



# Pre-Budget Submission 2020-21

24 August 2020 (update on February 2020 submission)

## CONTENTS PAGE

1.1	About the Accommodation Association.....	2
1.2	Tourism Contribution to the Economy.....	2
1.3	State of the Industry.....	2-3
2.0	Budget Priorities for the Accommodation sector.....	3-8
	<b>2.1 Investment in Tourism industry recovery</b>	
	2.1.1 Stimulating demand and Improving Competitiveness.....	3-4
	2.1.2 Invest in Border measures that ensure confidence in international Travel.....	4-5
	2.1.2 Funding of Visa measures that improve competitiveness and stimulate international travel.....	5-6
	2.1.3 Extension of JobKeeper funding for Victorian businesses.....	6
	<b>2.2 Investment in longer term structural change that provides confidence in the sector</b>	
	2.2.1 Fair Taxation of the Short-Term Rental sector.....	6-7
	2.2.2 Investment in Data.....	7
	2.2.3 Building our future Workforce.....	8
	2.2.4 Encouraging Regional Infrastructure Investment.....	8 -9
3.0	Conclusion.....	9

### 1.1 About the Accommodation Association

The Accommodation Association is the peak body representing close to 1,000 accommodation operators and over 100,000 rooms across Australia. Members of the Accommodation Association include major hotels, resorts, motels, motor inns, serviced and holiday apartments, bed and breakfasts and guesthouses that directly contribute \$6.6 billion in GVA to the Australian economy.

Our members include AccorHotels (incorporating Mantra Group); Intercontinental Hotels Group (IHG); Lancemore Group; Hilton; Toga Far East Hotels (TFE); Wyndham Hotel Group; Meriton Suites; Choice Hotels, Best Western, Big 4 Holiday Parks and Quest Apartment Hotels.

### 1.2 Tourism contribution to the Australian economy

In 2018–19, total tourist consumption was \$152.0 billion<sup>1</sup>, which resulted in:

- \$60.8 billion in GDP to the economy (3.1% of the national total)
- Employment of 666,000 persons (5.2% of the Australian workforce) and;
- Exports of \$39.1 billion from international visitors to Australia

The accommodation sector is a significant player in the tourism industry, directly contributing close to \$7billion in GVA and directly employing 113,500 people, 13% of total tourism employment.<sup>2</sup>

### 1.3 State of the Industry

The industry has been significantly impacted over the year by both the bushfires, from November 2019 through to February 2020, and COVID-19 from February 2020 through to current.

The industry has experienced revenue downturns throughout the above period, reaching 85% in April and May. The lifting of state government restrictions will be key for the industry to open food and beverage outlets and drive demand. The STR figures below demonstrate the impact of states starting to remove restrictions and/or reimposing restrictions in July.

The losses below reflect room revenue only, not F & B revenue. However, they illustrate the extent of the overall losses to date and the ability of the industry to recover as restrictions are removed. A comparison of city versus state data shows growth focussed in the regions where intrastate travel dominates. Please refer NSW, NT, Tasmania, and WA in particular.

	January % Revenue yoy	February % Revenue yoy	March % Revenue yoy	April % Revenue yoy	May % Revenue yoy	June % Revenue yoy	July % Revenue yoy
<b>NSW</b>	-4.0%	-12.6%	-47.2%	-85.1%	-81.7%	-65.8%	-56.1%
<b>Victoria</b>	1.5%	-12.3%	-46.1%	-78.0%	-77.8%	-67.5%	-74.3%
<b>Tasmania</b>	4.4%	-10.8%	-36.1%	-84.9%	-87.6%	-75.7%	-57.6%
<b>WA</b>	7.6%	2.4%	-30.1%	-67.3%	-62.8%	-52.6%	-3.0%
<b>NT</b>	-15.3%	-4.9%	-31.8%	-78.3%	-81.1%	-80.1%	-31.1%
<b>Queensland</b>	7.8%	-2.8%	-39.7%	-87.8%	-82.7%	-66.1%	-52.9%
<b>ACT</b>	-10.2%	0.2%	-33.5%	-88.6%	-78.1%	-59.9%	-52.3%
<b>South Australia</b>	6.9%	7.0%	-37.7%	-85.5%	-79.7%	-64.6%	-54.8%

Source: STR

<sup>1</sup> 2018-19 Tourism Satellite Accounts, TRA

<sup>2</sup> 5249.0 Australian National Accounts: Tourism Satellite Account, 2018-19

Capital City	January % Revenue yoy	February % Revenue yoy	March % Revenue yoy	April % Revenue yoy	May % Revenue yoy	June % Revenue yoy	July % Revenue Yoy
Adelaide	5.8%	5.1%	-40.0%	-86.0%	-82.5%	-72.8%	-63.6%
Brisbane	10.4%	4.6%	-41.9%	-79.2%	-79.6%	-68.7%	-55.0%
Cairns	4.9%	-26.2%	-55.3%	-88.9%	-83.7%	-77.7%	-63.0%
ACT & Canberra	-10.2%	0.2%	-33.5%	-88.6%	-78.1%	-59.9%	-52.3%
Melbourne	1.8%	-13.2%	-47.7%	-78.0%	-78.7%	-70.7%	-76.7%
Perth	10.6%	4.7%	-30.5%	-64.0%	-64.0%	-58.1%	-35.8%
Sydney	-4.0%	-14.1%	-50.3%	-84.8%	-83.5%	-73.6%	-69.3%
Gold Coast	4.1%	-2.5%	-41.7%	-94.0%	-90.5%	-70.0%	-55.4%
Darwin	-19.0%	-6.9%	-34.9%	-76.3%	-81.6%	-80.0%	-73.4%
Hobart	2.6%	-13.2%	-40.2%	-84.7%	-92.1%	-86.3%	-70.4%

Source: STR

As outlined in our previous submissions relating to the need for relief measures, the tourism accommodation industry has been impacted by government measures inclusive:

1. Closure of international borders. Sydney has 42% of international visitor nights; Melbourne 34%; Perth 30.5% and Brisbane- Gold Coast 25.6%.
2. Closure of state borders. 42.2% of all domestic visitor nights are interstate.
3. Physical distancing measures that reduce profitability and limited the opening of outlets. At 4 sqm physical distancing, meeting rooms restaurant and cafes may lose up to 70% of their capacity. At 2 sqm they would lose up to 50% of their capacity.

The Economic and Fiscal Update in July made a number of assumptions on measures that will continue to impact growth:

*'The 4 square meters per person rule is assumed to remain in place from the end of September until the end of 2020'.*

*'International travel is assumed to remain at low levels until the end of the June quarter 2021'.*

*'However, high unemployment, continued physical distancing restrictions, business restructuring, high levels of sovereign debt and ongoing uncertainty will all weigh on the recovery. These factors are expected to leave most major economies below their pre COVID 19 levels of activity until at least the end of 2021.'*

Therefore, for the 2020/21 year, the hotels, motels, and serviced apartment market will be largely reliant on the domestic market. Key factors impacting domestic demand are low consumer and business confidence, high unemployment, physical distancing, border closures and businesses focussed on cost mitigation and risk reduction.

## 2.0 Budget Priorities for the Accommodation sector

### 2.1 Investment in Tourism industry recovery

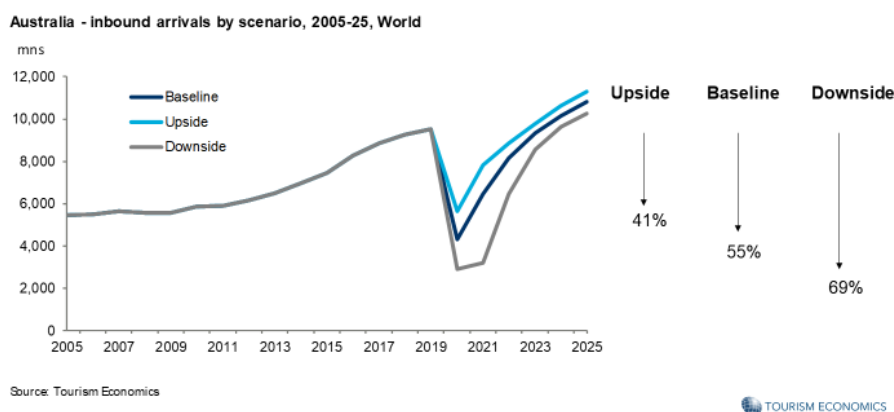
#### 2.1.1 Stimulating demand and Improving Competitiveness

On realistic estimates, international borders are likely to be closed until December 2020 with low levels of international travel until the end of June 2021. International visitor nights represent close to 22% of all visitor nights in hotels, motels and serviced apartments. The closure of the borders together with the weakening global economy, the continued uncertainty around COVID-19 exacerbated by 14-day quarantine costs and an

increasingly competitive global market, means that Australia will face significant challenges in 2021 in attracting international demand.

Tourism Economics modelling shows international travel to Australia will remain below 2019 levels until 2023.

### International travel to Australia in 2020 – Baseline, Upside, Downside



In view of the current market our recommendations for the 2020/21 year are on future focussed investment that leads to sustainable growth in demand.

1. In acknowledgment of the significant task required to build demand in the international market additional funds for Tourism Australia of \$25 million per annum over the 2 year forward estimates to ensure that in international markets we address negative perceptions, increase our global competitiveness and expand our priority markets.
2. Continue to sustain the momentum of Tourism Australia’s leadership in the domestic market during the recovery period, with an investment of an additional \$20 million per annum over the 2-year forward estimates. This measure is important in achieving the outcomes proposed in the Visitor Economy 2030 strategy which recognises that collaboration between industry and all levels of government is critical to achieving our targets for growth.

#### Recommendation 1

- a. Additional international market funds for Tourism Australia of \$25 million per annum over the 2-year forward estimates.*
- b. Drive collaboration across industry and all levels of government in the domestic market with an additional \$20 million per annum over 2 years for Tourism Australia aimed at domestic market initiatives in partnership with states and industry during the recovery period.*

#### 2.1.2 Invest in Border measures to restore confidence in international travel

In this COVID-19 era, a safe and seamless passenger experience is critical to build long term confidence in international travel. Industry has an important role in enhancing that experience, mandating best practice for social distancing, mask usage, plastic shield barriers, surface disinfection and touchless transactions.

The Australian Government has an even more critical role working with WHO, airlines and airports to develop and implement a long-term solution to protect our borders and to provide a clearly articulated plan for opening up Australia to international travellers. Without this there is unlikely to be significant investment in tourism infrastructure in our capital cities.

We are seeking a clear 3-step plan to opening the borders that could incorporate:

**Stage 1:** Lift the caps on returning quarantine travellers and commence international student pilots.

Undertake development of a digital health passport that helps determine and verify the health status of an individual. Health would need to mandate through legislation the health testing regime that qualifies for the entry. This can be supported by biometrics with facial recognition technology at all key points of entry inclusive cruise terminals and airports.

The current quarantine solution both in terms of internal and external borders is not sustainable long term and in fact acts as a disincentive to travel. Until we have a permanent solution, a return to 2019 travel projections is unlikely to occur.

**Stage 2:** Open up the 'island' bubbles for returning travellers and continue international student pilots.

Commence implementation of a range of health measures at the borders for these returning travellers. Combine with quarantine only where risk identified.

**Step 3:** Continue investment and fine tuning of health measures at borders to ensure integrity. Continue to open up to countries that are considered low risk.

No restrictions in place on visa classes or daily arrival limits.

#### **Recommendation 2**

- a. *The Australian Government to develop a 3-step plan to opening of the borders.*
- b. *The Australian Government to work with industry, WHO, state governments and global operators to jointly invest and prioritise a long-term sustainable solution that encourages travel to Australia and maintains our attractiveness as a safe destination.*

#### **2.1.3 Funding of Visa measures that improve competitiveness and stimulate international travel**

While international visitation will continue to be impacted by a number of variables inclusive of safety, airline access and economic and trade conditions, competitiveness on visa processing and costs will continue to be a factor in the intent to visit.

That is why airport taxes and charges are one of the critical factors in tracking price competitiveness in the World Economic Forum's Travel and Tourism Competitiveness Index. The 2019 index ranked Australia 111th out of 140 countries for airport taxes and charges, a further decline on the 2017 Index which ranked Australia 94th, lagging many competitor destinations.

The real cost of visas includes visa application fees, biometric fees and the Passenger Movement Charge (PMC). The PMC at \$60 is the most expensive short haul charge in the world and the second highest long-haul charge.

In addition, upon the passing of Migration Amendment (Visa Application Charges) Regulations 2018, visa application charges have also been linked with annual CPI changes. In the 2019-20 budget, the government announced Visa Application Charges (VACs) will increase by approximately 7.75 per cent for most visas from 1 July 2019. A 5.5 per cent increase applies to Visa Application Charge 1 (VAC1), plus a CPI increase of 2.25 per cent to VAC 2.

The combination of these increases, further risks Australia’s competitiveness. Industry therefore seeks continuous benchmarking of visa fees and processes to ensure we remain competitive in key markets and a freeze on CPI increases to visa application charges over the 2 year forward projections.

**Recommendation 3**

- a. *Ensure the government 2019 commitment to develop benchmarking of visitor visa charges, fees and processes is completed in the 2020 year with recommendations to be delivered over the 2 year forward estimates.*
- b. *Targeted visa application charge waiver fees introduced across key markets that could provide a significant economic contribution.*
  - I. Introduce a carefully managed waiver for targeted international association business events over the forward estimates, to attract events with long term planning horizons.*
  - II. Waive visa application fees for:*
    - i. International students who wish to complete their studies (Economic and Fiscal Update 2020-21 budgeted measure).*
    - ii. International students who qualify for a Post Study work visa (485) and wish to complete their studies.*

**2.1.4 Extension of JobKeeper funding for Victorian businesses**

In our Roadmap to Recovery submission provided to Government in July, the Association’s modelling on recovery was based on the situation prior to the implementation of Stage 4 restrictions in Melbourne and Mitchell Shire. Stage 4 has considerably set back the recovery timelines for Victoria. Conservatively the roadmap for Victoria has been delayed by three months.

We therefore seek the extension of JobKeeper and other relief measures in Victoria for the period through to June 2021.

**Recommendation 4**

*The industry is seeking Federal government support in the 6 months post September period to be extended to 9 months in Victoria in view of the extended lockdown. This will be critical in enabling hotels to retain employees whilst building demand in the recovery period.*

**2.2 Investment in longer term structural change that provides confidence in the sector**

**2.2.1 Fair Taxation of the Short-Term Rental sector**

The Accommodation Association has sought for some time a meaningful regulatory response to the significant growth in short term rental accommodation. We therefore welcomed the statement in the Treasury’s Black Economy Taskforce Final Report ‘that the creation of any ‘sharing economy’ reporting regime should be one that creates equalisation with traditional businesses that have existing reporting obligations’.<sup>3</sup>

The lack of transparency in this market has been a significant impediment in achieving ‘equalisation’. To that end we strongly supported the ATO data matching scheme arising from the Black Economy Taskforce. This scheme was designed to identify taxpayers receiving income from short term rentals and required ‘sharing economy’ online platforms to supply information for data matching purposes.

<sup>3</sup> Tackling the black economy: A sharing economy reporting regime, January 2019, p.7 Treasury

MYEFO 2019-20 was clear in continuing that commitment advising that *'The Government will introduce a third-party reporting regime<sup>4</sup> which will require sharing economy online platforms to report identification and income information regarding participating sellers to the ATO for data matching purposes.*

However, it is with some concern that we note that the reporting regime will only apply to short-term rental accommodation platforms from 1 July 2022.

This is an industry that has already seen significant growth over the past 10 years with Rented house/flat or unit and Other Private Accommodation in the IVS<sup>5</sup> now representing 50% of all visitor nights in Australia, representing an 80% growth in international visitor night stays over the past 10 years. Stays in unregulated tourist accommodation exceed the number of stays in regulated hotel, motel, serviced apartment and resort accommodation.

As we emerge from COVID-19 with a decimated short-term accommodation sector, investors are seeking certainty and a level-playing field to ensure their investment is not impacted by the 'grey economy'.

#### **Recommendation 5**

*That the Government expedites in the 2020-21 year the introduction of a third-party reporting regime which requires sharing economy online platforms to report identification and income information regarding participating sellers to the ATO for data matching purposes.*

*That this reporting regime recognize the significant tax revenues to be derived not only from the reporting of income tax but from capital gain benefits.*

#### **2.2.2 Investment in Data**

Industry welcomed the \$2 million in funding support for the government's million-dollar policy challenge – *Intelligent Data to Transform Service Delivery*. We are committed to working with both proponents to ensure a valuable outcome for industry over the 12 to 18-month timeframe and await results on commercial viability.

However, we remain concerned that the delivery of the IVS and NVS are being compromised with a reduction in Federal funding. These quarterly surveys provided important longitudinal insights into industry performance and Tourism Research Australia (TRA) is recognised as a leader globally in the provision of quality tourism data in a complex market. Given the changing nature of the industry with COVID, in our February submission we sought the release of more timely monthly data to assist government and industry in its responsiveness. While this has been implemented there remains a considerable time lag with April and May monthly data issued in August.

Data is also critical in ensuring that that government and industry have the ability to benchmark and report on targets established as part of the Visitor Economy 2030 plan. The Association recommends additional funding over the 4 year forward estimates for the current research program delivered by TRA. This will ensure that TRA is able to maintain the integrity of its research, which is vital in underpinning decision making both at the Federal and State level and in underpinning investment.

#### **Recommendation 6**

*Additional Federal funding to be provided to TRA to support the continuing sustainability and integrity of the current research program and to support the establishment of the benchmarking required for the Visitor Economy 2030 plan.*

<sup>4</sup> [https://budget.gov.au/2019-20/content/myefo/download/MYEFO\\_2019-20.pdf](https://budget.gov.au/2019-20/content/myefo/download/MYEFO_2019-20.pdf), p, 177

<sup>5</sup> International Visitor Survey, year ending September 2019, Tourism Research Australia



### 2.2.2 Building our Future Workforce

The industry lost approximately 50% of its employees at the time of the announcement of JobKeeper in April. There is likely to be a further decline in employees in the order of 10-15% post September, as industry continues to be impacted by the closure of international borders, physical distancing, business risk mitigation and arbitrary state border closures.

Subject to the lifting of restrictions our modelling shows that the industry (with the exception of Victoria) will slowly move to recovery in the 2021 year. It is at this stage that we will seek to replace the extensive skills loss from our sector, particularly in areas such as culinary.

Therefore, we strongly support the development and funding of the National Skills Commission, the JobTrainer funding and the PATH Business Placement Partnerships.

The further area we seek funding is the extension of the JobTrainer fund to encompass the development of Pathway programs for school students in Years 10. These programs are aimed at broadly introducing students to industries, educating them on the skill sets required and providing work experience opportunities in the identified industry. When students graduate, they have the opportunity to segue into the training opportunities provided under JobTrainer with an understanding of industry opportunities.

#### Recommendation 7

- a. *Fund a review of industry pathways to provide guidance to students undertaking VET in Schools.*
- b. *Extend JobTrainer funding to cover the development of Pathway programs linking Year 10 students to industry. This will strengthen the job outcomes for students.*

### 2.2.3 Encourage Regional Infrastructure Investment

Tourism is a major industry for many regional areas with 43 cents in every visitor dollar spent in the regions. Many regional areas suffer from insufficient investment and refurbishment of tourism accommodation facilities. This is a factor of poor demand growth driven by seasonality and the need for improved access and tourism-related infrastructure. However, regions are potentially more resilient post COVID

We note that government has introduced a range of programs to address these barriers inclusive of:

- ***The Building Better Regions Fund*** which was a \$841.6 million budget commitment over four years from 2016-17. We welcomed the introduction in 2018-19 and 2019-20 of an allocation from these funds (\$45 million and \$70 million respectively) to tourism-related infrastructure projects. We support a further 4-year funding commitment with monies to continue to be quarantined for tourism-related infrastructure.
- ***Regional Tourism Icons package.*** A \$50 million commitment was provided in the 2019-20 year. Funding was provided to Rottnest Island, Freycinet National Park and Sovereign Hill amongst others to develop their attractions. The advantage of extending this funding over the forward estimates is supporting key marketing 'demand-drivers' in partnership with the states, during the industry's recovery from COVID-19.
- ***Regional Tourism Infrastructure Investment Attraction Strategy 2016-2021***  
This strategy is a five-year commitment between Austrade and Tourism Australia to work with state, territory and local governments to create an environment conducive to attracting foreign direct investment into regional tourism infrastructure. Despite the current environment, the Association supports continued Government funding commitment for this strategy with further investment in developing market ready proposals that minimise uncertainty and convert interest.

Please note that these measures are outside of the *Relief and Recovery Fund (RRF) to support regions, communities and industry sectors that have been disproportionately affected by COVID 19*. However, they are fundamental to revitalising tourism demand, investment and employment in regional Australia post COVID.

### **Recommendation 5**

- a. A further 4-year funding commitment for the **Building Better Regions Fund** with monies to continue to be quarantined for tourism-related infrastructure.
- b. Continuation of funding for the **Regional Tourism Icons package**, minimum over the 2 year forward estimates to ensure key regional icons are supported in developing their attractions, to drive increased regional visitation.
- c. Expanded funding support for the **Regional Tourism Infrastructure Investment Attraction Strategy** to assist in the development of market ready proposals that minimize uncertainty and convert interest.

### **Conclusion**

The above Pre-Budget submission updates our submission of early March 2020, in view of the significant escalation and long-term nature of COVID 19 restrictions and the impacts on business.

We welcome the opportunity to expand on the issues and recommendations raised.