at through a negotiation process between the union and the employer association(s), and on occasions through arbitration. It is also influenced by society's judgments about equity and minimum acceptable standards.

Most tourism enterprises are covered by a single Federal or State industrial award.³ Although reliable measures of award coverage are not available, it appears that a significant majority of tourism enterprises operate under one of the two main Federal awards. The two major Federal awards are *The Hospitality Industry — Accommodation, Hotels, Resorts and Gaming Award 1995*⁴ (Federal Hotels Award) and the *Motels, Accommodation and Resorts (Roping-in No. 1) Award 1995* (Federal Motels Award). Both Federal awards operate in South East Queensland, New South Wales, Victoria and Tasmania. There are also some 32 tourism awards that operate in State jurisdictions (see Appendix E, Section E.2).

The next section examines the impact of tourism awards on flexibility within tourism enterprises. This assessment places the contemporary status of awards in the context of likely future developments in the role of awards and the alternative of governing the employment relationship through enterprise bargaining.

14.4.1 The impact of awards on flexibility

Appendix F of this report contains an analysis of the implications of the two major Federal awards for workplace flexibility. The first stage of the analysis applies a framework that allocates award provisions to one of the five categories of workplace flexibility presented in Box 14.1. There is no convenient way in which to assess the absolute degree of flexibility available within an award. For this reason, the second part of the analysis concentrates on the changes to the degree of flexibility available within the Federal Hotels Award that have occurred in the period 1983 to 1995.

The conclusions that can be drawn from this analysis and from comments made by participants to this inquiry are:

the tourism awards are mostly free of the major impediments to efficiency which arise when there are contests over job and union demarcation,

³ Although awards can be enterprise or craft based (that is, they only apply to a particular firm or a craft such as nurses) the tourism awards are industry based.

⁴ Previously the *Hotels, Resorts and Hospitality Industry Award 1995*. The name change took effect on 27 November 1995.

multiple awards covering a single employer, complex provisions which are hard to understand and narrow job classifications;

- both awards contain a reasonable level of flexibility within the overall constraints of the industrial relations system;
- the Federal awards have in most respects become substantially less restrictive;
- it is difficult to make an objective judgement on whether provisions are excessively restrictive;
- a constraint of the industrial relations system is the requirement in many circumstances to involve the relevant union and, less frequently, the employer association, when changes are proposed;
- there is an important role for continuing award restructuring to increase flexibility in the awards; and
- there may be limits to the gains in flexibility that can be achieved through award restructuring alone.

Judgements about flexibility are difficult

Although it is possible to examine the influence of award provisions on workplace flexibility and to see how changes to awards have influenced the degree of flexibility over time, it is difficult to make objective judgements on whether provisions are excessively restrictive.

First, awards are enforceable documents that bind parties to a course of behaviour and therefore by definition reduce flexibility. This is true for any contract or agreement including employment contracts and enterprise agreements. The main difference is that awards are negotiated at the industry, rather than enterprise level, and may in part be arbitrated. As such they are not tailored to the circumstances of individual firms or employees.

Second, it is difficult to make a general judgement about whether restrictions in some provisions reduce the overall flexibility of a workplace. This is because of the possibility of substituting one form of flexibility for another. For example, external numerical flexibility can be substituted for internal numerical flexibility. An example of such an approach is the use of multi-hiring provisions in some State awards to overcome restrictions on working hours and overtime rates (see Box 14.3).

Third, because flexibility can be costly, it is not necessarily efficient to increase the level of flexibility.

Finally, awards in all jurisdictions are changed from time to time. Currently there are formal review processes in Federal, Queensland and South Australian

jurisdictions,⁵ while awards in New South Wales, Tasmania and Western Australia are only reviewed at the initiation of the parties to the awards.

Box 14.3 Multi-hiring

Multi-hiring within a single firm was first introduced in the Queensland Hotels Award:

In 1990 the AWU ... was the first union to introduce what was called multi-hiring clauses, whereby a permanent employee could work in another part of the establishment in a different skill area on casual rates of pay, providing it wouldn't be work that would be deemed to be overtime. (Timo, trans. p. 1344)

Employers gain through higher productivity (because they are able to use employees who are familiar with the firm's procedures) and at a lower cost because they avoid over-time rates. Permanent employees can also gain through multi-hiring because of the access to more hours and consequently higher weekly pay. Hilton Hotels suggested that there is a:

... prevalence of employees of one employer working as casuals for another because award restrictions currently prohibit multi-hiring with your own employer. Permanent employees are often ready and willing to work for special functions to learn new skills or earn additional pocket money, but are passed over in favour of casual staff, or increasingly, contract labour because of prohibitive overtime provisions. (Hilton, sub. 154, p. 24)

One the other hand, Blake, Dawson and Waldron found that although employees were generally enthusiastic about multi-hiring, they argued that it:

... should not be compulsory and that they should be given the opportunity to elect to make themselves available for multi-hiring. (sub. 95, p. 21)

A number of State awards and enterprise agreements have multi-hiring provisions. At the time of writing, negotiations were underway to introduce a similar clause into the Federal Hotels Award.

Some awards contain potentially less flexible provisions than do others. For example, some provisions of the Federal Motels Award appear more prescriptive than similar provisions in the Federal Hotels Award. This is also true of a number of the awards under the various State jurisdictions. However, at the time of this report, negotiations were under way to introduce further flexibility into the Federal Hotels Award, in the areas of multi-hiring, casual and part-time employment. Similarly, the Federal Motels Award was about to begin the first stage of a restructuring process (HMAAA, sub. 166).

The perceptions of participants are important in determining the degree of satisfaction with awards. During the course of the inquiry, the views of many

⁵ These reviews are occurring under s.150A of the Federal Industrial Relations Act, s.150 of the Queensland *Industrial Relations Act* 1990 and s.99 of the South Australian *Industrial and Employee Relations Act* 1994 respectively.

participants in the industry were heard. They included the main employer associations, the ACTU and LHMWU, and individual small and large employers.

Their perceptions point towards three broad conclusions with regard to the two Federal awards. First, there was a reasonable level of satisfaction with the level of flexibility in the two Federal awards (within the overall constraints of the industrial relations system). Second, notwithstanding this satisfaction, many participants acknowledged an important role for continuing award restructuring to increase flexibility in the awards. This is particularly true for those awards that are at an early stage in the restructuring process (such as the Federal Motels Award and a number of State awards).⁶ Finally, there was a caveat to the notion that flexibility and productivity can be improved through restructuring awards (or moving to enterprise agreements) alone.

Flexibility in the Federal awards

There was general agreement among participants that the two Federal awards provided a reasonable degree of flexibility. For example, the HMAAA — party to the Federal Motels Award — said that:

The Motels Federal Award has been specifically tailored to meet the requirements of both medium to small and large accommodation operators with a reasonable degree of flexibility. There is at the present stage negotiations taking place to further vary the award to provide greater flexibility in respect of hours *etcetera*. (sub. 78, p. 6)

And:

It should be clearly understood from the outset that the Motels award was first made in 1972 and as a consequence, a lot of the inflexible issues that you may find in awards that have been about for many years, were not incorporated in the Motels award. It is as flexible within the system as we believe it can be. (sub. 166, p. 2)

Similarly, the Australian Hotels Association (AHA) — party to the Federal Hotels Award — said that:

In many hotels they looked at the award and they say, 'We're happy. It doesn't present an impediment' ... So for a lot of the smaller employers why would you change the arrangements if they're working satisfactorily for you? But obviously people should look and see whether that is the case. (AHA, trans. p. 966)

Hilton Hotels also commented on the Federal Hotels Award, arguing that:

Our federal award is a multi-functional one. There are no impediments to multi-skilling (as long as people are paid at the highest rate for the work performed), or to providing career paths and training opportunities. It is an industry award and, generally speaking,

⁶ The NSW Restaurants, &c., Employees (State) Award is an example of a state award that has undergone little restructuring (see Case Study CS4).

within defined geographic boundaries, with single union coverage and hence, no demarcation issues. It is a minimum rates award so there is equally no impediment to paying over-award payments to attract quality staff or to reward those who so merit it. (Hilton, sub. 154, p. 24)

This position was also supported by the Department of Industrial Relations (DIR) at the public hearings in Canberra:

[For smaller operations] ... it may be that the award arrangements provide sufficient flexibility, but there is still scope through the government's legislation to achieve greater flexibilities in individual workplaces without entering into a specific enterprise agreement. (DIR, trans. p. 908)

Flexibility in the Federal Hotels Award is achieved in part through reduction in the constraints implied in the Award and in part through facilitative provisions and enterprise flexibility clauses (see Box 14.4). These latter allow award provisions to be tailored to the needs of individual enterprises.

The AHA supported the role that facilitative provisions and enterprise flexibility clauses can play in enhancing workplace flexibility, particularly in small firms. In its submission, it argued that the unique flexibility needs of the industry can be achieved by:

... first encouraging enterprise bargaining arrangements which deal with these issues, and by continuing to modernise and review the 'parent' industrial awards. The awards can be varied to include facilitative provisions and enterprise flexibility provisions. Many smaller enterprises usually prefer a universal award but need some flexibility in the award to stay competitive. (sub. 91, p. 9)

Similarly, Mr Timo commented at the Brisbane Public Hearing that:

... anyone who is smart — half smart even — could use those facilitative clauses to their best benefit, because you could do it yourself as an employer and simply apply to the Commission with your appendix and say, 'I'm the Hilton, *etcetera*. Here is my appendix. Here is an affidavit about all the employees having been consulted. Here's the secret ballot and here's our argument about the fact that no award conditions have been reduced — well, as a package.' (trans. p. 1362)

The AHA also argued that facilitative provisions may act as a bridge between awards and enterprise agreements for workplaces unfamiliar with bargaining:

The increase of facilitative provisions in the Award is considered by the AHA as an excellent educational tool to increase the consultative process between employers and employees, which may ultimately help in the development of enterprise agreements. (sub. 179, p. 2)

However, there appears to have been little use made of these provisions. For example, Mr Timo suggested that:

Very few hotels have gone down that track. I know of one hotel under the state award that has done so and that was the Undarra Enterprise Bargaining Appendix to the State Award. (trans. p. 1362)

The slow uptake of these options may be because they are a relatively recent innovation in the awards. This argument was supported in part by Mr Eades in his submission:

I believe the uptake of the flexibility provisions will become more readily acceptable and used when industry organisations play a greater role in advising and assisting their members to use the revised provisions of the available awards. Many small operators by virtue of their lack of resources are not yet in a position to take advantage of the available flexibility in their awards. (sub. 131, p. 14)

The Federal awards reflect a tension between, on the one hand, facilitating the introduction of productivity-enhancing change which is mutually acceptable to the employer and employees, and on the other hand, providing for varying levels of union (and in some cases, employer association) involvement in such changes.

The 'enterprise flexibility clause' (see Box 14.4) in the Federal Hotels Award is intended to provide for:

- flexible working arrangements;
- enhanced skills, job satisfaction and training; and
- optimum workplace efficiency and productivity.

The provision requires that a majority of employees agree, provided that the changes are within the terms of the Award. It is not necessary to inform the union or the employer association. The AIRC becomes involved only if requested to assist in finalising or applying the agreement. Thus the employer and employees are being invited to come to their own arrangements without any external involvement.

In the same Award the facilitative provisions provide that various aspects of working arrangements can be varied within the terms of the Award, provided that there is '... agreement between the employer and employee and/or the State branch of the union' (clause 26.1.2). An example is the provision for ordinary hours of work. The normal arrangement is for a 38 hour week to be worked in one of a variety of ways, which vary from four days of nine and a half hours to five days of seven hours and thirty six minutes. Alternatively, by agreement as set out above, ordinary hours may be worked as 152 hours per four week period, subject to some restrictions on the length of a shift (between six and eleven and a half hours) and agreement on days off.

In this case the union may become involved, but such involvement is not required. If the union is not involved, it must be notified of the outcome, but with no right to intervene. In other facilitative clauses, such as changes to rosters, it is not necessary to notify the union.

Box 14.4 Facilitative provisions and enterprise flexibility clauses in the Federal Hotels Award

The two major approaches to tailoring provisions for individual firms, within awards, are through the use of facilitative provisions and enterprise flexibility clauses.

Facilitative provisions

The facilitative provisions in the Federal Hotels Award allow that the standard approach:

... in an award provision may be departed from by agreement between an individual employer and the Union and/or employee, or the majority of employees, in the enterprise concerned. (1995 award, clause 9A.1)

For example, the Hotels Award has a facilitative provision that allows normal notice of changes to rosters to be bypassed with the mutual consent of the parties involved:

... the roster shall be **alterable by mutual consent at any time** or by amendment of the roster on seven days notice. Where practicable two weeks notice of rostered day or days off shall be given provided that the **days off may be changed by mutual consent or through sickness or other cause over which the employer has no control**. (1995 award, clause 29.2)

It is not necessary to alter the content of the Award to make use of the flexibility contained in facilitative provisions. In some provisions there is a requirement for the union to be notified, although its consent is not required.

Enterprise flexibility clauses

Enterprise flexibility clauses allow award conditions to be altered through negotiation at the individual workplace. The Federal Hotels Award allows the parties to negotiate arrangement that:

... may involve a variation in the application of award provisions in order to meet the requirements of individual enterprises and their employees ... provided that:

- (a) a majority of employees effected [sic] genuinely agree; and
- (b) such arrangement is consistent with the current National Wage Case principles. (1995 award, clause 9.2)

Where these arrangement involve an alteration to the Award the relevant union and employer association must be notified. Either body may object but may not 'unreasonably withhold consent'. It must also be ratified by the AIRC, who must assess whether the alterations are consistent with the principles of the National Wage case and may override an objection of the union and employer association. Arrangements that do not alter the Award do not need to go before the AIRC and need not be notified to the union or employer association.

The flexibility provisions also provide, as noted above, that the terms of the Award itself may be varied. This requires the genuine agreement of employees, who may request to be represented by an official of the union, but are not required to be so represented. But here there is a requirement to notify the union and the relevant employer association. They may not unreasonably withhold consent and if they do object they may be overridden by the AIRC. Further, no existing employee is to suffer a reduction in ordinary time earnings as a consequence of the change.

In this case, the Award does not deem agreement between the employer and the employees to be sufficient and requires that the union and employer association be given the right to intervene, provided that they do not do so unreasonably.

Alongside these specific provisions for flexibility within the Award, which emphasise agreement with employees, are two major additional requirements, one of which may in some sense conflict with them in spirit. Each has been introduced as the result of test cases at the national level.

One relates to the introduction of major change. Clause 11 sets out obligations on employers to discuss in advance the introduction of major change that is likely to have significant effects on employees. Any change for which the Award makes provision is exempt. The employer is required to discuss major changes with employees who may be affected, and with their union. The clause does not impose a requirement that agreement be reached, only that employees and their union be informed. A similar requirement to involve the union in discussions is contained in the redundancy provisions of clause 17. In this case, however, firms with fewer than 15 employees are exempt.

The combined effect of these clauses is to provide considerable scope, within the parameters of the Award, for tailoring employment conditions to the circumstances of the workplace. However, where changes are major, the union must be invited into the process, in the sense that it is consulted although not required to consent. In an industry, such as tourism, which has a low level of union membership, a requirement to consult the union may be seen as intrusive and inhibiting by employers, and even by employees. This requirement is presumably motivated by a concern that agreements may be obtained under duress or in ignorance, or may impose costs on other workers (such as those to be newly hired in future) who are not party to the agreement. But this protection may come at the cost of stifling new arrangements which genuinely increase productivity. A number of participants expressed their concern about the need to involve the union. The Commission was unable to establish the exact basis of this concern. Nor was it able to assess the size of the risk that unfair arrangements would be imposed on employees if there was no requirement to involve outside parties. One concern that does deserve attention

is that unions and employer associations may at times have agendas that are unrelated to the well-being of the particular workplace where agreement is being sought.

This is, however, an industry with many small employers, some of whom at least appear not to be familiar with the rules of employment, as evidenced by their detected breaches of the Awards. Further, the industry employs relatively large numbers of unskilled and young employees and workers in regional areas, often on a casual basis. Such workers are less likely than most to be able to negotiate on an equal footing with their employer.

It is difficult to get the balance right between the protection against unfair or harsh treatment on the one hand and the freedom to experiment, to tailor arrangements to local circumstances and to feel in charge of one's own employee relations on the other. This balance needs to be subject to testing and challenge and as much empirical, robust evidence as possible. It may be, for example, that it is sufficient protection for employees that the awards require the employer to inform them that they are entitled to obtain the assistance of a third party, including a union, but not require a union to be informed in all circumstances.

So long as the Award remains a document which has as parties to it the union and the employer association, each of whom have bargained over and consented to much of its contents, then it is logical to require that these parties be given an opportunity to comment and even to object to individual arrangements to change the Award (as required under clause 9.4 of the Federal Hotels Award). Herein, however, lies a possible dilemma because as discussed above, this involvement by uninvited third parties may actually undermine the preparedness of some employers to seek productivity improvements with their employees. It is beyond the terms of this inquiry to consider the current roles given to the representative bodies of employers and employees in the making of awards.

The two Federal tourism awards are free of many of the problems found elsewhere. Most workplaces are covered by a single union and a single award; the awards contain explicit provisions for work across broad-banded job classifications, thus generating little inefficiency from demarcation disputes; they provide a reasonable degree of flexibility including opportunities to tailor aspects of the Award to the circumstances of the workplace.

14.4.2 The future for awards in the tourism industry

The Federal Hotels Award operates as the benchmark for many other State and Federal awards as well as many enterprise agreements in the tourism industry. That is, historically, the character and content of the Federal Hotels Award has

been reflected — to greater and lesser extents — in other awards covering the tourism industry. As such, the Federal Hotels Award provides some indication of the form tourism awards are likely to take in the future (although this must be considered in the context of enterprise bargaining).

Award restructuring has improved the Federal Hotels Award in two ways. First, as discussed above, a reasonable amount of flexibility has been introduced into the Award through facilitative provisions and enterprise flexibility clauses. Second, the process of award simplification has made the Award easier for employers to administer:

Although there have been some discrepancies in the redrafting which have been required to be subsequently varied, the plain English versions have been considered as beneficial for employers in understanding how to interpret the Award, including the examples in the overtime clause. (AHA, sub. 179, p. 1)

The most recent initiative in award restructuring has been the s.150A review process introduced to the *Industrial Relations Act 1988* by the *Industrial Relations Reform Act 1993* (see Box 14.5). Many submissions supported the s.150A process as a viable mechanism to continue the restructuring process:

The AHA considers the section 150A review as the perfect vehicle in developing changes to the Federal Hotels Award including the provision of flexibility, to increase employee commitment to the individual employer and to the industry as a whole, and to provide encouragement for the possible development of workplace agreements. (AHA, sub. 179, p. 3)

Further gains through continuing the award restructuring process

Despite the general satisfaction with the flexibility achieved in the Federal Hotels Award to date, some participants argued that there were further gains to be had through individual negotiations and through the s.150A review process. For example, at the Canberra Public Hearing the AHA argued that:

While considerable progress has been made in making the award system more flexible, it still has a long way to go ... (trans. p. 1827)

The major potential gains include: addressing the issues that have not been satisfactorily resolved thus far, and extending the process to those State and Federal awards that are as yet in the early stages of restructuring.

Unresolved issues

The major criticisms directed at tourism awards (not just the Federal Hotels Award) related to flexibility of hours, excessive penalty rates, the flow-on of Test Case and National Wage case decisions and the administrative difficulty of using awards. For example, the AHA argued that in current provisions in the Hotels Award:

Box 14.5 Section 150A review of awards

Section 150A of the *Industrial Relations Act 1988*, as amended by the *Industrial Relations Reform Act 1993*, requires the Australian Industrial Relations Commission (AIRC) to review all awards at intervals of not more than three years to ascertain whether or not

- (a) the terms of the award are no longer appropriate having regard to the Commission's duty under paragraph 90AA (2) (a) to ensure that the system of awards provides for secure, relevant and consistent wages and conditions of employment;
- (b) the award contains a provision which discriminates against an employee because of, or for reasons including, race, colour, sex, sexual preference, age, physical or mental disability, marital status, family responsibilities, pregnancy, religion, political opinion, national extraction or social origin;
- (c) the award contains obsolete provisions or provisions that need updating;
- (d) the award is not expressed in plain English;
- (e) the award is not structured in a way that is as easy to understand as the subject matter allows;
- (f) the award prescribes matters in unnecessary detail.

Where the AIRC considers that an award is defective in any of the above respects, it must take action to remedy the situation.

Source: *Industrial Relations Reform Act 1993*

... in regard to hours of work for part-time employees and spread of hours make it difficult to provide greater flexibility in the workplace. The AHA is seeking a review of such clauses under the s.150A Review. (sub. 157, p. 43)

With regard to penalty rates, the Restaurant and Catering Industry Association of Australia (RCIAA) argued in the Federal Motels Award that:

Rates such as time and a half for Saturday and time and three quarters for Sunday are too high and lead to rostering inefficiencies. (sub. 143, p. 4)

This view was supported by Hilton Hotels with regard to the Hotels Award:

It is our view that, over time, penalty rates could and should be reduced with the value of benefits flowing onto the base rate but that, in the Australian context, there will always have to be an 'incentive' (a better word than 'penalty') to work weekends. (sub. 154, p. 17)

The RCIAA argued that because of the complexity of the issue, penalty rates would be most appropriately dealt with at the enterprise level because:

... experience has indicated that there is a large pool of labour that is very comfortable (in fact seeks) weekend and evening work, and thus the incentive for these people does not need to be great. However, it is certainly a strong argument that, at an industry level, some level of penalty rates is required, with it being a question of quantum. (sub. 143, p. 4)

One strategy for minimising the impact of penalty rates is annualised salaries (see Box 14.6).

An efficient level of penalty rates is one which is just sufficient to induce people voluntarily to work the relevant hours.

A willingness to work unsociable hours at the rate offered is evidence that the rate is high enough, provided that the employee has a genuine option to say no to the penalty rate work with no consequences for other aspects of his or her employment. However, if work at penalty rates is keenly sought, then this suggests that the rates are inefficiently high. The limited evidence on this matter was mixed and the reality is probably that penalty rates are higher than they need be in some circumstances but not in all.

No participants argued that penalty rates should be zero. There is a case, however, for reviewing whether existing levels of penalty rates exceed those necessary to be deemed to be fair. The argument for specifying penalty rates in awards is to avoid unduly harsh treatment and they should not be set in excess of the minimum necessary to achieve this end. If set on this basis and award levels of penalty rates are insufficient to attract the desired quantity and quality of workers, employers should be left to pay over the award.

It may be that relatively high penalty rates are seen as compensating for relatively low ordinary time pay, so that the combination provides a satisfactory weekly wage. This is not a convincing argument for two reasons:

1. if the level of ordinary time earnings is too low, then it is more efficient to deal with that directly. The use of high penalty rates for this purpose affects the relative costs of business at different times of the week in ways which induce inefficient output decisions by firms; and
2. award rates at the federal level are set to provide approximately the same level of award pay for a given level of skill in all industries. There is no evidence that award levels of pay for a given level of skill are low in tourism: the low average levels of pay can be explained by the low average skill requirements.

Recommendation 3

The level of penalty rates specified in tourism awards should be reviewed to ensure that they are no higher than is necessary to meet tests of fairness according to current social norms.

The need to extend the process

As discussed above, the Federal Hotels Award has historically been the benchmark for the other awards in the industry. However, a number of the State awards (of which there are about 30 covering the industry) still contain many of the obsolete and more restrictive provisions that have been amended in the Federal Hotels Award.⁷ The National Restaurant and Catering Association of New South Wales (NRCA) argued that a major influence on working conditions in the restaurant industry is:

... for example, in the industry like the restaurant industry in New South Wales where there are 50 000 employees covered by that [State] award, that award is completely unstructured. (trans. p. 1651)

Similarly, as the HMAAA indicated:

... award restructuring in the Motels award is only in its very early days ... [and] all clauses are potentially the subject of some change or modification or eradication. (sub. 166, p. 3)

Award simplification and restructuring

Award simplification involves changes that make award provisions easier to understand and administer, while maintaining their original intent. Award restructuring on the other hand, is a broad agenda that implies changes to the terminology, formatting and intent of award provisions. Award simplification is likely to encounter far less resistance from the parties involved than changes to employment conditions. It is therefore likely that — if pursued in isolation — the benefits of award simplification can be achieved with relative ease.

Award simplification can improve the productivity of firms by lowering costs and by making evaluation of the ‘no-disadvantage’ test easier for employers and employees negotiating agreements. However, award simplification may also raise costs if it increases uncertainty. A number of participants acknowledged the administrative benefits from award simplification. For example the NRCA argued at the Sydney hearing that:

... making the award more user-friendly would have to be one of the great steps forward in administrative burden. That doesn’t necessarily make it any more cost-effective for the employer ... The bottom-line difference is delivered in the conditions and wages themselves, rather than just how it’s worded. (trans. p. 1674)

⁷ See Appendix F, Section F.4 for a discussion of changes in the Federal Hotels Award between 1983 and 1995.

Box 14.6 Annualised salaries

A number of submissions identified penalty rates as a particular issue in the tourism industry. Annualised salaries is one strategy commonly used in enterprise agreements^a to minimise the impact of penalty rates by averaging the wage and penalty rate entitlements over a year into a single weekly base rate.

In a study of six hotels by Blake, Dawson and Waldron (sub. 95), management and staff identified the benefits of single base rates of pay as: 1) acknowledging the atypical operating hours of hotel establishments, 2) allowing for a greater utilisation of plant and equipment, 3) made allocating labour across the entire week easier, 4) made operating on weekends more viable, 5) providing employees with more predictable income, 6) providing greater flexibility for those employees who wanted weekend work but were previously unable to secure it, and 7) reducing payroll administration costs.

However, Hilton Hotels argued that because of the no-disadvantage test:

Annualised salaries must be no less than 25 per cent more than ordinary time earnings and at year end must be adjusted if what the individual would have earned under award conditions was greater than what was actually earned under the alternate payments arrangement. This means that; 1) there is no wage cost reduction, 2) there is no payroll administration cost reduction because records (in fact, duplicate records) must still be kept, and 3) the arbitrary 25 per cent loading is excessive for someone who works primarily Monday to Friday but possibly insufficient for someone who works Saturday and Sunday plus three evenings a week plus occasional overtime. (sub. 154, p. 27)

The benefits of annualised salaries may also depend upon rostering practices. For example, where there are ‘... rotating rosters, there may be an advantage to level out weekly earnings. Where there is not the result is quite possibly discriminatory’ (Hilton, sub. 154, p. 16). Further, some firms allocate rosters on the basis of seniority:

Bidding for rosters and routes in the airline industry, for instance, is common and rostering becomes a very complex administrative task and assignments are regularly subject to review and appeal. (Hilton, sub. 154, p. 17)

Other participants suggested that firms will still need to motivate staff to work undesirable hours. For example, anecdotal evidence suggests that in tourism industries:

... absenteeism on Saturdays and Sundays is quite high. If penalty payments for these shifts continue to be hidden in all-up rates then absenteeism may continue to be higher. So, the re-emergence of penalty payments at sufficient levels to attract younger workers on these shifts may not be too far off. (LHMWU, sub. 171, p. 2)

Annualised salaries may also make it more difficult for firms to compete for staff during hours that would normally attract a penalty premium:

... until penalties have been removed generally across all industries and particularly in those which are competing in the same marketplace for labour, there will be a problem to attract staff in ‘unsocial hours’ if they can earn a higher hourly wage in unsocial hours elsewhere. (Hilton, sub. 154, p. 17)

^a The Federal Hotels Award also allows for annualised salaries (1995 award, clause 10).

The HMAAA at the draft report hearings in Sydney agreed that the s.150A review process had put the award:

... in far more friendly language and a lot of the clauses that interrelate to one another have finally been put together ... (trans. p. 1922)

Nonetheless, in some cases the language of the award is still considered too legalistic, especially with regard to ‘... test case clauses that need to be embodied within the framework of an award’ (HMAAA, trans. p. 1922). Legalistic language may make awards difficult for some employers and employees to understand without assistance. However, HMAAA suggested that this is:

... one of the reasons why industry associations such as ours are there, to provide advice and guidance so the medium to smaller employer does do the right thing. (trans. p. 1922)

The s.150A review of all awards on a three-yearly basis is a major task and to date the AIRC has not found the resources to conduct the reviews itself. Instead, the parties are invited to do so and some make more rapid progress than do others.

There are considerable advantages to having awards written in a manner that enables them to be clearly understood by the groups to whom they apply, namely employees and employers (including small employers). While the need to avoid ambiguity imposes limits on how simply the terms of awards can be expressed, there is considerable scope in the two main federal tourism awards for further clarity and ease of expression. The conversion of technical language into lay language in a way which avoids ambiguity is an art and it may require the employment of specialists if the full potential is to be achieved.

Recommendation 4

The Commonwealth Government should encourage the Australian Industrial Relations Commission to provide skilled specialists to rewrite the tourism awards in a manner that is easy to understand and administer. The Commonwealth Government should encourage the State Governments to do the same in their jurisdictions.

The Industry Commission is unable to judge whether the AIRC would need additional resources in order to carry out this task.

It is likely that even after all awards have satisfactorily completed the s.150A review, there will continue to be a role for employer associations, unions and the Department of Industrial Relations (and State equivalents) in supporting interpretation of the awards. This is because awards are legally enforceable documents specifying the minimum obligations of employers and employees

and simplification of the language beyond a certain point may lead to provisions that are ambiguous and result in industrial conflict.

The Federal Hotels Award has become more flexible and easier to use over time as a result of restructuring. Although not all tourism awards have achieved the same gains through restructuring, the Federal Hotels Award provides an example of progress that can be achieved within the current framework.

Limits to award restructuring

There may be limits to what can be achieved through award restructuring (or enterprise bargaining) for three key reasons.

First, as DIR suggested, some restrictive work practices may be a product of workplace culture rather than imposed by awards. An example is traditional demarcations as to who does what kind of work. Inefficient workplace practices which arise from habit or custom certainly can change, but the vehicle for their change is not via award restructuring.

Second, some inflexibilities arise from the broader social objectives or through other regulations such as liquor licensing laws. For example, the HMAAA argued that much of the inflexibility arises from social goals tested in the industrial relations tribunals:

... a number of clauses contained within the award have resulted from Full Bench test case decisions. This covers such things as termination of employment, maternity and paternity leave etcetera. (sub. 166, p. 2)

It is not obvious how provisions for maternity and paternity leave affect flexibility, however restrictions on termination clearly do limit external numerical flexibility.

Finally it should be remembered that awards are agreements between employers and unions as the representatives of workers. It is unlikely that either party will ever achieve all the flexibility they seek. For example, Hilton Hotels argues that:

Some employers' wish lists, of course, include: slashing penalty rates (without offsets), completely unfettered rostering (including excessive broken shifts, short breaks between shifts, long periods without breaks, *etcetera*), attending training on the employee's own time, and so on. In the real world, and in the current social and political climate, anyone who believes the clock can be wound back is sadly deluded. (Hilton, sub. 154, p. 26)

Similarly, there will always be constraints on employees and their representatives.

The future for awards in tourism

Awards currently regulate the vast majority of tourism workplaces and will probably continue to do so for some time. This is particularly true for the small-scale business where tailor-made agreements may not generate large enough gains to justify their costs.

The major Federal awards are currently undergoing review within the scope of the s.150A review process. To date, this review has provided reasonable clarity and flexibility in the Federal Hotels Award, including facilitative provisions and enterprise flexibility clauses that should allow most organisations to tailor their working arrangements to individual enterprises' needs. They still contain a number of prescriptions, however, that can be seen as unnecessarily detailed.

There are more than 30 State awards covering the tourism industry. In Queensland and South Australia awards are being reviewed in a similar manner to the Federal system.⁸ In NSW, Tasmania and Western Australia on the other hand, awards are only reviewed at the initiation of the parties to the awards.

Recommendation 5

The Commonwealth Government should encourage State Governments to initiate a review of State awards to ensure that they are up to date and inappropriate detail is removed.

14.5 Enterprise bargaining in the tourism industry

Employment contracts negotiated at the enterprise level (and between employers and employees) are more likely to reflect the unique characteristics of individual workplaces. All State and Federal industrial relations systems have legislation that allows for negotiated agreements to replace industrial awards (see Appendix E).

Any contract or agreement that binds parties to a course of behaviour reduces flexibility. Thus agreements negotiated at the enterprise level also inherently reduce flexibility. However, agreements negotiated at the enterprise level are likely to reflect individual circumstances more closely than industry-wide awards.

Although the individual enterprise may be the most effective level to negotiate changes in work practices to meet individual needs, enterprise bargaining may

⁸ These reviews are occurring under s.150 of the Queensland *Industrial Relations Act 1990* and s.99 of the South Australian *Industrial and Employee Relations Act 1994* respectively.

not be the most cost efficient process to achieve this reform. Management can achieve workplace reform through:

- negotiating individual contracts with each employee within the scope of the existing industrial relations system;
- unilateral use of management prerogative within the bounds of existing awards;
- consultation within the bounds of existing awards; or
- negotiation to change award conditions or replace the existing award with an enterprise agreement.

Of these, negotiating a comprehensive enterprise agreement may not always be the least costly approach for some firms. Anecdotal evidence in submissions suggests that there may be reasonable flexibility in the Federal Hotels Award to meet the needs of many operators. This flexibility comes in two forms. One is fairly loose restrictions within the Award, for example, on how ordinary hours are to be worked. The other is through the availability of enterprise flexibility and facilitative provisions which enable employers to tailor the rules to their workplace requirements.

The incidence of enterprise bargaining in tourism

Although a number of enterprise bargains have been registered under State and Federal jurisdictions, evidence suggests that the spread of enterprise bargaining in tourism industries has been slow compared to other sectors in the economy. For example, at 26 June 1995, in the tourism industry there were only 34 certified agreements and two enterprise flexibility agreements⁹ in operation at the Federal level, covering approximately 13 000 of the tourism industry's 466 000 employees, or less than 3 per cent of the tourism workforce (DIR, sub. 90, p. 2). Agreements appear more common in larger establishments:

... you really do need to look at the different segments. ... [P]retty well all the casinos, ... either have or are in the process of having enterprise agreements and a number of the hotel groups have as well, the larger accommodation properties. But as you move down the line into the smaller enterprises then that's where you will see there's a lack of uptake which I think is typical of many of the small private sector employers in Australia. (AHA, trans. pp. 964–965)

Despite the low incidence of enterprise bargaining in the industry, DIR suggested that there are signs that the uptake of enterprise bargaining will soon accelerate (sub. 90). DIR also argued that activity under the Workplace Bargaining Program indicates favourable prospects for enterprise bargaining within the tourism industry in the near future.

⁹ See Appendix E, Section E.3.2

The remainder of this section examines the characteristics and future of enterprise bargaining in the tourism industry.

14.5.1 Enterprise bargaining and flexibility

As discussed in more detail in Appendix E, all State and Federal jurisdictions have introduced legislation to facilitate enterprise-based agreements to replace industrial awards in part or in full. There were two types of enterprise agreements available in the Federal jurisdiction as at April 1996: Certified Agreements (CAs) and Enterprise Flexibility Agreements (EFAs). EFAs differ from CAs in three respects:

- EFAs may only apply to a single enterprise;
- only incorporated bodies are eligible to enter EFAs; and
- EFAs do not require the involvement of a union in the negotiation process.¹⁰ However, eligible unions must be notified of negotiations to form agreements and may choose to become involved at various stages.

At the time of writing the Commonwealth Government was proposing to repeal the provisions for EFAs and introduce Australian Workplace Agreements. The latter are intended to be simple and to exclude uninvited union involvement (see Box 14.2).

Small employers operating in an industry with a low level of unionisation may be reluctant to pursue an enterprise bargain when they know that a union may become involved at some stage:

One of the factors in our industry that contributes to that is the very low level of unionisation and I think it's fair to say that there's an inherent apprehension on the part of many small employers of entering into an arrangement that is likely to bring that sort of industrial arrangement back to the table when they really don't have that sort of relationship now, unlike manufacturing where often it's very a high percentage of unionisation. (AHA, trans. p. 966)

Hilton Hotels indicated in their submission the potential obstacles to employers obtaining real benefits through enterprise bargaining:

Those employers who have considered negotiating with their employees modifications to terms and conditions of employment more appropriate or relevant to their needs are faced with several realities. Total wage costs will not be reduced. No important condition in the safety net award will be reduced. Wage increases will be paid up front

¹⁰ In response, the Federal Act has maintained a 'public interest test' as part of the approval process for EFAs. Creighton and Stewart (1994) argued that EFAs are:

... likely to be of limited practical relevance ... however, they do have considerable potential as a means of forcing unions seriously to address the issue of decentralisation of the industrial relations process ... (Creighton and Stewart 1994, p. 121)

on promises of productivity improvements to follow at some unspecified time in the future. Union membership (and survival) is a key issue for the third party to the negotiations. A certain outcome, too, is more restrictive provisions governing rostering, the employment of casuals, the provision of training, promotion, career paths and wage and salary levels.

All of these concerns must be weighed up against the possible benefits which are not so certain. The s.150A review currently underway should certainly run its course before most will make any decisions about travelling down the enterprise agreement track. (Hilton, sub. 154, p. 26)

The ACIRRT study

One way of assessing the implications of enterprise bargaining for flexibility (and other areas where the employers see the Award as restricting productivity) is to examine the types of agreements that have been formed in the industry.

The Australian Centre for Industrial Relations Research and Teaching (ACIRRT) conducted an investigation of the characteristics of a sample of enterprise agreements in the tourism industry on behalf of the Commission (see Appendix G).

The character of agreements and the type of flexibility achieved depends on the labour management philosophy of the individual firm. Although individual firms are likely to develop their own form and style of management, philosophies and strategies can generally be seen to fall between the extremes of:

- strong internal labour markets. The firm has a high proportion of permanent employees, with short-term shortages being met through contract or casual staff. The focus is on functional and internal numerical flexibility. As such, agreements focus on increasing productivity and quality and lowering cost through training, reduced turnover, flexibility in hours of work, multi-skilling provisions and strong consultation arrangements (with or without union involvement).
- weak internal labour markets. The firm may still maintain a core of permanent staff but most variations in the demand for labour will be met through hiring and firing labour. The focus is on external numerical and wage flexibility. Because the employment relationship is likely to be short-term, agreements focus on productivity and cost reduction through the use of casuals, flexibility in hiring and firing, flexibility in hours and rosters, minimal investments in training, multi-hiring provisions and an emphasis on managerial prerogative rather than consultation.

The analysis by ACIRRT suggested that most of the registered agreements in the sample fell between these two extremes.

At one extreme are agreements such as the *Sheraton Towers South Gate Employee Relations Agreement* 1995 (see Case Study 3) which is typical of agreements intended to encourage a strong internal labour market. They are seeking a relatively highly paid, permanent workforce with productivity being enhanced through improving the quality and commitment of their workforce.

The other extreme is represented by agreements like the *Fountain Restaurants Enterprise Agreement* which is typical of agreements in workplaces that rely heavily on weak internal labour markets; that is, the firm has a mainly casual or short-term workforce that is likely to be lower skilled and lower paid. Productivity and profitability are enhanced by matching staff size to demand through rostering and the use of casuals. Profitability is also promoted by minimising wage costs.

Different firms may rationally choose different management strategies. However, most agreements have characteristics of both extremes in practice.

The high wage, high skill and job security approach leads directly to increasing productivity and standards of living. The low skill, low wage approach may promote the aggregate standard of living if it provides jobs for people who would otherwise have been unemployed, or employed at a still lower wage.

14.5.2 The future for enterprise bargaining in the tourism industry

The low level of enterprise bargaining in tourism

The low incidence of enterprise bargaining in tourism can be explained by two broad characteristics of the industry. First, as DIR suggested, the low level of enterprise agreements could be explained by a low level of awareness:

... a study on the travel industry conducted in December 1994 by Access Research ... [which] found that 'there is wide spread ignorance about enterprise agreements' and 'little experience of direct involvement'. (sub. 90, p. 4)

However, DIR suggests that awareness of the benefits of enterprise bargaining is growing (sub. 90).

The second, and possibly more, significant factor restricting the spread of enterprise bargaining in the sector is the low commitment of the parties to adopt enterprise bargaining. Commitment to enterprise bargaining is likely to be low where the costs outweigh the benefits of bargaining, or where they are perceived to do so by either of the parties involved.

The perceived benefits of enterprise bargaining depend on the extent to which the provisions of the Award substantially inhibit changes which the management believe would enhance productivity and/or profitability. Examples

from the tourism enterprise agreements which have been concluded suggest that the following are judged to be beneficial:

- annualised salaries, wherein no distinction is made between ordinary hours, overtime hours and hours which attract penalty rates: in return, the base rate of pay is usually increased;¹¹
- increased employer discretion as to when employees work, including greater flexibility in starting and finishing times, greater span of hours which a part-time employee can work without attracting overtime pay;
- time off in lieu of overtime to be paid at a single rate, public holidays not paid at a higher rate;
- reduced penalty rates;
- reduced restrictions on the hours which casual and part-time employees can work;
- multi-hiring, such that a full-time employee may be rehired to do different tasks in addition to his or her full-time job without being paid at overtime rates.

These examples are taken from the ACIRRT survey of enterprise agreements in tourism, reported more fully in Appendix G.

With some exceptions, most notably the Sheraton agreements, the thrust of the enterprise bargains have been to increase the employers' ability to tailor employee hours to match variable levels of demand, and to remove the distinction between ordinary hours and hours which attract penalty rates. A majority of the hotel and catering agreements have been concluded without union involvement: union involvement has been especially low in cafes and restaurants.

With some exceptions, the thrust of enterprise bargaining has been to increase employers' ability to tailor employee hours to match variable levels of demand, and to remove the distinction between ordinary hours and hours which attract penalty rates.

The costs of enterprise bargaining include the costs of negotiation, the costs of conditions traded away and in some cases the costs of having to involve unions and employer associations. There are also intangible costs such as the cost of uncertainty which may permeate the workforce culture while bargaining is in progress; and any hostility which may be generated by attempts by one party to improve its situation at the expense of the other.

¹¹ Such annualised salaries may be adopted within the provisions of the award, but with the restriction that it does not result in loss of pay.

The AHA also argued that ‘informal agreements’ have been a feature of small-sized operators in the accommodation industry for some time. As such, many of the flexibility provisions offered by formal enterprise agreements may have already been in place for years. Therefore, small operators see no real need to enter into formal enterprise arrangements (AHA, trans. pp. 964–965). What is not clear is the extent to which these ‘informal agreements’ breach award conditions or industrial relations law.

If such breaches are occurring, employers have an additional impetus for avoiding union involvement in the workplace. Information supplied by DIR suggests the breaches of award conditions in the Federal Hotels and Motels Awards may account for close to 30 per cent of all detected Federal Award breaches (DIR, sub. 110, p. 4).

Unions have played a major role in negotiating enterprise agreements in all industries and in the Federal jurisdiction for the tourism industry. The low level of unionisation in smaller tourism establishments may be a further reason for the slow uptake of enterprise agreements in these organisations

Many small employers in the industry are likely to continue to operate under an award rather than seek formal enterprise agreements. It is important that the awards be as simple and as non-prescriptive as is compatible with their objectives.

Likely future directions

Although the uptake of enterprise agreements in tourism industries has been relatively slow (particularly in smaller establishments), there is no evidence to suggest that this is inefficient (within the constraints of the wider industrial relations system). That is, although there are benefits from enterprise bargaining, such bargaining is not costless. The Commission is not in a position to judge the reason for the low take-up of enterprise bargaining. On the one hand, it could be interpreted as indicating that the Award does not significantly inhibit productivity, and the limited scale and scope of operations, and therefore the marginal gains available from bargaining in smaller establishments. On the other hand, it may reflect:

- a reluctance to involve unions in the workplace (which is not a requirement in several jurisdictions), possibly because of a concern that this would interfere with the culture of the workplace or even because some employers may be in breach of the Award;
- a concern that the process is too costly and the outcomes are too uncertain;

- a preference to see what may be gained under the s.150A review of the federal awards before committing to the challenge of enterprise bargaining; or
- a general lack of awareness of enterprise bargaining, arising from the prevalence of small employers in the industry.

Ultimately the choice between an award-regulated workplace or one regulated by an enterprise agreement will be made by individual employers and employees based on the circumstances. Typically, enterprise bargaining offers greater benefits:

... where the nature of the business and employment group make it difficult to achieve the business objectives within the award structure. This will not be the case for many small employers who have a traditional business pattern but for a resort based business with heavy fluctuations of a weekend or season, or a business with unusual patterns the enterprise agreement path would be advantageous. (AHA, sub. 91, p. 11)

For small businesses without unusual operating conditions it is likely to be more cost effective to remain under the award system, at least in the context of the general structure of the current Australian Industrial Relations System. Some submissions argued for government funding to assist smaller organisations form enterprise agreements. However, there was no evidence offered to suggest the gains to society would outweigh the cost. Rather, the role for government in enterprise bargaining in tourism would appear to be one of educating the sector about the potential benefits, a role already undertaken by DIR.

Over time, the incidence of workplace agreements is likely to increase in the medium and large establishments, and those smaller establishments with special needs. Nonetheless, for many of the smaller establishments and for other establishments that either do not have agreements or for whom the agreement does not replace the parent award, the existing industrial awards will remain an important mechanism for regulating the workplace.

14.6 Conclusion

Recent restructuring of the Federal Hotels Award has introduced a considerable amount of flexibility, both through reduction in the specific constraints of the Award and through the incorporation of facilitative provisions and enterprise flexibility clauses. Similar flexibility is likely to occur in other Federal and State awards as they are restructured in line with the s.150A review process (or the State equivalent). However, this process has taken some years to achieve results at the Federal level and should be accelerated. Furthermore some State jurisdictions do not have a formal process of award review (Tasmania, New South Wales and Western Australia).

There is a general belief by employer representatives that there is a need for further flexibility in the industry. For some employers (mainly large employers), this can be achieved through workplace agreements. However, for many small employers the costs associated with forming enterprise agreements may exceed the benefits, under the current arrangements. It is appropriate at this time to review the level of penalty rates contained in the tourism awards.

It is likely that for many enterprises in the industry, particularly smaller firms, the Award will remain the main instrument of workplace regulation. It is therefore important that the process of award simplification and restructuring continue, unless the system of industrial relations undergoes major structural change.

Overall, the tourism labour market appears to operate without some of the obstacles which appear elsewhere. It is mostly competitive, with many employers and many people willing and able to accept employment. There is no sign of wages or conditions being held at levels which are obviously too high, except perhaps with respect to penalty rates. The degree of flexibility in the conditions of employment, especially with respect to hours of work, has increased and provisions for further refinement according to the needs of individual workplaces exists. If the change contemplated is major or requires a change to the Award, the firm must at least notify the union, which appears to be a deterrent to some.

A potential significant inefficiency arises in the development of skills. Wage data, as reported in Chapter 16, indicate that employers pay little for extra skills. The Award itself only requires the payment of a Chef Grade 4 fifty cents per hour more than a Chef Grade 3. The heavy reliance on casuals and the high turnover in the industry inhibit employer investment in developing the skills of their employees. But these issues arise not from awards and other industrial regulation, but from the culture and possibly the technology of the industry.

15 INSTITUTIONAL ARRANGEMENTS FOR THE DELIVERY OF TOURISM TRAINING

This chapter discusses the systems that were put in place, as part of the vocational education and training (VET) reform process initiated in the late 1980s, linking industry and training providers. Training related initiatives operating in tourism are described. Particular attention is paid to the functioning of industry recognition arrangements.

15.1 Introduction

The Commonwealth government body with primary responsibility for training is the Australian National Training Authority (ANTA). Each State and Territory government has a department with responsibility for vocational education and training (VET) policy development and implementation. The Commonwealth, State and Territory Ministers with responsibility for VET collectively constitute the ANTA Ministerial Council (MINCO).

The VET sector has undergone a period of significant reform. Changes resulting from VET reform are relatively recent and therefore it is not appropriate at this time to make conclusive judgements about their effectiveness or long-term impact. Instead, the Commission has adopted the approach of identifying those areas where it sees potential benefits and problems associated with the training arrangements or structures being put in place.

The chapter begins by discussing the background to the recent VET policy initiatives and the existing process of VET funding. The institutional arrangements for the development and delivery of tourism training are then considered. The role and achievements of Tourism Training Australia (TTA), operating within the national training system, are identified. The chapter concludes by discussing the issues involved where tourism training providers wish to obtain government accreditation and industry recognition. It also discusses the extent of awareness of these arrangements and how the level of awareness can influence decisions on training.

The institutions and the training delivery arrangements for VET in Australia are discussed in more detail in Appendix I.

15.2 Background to National Vocational Education and Training System (NVETS)

In the mid-1980s, Australia was experiencing high levels of unemployment, currency devaluation, high inflation and a long-term decline in its terms of trade. There was a widespread belief that fundamental restructuring of the economy was required to improve the productivity and international competitiveness of Australian industries. Part of the response was agreement by the Australian Council of Trade Unions (ACTU) to restrain wage levels through the Accord process. However, in addition to restraining wage levels, the union movement was concerned to generate more and better paying jobs by lifting the skills base of the Australian workforce.

A high level joint ACTU–Trade Development Council Mission travelled to Western Europe to study countries that seemed to have overcome similar economic problems to those outlined above.

In June 1987, the Mission produced an influential report *Australia Reconstructed*. The report noted that as early as 1965 the Vernon Committee of Economic Inquiry had expressed concern about the likely shortage of workforce skills in Australia, and that in the intervening period Australia had been slower than most other developed countries in strengthening its education and skill base. It noted that a high proportion of school leavers were entering the workforce with no substantial vocational preparation. The report suggested there was a lack of management support for on-the-job training and skills upgrading and recommended a range of measures to expand vocational training in Australia.

Along with several other reports on vocational training released in the mid 1980s, *Australia Reconstructed* helped in the development of a vocational training culture and government commitment to training as essential requirements of a more productive workforce.

The term National Training Reform Agenda (NTRA) was used to describe the development of training policies and associated institutions.

In the late 1980s, the Commonwealth Government released four documents relating to the state of skills development in Australia. The fourth document, *Improving Australia's Training System*, was released in 1989 by the Hon. John Dawkins, then Commonwealth Minister for Employment, Education and Training. This document identified the following factors as evidence that reform of the VET system was necessary:

- the need for workers to obtain higher-level skills to facilitate structural change occurring within the economy;
- on-going skill shortages;

- an increase in the role of training resulting from the award restructuring process;
- the need for people already in the workforce to cope with technical and demographic changes occurring in the workplace; and
- inequalities in the ability of all people to access education and training (Dawkins, 1989, p. 2).

Dawkins (1989) went on to set the broad objectives of what became known as the NTRA. These were to:

- increase national investment in training;
- improve the quality and flexibility of the VET sector;
- ensure greater consistency between VET courses, allowing national portability of qualifications;
- increase access to training and education for disadvantaged groups; and
- streamline the process of recognising qualifications obtained overseas.

The Department of Employment, Education and Training (DEET) was responsible for the administration and funding of the NTRA. These same training policies and institutions are now collectively referred to as the National Vocational Education and Training System (NVETS) and since 1994 have been administered by ANTA.

A significant number of changes have been made to the VET sector in Australia since the inception of the NTRA. The institutional structures that currently exist as part of the NVETS are discussed in more detail in Appendix I.

15.3 The VET funding process

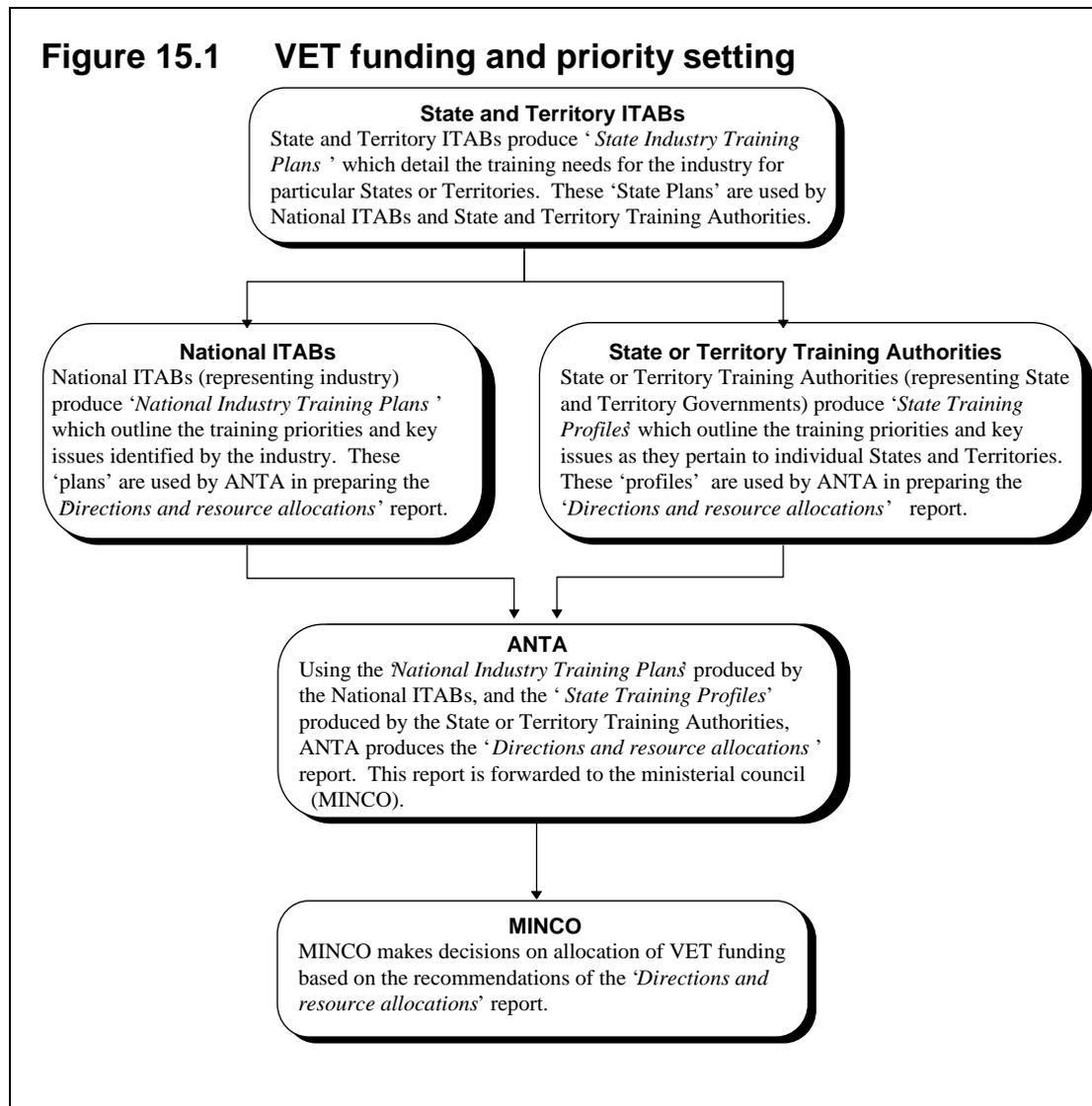
ANTA oversees the allocation of funds which are provided by the Commonwealth and the State and Territory Governments. Funding for VET is provided by the Commonwealth Government on a triennial basis (HR Vol 103, p. 2599).

Planned Commonwealth-State government expenditure for VET in 1996 is \$2.35 billion. ANTA estimates that \$173 million, or 7.3 per cent of this will be used to fund tourism-related training¹ (sub. 133).

Information used in VET funding negotiations between ANTA and the States and Territories is supplied by State and Territory Training Authorities and by

¹ Hospitality is the term used by Tourism Training Australia to describe many of its industry training activities. For the purposes of this inquiry, hospitality is assumed to be part of tourism.

industry through Industry Training Advisory Bodies (ITABs). The process is represented diagrammatically in Figure 15.1.



The allocation of funds is determined by the ANTA Ministerial Council on the advice of ANTA. Both general and industry specific factors are used to determine the actual level of funds each State and Territory training authority receives. General factors include the historical allocation of funds, the projected growth of industry output and employment, the level of exports and effects of anticipated structural adjustment (ANTA, 1994e). Industry specific factors considered are:

- the number, size and geographic spread of enterprises;

- the size of the industry workforce, the age, qualification, gender and ethnic mix profile, and the proportion of part-time and full-time employees;
- changing skill requirements particularly in relation to changes in technology and task complexity;
- the level of publicly-funded training, privately-funded training, accredited training, and employee time currently devoted to training; and
- the community and cultural significance of the industry (ANTA, 1994e).

15.4 The Tourism Training Network

One key objective of the VET reform process was to encourage increased industry involvement in the development of training initiatives. ITABs were created to facilitate industry involvement in the process of VET policy formulation and implementation.

The national tourism ITAB is Tourism Training Australia (TTA). In addition to the national tourism ITAB, each State and Territory has an ITAB representing local tourism interests. The tourism national and State and Territory ITABs are collectively referred to as the 'Tourism Training Network'. It is the role of the Tourism Training Network to represent the interests of:

- accommodation providers;
- clubs and resorts;
- restaurants and cafes;
- travel services;
- airline cabin crew and terminal operations; and
- casinos and attractions.

Participants argued that the Tourism Training Network has been particularly successful in achieving its objectives. At public hearings in Brisbane, Mr Noonan of ANTA noted the Network's, and in particular TTA's, success in implementing training reforms:

... the tourism industry has really taken the lead in the national approach to vocational education and training. When ANTA was established in 1992, Tourism Training Australia was generally regarded as probably one of the leading national industry training boards, and in some ways has been an exemplar for a number of initiatives that the ANTA board has subsequently taken on. (trans. p. 1290)

In 1995, TTA's total revenue was approximately \$1.86 million. Of this just over 50 per cent was received via grants that were largely from ANTA or DEET (TTA, 1995b).

The Tourism Training Network receives funding from government and also raises its own revenue. ANTA provides funds for both the national and the State and Territory ITABs. State and Territory ITABs may receive additional funding from their respective governments. The ITABs also raise revenue through activities including the sale of training products, sponsorship fees and industry contributions.

15.4.1 Tourism Training Australia (TTA)

TTA is one of 18 national ITABs operating as part of NVETS. TTA's role is to represent the interests of the tourism industry in the process of VET policy formation and implementation and to increase industry awareness of, and participation in, training initiatives.

The range of interests represented by TTA's board members suggests that 'the industry' is defined broadly. Employers, employees, training providers and government agencies are represented on its board. In addition to contributions by board members, TTA obtains views by consulting with other interested parties.

There is an issue regarding the representativeness of TTA. Many tourism businesses are small firms and they have different training requirements to large firms. There are significant differences between the services provided by a 5 star hotel and a country motel. For this reason it is important that the particular needs and interests of small firms are adequately represented in decisions on training.

Representatives of TTA argue that they have regular, if informal, contact with many small business operators. TTA submitted that:

The consultation process for the development of National Curricula certainly includes small business. (sub. 146, p. 10)

However, at public hearings in Sydney prior to the release of the Draft Report Mr Campbell commented that:

Training has very much been focused, I believe, on the five-star hotel type of business ...

Training has forgotten the rest of the industry in total ... five-star hotels are 5 per cent ...[and] 90 per cent of training is based around that. (trans, pp. 66-67)

This latter view is supported by the relatively low level of awareness of formal training initiatives of small business operators (see Section 15.5.5). Possibly for this reason, but there are likely to be others, small businesses are also less likely to employ staff with formal qualifications than large organisations (see Chapter 16).

Lack of representation in the training policy development process might be one explanation for the current low level of involvement in formal training initiatives by small businesses. The problem of adequately catering for the needs of small firms is not confined to the tourism industry.

The interests of small business are not adequately represented in the process of developing tourism training policy.

15.4.2 TTA's involvement in major training initiatives

Preparing an industry 'VET Plan' for ANTA is only one way in which TTA is involved in the development of tourism training initiatives. The other roles are discussed below.

First, TTA is the endorsed competency standards body for tourism. In this role TTA is responsible for developing competency standards against which the appropriateness of tourism training curricula are assessed. Appendix I includes an example of a tourism competency standard.

Tourism competency standards were endorsed by the National Training Board² for all areas of tourism training. The endorsed competency standards cover the areas of: food and beverage; guest services; kitchen; clubs and gambling; tour operations; meetings and conventions; hospitality management; tourist attractions; tour guiding; retail travel; tourist information services; and tour wholesaling.

Second, using the endorsed tourism competency standards, TTA has developed competency-based training modules for use by tourism training providers. The training modules are packaged as 'The Black Book' for hospitality training, 'The Red Book' for cooking training and 'The Green Book' for tourism and travel training.

Third, TTA is one of 27 Industry Training Companies (ITC) that were established as a result of the National Employment and Training Taskforce (NETTFORCE) initiative announced in *Working Nation* (Keating, 1994). The role of an ITC is to identify vacancies and opportunities to place unemployed people in entry level training positions. This is achieved by encouraging business to take on more trainees and explaining the use of the National Training Wage.

In 1995, TTA received \$100 000 to begin its work as an ITC. In addition DEET provided eight secondees to assist in the placement of trainees in the tourism

² From 1 July 1995, the functions of the National Training Board became the responsibility of the Standards and Curriculum Council (SCC). ANTA is responsible for the SCC.

industry in the States and Territories. In 1995, 1508 people commenced tourism traineeships under this scheme (TTA pers. comm.).

15.5 Government accreditation and industry recognition of training

Both government and industry currently offer processes by which a tourism training provider can have its courses assessed and subsequently ‘accredited’ or ‘recognised’ as meeting a particular standard. Government accreditation of courses is offered by State or Territory Training Authorities (STAs).

It is only by obtaining government accreditation that any training provider can issue students with formally recognised qualifications and only students of government accredited courses can obtain Austudy allowances.

The term ‘accreditation’ has specific meanings within the operations of government. It is for this reason that, although the criteria used to assess training for industry recognition and government accreditation are similar (and in some cases the same), it is not appropriate to refer to industry ‘recognition’ as ‘accreditation’.

Industry recognition of tourism courses is offered through a separate process that has been developed and is administered by TTA.

15.5.1 Government accreditation

The process of government accreditation is guided by the National Framework for the Recognition of Training (NFROT) principles that are the responsibility of ANTA (see Box 15.1). Under these principles course curriculum, physical training facilities and the credentials of trainers must all be assessed as appropriate.

However, responsibility for, and the implementation of, government accreditation resides with the individual STAs (MOVEET, 1993). A register of government accredited training courses and registered providers is maintained by each STA and a national register of government accredited courses is maintained by the Standards and Curriculum Council, which operates within the ANTA framework.

If a training provider is to receive government support it will need government accreditation. Mr Hunt, from Tourism Training Victoria, explained that:

All training providers in theory need to have state registration ... if they are to receive any state government resources. (trans. p. 1513)

Box 15.1 The national framework for the recognition of training principles

Course accreditation

- Principle 1 Courses shall be relevant to market or industry needs, identify occupational or educational outcomes and enable the achievement of national competency standards where these have been established.
- Principle 2 Course standards are appropriate to the requirements of the particular credential.
- Principle 3 Courses use competency based training, where the outcomes of courses are specified as competencies.
- Principle 4 Courses provide for multiple entry and exit points and recognition of prior learning.
- Principle 5 Flexible learning using various delivery modes is accommodated.
- Principle 6 Articulation arrangements for credit transfer should be specified.
- Principle 7 Customisation of courses should be allowed for, while maintaining the integrity of the course.
- Principle 8 Promote access and participation.
- Principle 9 Appropriate assessment.
- Principle 10 On-going monitoring and evaluation.

Trainer registration

- Principle 1 Providers of recognised training shall be registered.
- Principle 2 Registered providers will have appropriate staff.
- Principle 3 Training is delivered in an adequate and safe environment.
- Principle 4 Registered providers shall be responsible and ethical in their student relations.
- Principle 5 Registered commercial providers shall provide evidence that students will be protected from financial exploitation.
- Principle 6 Providers shall be registered for a fixed term, not longer than five years, and be subject to quality controls.

Source: VEETAC 1991.

15.5.2 Industry recognition

As stated above, in addition to government accreditation a system of industry recognition exists for tourism training. Industry recognition is also guided by the NFROT principles.

The system of industry recognition was established in response to the increase in the number of private providers offering tourism training. Industry recognition was seen as a mechanism that allowed reputable private training providers to distinguish themselves from less reputable training providers.

TTA operates the industry recognition system. Industry recognition is available from one of two panels established by TTA, either the Australian Hospitality Review Panel (AHRP) or the Australian Tourism Training Review Panel (ATTRP).

A directory of industry recognised courses and training providers is maintained. TTA estimated that in September 1995, there were approximately 300 AHRP recognised providers and 104 ATTRP recognised providers. In combination they offered 1300 courses in tourism. Details of the AHRP and ATTRP and their recognition processes are provided in Appendix J.

Under the system of industry recognition, trainees can undertake individual training modules or combine a series of modules that fulfill the requirements of a credential as established by the Australian Qualifications Framework (AQF); consequently, there is direct alignment between formal qualifications, as per the AQF, and industry recognition levels (see Table 15.1).

Training providers can offer courses without either government accreditation or industry recognition.

Table 15.1 Comparison of the Australian Qualifications Framework and AHRP recognition levels

<i>Australian Qualification Framework</i>	<i>AHRP recognition level</i>	<i>Typical hospitality work functions</i>
Advanced Diploma	Management specialist	Department Manager Small Business Manager
Diploma	Management core	Unit Manager eg. Restaurant Manager
Certificate IV	Supervisory	Supervisor
Certificate III	Advanced	Team Leader Trade Specialist non-trade
Certificate II	Basic	Multi function eg. food and beverage server
Certificate I	Introductory and some Basic	Single function eg. bar attendant

15.5.3 Why a dual system?

In the course of the inquiry, some participants raised concerns about the co-existence of government accreditation and industry recognition. The key concern was with comparability between the government-based and industry-based processes. For example, the TAFE Tourism and Hospitality Educators' Forum noted that:

Currently, there is some concern nationally with regard to conflict which may arise between the credibility of training providers registered by the Training Review Panels, as against the State system of registration and accreditation for programs run by TAFE. (sub. 32, p. 2)

At present, private providers tend to have industry recognition, whereas TAFE colleges are required to have government accreditation. The issue of comparability between private training providers and TAFE will become more important as the goal to increase competition between private and public providers is realised (see Appendix I for more detail).

This dual system can cause confusion for the people the system is designed to assist — employers and students; involve duplication in application processes thereby wasting resources; and may discourage the development of innovative training curricula.

15.5.4 Lack of uniformity

The existence of both government accreditation and industry recognition is complicated by different relationships that exist between STAs and the industry recognition panels in the States and Territories.

In Victoria, Queensland, South Australia, Tasmania and the Northern Territory tourism training providers cannot obtain government accreditation without also obtaining industry recognition.

In the remaining jurisdictions — New South Wales, Western Australia and the Australian Capital Territory — tourism training providers can apply for government accreditation without first obtaining industry recognition.

All States and Territories, except Victoria and South Australia, have developed processes that facilitate the application for government accreditation and industry recognition in one step. This one-step approach reduces costs but the dual system is confusing nonetheless.

States and Territories have adopted various approaches when implementing a 'one-step' model. In New South Wales, Western Australia, the Northern Territory and the Australian Capital Territory, the STAs have delegated their

authority to accredit courses to the industry recognition panels, that is the AHRP and the ATTRP. Although the delegation can always be withdrawn, it is normally the case that once a course is recognised by either panel, it is then automatically considered by the relevant STAs to have satisfied the requirements for accreditation.

The one-step model used in Queensland and Tasmania³ operates by the STAs devolving their authority to accredit courses to the industry recognition panels. Devolution is somewhat different from delegation in that although the two panels recognise a course, and although more often than not this leads to accreditation, there is not the presumption that this will automatically be the case. This is because it is understood that in unusual cases the STA has the right of veto, that is to refuse accreditation even though a course has passed through the first step of achieving industry recognition by the panels.

By devolving their authority rather than delegating it, the Queensland and Tasmanian STAs have reduced duplication and maximised industry participation, yet they have maintained the right to refuse government accreditation to training providers if they believe this is appropriate. Appendix J provides details of the arrangements that currently exist between STAs and industry recognition panels in each State and Territory.

Accountability issues

In the Draft Report the Commission requested information from inquiry participants on the appropriateness of controls used by government to ensure accountability for the public funds spent on training, particularly in the context of industry recognition. At public hearings in Sydney, Ms Jennifer Lambert from the National Restaurant and Catering Industry Association defined accountability in terms of course relevance and employability of those undertaking training. She suggested that industry was in the best position to judge the usefulness of training courses and that the best measure for accountability purposes was to provide training courses:

... that can deliver an employable individual in a vocational training context; not in an educational broader-mind context, but in a straight vocational training context. ... And we believe at the moment the industry recognition process is far more likely to be able to do that than the way that the government recognition process - accreditation process has moved in the past. (trans, p. 1678-1679)

³ The Tasmanian STA and industry recognition panels have developed this arrangement on an informal basis.

From a government perspective, the issue of accountability extends beyond narrow vocational training to equip a person for employment in one particular industry.

In its submission the Department of Employment, Education, Training and Youth Affairs (DEETYA) suggested in relation to accountability that the significance of government oversight, including regulation of curriculum, relates to the relevance of skills for specific workplaces versus general skills:

accountability for public funds spent on training is ensured through a number of mechanisms, including regulation of curriculum and courses. The significance of government control of these relates to the need to ensure that training provides relevant skills for specific workplaces and for general labour market mobility. Industry involvement in accreditation of curriculum and courses, within a framework of government regulation, is a mechanism for ensuring the publicly funded training provides relevant skills. The issue of more or less stringent government control of industry based curriculum and course recognition is no more or less pertinent than it is for other providers, including publicly owned providers. (sub. 183, p. 7)

It could be expected that bodies which, as a consequence of their membership, represent narrow, industry interests will attempt to fashion training curricula to suit that narrow interest. However, in a dynamic economy government is going to be more interested in ensuring that there is an appropriate mix of generic skills and narrow ones. Governments want to facilitate the easy movement of people between occupations. To get the balance right, government training bodies need the final say on curricula.

The Commission views this as an important reason to favour the Queensland 'one-stop-shop' model. Not only does this model maximise industry involvement and largely eliminate duplication, but it retains a power of veto by government should it be needed to protect the public interest. In delegating authority, STAs need to be mindful of the possibility that industry recognition bodies, using their existing curricula, might not be flexible enough to allow the emergence of new and innovative courses.

Recommendation 6

State Training Authorities (STAs) in all States and Territories should be encouraged through the ANTA Ministerial Council to adopt the Queensland model whereby training courses are recognised by industry recognition bodies with the STA retaining a power of veto over accreditation.

15.5.5 Industry awareness of tourism training initiatives

Given the importance of training and the relative newness of the present system, the Commission sought to understand the extent to which tourism employers were interested in, or aware of, the relatively new initiatives. To better inform itself on these issues it commissioned AGB McNair to conduct a survey. A major finding of that survey was that there was a very wide range in levels of awareness, from very high to very low. Appendix K provides the details of the AGB McNair survey.

With the exception of 5 star establishments, respondents showed a limited awareness of the industry's own training recognition processes. Table 15.2 presents the results according to the star rating of the respondent's property.

Table 15.2 Awareness of tourism training initiatives

<i>Training initiative</i>	<i>1-2 star (%)</i>	<i>3 star (%)</i>	<i>4 star (%)</i>	<i>5 star (%)</i>	<i>All (%)</i>
AHRP	11	16	28	70	18
ATTRP	11	19	30	65	19
ACCESS	16	19	32	57	21
Tourism/hospitality traineeships	49	57	62	65	55

Source: AGB McNair, 1995

TTA commented on the findings:

... a 57 - 70 % awareness of its initiatives (ACCESS, AHRP and ATTRP) and a correspondingly high rate of awareness of traineeships and apprenticeships, within 5 star hotels, is an acceptable rate for that stratum. (sub. 146, p.4)

Other participants thought that awareness was low, but were not concerned. In their submission to this inquiry, Hilton Hotels Australia Pty Ltd explained:

The low rate of awareness, however, is not surprising to us because the AHRP and ATTRP are not themselves training programs. They are simply accreditation programs to ensure training providers and resource material is appropriate and relevant. The analogy in the broader community would be to ask parents selecting educational institutions for their children if they had ever heard of VETAB. (sub. 154, p. 29)

Respondents were asked about institutional arrangements (what body is responsible for the recognition of training) rather than the training *per se*. It is possible that respondents may have valued the training institutions without being aware of the bodies involved and their roles.

However, the low level of awareness of the industry recognition system could cause a system to emerge that costs providers money to comply with, yet satisfies the interests of only a limited section of the tourism industry.

15.6 Conclusions

Reforms to the VET system are relatively recent and it is inappropriate to make judgements at this point in time about their long-term effect. However, the Commission has identified an issue arising from the implementation of the present model of accreditation and recognition.

The processes established to deliver tourism training are comprehensive, except that the Commission has found that small businesses are not being represented adequately in the processes for developing tourism training policy.

The Commission notes that where governments fund the provision of training they are held accountable for the quality and relevance of that training, yet this is not possible unless they are involved in the relevant decisions.

The existing dual system of government-based accreditation and industry-based recognition has the potential to impose unnecessary costs on training providers. In addition, the dual system can cause confusion for the people the system is designed to assist, employers and students.

There is no uniformity among State and Territory jurisdictions on this matter. The system in some jurisdictions seems less than desirable and the Commission has recommended the Queensland one-stop-shop model be adopted as an efficient approach which maximises industry participation in tourism training and has the added benefit of retaining a government power of veto to protect the public interest.

16 TOURISM TRAINING

This chapter considers demand and supply issues pertaining to training in the tourism industry. Tourism training is but one part of a national system of training involving Commonwealth, State and Territory governments and government-funded representative organisations which collectively determine the type and quality of training that is delivered.

The chapter addresses the ability of these institutional arrangements to deliver the tourism training that the industry needs.

From a public policy perspective the chapter also suggests the need to carefully match the supply of training resources to genuine demand so as to avoid waste, particularly in an industry where the majority of jobs do not require a high level of skill.

16.1 Introduction

The boundaries of the tourism workforce can be defined in two different ways: by the industries in which people work; or by the occupation or the nature of the jobs (see Chapter 13). Of these two methods, defining the tourism workforce according to occupations is the most appropriate when discussing training.¹

Tourism-related occupations extend to employees working in sectors other than the tourism accommodation sector which has been the focus of many of the previous chapters. The occupations selected for consideration in this chapter are: restaurant and catering managing supervisors; accommodation and tavern managing supervisors; cooks; bar attendants; waiters and waitresses; travel agents; travel stewards; luggage porters; housekeepers; and kitchen hands. Of these occupations, kitchen hands, bar attendants and waiters and waitresses comprise over 60 per cent of the tourism workforce (see Table 13.1).

This chapter begins by presenting information on the skill profile of the current tourism workforce. The institutions that provide formal training courses are identified and the major training providers are discussed. The demand for tourism training is examined from the perspective of both employers and employees. A shortage of chefs is identified as well as strategies to reduce it.

¹ For the purpose of this Chapter, the term tourism includes both tourism and hospitality.

The chapter concludes that the tourism training arrangements presently in place are relatively new and suggests it is too early to judge them. However, it identifies a number of potential problems. It suggests that the Australian National Training Authority (ANTA), the government body responsible for overall management of the national training system, needs to carefully monitor and review (within three years) whether the tourism training arrangements are operating satisfactorily.

16.2 The present skill level of the tourism workforce

Before answering any of the key training questions it is helpful to consider the training-related characteristics of the current tourism workforce. This section considers two crucial issues: the skill requirements of tourism occupations and the qualification profile of the tourism workforce. In both instances comparisons are made to the Australian workforce.

16.2.1 Skill levels of tourism occupations

Parts of the tourism industry provide an important source of entry level jobs. This characteristic of tourism is reflected by the high proportion of workers employed in occupations where minimum skills and training are required to perform well in a job (for example, bar tenders and kitchen hands).

The Australian Standard Classification of Occupations (ASCO) system classifies occupations into eight major categories. The categories are in a hierarchy according to the skill level required. Category 1 contains those occupations with the highest skill requirement and category 8 contains those occupations with the lowest skill requirement (see Box 16.1).

Box 16.1 Australian Standard Classification of Occupations

The skill breakdown of tourism-related occupations can be analysed according to the Australian Standard Classification of Occupations (ASCO) system which defines eight major skill groups according to skill level. The system classifies occupation codes in descending order of skill requirement, identified by the first number in the code. The major codes and descriptors are:

1	Managers and administrators	5	Clerks
2	Professionals	6	Salespersons and personal service workers
3	Para-professionals	7	Plant and machine operators, and drivers
4	Trades persons	8	Labourers and related workers.

Source: ABS 1986a, 1986b

In February 1995, approximately 70 per cent of the employment in tourism-related occupations was in categories 6 - 8, where less complex skills are required. This compares with approximately 39 per cent in the whole Australian work force (see Table 16.1).

Table 16.1 Skill level comparison of tourism-related occupations and Australian workforce by ASCO, 1995

<i>Major ASCO codes and tourism-related occupations</i>	<i>Tourism workforce^a (%)</i>	<i>Australian workforce^b (%)</i>
1. Managers and administrators	13.4	10.7
1503 Restaurant and Catering Managing Supervisor		
1505 Accommodation and Tavern Managing Supervisor		
2. Professionals	0	14.0
3. Para-professionals	0	5.7
4. Trades persons	16.1	14.5
4705 Cooks		
5. Clerks	0	16.4
6. Salespersons and personal service workers	39.8	16.9
6503 Bar Attendants		
6505 Waiters and Waitresses		
6507 Travel Agents		
6609 Travel Stewards		
7 Plant and machine operators & drivers	0	7.1
8 Labourers and related workers	30.7	14.9
8903 Luggage Porters		
8915 Housekeepers		
8919 Kitchenhands		
Total employment	100.0	100.0

a May 1995.

b February 1995.

Source: ABS The Labour Force Australia, May 1995 Cat. No. 6203.0 and unpublished data

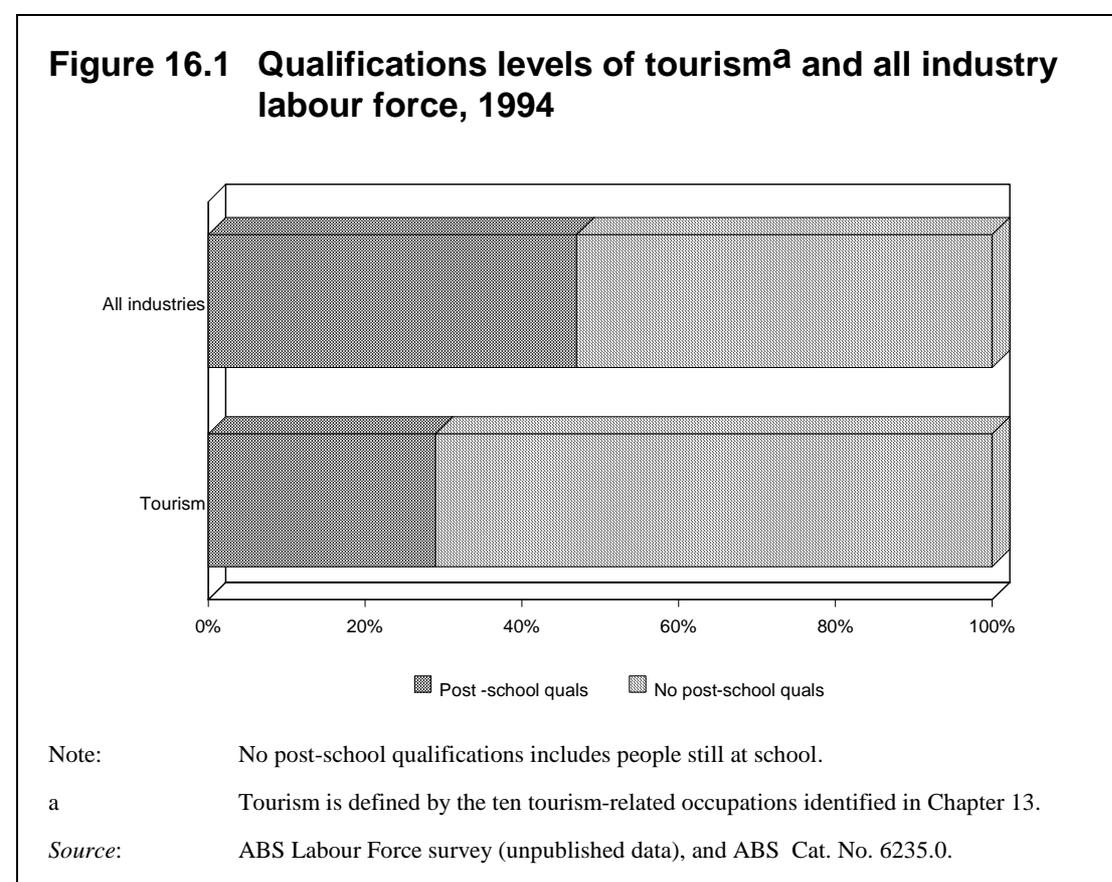
According to the ABS (1994f) only 10 per cent of people working in tourism reported that it was necessary to have a formal educational qualification to obtain their current position. The 10 per cent figure for tourism is significantly lower than the all industry figure of 29 per cent (ABS, 1994f)².

² The Survey of Training and Education (SOTE) was conducted using the Australian Standard Industry Classification. Information in this chapter sourced from the SOTE (ABS, 1994f) defines tourism as the 'entertainment and recreational services' and 'restaurants, hotels and clubs' components of the 'recreation personal and other services' industry division. Therefore, information from this source is not strictly comparable with other information in this chapter.

Twenty-six per cent of people working in tourism have post-school qualifications that were not required to obtain their current job. This is a higher proportion than the all industry figure of 20 per cent (ABS 1994f). This could reflect the ease of entry into the tourism labour market compared to many other occupations.

16.2.2 Qualification profile of the tourism workforce

The tourism industry is often characterised as relying heavily on informal on-the-job training rather than formal training. A comparison of the qualification profile of the employees in tourism-related occupations with the qualification profile of the labour force lends support to this view (see Figure 16.1).



The official labour force statistics suggest that formal training is either not required or its value is not recognised in tourism (see Table 16.2). In 1994, only 4.4 per cent of the tourism-related labour force had a degree or higher level qualification compared with 13.6 per cent for the all-industries category.

Table 16.2 Qualification profile of employees in the tourism industry and the labour force as a whole, 1989 and 1994

<i>Type of qualification</i>	<i>Tourism^a</i>				<i>All industries</i>	
	<i>1989</i>	<i>1994</i>	<i>1989</i>	<i>1994</i>	<i>1989</i>	<i>1994</i>
	<i>No.</i>	<i>No.</i>	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>
Degree and higher level	11 788	15 722	3.5	4.4	10.0	13.6
Trade	29 808	39 431	8.9	11.0	16.1	16.4
Certificate, diploma and other	56 608	50 605	16.8	14.1	19.6	17.0
Without post-school	215 333	229 092	64.0	63.7	51.8	50.7
Still at school	22 786	24 963	6.8	6.9	2.3	2.2
Total	336 323	359 813	100.0	100.0	100.0	100.0

a
Note Tourism is defined by the ten tourism-related occupations identified in Chapter 13. Between 1989 and 1994 the ABS changed the way it categorised educational qualifications. For this reason, in 1994, 'trade' includes skilled vocational qualifications; and 'total certificate, diploma and other' includes associate diplomas, undergraduate diploma, an unknown portion of basic vocational qualifications and qualifications where the study was for less than one semester.

Source: ABS Labour Force survey (unpublished data), and ABS Cat. No. 6235.0.

The proportion of people with degrees who were working in tourism-related occupations increased between 1989 and 1994. However, the increase was less than for the labour force as a whole. The growth that did occur corresponds to the recent growth in the number of people undertaking tourism-related degree courses. In 1994, the number of people enrolled in tourism-related bachelors degree courses was equivalent to 27 per cent of the existing tourism-related workforce having a bachelors degree.

Relative to all industries the tourism industry employs a high proportion of students, on a part-time or casual basis. Both university and school students are employed. These students are not necessarily enrolled in tourism courses. The ABS has calculated that there were approximately 44 000 full-time students working part-time in the tourism industry in 1993 (ABS, 1994f). Students therefore represented approximately 10 per cent of the tourism labour force in 1993. As shown in Table 16.2, students are more likely to obtain work in tourism than in other industries.

One notable feature of the tourism workforce is the high proportion of people in management positions without formal qualifications. In the accommodation sector the percentage of employees who only have informal on-the-job training is high. The only exception is chefs (see Table 16.3). Only housekeepers had less formal training than managers.

Table 16.3 Training by type of training and employment category

	<i>Formal training (%)</i>	<i>Informal on-the-job training only (%)</i>	<i>No training (%)</i>	<i>Total (%)</i>
<i>Full-time and part-time staff</i>				
Managers	33	51	16	100
Front office/reception	35	59	5	100
Housekeeping	14	77	9	100
Chefs	88	9	3	100
Other food & beverage	40	55	5	100
Other	41	53	5	100
<i>Casual staff</i>	16	72	2	100

Source: AGB McNair, 1995.

This is significant because managers' own training experiences are likely to influence their attitude toward training their own staff. Support for this view was given by the Queensland Department of Tourism, Sport and Youth and the Department of Employment, Vocational Education, Training and Industrial Relations:

Many factors affect the perceptions of potential employers towards trained staff including their own level of training (or lack thereof) ...

Most supportive of trained staff are those employers who have themselves undertaken formal training ... Least supportive of trained staff appear to be those in management and supervisory positions who have received no formal training apart from that gained on-the-job. (sub 114, p. 20)

While the data show that the tourism workforce currently includes a relatively small proportion of formally qualified employees, given the relatively low level of skill required in many tourism positions, this may be appropriate.

16.3 The delivery of tourism training

Formal tourism training courses in Australia are provided primarily by TAFE colleges. Universities, private sector colleges, the school system, industry associations and some workplaces also run formal training courses. On-the-job training is used extensively in the tourism industry.

16.3.1 TAFE colleges

In 1991, there were 51 676 enrolments in tourism-related award courses offered at TAFE colleges. Over the three years to 1994 this number increased by

34 per cent to 69 422 — about 28 000 of these enrolments were in trade level or higher courses (see Table 16.4). In 1994, there were more than 30 000 enrolments in non-award tourism-related courses. As these non-award courses do not result in a recognised qualification, it is not likely that they are undertaken as a means of entry into the workforce.

Table 16.4 Number of enrolments in tourism related TAFE courses, by level of qualification awarded, 1991-94

<i>Course of study</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>
Diploma and Assoc. Diploma	4744	5 012	6 440	7 852
Advanced Certificate	7020	5 673	10 245	11 069
Trade Certificate	n.a.	n.a.	n.a.	9 477 ^a
Certificate	22 994	27 141	35 428	28 318
Other qualifications	16 918	16 768	15 373	12 726
Total award enrolments	51 676	54 594	67 486	69 442
Non-award ^b	18 733	10 193	15 144	31 300
Total enrolments	70 409	64 787	82 630	100 742

a 1994 was the first year that the categories of Certificate and Trade Certificate were reported separately.

b People completing non-award courses are not issued with a recognised qualification or certificate of achievement. Such courses include those undertaken for recreation, leisure and personal enrichment.

n.a. not available (see note a)

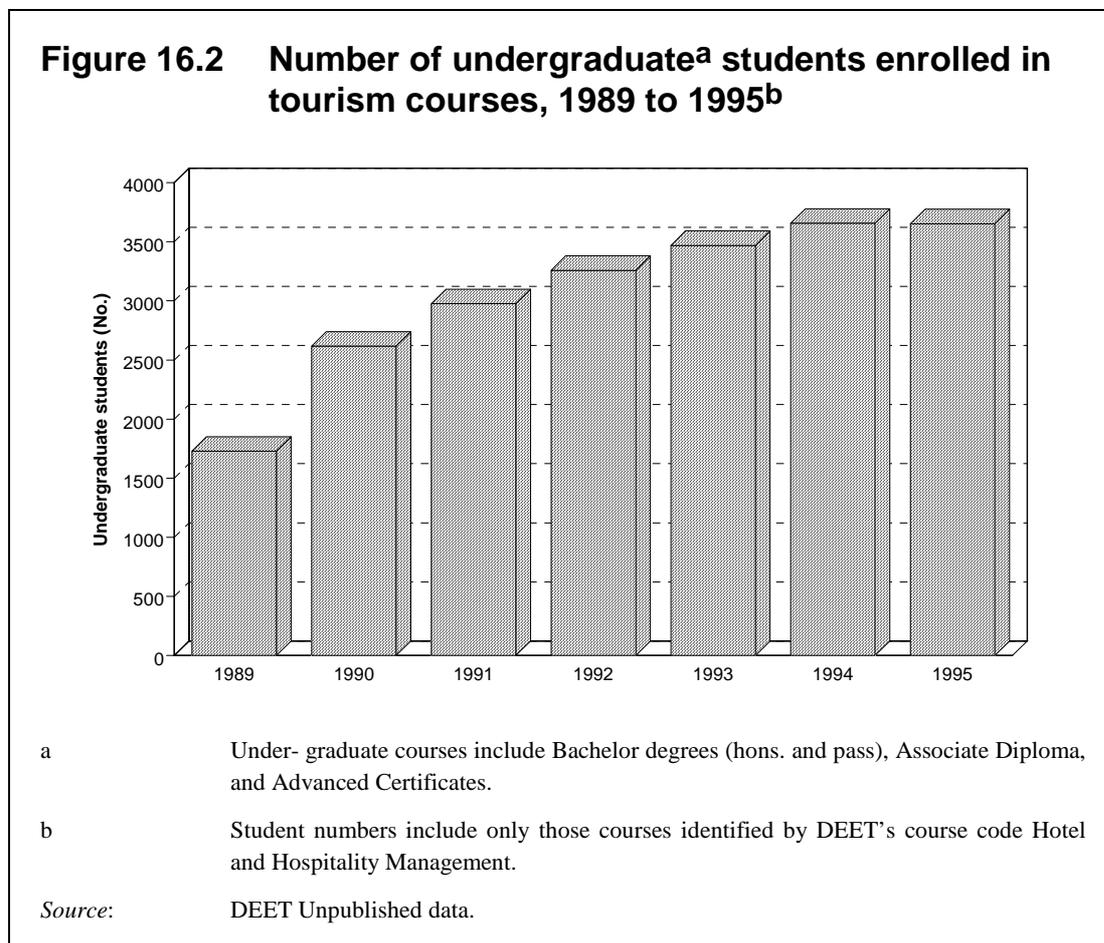
Source: NCVER unpublished data.

As a result of government training policy, and the funding provided, there are a significant number of people undertaking training courses. In 1994, TAFE enrolments in vocational tourism-related courses were equivalent to about 65 per cent of the entire stock of people with post-school qualifications already working in tourism. This provides strong evidence that there will not be a shortage of formally trained staff.

16.3.2 Universities

Universities provide both vocation specific education (for example, dentistry) and general education (such as a Bachelor of Arts degree). General education equips graduates with skills that are valuable in a range of occupations and this would include employment in tourism. Thus, it is not possible to estimate the number of people enrolled in courses useful for employment in tourism. What can be presented are data on numbers in courses with a specific tourism orientation.

Between 1989 and 1994, there was a steady increase in the number of people studying tourism-related undergraduate courses (see Figure 16.2). However, this growth in enrolments was not evident between 1994 and 1995.



In 1995, there were 3653 undergraduate (or bachelors, diploma and certificate) students enrolled in tourism-related courses, (identified by the DEET course code Hotel and Hospitality Management) at Australian universities (see Table 16.5). In addition there were 646 post-graduate students. Approximately 75 per cent of these were full-time enrolments (DEET, unpublished data.).

Table 16.5 Number of enrolments in tourism related university courses, 1995

<i>Course of study</i>	<i>Enrolments</i>
Post-graduate	646
Undergraduate	3481
Certificate, Diploma & Advanced Certificates	172
Total	4299

Source: DEET, unpublished data

16.3.3 Private colleges

Tourism courses are offered at private training colleges across Australia. They provide training at the VET level (similar to TAFE). There is very limited private sector involvement in degree training and where this occurs it is through private-public sector partnerships or via articulation. There is an Australian College of Private Hospitality Providers and in 1995, it had 29 member colleges. It was not possible to obtain enrolment data from the College.

16.3.4 On-the-job training

Experience gained on-the-job is an important means of developing skills. As identified in Table 16.3, informal on-the-job training plays a more important role than formal training (for those working in the accommodation sector).

In 1991, Tourism Training Australia (TTA) established a scheme called ACCESS, to facilitate formal recognition of skills obtained while working in tourism. ACCESS is articulated³ into the TAFE system. There has not been widespread use of the system. By 1995, only 4 200 employees working in the tourism industry had made use of the ACCESS system. Details of ACCESS are provided in Appendix J.

16.4 Demand for tourism training

Existing employees, potential employees (that is students) and employers face differing incentives when making decisions regarding training.

Employees, including potential employees, will weigh up (not necessarily in precise monetary terms) the costs of study against the expected benefits which include improved employment prospects, pay and career advancement. Employers make decisions about the costs and benefits of employing staff with or without formal qualifications. It could be expected that the more highly trained an employee the more they will cost the employer in wages. That is the trade-off employers face. Employers also face decisions about the appropriate amount and type of training that they will provide for their employees.

³ The Vocational Education Employment and Training Advisory Committee (1991) has defined articulation as: ‘... the formal linkage between different levels of different fields of study, including enterprise and industry-based training. Articulation arrangements allow the horizontal or vertical movement between programs or between education and employment’ (p. 21).

16.4.1 Does the industry need more training?

Notwithstanding that employers pay some of the costs of training a great deal of vocational training is publicly funded. Therefore, a threshold question for governments is whether the tourism industry actually needs more training.

The demand for tourism training can be expected to mirror the projected growth in the tourism workforce unless a major shift in employer attitudes occurs. The Commission notes that it is an objective of NVETS to encourage such a change. In 1995, approximately 70 per cent of the tourism workforce comprise relatively low skilled occupations. For example, 116 000 people (26 per cent) in the tourism workforce are employed as kitchenhands and 136 000 people (31 per cent) are employed as bar attendants or waiters and waitresses.

The then Commonwealth Department of Employment, Education and Training (DEET, 1995) developed a model which it used to project changes in employment levels in tourism-related occupations. The Department forecast that between 1993 and 2003 the tourism workforce would increase by approximately 25 per cent, representing 131 000 new jobs. The occupational groups expected to experience the largest increase in tourism employment are trades-persons, sales and service workers and labourers (DEET, 1995). These three groups equate to ASCO categories 4, 6, and 8 respectively, and comprise 86 per cent of the tourism workforce (see Table 16.1).

If the skill structure of the tourism workforce remains unchanged, then approximately 70 per cent of the 131 000 new jobs forecast by DEET could be expected to be in relatively low-skill occupations. There would be approximately 40 000 new jobs created in the remaining relatively high-skilled occupations. In this context, it is important to observe that there were approximately 69 000 students enrolled in tourism-based award courses at TAFE in 1994 and approximately 28 000 were in courses offering trade certificate or higher qualifications. Some of those students would already be working in tourism, however, there is still a large number in the 'pipeline'.

Notwithstanding the marked increase in tourism training in recent years and the significant number in the 'pipeline', a number of inquiry participants have argued that there is a need to increase the level of tourism training. For example, the Western Australian Hospitality and Tourism Industry Training Council stated that:

If we are to compete at world standard training both on-the-job or off-the-job needs to be increased markedly and a positive attitude created towards training as a means by which to improve business operations. (sub. 63, p. 2)

Tourism-Hospitality Training South Australia identified a need to:

Increase the amount of training available to existing employees, incumbent supervisory and management level staff in industry to raise awareness of the skills necessary to ensure quality delivery of all aspects of the tourism experience ... (sub. 30, p. 12)

At public hearings in Sydney, Mr Galvin of TTA stated that there was a need for increased training in the areas of commercial cookery, food and beverage and hospitality supervision (trans, p. 18).

16.4.2 Why employees demand training

There are two key issues that influence the level of demand for training by tourism employees and potential employees. The first is associated with employment prospects. The second is the institutional arrangements that govern career advancement in the tourism industry. These are discussed in turn.

Potential employees are likely to undergo training to gain skills which they anticipate will be useful in gaining future employment and which will return them a higher wage. In this way they can distinguish themselves from those who have not undertaken formal training. By completing a training course potential employees also demonstrate their capacity to learn and to apply themselves to a task. These attributes are likely to be attractive to employers. In this way, students can use training as a 'signal'. For further discussion of the concept of training as a signalling device see Appendix H.

For tourism employees working under certain awards (The Hospitality Accommodation, Hotels, Resorts and Gaming Industry Award 1995, the Club Employees (State) Award and the Club Managers Award) career progression is assisted by attaining formal qualifications. For example, in the Club Employees (State) Award, for job classification levels 1 and 2, the award recommends that employees have completed a prescribed level of training. For job classifications of level 3 and above, the award requires that appropriate training is satisfactorily completed.

TTA (1991) described one possible scenario arising from the formal link between qualifications and employment:

Eventually, employees will not be eligible for appointment to certain classifications unless they have 'the appropriate level of training' [as specified in the award] ... (p. 7)

However, this scenario outlined by TTA is far removed from the present situation. As discussed previously: approximately 64 per cent of people working in tourism-related occupations have no post-school qualifications; and relative to all other industries, the tourism industry has a high proportion of employees who hold qualifications that were not required to obtain their current job.

The awards cannot, of course, ensure that the mere possession of a qualification results in employment at the corresponding grade or classification. Qualifications under the award are a necessary, but not sufficient, condition to be employed and thus paid at particular levels.

As indicated, the industrial award provisions provide incentives for employees to complete formal training. It could be argued that this should not be necessary: if skills are required to perform a job at a particular standard, they will usually be required by an employer, regardless of whether they are specified in an award or not. Given this, the linking of award rates of pay to training and qualifications has influenced national training policy. The rationale for this appears to have been the incentive it provides to potential and existing workers to seek higher skill levels (and earn higher wages in return). It is an open question as to whether or not — in some cases — the level of training specified is too sophisticated for the work involved.

16.4.3 Employers demand for trained staff

In the absence of an unambiguous and rigorous measurement of productivity, observed behaviour can be used to give an indication of the value that employers place on having trained staff. Decisions made by employers on a day-to-day basis reflect their beliefs about the effect that training has on productivity. It may be possible to infer from this behaviour the implicit value that employers place on training. Three elements of employer behaviour that can be observed are: expenditure on training; willingness to pay for skills of trained staff; and recruitment practices.

Expenditure on training

The level of expenditure on training is one tangible measure of the value employers place on training. Using a proxy for the tourism industry⁴ it appears that employers spent considerably less time and money than the all-industry average on employee training (see Table 16.6).

⁴ The definition used to identify the expenditure of employers in the tourism industry on training is 'entertainment and recreational services' and 'restaurants, hotels and clubs'. These are two sub-divisions of the ASIC industry division 'recreation, personal and other services'.

Table 16.6 Average training expenditure, July to September 1993

<i>Industry</i>	<i>Percentage of gross wages and salaries</i>	<i>Dollars per employee</i>	<i>Hours per employee</i>
Entertainment and recreational services	2.4	124	2.6
Restaurants, hotels and clubs	1.6	65	2.9
All other industries	2.9	192	5.6

Source: ABS 1995c

This measure of expenditure does not include the cost to employers of providing informal (on-the-job) training. Given the extensive use of informal training in tourism, the true cost to employers of providing training may be considerably higher than indicated in Table 16.6 (but not necessarily larger relative to all other industries) and hence it is not possible to draw a strong conclusion from these data.

Results from the survey of accommodation establishments conducted by AGB McNair (1995) found that over 80 per cent of respondents spent between one and five per cent of employee payroll on training, which is consistent with the ABS data. The AGB McNair results show that expenditure on training increases with number of staff and thus business size (see Table 16.7)⁵. This relationship between training expenditure and business size is typical across all Australian industry.

Table 16.7 Spending on training as a proportion of employee payroll by employment size

<i>Per cent of payroll</i>	<i>1 or 2 staff (%)</i>	<i>3 to 19 staff (%)</i>	<i>20 to 49 staff (%)</i>	<i>50 or more staff (%)</i>
Up to 1	5	10	23	21
2 - 3	2	9	25	42
4 - 5	1	4	10	10
6	2	4	12	6
Not specified	90	73	31	21
Total	100	100	100	100

Source: AGB McNair, 1995.

Wages paid to qualified staff versus experienced staff

The wage paid to an employee is an indication of how much that employee is valued by the organisation. As noted, training is one element that can contribute to the productivity of an employee. Experience is another.

⁵ The non-response rate for the question was very high for small-scale employers and strong conclusions cannot be drawn from this information alone.

If training makes an employee more productive, an employer should be willing to pay for the increased productivity. Thus, it could be expected that an employee's wage is in part related to the amount of training received. This hypothesis was tested by comparing the tourism industry with all other industries using a statistical regression analysis.

The results of the regression analysis indicate that for each additional year of formal education undertaken, on average, a person working in the tourism industry receives a smaller percentage increase in earnings than does a person working in other industries. This suggests that employers in the tourism industry are not prepared to pay as much as other employers for staff with formal training. The regression results also suggest that, in general, employees in tourism-related industries do not receive a higher wage for increased years of on-the-job work experience. This is not the case for employees in all other industries.

However, the analysis indicated that employees will receive a higher wage for years spent with their current employer. This implies that employers in tourism-related businesses value experience and skills that are specific to their firm (see Appendix L).

Customer service, profitability and staff productivity are the factors considered to be very important when accommodation establishments consider increasing the level of staff training (see Table 16.8). Of course, improved customer service is an aspect of productivity, and increased productivity should lead to increased profitability. As employment size increases, so does the percentage of establishments reporting these reasons as very important, reflecting different management priorities in larger organisations than in smaller ones.

Table 16.8 Reasons for increasing training, identified as very important, by staff numbers

<i>Reason to increase staff training</i>	<i>1-2 staff (%)</i>	<i>3-19 staff (%)</i>	<i>20-49 staff (%)</i>	<i>More than 50 staff (%)</i>
Improvements in customer service	40	66	85	97
Increased occupancy rates	41	64	66	64
Ability to increase room rates	29	45	35	60
Increased staff productivity	29	56	74	86
Reduced staff turnover	29	46	61	75

Source: AGB McNair, 1995.

Recruitment practices

Recruitment practices are another area where an employer's beliefs about the value of formal qualifications might be observed.

From a series of case studies undertaken as part of a research project for the Department of Tourism, Norris et al (1995) were able to conclude that:

A number of short courses in hospitality were offered by TAFE, Skillshare and some private sector organisations. Very few respondents relied on these in their recruitment. It was clear that the possession of a relevant certificate was viewed as a bonus, but not an essential or even sought-after selection criterion. (p. 46)

A similar attitude was identified by Evans (1993) in the UK.

... the tourism industry has not been qualification-minded; the university of life is still regarded by many as being the best breeding ground for recruitment. (p. 245)

In general, respondents to the AGB McNair (1995) survey did not indicate a shortage of qualified applicants for jobs as a high level concern. In fact, respondents were more likely to be concerned about difficulties in attracting job applicants with adequate job experience rather than those with formal qualifications, although the differences were not significant (see Table 16.9).

Table 16.9 Employers concerns relating to characteristics of job applicants

	<i>Extremely concerned</i>	<i>Somewhat concerned</i>	<i>Not at all concerned</i>
Lack of experienced applicants	18	28	35
Lack of qualified applicants	11	26	42

Source: AGB McNair, 1995.

The evidence suggests that employers do not particularly rely on formal qualifications when making recruitment decisions. Of course, this will vary according to the particular job and is a generalisation across the sector. That stated, the implication is that employers do not place a high value on formal qualifications.

Approximately 71 per cent of respondents to the AGB McNair survey indicated that they had no difficulties in recruiting or retaining staff. Of the respondents who did experience difficulties, chefs were identified as the employment category where most difficulties were experienced. This issue is discussed later.

Survey respondents were asked to rate the importance of formal qualifications when choosing between two applicants for a specific job. According to the results the attainment of a formal qualification is highly valued (see Table 16.10). However, this response — that training is very important — is not

necessarily consistent with employer behaviour with respect to low expenditure on training and relative indifference as to formal qualifications when recruiting and paying staff. It should be noted that the employers' attitude is consistent with their behaviour if they believe they can obtain trained staff where the training is paid for by others.

Table 16.10 Importance of a formal qualification in selecting between two applicants for a job (per cent)

<i>Employment category</i>	<i>Establishments</i>				<i>Total (%)</i>
	<i>Very important & important (%)</i>	<i>Neither important nor unimportant (%)</i>	<i>Not important (%)</i>	<i>Not applicable (%)</i>	
Managers	64	16	7	11	100
Front office/reception	62	19	6	11	100
Housekeeping	34	34	20	11	100
Chefs	67	5	2	27	100
Other food & beverage	51	16	5	27	100

Source: AGB McNair, 1995

Table 16.11 reports respondents' levels of satisfaction, in terms of job performance, with various types of training. The high percentage of 'do not know' responses reflects the fact that many employers had not employed formally trained staff or had given their staff on-the-job training. That noted, one clear result is that employers are generally satisfied with their on-the-job training. This is not an unexpected result. Another clear finding is that there is little dissatisfaction with the relevance of any of the forms of training.

Table 16.11 Degree of employer satisfaction with the relevance of training to job performance

<i>Training provider</i>	<i>Neither satisfied</i>		<i>Not satisfied</i>	<i>Do not know</i>
	<i>Satisfied</i>	<i>nor dissatisfied</i>		
	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>
<i>Management staff</i>				
University	16	20	4	61
TAFE	29	16	8	48
Private hospitality training providers	21	19	6	55
On-the-job	61	9	1	30
<i>Non-management staff</i>				
University	13	19	3	66
TAFE	27	15	7	51
Private hospitality training providers	18	18	6	58
On-the-job	52	10	1	37

Source: AGB McNair, 1995.

In summary, a surprisingly small proportion of managers in the tourism industry possess formal qualifications. Despite their expressed preferences for trained personnel, many of these managers, and employers more generally, do not exhibit behaviour to suggest that they believe in the benefits of formal training.

16.4.4 The training — productivity link

The purpose of vocational education and training (VET) is to provide people with better work-related skills. As already noted, the outcome of training should therefore be evident in improved worker productivity, and increased business profitability, as well as employee satisfaction with a more challenging job and higher pay.

In its Draft Report, the Commission asked for information on the relationship between training and improvements to worker productivity and firm profitability.

Participants directed the Commission to work undertaken by Prais et al (1989). This work was a comparative study of 38 hotels in Germany and Britain. The study reported that the average labour requirement per guest night for German hotels was significantly less than that of their British counterparts.

The difference was attributed to various factors, the more important ones being:

- 35 per cent of the labour force in the German hotels held vocational qualifications compared with only 14 per cent of the labour force in the British hotels;
- vocational qualifications were held by almost all managers in German hotels but by less than half the managers in British hotels; and

- the German system of vocational training includes a significant general skills component.

The effect of these differences was that the staff in the German hotels were more efficient than the staff in the British hotels. While these findings might be universally applicable, it would be useful to have an analysis of the Australian situation — particularly given the significant increase in training in the last five years.

At public hearings in Brisbane, Mr Timo from Griffith University noted the absence of systematic evidence on the link between training and productivity in the tourism industry and suggested that the industry take steps to redress this situation.

The key to it I think is for industry in consultation with the employees and the unions to develop key performance indicators as to how they're going to measure increased performance through training. (trans, p. 1358)

The Australian National Training Authority (ANTA) commented that evidence on the link between training and productivity remains largely anecdotal (sub. 133). Mr Mills from ANTA commented at public hearings in Brisbane saying:

... it is difficult to isolate productivity increases arising from vocational training because ... there are a variety of influences and certainly the literature which we have available to us indicates quite strongly that the whole management focus of the company is a key criteria. (trans, p. 1306)

Some inquiry participants identified the benefits of training in their organisations. The Sheraton Towers Southgate, for example, has implemented an enterprise agreement in which training is a key element. They report that:

The training provision had been an outstanding success and has contributed directly to improved labour productivity. (sub. 172, p. 4)

The Hilton Hotels International Pty Ltd identified a range of productivity improving factors associated with their training program:

Training and development is seen [by Hilton International] as an investment in people, strategically important, because the ultimate success of the organisation is dependent upon everyone within the organisation also achieving personal success. ...

In a very competitive market for quality labour, we have sought to differentiate ourselves as the 'preferred employer' on the basis of the training and development opportunities offered. (sub 154, p. 14)

Many inquiry participants have stated that there is a need for more training to be undertaken in the tourism industry. Formal evidence showing the link between training and productivity is presently lacking but would give weight to their argument.

The Sheraton and the Hilton are large enterprises operating at the 'top end' of the accommodation market. Separate information is needed to affirm the link between training and productivity across the diverse range of firms in the tourism industry, many of which are small.

16.4.5 Summary

In seeking to explore the value that employers place on having trained staff, a number of related matters can be noted.

First, there is evidence that spending on training, as well as the premium paid to trained people, are lower in tourism than in other industries.

Second, when recruiting staff, employers in the tourism industry appear to place more importance on experience and on-the-job training than on formal qualifications.

Third, training has the *potential* to increase worker productivity. However, in the Australian context evidence which links tourism training and enterprise performance is limited.

ANTA is currently putting in place means to measure the various training outcomes in Australia. For example, information is being systematically collected from both employers and TAFE graduates on their experiences of training (ANTA transcript). Over time the collection of this information should provide evidence of the outcomes of increased levels of training. It may also identify changing attitudes towards training.

On balance, the Commission sees little evidence in the expressed attitudes or in the behaviour of many, but not all, employers to suggest that they demand or value formal training. Nor can it find evidence that the recent increase in training effort has been insufficient to satisfy the demand for training by the tourism industry.

In general there is no evidence that there are insufficient students in the formal training 'pipeline' to satisfy the forecast demand for trained personnel in the tourism industry. Indeed the opposite may be true.

The training infrastructure presently in place has been developed recently, and it is too early to judge its success or otherwise in matching training supply to training demand.

ANTA should monitor carefully the balance between supply and demand for trained personnel in the tourism industry. This should reduce the likelihood of waste from increasing the supply of trained personnel without a corresponding increase in the demand for them by employers.

Recommendation 7

It is recommended that an extensive review be undertaken within three years to quantify the costs and benefits of tourism training, drawing upon the monitoring and performance data compiled in the interim.

16.5 Chefs

In the Draft Report the Commission discussed participant comments on the difficulties and alleged shortages experienced when recruiting trained chefs. In relation to chefs, the Draft Report asked participants to comment on:

- the high rate of cancellation of food trade apprenticeships and high rates of exit from the food trades generally; and
- the suggestion that improved working conditions, including increased rates of pay, could provide a mechanism to resolve the problem of shortages.

These requests attracted a number of responses.

During the inquiry the Commission at times found the terms ‘chef’ and ‘cook’ to be interchangeable. This can lead to misunderstandings about the skill level of the people being described. To answer the question about a shortage there needs to be a common understanding about the skill levels of the people to whom the term ‘chef’ refers.

Information presented by participants suggested that the career path of a chef progresses from an apprentice to a trade qualified cook, to a chef, with various classifications within these three general stages. The term ‘trade qualified cook’ or just ‘cook’ is used to describe people who have just completed their apprenticeship. The distinction between a ‘trade qualified cook’ and ‘chef’ is that a chef has more experience. In other words, not all cooks are chefs, but all chefs are cooks. Henceforth, this chapter uses the terminology ‘cooks, including chef’ when the text is referring to both categories.

The industrial awards for trade qualified cooks span three levels, Grade 3 to Grade 5. A person who has just completed a cooking apprenticeship is normally first employed as a Grade 3 trade qualified cook. The award rates of pay for trade qualified cooks Grade 3 - 5 are shown in Table 16.12.

Table 16.12 Weekly award wages for trade qualified cooks

<i>Skill area</i>	<i>Classification in Industrial Award</i>	<i>Weekly award wage (\$)</i>	<i>Annual salary (\$)</i>
Commis chef, qualified chef	Grade 3	441.20	22 942

Demi chef, first cook	Grade 4	482.90	25 111
Chef de partie	Grade 5	503.80	26 198

Source: Draft Order, The Hospitality, Industry - Accommodation, Hotels, Resorts and Gaming Award 1995.

16.5.1 Is there a shortage?

In submissions and at public hearings many participants claimed that the industry is experiencing a shortage of cooks, including chefs. For example, the AHA stated that:

... there is the requirement for the employment of 1000 additional chefs ... to alleviate the current shortage. (sub. 157, p. 46)

The Commission has received evidence suggesting that a shortage has existed for an extended period. For example, the Department of Employment, Education, Training and Youth Affairs (DEETYA) commented that:

Shortages of experienced and qualified chefs have been a characteristic of the hospitality industry since at least the mid 1980s and have been particularly evident since the early 1990s. (sub. 183, p. 11)

Further, DEETYA submitted evidence from their Skilled Vacancy Survey⁶, collected for over a decade, and concluded that:

... advertised vacancies for cooks/chefs have increased faster than for all trades ... and [the data] suggest a general increase in the severity of cook/chef shortages, except in Western Australia and possibly the Northern Territory. (sub. 183, p. 10)

In discussing the issue at public hearings in Sydney, Ms Jenny Lambert of the Restaurant and Catering Industry Association of Australia stated the shortages pertain to experienced chefs. She described the qualities that distinguish a trade qualified cook from a chef:

... where the shortages are is filling that need for qualified trades persons and above or equivalent people who have had a lot of years' experience in the industry and who can fulfil the need for people who are creative, people who are highly trained or highly skilled and people who can show other cooks, whether they be apprentices or otherwise ... (trans. p. 1647)

Ms Lambert commented that typically it took 2 to 3 years to move through the award grades 3 to 5 (trans. p. 1644). Beyond Grade 5 on the career path a person would move to become a 'senior Chef de partie' (Table 16.13). It is in these more experienced chef categories where the most acute shortages are to be found. This is partly because evidence suggests that many people who leave cooking do so while they are still either apprentices or in the Grade 3 to 5 award range.

⁶ The Skilled Vacancy Survey data are collected on 143 skilled occupations.

Table 16.13 Career path of a chef

<i>Apprentice</i>	<i>Trade qualified cook^a</i>	<i>Chef</i>
		Executive Chef
		Executive Sous Chef
		Sous Chef
		Senior Chef de partie
	Chef de Partie (Grade 5)	
	Demi Chef de Partie (Grade 4)	
	Commis de Cuisine (Grade 3)	
Apprentice 4th year		
Apprentice 3rd year		
Apprentice 2nd year		
Apprentice 1st year		

a The classifications of Grade 3, 4, and 5 for trade qualified cook are included in the relevant industrial awards.

In the submission by Hilton Hotels, a table of annual earnings of cooks, including chefs, was provided (see Table 16.14). The wages received by Grade 3 to 5 chefs at the Hilton Hotels are above the award rates of payment (see Table 16.12). A number of participants commented that above award payment for experienced chefs was common practice in the industry.

Table 16.14 Career path and salary of chefs working at Hilton Hotels^a

<i>Classification</i>	<i>Salary Range (January 1996)</i>	<i>Average earnings 1994-95</i>	<i>Number employed</i>
Executive Chef	70 000 +		1
Executive Sous Chef	60 000 to 69 999		1
Sous Chef	50 000 to 59 999		1
Sous Chef	40 000 to 49 999		5
Sous Chef/ Snr Chef de Partie	30 000 to 39 999		4
Chef de Partie (Grade 5)	29 399 to 40 899	32 300	11
Demi chef de Partie (Grade 4)	27 591 to 33 444	32 100	12
Commis de Cuisine (Grade 3)	24 502 to 29 989	27 500	9

a It is understood that the data include ordinary time earnings plus any overtime and penalty rate payments.

Source: sub. 154

The employment pyramid among cooks/chefs at Hilton Hotels indicates that 12 of the 44 staff are employed at levels above the Grades 3 to 5 (see Table 16.14).

Based on the available evidence the Commission accepts the industry view that there is a shortage of chefs and that this shortage is most acute for experienced chefs. A shortage has existed at least since the mid 1980s and probably longer.

16.5.2 Factors contributing to the shortage

Two major factors seem to be contributing to the shortage of chefs. The first is the increase in demand for their skills. The second is the high attrition rate for cooks, including apprentices and chefs. These factors are discussed in turn.

Increasing demand for cooking skills

There has been an increase in the demand for cooks, including chefs, in the last decade. In the period between May 1986 and February 1995 there was a 40 per cent increase, from 46 000 to 66 000, in the number of people who are working as cooks, including chefs in the tourism industry⁷ (ABS unpublished data).

There has been a significant increase in Australians eating out, that is going to restaurants for meals, and this has contributed to increasing demand for cooks, including chefs. The average weekly household expenditure in Australia on the category 'meals in restaurants, hotels, clubs etc' has increased over 25 per cent in real terms⁸, from approximately \$12 in 1984 to be just over \$15 in 1993-94 (ABS 1996).

Thus, the shortage is a result of increasing demand which for some reason has not been met by a supply response.

Attrition of food trades people

Food trade qualified people include meat trades persons, bakers, pastry cooks, cooks and other food trades persons. This is a larger group than cooks, including chefs; however, the experience of the larger group is not necessarily different from the sub-group. In 1993, there were 91 000 people with food trade qualifications in Australia and 85 800 of these people were in the labour force (ABS 1994g).

In 1988, the Department of Employment Education and Training (DEET) made the following comments in relation to catering and food processing trades, which could be said to equally apply today:

High wastage and turnover rates are significant factors affecting demand for this group of occupations, especially for chefs/cooks and waiters. Contributory factors include high-pressure working conditions, uncongenial hours and shiftwork requirements, as well as a relatively high concentration of part-time and casual workers. (DEET 1988, p. 158)

⁷ The ANZIC industry 'accommodation, cafes and restaurants' was used as a proxy for the tourism industry.

⁸ Constant 1989-90 prices were used to calculate the real change from 1984 to 1993-94.

The work profile and experience of food trades-people differs from the work profile and experience of all trades-people (see Table 16.15). Only 50 per cent of people with food trade qualifications who were in the labour force in 1993 were working in their trade. The significant difference between the food trades and other trades is that 30 per cent of the former, as opposed to 21 per cent of the latter, did not use their trade skills in their current position. However, it was the AHA's contention that:

... of the 50 % of qualified chefs not using their qualifications, many still work in the industry in a variety of jobs (sub. 157, p. 51).

While this might be the case, the data in Table 16.15 suggest that of all trade qualified people, those in the food trades are more likely to leave their profession.

Table 16.15 People in the labour force with trade qualifications, 1993

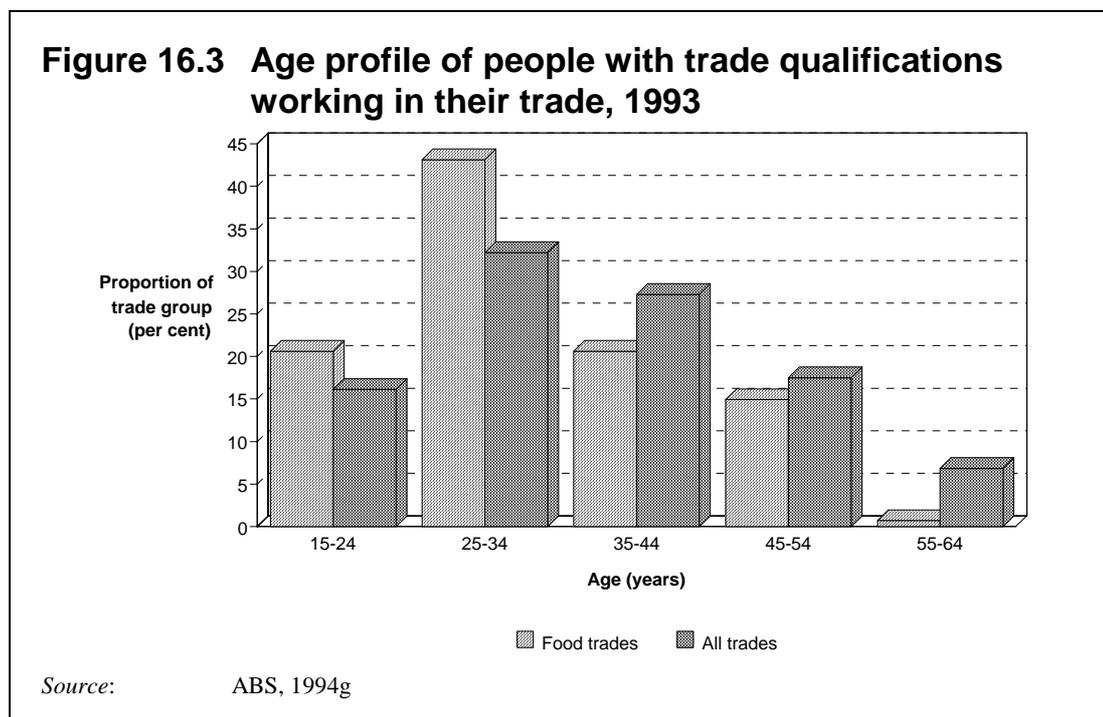
Characteristic	Food trades people (%)	Other trades people (%)
Working in trade	50	54
Unemployed	9	7
Never worked in the trade	5	6
Working but never use trade skills	25	15
Working and use trade skills occasionally	2	8
Working and use trade skills at least once a week	9	10
Total	100	100

Source: ABS Cat No 6243.0 Career Paths of Persons with Trade Qualifications.

The young age profile of people with food trade qualifications still working in their trade indicates that food trades-people tend to leave their trade earlier than other trade qualified people (see Figure 16.3). TTA suggested that:

Many young chefs, once qualified, do not wish to do the routine cookery work required of chefs in the lower grades. (sub. 85, p. 2).

This fact is significant in explaining the shortage of chefs. Food trade qualified people leave their trade-based occupations before reaching higher level and higher paid positions.

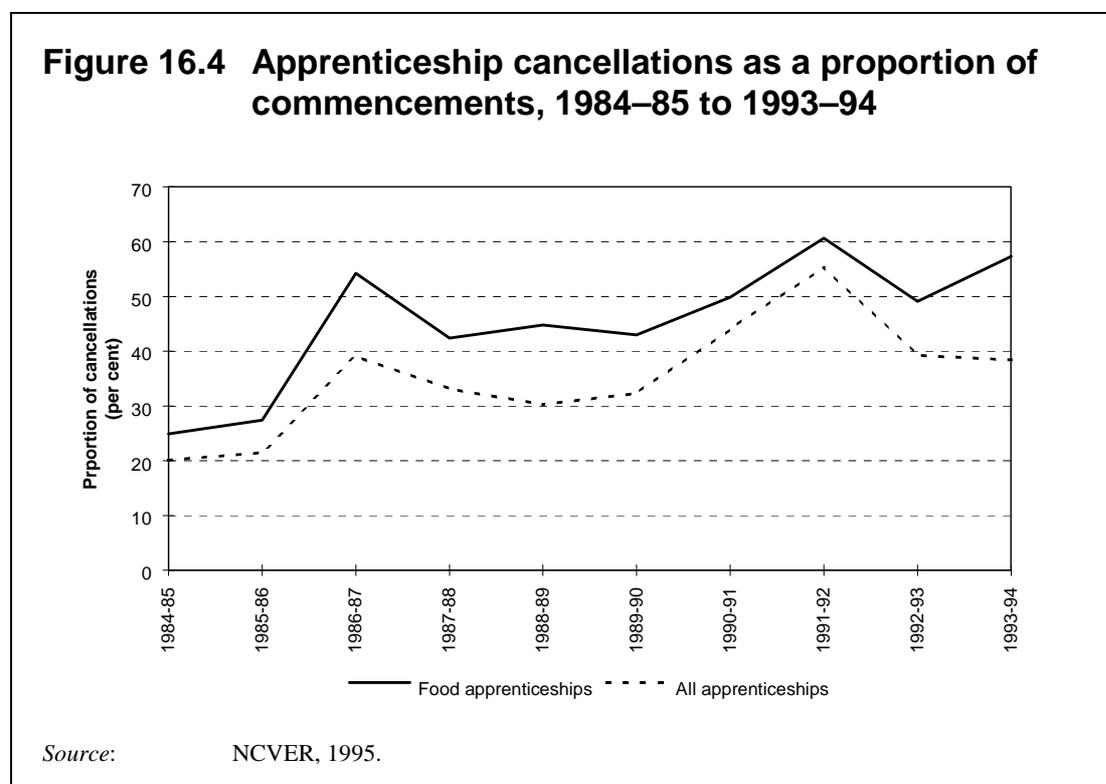


The ABS (1994g) reported that the three main reasons identified by people with food qualifications for having left the trade, or taking a break from the trade, were:

- due to family, personal or ill health reasons;
- because they wanted a change or were dissatisfied with the job; or
- because they sought better pay, or wanted better career and promotion prospects

Attrition of apprentice cooks

DEETYA noted that the apprenticeship cancellation rate for cooks in 1994-95 was 22 per cent which was significantly higher than the long-term cancellation rate for all apprenticeships which was 11-13 per cent (sub. 183). This difference is reflected in Figure 16.4 which shows cancellations as a proportion of commencements for food trade apprentices and all apprentices over a ten year period.



In the Draft Report the Commission asked participants to comment on why the rate of cancellation of food trade apprentices is high relative to apprentices in other industries. A number of participants commented on this issue.

DEETYA in its submission to this inquiry raised a number of issues it believes contribute to high attrition rates of apprentice cooks.

Possible reasons for the high wastage rates from cooking apprenticeships are:

- unrealistic expectations of apprentices and lack of knowledge about wages and working conditions;

- relatively low wages during apprenticeship training may encourage apprentices to seek alternative employment;
- unsociable working hours (including split shifts) may encourage apprentices to leave the occupation; and
- the relative ease of obtaining a position as an apprentice attracts job seekers who are motivated by a desire for short-term employment rather than seeking a career as a chef. (sub. 183, p. 8).

The Northern Territory Tourism Industry Training Council Inc commented that:

... anecdotal evidence suggests that reasons for their [apprentices] dissatisfaction with the trade include insufficient knowledge of the trade prior to entering; long and unsociable hours; poor working conditions and general dissatisfaction and impatience with the concept of an apprenticeship. (sub. 153 p. 4)

At public hearings in Cairns, Ms Rosie Ryan identified unreasonable work pressures as a key factor influencing the cancellation rate of apprenticeships.

...what is happening with some of the apprentices is they are being put in levels of responsibility far greater than they should be given for (a) their level of ability and (b) for the wages they are being paid. (trans, pp. 1445-46)

The joint submission from the Queensland Department of Training and Industrial Relations and Department of Tourism Small Business and Industry also identified 'burnout' as a factor influencing the high rate of apprenticeship cancellations. One aspect contributing to apprenticeship 'burnout' was that kitchens today operate with fewer staff. For an apprentice this results in increased work expectations in terms of quality and quantity of work (sub. 181).

As part of a study conducted by TAFE NSW Tourism and Hospitality Industry Training Division and Tourism Training NSW (1995) apprentices cooks were interviewed and asked to relate their experience of work. Difficult work conditions featured prominently in their responses. For example:

Some apprentices feel that they have little or no protection from unscrupulous employers. They feel there is no one to turn to for everyday advice or support. (p. 15)

Some apprentices are made to cope with duties far beyond their abilities. The establishments in question expect the work of a qualified cook or chef to be performed. (p. 15)

How you are treated in the workplace is 'luck of the draw' and it depends on individual chefs and management. (p. 21)

From the evidence presented to the Commission, it appears that factors contributing to the high rate of attrition of apprentices in the food trades include: pressure to assume responsibilities beyond the level for which they are trained; low rates of pay; and long, and unsociable hours of work. Given these

factors, it is apparent that a strategy to reduce the shortage of chefs should involve more than simply increasing the number of apprentices.

Gender harassment

In the Draft Report, the Commission asked participants to comment on statements made on industry visits alleging harassment of women in the food trades. The Restaurant and Catering Industry Association of Australia commented on this issue:

As an employer association we deal with a small number of problems in this area, but nothing that indicates anything out of the ordinary in terms of particular issues for the kitchen apart from the not unexpected (but of course unacceptable) problems encountered by women breaking into previously male dominated trade areas. (sub. 143, p. 6)

Other participants commenting on this issue were in general agreement with this view suggesting that harassment was not especially focussed on women and was not a major reason for the attrition rate of apprentice cooks.

The shortage of chefs is partly due to the increased demand from an expanding tourism industry and changing lifestyle patterns, with more people eating meals outside of the home. It is also due to the relatively large numbers of chefs leaving the industry because of demanding working conditions and low pay relative to other occupations.

16.5.3 Strategies to alleviate the shortage of chefs

In 1988, the Department of Employment, Education and Training commented that:

Following a decade of persistent shortages, the recent sharp rise in intakes of apprentice chefs/cooks and pastrycooks gives cause for optimism that the additional demands for these skills expected to result from increased overseas tourism in 1988 and beyond will be met substantially from domestic sources. (DEET 1988, p. 161)

Shortages of chefs were identified by DEET to exist at least since the decade up to 1988. Despite the optimism expressed in 1988 that the situation would be reversed, participants in the present inquiry indicate that a shortage still exists. The shortage can be addressed using both short-term and long-term strategies. This was the position taken by Mr Richard Mulcahy, of the AHA at public hearings prior to the release of the Draft Report. He stated that:

This issue needs to be dealt with on both a short-term basis by allowing easier access to overseas chefs, and on a long-term basis by looking at how we train chefs and how the industry and training providers market commercial cooking as a career. (trans, p. 950)

Importing skilled labour

Recruitment of chefs from overseas is one immediate way of dealing with the shortage of chefs. This practice is facilitated by National Labour Agreements that involve DEETYA, the Department of Immigration and Multicultural Affairs, the Department of Industrial Relations and a sponsoring organisation.

DEETYA report that in the last two years, six National Labour Agreements relating to the tourism industry were negotiated. The agreements facilitated the entry of 455 chefs into Australia on a temporary entry basis (sub. 183, p. 11). The AHA is one sponsoring organisation currently involved in a Labour Agreement (sub. 115).

Labour Agreements are designed to be a temporary solution to a skill shortage and sponsoring organisations must agree to undertake certain training activities aimed at alleviating the shortage in the longer term. Each agreement has different training activities associated with it.

Increase apprenticeship numbers

A long-term response to the difficulty experienced by the tourism industry in recruiting chefs has been to increase the number of people in training. As discussed earlier this strategy was suggested by DEET in 1988. In the course of this inquiry the AHA also suggested this strategy.

On a long term basis there is a requirement to train more apprentice chefs. This may be achieved by a number of means including a marketing scheme to increase the awareness of the career advantages as a chef in a growing sector of industry. (sub. 91 p. 16-17)

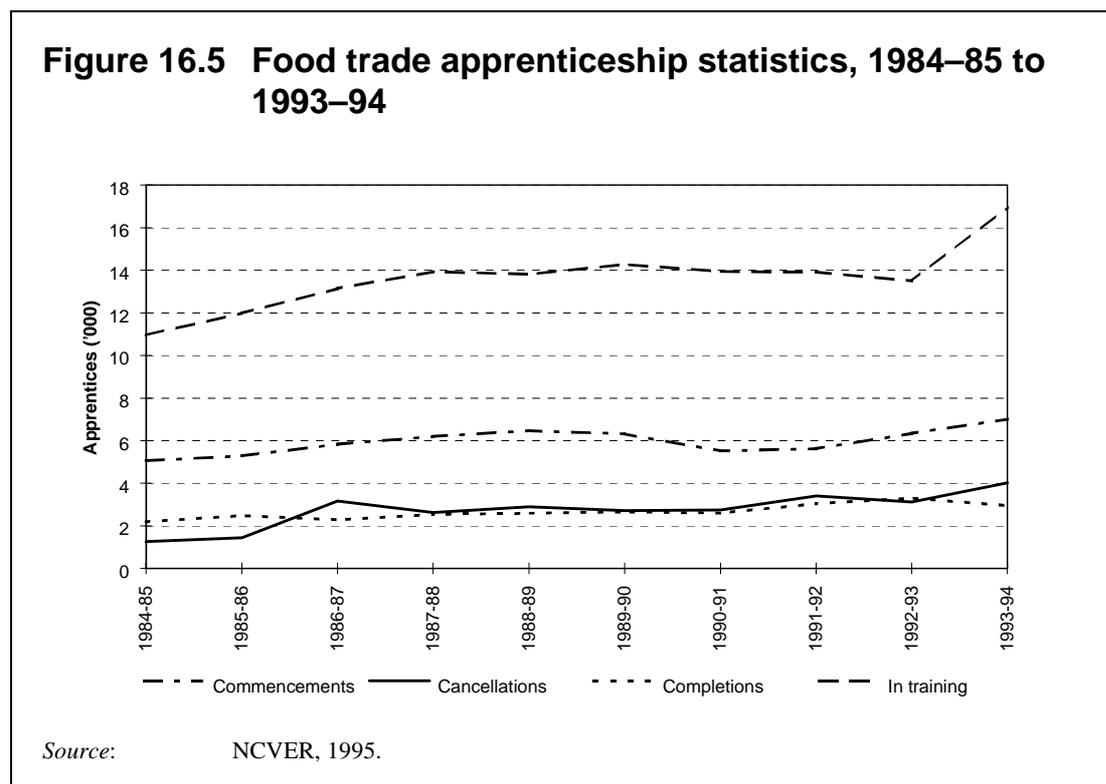
In their submission to this inquiry, the Registered and Licensed Clubs Association of Australia found that their members had in fact implemented this strategy:

Each club surveyed currently employs a number of apprentices as an attempt to overcome this shortage [of chefs] in the future. (sub. 158, p. 23)

The absolute number of food trade apprentices in training has increased since 1984–85, with a large increase in 1993–94 (see Figure 16.5). However, the relative proportion of food trade apprentices completing their training has not increased from 1986–87 (NCVER, 1995).

The high attrition rate of food trade apprentices has meant that the strategy of increasing apprenticeship numbers has not been successful in alleviating the shortage of chefs.

Figure 16.5 Food trade apprenticeship statistics, 1984–85 to 1993–94



Group Training

The Group Training scheme allows apprentices to work for different firms during the course of their apprenticeship. Group Training companies are not-for-profit companies that employ apprentices and are responsible for the administrative costs of employing the apprentice. The Group Training company organises 'host' employers where the apprenticeship is undertaken.

Involvement in Group Training confers advantages on both the apprentice and the host employer. For example, a host employer is not committed to employing an apprentice for the full term of the apprenticeship. This encourages the involvement of small-medium sized firms in the apprenticeship scheme. Such firms might not otherwise have been involved in apprenticeship training. Apprentices in the Group Training scheme are assured of continued employment throughout the term of their apprenticeship, can gain experience at a number of establishments and have a support network.

The use of the Group Training scheme alleviates some of the pressures experienced by apprentices and may be a way to reduce the attrition rate. The limited data available suggest that in 1994–95 cancellations as a proportion of commencements for cooking apprenticeships was slightly lower for apprentices in the Group Training scheme, at 53 per cent, than for apprentices in the private sector, at 59 per cent (NCVER, unpublished data). In June 1995, Group

Training companies employed 25 per cent of apprentice cooks (NCVER unpublished data).

The House of Representatives Standing Committee on Employment, Education and Training (1995) gave overall support to the concept of Group Training Companies in its report of March 1995.

Recommendation 8

It is recommended that training funds be re-allocated to give greater emphasis to the use of Group Training Companies in the training of apprentice cooks.

Improving conditions and wages

The Draft Report suggested that one possible strategy to increase the number of chefs was to improve working conditions, including rates of pay. Most inquiry participants argued that chefs are well paid and consequently improving wages and conditions would not increase the number of chefs. For example, Hilton Hotels Australia Pty Ltd argued that:

The shortages [of chefs] that have been identified by our organisation have different causes in different parts of the country and cannot simply be addressed by out-bidding our competitors. (sub. 154, p. 19)

While the Restaurant and Catering Industry Association stated that:

These people [chefs] are well paid — it is unlikely that a restaurant or accommodation establishment could attract any chef with a few years of post-trade training for less than \$700 - \$1000 per week gross. (sub. 143, p. 2)

The Restaurant and Catering Industry Association conducted a survey of its members to gain information on the gross weekly wages being paid to chefs. The Association received responses from 35 member organisations (see Table 16.16). There is a very significant variation in the wages being paid to people who are working as cooks or chefs. The average wage would be of interest; however, only the median is available.

Table 16.16 Gross weekly earning^a of cooks and chefs employed by members of the Restaurant and Catering Industry Association, 1996

<i>Type of cook or chef</i>	<i>Wage range</i> \$	<i>Median Wage</i> \$
Unqualified cook	356 - 850	510
Qualified cook	317 - 1250	615
Head Chefs	450 - 1900	800

a The question asked of respondents was: What is the approximate gross weekly wage paid to cooking staff. Consequently, the data could be expected to include ordinary time earnings plus any overtime and penalty rate payments.

Source: Sub 173

Other participants commented that improved wages and conditions could play a role in alleviating the shortage of chefs. For example, TTA and other members of the tourism training network commented:

The raising of pay levels and improvement of working conditions are certainly integral components of the necessary reform. (sub. 146, p. 5)

The Australian Liquor, Hospitality and Miscellaneous Workers Union also supported this view. It suggested that:

... the repercussions of poor conditions and work organisation ... [show] that training per se doesn't necessarily provide a stable, long term professional base if other factors, like hours and pay are not good. (sub 175, p. 11)

The evidence presented by participants indicates that the experienced, highly skilled chefs are well paid. However, it is not clear that this is the case for the less experienced or less skilled chefs or recently qualified cooks.

The ABS collects data for the occupation of 'cook', incorporating the classifications from unqualified cook to chef. In 1994, cooks had lower average weekly ordinary time earnings⁹ and average weekly total earnings¹⁰ than other trades-people and than the all-occupation average (see Table 16.17).

It is in the industry's interest to improve the work conditions for those people who successfully complete their cooking apprenticeship but are not yet experienced or highly skilled chefs. Retaining a higher proportion of these people in the industry for longer periods of time is a key element in alleviating what has become a long-term shortage of chefs.

⁹ Weekly ordinary time earnings of employees refers to one week's earnings for the reference period attributable to award, standard or agreed hours of work.

¹⁰ Weekly total earnings of employees is equal to weekly ordinary time earnings plus weekly overtime earnings.

Table 16.17 Average weekly earnings and hours for full-time adult non-managerial employees, May 1994

<i>Occupation</i>	<i>Avg weekly ordinary time</i>		<i>Avg weekly total</i>	
	<i>Earnings (\$)</i>	<i>Hours</i>	<i>Earnings (\$)</i>	<i>Hours</i>
Cooks	497.90	39.2	511.00	39.9
Food trades people	486.20	38.8	519.90	40.6
All trades people	538.90	38.1	620.50	41.5
All occupations	577.70	37.9	623.00	39.9

Note Adult employees are those employees who are 21 years of age or over and employees under 21 who are paid at the adult rate for their occupation.

Source: ABS Cat. No. 6303.0.

The shortage of chefs is most acute at the higher skilled levels because both apprentices and trade-qualified cooks are leaving the industry before they have had time to pursue a career and reach more experienced levels.

16.5.4 Summary

The tourism industry has experienced a shortage of chefs since the mid-1980s and probably longer. In the past, attempts have been made to address the shortage of chefs using both short-term and long-term strategies. These strategies have focused on adding to the pool of chefs by training more apprentices and by importing chefs. The strategies have not focused on the equally important need to reduce the number of trained people leaving the industry and for which the industry is primarily responsible.

It is likely that a number of strategies will need to be combined to alleviate the shortage of chefs. On past experience, simply increasing the number of training places for apprentice cooks will not work. The solution lies with action to retain a higher proportion of trade-qualified cooks for longer periods; improved pay and conditions may assist. These changes are the responsibility of industry.

One element of such a combined strategy that would require involvement from both the industry and government is the Group Training Scheme. The scheme is particularly suited to the training and retention of apprentice cooks; it exposes apprentices to the broad range of experiences that are necessary to succeed in their trade and there is some evidence that the scheme and its associated support network reduces the high rate of exits normally found among food trades apprentices.

16.6 Emerging issues in tourism training

The training environment in Australia has recently undergone a period of significant reform. In the course of the inquiry, the Commission has identified a number of issues that are associated with the implementation of these reforms in tourism training. These are: the low level of involvement of small firms in training; finding the appropriate mix between vocational and general content of training; and credentialism. These three issues have implications that extend beyond training for tourism.

16.6.1 Training requirements for small businesses

A large proportion of tourism businesses are small in size. In March 1994, approximately 80 per cent of accommodation establishments and cafes and restaurants employed fewer than 10 people (ABS unpublished data). Small tourism businesses include owner-operator tour guides and family owned and operated motels.

In general, small firms have relatively little experience of formal or structured training. TTA have reported that small business is:

... least likely to undertake any assessment of the training needs of its employees, nor implement on-the-job training in a planned way. (Karim, 1995, p. 1)

This is supported by evidence from the AGB McNair (1995) survey. This survey reported that employees in large organisations have more training than employees in small organisations, and permanent employees receive more training than casual employees (see Table 16.18).

There are a number of reasons that could explain this. For example, the operations of the business might be such that formal training in tourism is not a pre-requisite. That is, an owner-operator of a small country motel might have adequate business skills from previous experience to meet the needs of running a motel, and paid employment might be limited to housekeeping staff.

There are other reasons. Small firms could be unaware of the benefits associated with training, or hindered by difficulty in accessing existing training programs, or managers may feel able to impart the skills they want in an informal way. It is possible that the low levels of training evident in the tourism sector are a reflection of a low level of awareness of existing training courses and structures. The AGB McNair survey (1995) found that accommodation establishments with 1 to 2 staff reported the lowest level of awareness of tourism-specific training initiatives (see Chapter 15).

Table 16.18 People with formal training^a by employment category and firm size

	1-2 staff (%)	3-19 staff (%)	20-49 staff (%)	More than 50 staff (%)
<i>Full-time and part-time staff</i>				
Managers	14	19	42	62
Front office/reception	14	16	28	45
Housekeeping	8	4	4	21
Chefs	n.a.	77	78	94
Other food & beverage	n.a.	13	18	46
Other	50	15	25	47
<i>Casual staff</i>				
	0	6	9	27

a Formal training was defined as 'training that relates to a qualification or training for which a syllabus or course program exists and is assessed. It includes courses provided externally, for example by TAFE, and on-the-job courses (either in-house or off-site) conducted exclusively for a firm's own employees'.

Source: AGB McNair, 1995.

It is also possible that firms are not aware of the potential benefits associated with training. This view was expressed by Tourism Training Tasmania:

... 'demand for training' does not truly reflect the need for training. ... many operators could improve their service standards by implementing structured training in their own enterprises or by accessing flexible training arrangements for their employees. (sub. 24, p. 1)

TTA expressed a similar view noting that:

... many small organisations are not yet aware of its [the national training system] existence or the benefits it offers. (sub. 85, p. 5)

If this is the case, it indicates that the NVETS needs to develop strategies to inform employers of the benefits of training and in effect convince them of the benefits.

Informing small businesses of the value of training is an objective of TTA's *Golden Globe Tourism and Hospitality Network Award*. It is designed to assist participants to develop training plans and encourage best practice (Karim, 1995).

However, it is possible that employers in the tourism industry, in both small and large firms, are making the best decision about the appropriate levels of training required by their employees. In other words, limited involvement by small firms' in training may be logical if the content of formal training courses does not meet their needs or indeed there is no need for skills acquired through formal training.

All reasonable steps should be taken to design training to match the needs of small employers and to inform them of the availability of this training. Only then will it be possible to judge the degree to which formal training is beneficial to small business.

16.6.2 Can training be too vocationally oriented?

High rates of staff turnover and exit from the industry suggest that a large number of employees will spend relatively short periods of their working lives in tourism-related employment. This has implications for training because when people change jobs and move out of an industry the value of any narrowly-focused, vocationally-specific skills they have acquired can be lost.

In the long-term, there may be significant costs in pursuing a strategy that emphasises industry-specific skills at the expense of more general skills. The balance between specific skills and general skills acquired in vocational training will influence the value employers place on the formal qualification. In turn, this will affect the return employees obtain on their training.

An underlying goal of the National Vocational Education and Training System (NVETS), and the National Training Reform Agenda (NTRA) before it, has been to develop training that is relevant to the needs of industry in a dynamic economy. The fundamental role of an Industry Training Advisory Body (ITAB) is to represent the views of industry in the development of training structures and training courses.

Over time the needs of industry will change. This should be reflected in the changing content of courses. Also, it is likely that employees' skill requirements will change as their working lives progress.

As a result of these changes, the skills taught in a highly specific course are likely to decline in value to an employer, and hence the employee, over time. There could be exceptions to this; however they are likely to be in areas where on-going training (at a relatively sophisticated level) are the norm. Given the general case, employers and employees may be best served by training that provides at least some general skills that are relevant in more than one job or industry.

Dr Bill Faulkner, The Director of the Centre for Tourism and Hotel Management Research at Griffith University, reflected on the current trend to provide skill-specific training:

It is of considerable concern for many people within the industry, universities and some training providers that all the focus is currently on the short term functional outcome of training. (sub 41 p. 5)

The Karpin Report (1995) considered this issue in terms of the trade-off between vocational and general management skills.

... vocational education and training concentrates too closely on developing technical competencies in occupational programs — at the expense of more general management skills. (p. 212)

This tension between the type of training that best serves the immediate needs of industry versus training that best serves society was raised in the joint submission from the Queensland Department of Training and Industrial Relations and Department of Tourism, Small Business and Industry:

TAFE efforts to maintain general skills within courses are consistently rejected by industry as being unnecessary ‘padding’ of courses. Industry based Curriculum Advisory Committees invariably request or, at time, demand that TAFE remove unnecessary general skills training in order that courses can be shortened and made more industry oriented. (sub. 181 p. 5)

As the majority of tourism-related training takes place in government funded institutions, there should be a positive return to society from this training. The return to society is less certain, if narrowly-based, vocationally-specific training is delivered, in place of training that provides more general skills. It is the proper task of firms to themselves provide skills which are particular to the enterprise.

Given this, it can be argued that the current trend to base the content of training on the very specific needs of particular industries may not be putting training resources to their best use. Any waste of resources that results is likely to occur across all industries — it would not be confined to the tourism industry only.

It can be concluded that there is value in including both vocational and general components in training delivered by the VET sector. As well as tourism-specific skills, this balanced approach provides workers with general skills which they can use in other industries if they choose to leave the tourism sector. It also provides employers with a workforce that is more broadly skilled and better able to adapt to the changing needs of industry.

The high rate of staff turnover in the tourism industry suggests that formal publicly-funded tourism training should continue to include a significant amount of general skills, in order to be of value to those who subsequently leave the industry and to increase the capacity of the workforce to respond to changes.

16.6.3 Credentialism

Credentialism is the term used to describe the situation where it becomes necessary to have a formal qualification before being employed, but the skills

learned are not necessary to perform the job. Credentialism is over-training, it results in a misallocation and waste of resources devoted to training, because it does not make employees more productive. It also leads to frustration and disappointment for employees. DEET (1991) commented that:

It is important to ensure that the increase in the skill base represents a genuine improvement in the productivity of the workforce and is not simply feeding growing credentialism. An increase in the skill base in response to the latter would result in a costly over-investment of public resources in education and training systems. (p. 73)

The potential emergence of credentialism in tourism is of particular concern as the industry provides jobs for people entering the workforce and it also supplies income for students. The jobs obtained by these people are normally ones requiring less complex skills. Blake Dawson Waldron (1995) observe that:

The industries [hospitality and accommodation] provide a broad range of employment opportunities at all skill levels however there is a preponderance of lower skilled work. There is a relative lack of skill barriers to enter into the hospitality and accommodation industries. (p. 5)

Credentialism can lead to an unwarranted social cost in that it can act as a barrier to people without formal training or qualifications acquiring jobs which they would otherwise get.

At public hearings in Brisbane, Mr Noonan from ANTA commented that the extent of industry involvement in the development of tourism training limited the potential for credentialism to emerge in the tourism industry.

Industry associations in particular rejected the notion that credentialism may emerge in tourism. The AHA commented that:

... the potential for credentialism does not exist in the tourism industry as there are a variety of entry points into the workforce that range from low entry, low skilled jobs which do not necessarily require industry specific training from the outset of employment, to management jobs where skills learnt during the obtainment of qualifications are vital to the application of the job. (sub. 157 p. 57)

Similarly, Ms Jenny Lambert from the National Restaurant and Catering Industry Association stated at public hearings that:

... having a system in place that encourages people even on the first step to getting a credential has very positive benefits to moving up a career path, even if they went no further ...

... credentials are as useful for our industry as for any other industry, but that doesn't mean that everyone has to have one. (trans, p. 1676)

Tourism provides entry level jobs for young people and employment opportunities for people with a high risk of unemployment.

A situation of credentialism could emerge if it becomes necessary to have a formal qualification to obtain a job, yet the skills obtained from the qualification are not necessary to perform the job.

If credentialism emerges and employers develop a strong preference for staff with formal qualifications, the tourism industry will become a less significant source of lower-skilled, entry level jobs in the economy, with possible adverse social consequences.

The Australian National Training Authority (ANTA) needs to continue developing its monitoring mechanisms to check for the emergence of credentialism in tourism training.

16.7 Conclusions

The tourism industry is diverse. The importance of training will differ between a 5 star resort and an outback cafe. Traditionally skills have been developed on-the-job rather than via formal education (with the exception of chefs). It seems also that, in the broad, the skill levels required have been relatively low.

The industry associations, the training network and some employers have formed the judgement that skill levels are too low and a major effort needs to be made to upgrade them. And indeed such a major effort has been put in place. The energy of the training enthusiasts is impressive.

This view about the need for more training may be correct, although it is not yet reflected in the behaviour of the majority of employers. Alternatively, the view may be correct only for selected parts of the industry. The presumption that there is a high skill way of operating that is more profitable than the current low skill approach has not been demonstrated.

It is too early to tell whether the training proponents are right. If they are they will have done the tourism industry and Australia a great service. If they are not, we will see credentialism, lost job opportunities for people with low levels of formal education, waste of public money, waste of students' time and money and disappointed expectations.

What is clear is that the training effort in tourism will succeed only if employers find it to be useful and are prepared to pay increased wages to formally trained staff who bring the more valuable skills into the workplace.

Attachment 16.1 Tourism courses and enrolments at Australian universities, 1994

<i>University</i>	<i>Course Name</i>	<i>Total enrolments</i>	<i>Annual fees per overseas student (\$)</i>	<i>Entry^a</i>
QUEENSLAND				
James Cook University - Townsville Campus	B. Administration (tourism)	110	12000	3
University of Queensland - Gatton College ^b	B. Business (hospitality mgmt)	333	10200	3
	B. Business (travel mgmt)	34	10200	3
	B. Business (tourist mgmt)	292	10200	3
	B. Business (property studies)	184	10200	3
Griffith University - Gold Coast Campus	B. Hotel Mgmt	350	10000	3
	B. Hotel Mgmt – B. Arts (Japanese)	34		5
	B. Bus (tourism mgmt) ^d			
	B. Bus – B. Arts (tourism mgmt) ^d			
Bond University ^c	B. Hospitality Management	44	23100	UOC
VICTORIA				
University of Ballarat	B. Business (tourism)	41 ^e	8500	4
Victorian University of Technology - Footscray Campus	B. Business (catering & hotel mgmt)	457	9000	4
	B. Business (travel & tourism mgmt)	213	8500	4
La Trobe University - Wodonga Campus	B. Business (hospitality mgmt)	109	9100	3
Monash University - Gippsland Campus	B. Business (specialising in tourism)	10	10000	3
Royal Melbourne Institute of Technology - City Campus	B. Applied Science (hospitality studies)	61	13600	UOC
	B. Arts (tourism)	35	13600	UOC
Ballarat College of Advanced Education	B. Business (tourism)	41		
AUSTRALIAN CAPITAL TERRITORY				
University of Canberra ^c	B. Arts (tourism)	192	9440	4
WESTERN AUSTRALIA				
Curtin Uni of Technology - Bentley Campus	B. Commerce (health service mgmt)	14	9800	3
Edith Cowan University - Joondalup Campus	B. Business (hospitality – travel)	237	9800	4

Continued next page

<i>University</i>	<i>Course Name</i>	<i>Total enrolments</i>	<i>Annual fees for overseas students (\$)</i>	<i>Entry^a</i>
NORTHERN TERRITORY				
Northern Territory University	B. Hospitality mgmt	60		
Northern Territory University	B. Hospitality	34		
NEW SOUTH WALES				
University of Western Sydney - Hawkesbury Campus	B. Hospitality	241	10500	4
University of Western Sydney - Macarthur Campus	B. Comm (tourism mgmt)	27	9750	5
Charles Sturt University - Albury Campus	B. Bus (tourism mgmt)	50	7650	3
University of New South Wales	B. Commerce (marketing – hospitality)	154	11000	
University of Technology Sydney- Kuringai Campus	B. Arts (tourism)	202	10000	4
Southern Cross University ^c	B. Business (hospitality mgmt)	26	8500	2
	B. Tourism	253		
University of Newcastle - Callaghan Campus ^c	B. Business (tourism mgmt)	36		4
University of Newcastle - Central Coast ^c	B. Business (Tourism Mgmt)	104 ^f	9300	4
SOUTH AUSTRALIA				
University of South Australia - Underdale Campus	B. Business (tourism & hospitality)	35	9000	
TOTAL		4013		

a Entry ratings are on a scale of 5 to 1. A rating of 5 indicates that a student needs to have an entry score in the top 10 per cent of school leavers to gain entry. A rating of 4 indicates that a student needs to have an entry score in the second 10 per cent or better, through to a score of 1, where the student needs to have a score in the fifth 10 per cent or better to gain entry to the course. UOC indicates that entry requirements 'use other criteria'.

b Data are total enrolments. The first year of some University of Queensland tourism courses is available at Ipswich College as well as at Gatton College.

c These courses not identified as part of the DEET course code 40207 Hotel and Hospitality Management.

d Courses where reliable data for tourism (majors) are not available.

e The University of Ballarat now offers a Bachelor of Commerce with a tourism major. This statistic refers to the final enrolment for the Bachelor of Business in tourism. It is not possible to quantify the share of the Bachelor of Commerce students pursuing tourism majors.

f Estimate supplied by The University of Newcastle Central Coast Campus. Bachelor of Business students do not enrol in a major.

Source: DEET 1994, and Ashenden and Milligan (1994)