



Tourism & Transport Forum (TTF)

Submission to the
Productivity Commission:
Planning, Zoning &
Development Assessments

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The Tourism & Transport Forum

The Tourism & Transport Forum (TTF) is a national, Member-funded CEO forum, advocating the public policy interests of the 200 most prestigious corporations and institutions in the Australian tourism, transport, aviation & investment sectors.

Tourism Industry Partners

This submission is supported by our tourism industry partners:

- Hotel, Motel & Accommodation Association of Australia
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FOR FURTHER INFORMATION PLEASE
CONTACT:

EVAN HALL
NATIONAL MANAGER, TOURISM
TOURISM & TRANSPORT FORUM (TTF)
P | 02 9240 2035
E | ehall@ttf.org.au
www.ttf.org.au

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1. EXECUTIVE SUMMARY

Tourism is a major part of the Australian economy contributing \$33 billion in GDP and 4.5 per cent of national employment. All private investment in tourism supply is impacted by the performance of state and territory planning systems.

Significant government, industry and academic reviews of tourism investment demonstrate that planning is a major barrier to tourism investment. Under the Australian Government's *National Long-Term Tourism Strategy*, it is current government policy to seek reform of planning to facilitate the critical need for tourism investment.

Tourism has a significant spill over effect into the general economy, leading to market failure for adequate investment. This market failure is manifested in higher rates of return for investors in competing land uses, particularly residential land uses.

Residential development is heavily subsidised by federal, state and local government policy. The unintended consequence is to distort the market against tourism. This is further complicated by the ability to convert residential apartments to unintended tourism, use further discouraging purpose built tourism development. Active planning measures are consequently required for tourism development

The functioning of major cities and regions is diminished by strategic planning which fails to connect to tourism planning and forecast visitor demand. Planning systems also create an anti competitive environment through zones which exclude tourism and development controls which prevent tourism trade.

Finally, tourism development assessment and approval is further hampered at the local level by government responses to the anti competitive interests of existing residents, and by a lack of expertise in tourism approval. TTF recommends the following planning system reforms:

Summary of Recommendations

- Adopt best practice definitions of tourism land use as nationally consistent standards.
- Planning authorities should seek formal input from tourism authorities in strategic and statutory planning for major cities and regions, and for assessment of tourism development applications.
- Strategic and statutory planning for major cities and regions should include forecasts for visitor night growth and short term accommodation supply needs.
- Planning authorities should use site specific development controls and other planning measures as incentives for tourism development.
- Extend compatible tourism land uses to all zones which include residential, industrial, rural, primary production, leisure, recreation, environmental, education, health, medical, retail or commercial land uses. Retain existing tourism dedicated zones to prevent the loss of existing tourism supply.
- Apply a national standard in all residential development approvals that Class 2 buildings cannot be used for stays of less than 30 days.
- Assessment and approval for all tourism development in excess of \$5 million should be undertaken by an independent authority at the state level.

2. INTRODUCTION

Introduction

This submission to the Productivity Commission focuses on the performance of state and territory planning and zoning systems from the perspective of investment in tourism development. The submission follows extensive tourism reviews by the Australian Government, culminating in the *National Long-Term Tourism Strategy*, which has identified the performance of planning systems as critical to much needed investment in the tourism industry.

Government industry and academic reviews of tourism development

There is extensive concern within government and industry over the long term performance of the tourism sector in Australia. Various Australian Government, industry and academic reviews and strategies have analysed the industry including the *National Tourism Investment Strategy* (2007), the *Jackson Report* (2009) and Griffith University's *Legal basis for State and Territory Tourism Planning* (2010).

These reviews have consistently found that there is a critical need for investment in tourism stating "planning regimes do not recognise the importance of tourism" and "planning regimes in most instrumentalities are weighted heavily against the proponent ... this is a serious disincentive to investment in the tourism industry."¹

National Long-Term Tourism Strategy

In December 2009, the Australian Government released the *National Long Term Tourism Strategy* (NLTS)². This strategy established an Investment and Regulatory Reform Working Group to drive initiatives which address regulatory barriers to tourism investment. This working group has targeted planning systems as the main barrier to investment and TTF was provided with an Australian Government TQUAL Grant to undertake the *National Tourism Planning Initiative*.

The National Tourism Planning Guide Initiative

TTF engaged planning consultants Urbis to undertake the *National Tourism Planning Initiative* using Urbis' expertise to review the planning systems in each state and territory in relation to tourism, and subsequently over twenty land use planning instruments in capital city and regional areas.

The outcomes of that analysis are in the attached *National Tourism Planning Guide: Key Issues & Future Directions* paper. This document is the primary evidence for TTF's submission and can be found at Appendix 1. The second document completed by Urbis under the initiative is the *National Tourism Planning Guide: A Good Practice Approach*. This document identifies best practice in tourism planning and can be found at Appendix 2. It is the analytical basis for the recommendations in this submission.

¹ Commonwealth of Australia, *The Jackson Report: Informing the National Long-Term Tourism Strategy*, 2009

² Australian Government, Department of Resources, Energy & Tourism, *National Long Term Tourism Strategy*, 2009.

3. TOURISM AND PLANNING

3.1 Overview of Tourism

Defining tourism

Tourism is the activity generated by visitors traveling to and staying in places outside their usual environment. Tourism goes beyond 'holidays', with which it is commonly associated, and includes all purposes of visitation. The most significant visitation purposes are:

- Leisure tourism including holiday making and attending sporting and cultural events.
- Visiting friends and relatives.
- Business travel including business events such as conferences, conventions and exhibitions.
- Education tourism for short courses of less than one year.

The "tourism activity" of these various visitors stretches across multiple industries and land uses.

The scale and value of tourism

Tourism is a critical sector in the Australian economy. Each year international and domestic visitors stay 438 million visitor nights across Australia. In 2008-09 these visitors spent \$92 billion in the Australian economy. This spending³:

- Generated \$23.6 billion in export earnings – 8.3 per cent of total Australian exports.
- Employed 486,200 people – 4.5 per cent of total Australian employment.
- Contributed \$32.8 billion to gross domestic product – 2.6 per cent of GDP.

3.2 Overview of Tourism and Planning

Tourism intensive land uses

Visitors have the same basic needs as residents. Tourism simply adds to the overall demand for land uses and amenities such as retail services and public transport. However, being "away from their usual environment", visitors have a much higher propensity than residents to use the following services:

- Short term accommodation
- Leisure facilities
- Ancillary services such as food & beverage and retail

These services are used by both residents and visitors, but are more intensively used by visitors. For example, retail is predominantly used by residents but visitors spend proportionately more on retail than residents. Short term accommodation is an essential service for most visitors and is the most tourism intensive land use. It is also a critical supply need in land use planning.

³ Australian Bureau of Statistics, *Australian National Accounts: Tourism Satellite Account*, 2008-09.

Tourism investment is therefore predominately investment in short term accommodation. These tourism developments are often mixed developments which include facilities and services that attract visitors and supply their needs. Tourism development is often co-located with these facilities.

Tourism is an employment intensive land use

Tourism is an employment intensive land uses and tourism development such as short term accommodation should be considered employment land. Short term accommodation is particularly labour intensive. The degree of labour intensity depends on the type of accommodation.

Table 1: Tourism employment land use

Accommodation type	Per 10 rooms		
	Jobs in the accommodation establishment	Jobs beyond the accommodation establishment	Total jobs
Hotels	7.9	Not available	Not available
Motels	3.2	Not available	Not available
Serviced Apartments	2.9	Not available	Not available
AVERAGE	4.9	13.4	18.2

On average, every 10 rooms in an accommodation establishment create an ongoing 4.9 jobs in that establishment. The spill over effect of the expenditure of the visitors staying in these 10 rooms creates another 13.4 jobs in the general economy. On average therefore, 10 rooms creates 18.2 jobs.

Spill over effect of tourism development approval

Short term accommodation is essential for tourism. However, short term accommodation receives less than 30 per cent of visitor expenditure. The balance of direct visitor expenditure spills over into transport, food, retail and other ancillary uses. For every dollar of spending on accommodation, a further \$2.50 to \$3.50 is directly spent by visitors in other sectors.

Table 2: Visitor expenditure per trip⁴

Overnight Visitors ⁵	Expenditure on accommodation	Expenditure beyond accommodation	Total expenditure	% spent outside accommodation
Domestic Overnight Visitors	\$214	\$557	\$772	72.2
International Visitors	\$ 555	\$ 1912	\$2467	77.5
TOTAL OVERNIGHT VISITORS	\$239	\$650	\$891	73.2

⁴ Tourism Research Australia, *International and National Visitor Surveys*, 2009

⁵ We have limited the analysis to business and leisure travellers as these are most likely to stay in commercial accommodation.

Market failure in tourism development and associated planning measures

Private investment in tourism is discouraged by the higher return on investment from competing land uses, such as residential or commercial office development. For example, the income returns for 1,000 m² floor space in the Brisbane CBD are more than three times higher for commercial use than hotel use.

Table 3: Brisbane CBD Property Returns – 1,000 m² floor⁶

Property Asset Class	Annual Income (Rent)
Hotel (20 rooms)	\$182,000
Residential Units (12 one bedroom)	\$216,000
Commercial (1,000 m ²)	\$600,000

When overall returns are examined, tourism falls even further behind competing land uses, particularly residential. The Australian Government Minister for Tourism, the Hon. Martin Ferguson MP noted recently; “an investor in the vicinity of Sydney Harbour can expect a \$33,000 per square meter return on a residential development, \$11,000 on commercial and \$4,600 for a hotel”.⁷

The market will therefore invest in competing land uses because the direct returns are higher and the spill over returns of tourism development are external to the investor. Rather than a single entity capturing these benefits, the gains accrue to a range of different businesses and add value to other industries and geographic locations.⁸ The spill over effect means that without coordinated government action, investment in tourism accommodation and other tourism facilities may be discouraged.⁹

It should be noted that there is no case for government to support non-viable tourism development. Rather, there is a *prima facie* case for government policy to support tourism development in relation to competing land uses to the extent necessary to optimise the spill over effects. Historically, Australian tourism development has often been supported by active planning measures. These measures include crown land release, zoning or development controls which provided an incentive for tourism development.

Scale of tourism development and building approval

Tourism investment is the development of property which must pass through development approval. Data from the ABS on building activity is the best available measure of tourism development. The chart over the page maps the number of short term accommodation building approvals over the last decade.

Over the last five years the average number of building approvals for short term accommodation was 600 per annum¹⁰. Of these building approvals, on average only 50 were for major building work over \$5 million, which would predominantly be new room stock. The remaining 550 approvals were for building work under \$5 million, which would mainly be upgrading of existing accommodation room stock. The average yearly investment in tourism building work was \$1.3 billion per annum¹¹.

⁶ TTF & Urbis, *National Tourism Planning Guide: Key Issues & Future Directions Paper*, 2010

⁷ Australian Government Department of resources, Energy & Tourism, *Minister for Tourism: National Hotel & Tourism Industry Policy Summit Speech*, 5 May 2010

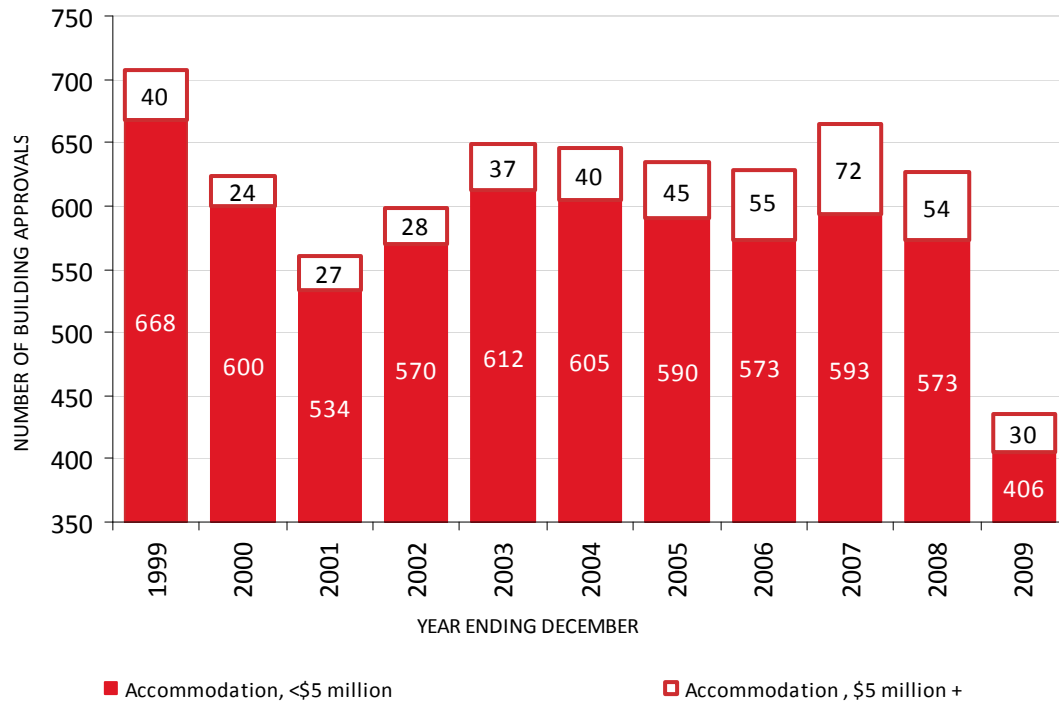
⁸ Access Economics, *Perth Hotel Economic Impact Study*, 2010

⁹ Access Economics, *Perth Hotel Economic Impact Study*, 2010

¹⁰ Australian Bureau of Statistics, *Building Approvals*, Australia, cat no. 8731.0

¹¹ Australian Bureau of Statistics, *Building Activity*, Australia, cat no. 8752.0

Chart 1: Long-Term Trend in Building Approvals in the Short-term Accommodation Sector



The chart and data illustrates three crucial points:

- There is long-term stagnation and decline in investment in tourism accommodation development.
- The total number of building approvals (and hence development approvals) for short term accommodation is small (only 0.24% of all approvals across Australia).
- There are only a handful of major approvals for new room stock per state per year.

Relationship between tourism and planning

At any given time approximately one in twenty people in an area will be visitors. The economic value of tourism has profound implications for land use planning, zoning and development assessments. The most important implications of tourism for planning, zoning and approval are:

- Visitors significantly add to residents overall demand for land uses, but change the relative mix of land use needs between short term and permanent accommodation.
- A wide range of zones, from environmental to residential, create tourism demand which adds to the economic value to those land uses. However, tourism can also compete with those land uses.
- Public and private tourism investment is primarily in land and built form. All major investment in tourism is regulated and restricted by planning, zoning, development and building approval.
- There are only a handful of significant tourism developments in each planning system each year, but these developments have significant spill over benefits.

4. RESPONSE TO TERMS OF REFERENCE

4.1 Anti-Competitive Planning

While tourism does compete with agricultural and commercial uses, the most significant competitor is residential development. There are significant anti-competitive planning and other policies which discourage tourism development compared to residential. This section examines the complex planning and regulatory issues surrounding residential and tourism land uses.

Tourism and residential - competing uses

The environments where visitors want to stay are also environments where residents want to live. This can include sites with high environmental values such as beachfronts or city sites with access to businesses, transport, services and leisure facilities. From this perspective tourism use and residential use are direct competitors for available land supply.

Tourism and residential - complementary uses

Visitors are attracted to places that are actively used by residents. Tourism adds vibrancy to areas which in turn attracts residents and adds to amenity. Retail, food & beverage, leisure and other recreation facilities enjoyed by residents are often dependent on tourism trade. Some towns are entirely dependent on tourism trade for basic services and transport, as well as employment and wealth. From this perspective tourism and residential use can be complementary.

Distinguishing tourism and residential use: the critical difference

A complicating factor in planning policy is that residential and tourism use is basically the same amenity i.e. accommodation for people. The same block of apartments can be residential or tourism use, depending on how long the occupant stays in the apartment.

Typically state planning systems distinguish between residential and tourism use by defining a maximum length of stay for short term accommodation (e.g. for no more than 3 months). This is obviously an artificial distinction between uses. It does prevent tourism developments from converting to residential use, but does not prevent residential development converting to tourism use. Residential tenancies can be let for periods of less than 3 months.

Some state planning systems treat short term accommodation more as a subset of residential use and do not distinguish between the two in zoning or development approval. Other systems treat short term accommodation more as a commercial use which is treated separately in zoning and approval.

The issue is exacerbated by poor definitions of the range of short term accommodation. Tourism uses range from nature based tourism accommodation (e.g. standing camps and cabins) which are unsuited to residential use, through to serviced apartments which have all the characteristics of residential use except that someone periodically cleans the apartment for the occupant. Much of the complexity of the planning issue could be addressed by national consistent definitions of the range of short term accommodation and how they are distinct from residential use.

TTF Recommendation

Adopt best practice definitions of tourism land use as nationally consistent standards (over page).

Table 4: Nationally consistent tourism land use definitions

Annex 1 Tourism Land Use Definitions

Use Definitions for Tourist and Visitor Accommodation

Use	Definition	Examples Include
Accommodation Hotel	Tourist and visitor short-term accommodation ¹ (whether or not licensed under the relevant State Liquor Licensing Act) comprising rooms and suites generally not self contained and which provide ancillary services and may include the provision of food and beverage.	NA
Backpacker Hostel	Tourist and visitor short term accommodation for the purpose of lodging more than 1 person in a shared capacity and providing either communal bathrooms, kitchen, laundry and/or sleeping areas.	Backpacker Hostel uses include but are not limited to: - Backpacker Lodge. - Boarding House. - Hostel.
Bed and Breakfast	A residential dwelling house providing tourist and visitor short-term accommodation on a commercial basis. Bed and Breakfast facilities are operated and maintained by the resident host and guests are generally provided with meals.	NA
Cabins	Detached, self-contained tourist and visitor short term accommodation units that may or may not be serviced by a managing body.	NA
Camping Ground	Land designated and managed for the purpose of short term recreational lodging or camping in tents or other temporary shelter. Sites may or may not include amenity buildings, cabins and managers' facilities	NA
Caravan Park	The use of premises for the parking and/or siting of two or more mobile accommodation facilities such as caravans or relocatable homes. Sites may include ancillary facilities for park patrons such as amenity buildings, recreational facilities, storage areas, a convenience shop, and manager's facilities.	NA
Ecotourism	The use of land or premises for a tourism activity, including tourist and visitor short-term accommodation, that is intended for the conservation, interpretation and appreciation of areas of environmental, cultural or heritage value local ecosystem and attributes of the natural environment. Eco-tourism activities typically: - Maintain a nature based focus or product. - Promote environmental awareness, education and conservation. - Carry out sustainable practices.	Ecotourism facilities include but are not limited to: - Environmentally Responsive Accommodation Facilities including a cabins, huts, tenanted camps. - Sales of Arts, Crafts and Souvenirs.
Farm-Stay	The use of a working farm to provide short-term accommodation for tourists and visitors to experience farm living. It is a secondary business to primary production.	NA
Holiday Letting	The use of a dwelling house for short-term paid accommodation where tourists and visitors have a principal place of residence elsewhere.	NA
Motel	The use of a premises to provide short-term accommodation for tourists and visitors in serviced rooms where provision is made for the parking of guests' motor vehicles convenient to the rooms, whether or not the premises is also used to provide meals to guests or the general public.	NA
Resort Complex	The use of premises for tourist and visitor short-term accommodation that includes integrated leisure facilities, including but not limited to restaurants and bars, meeting and function facilities and sporting and fitness facilities.	NA
Serviced Apartment	Tourist and visitor accommodation units intended for short-term accommodation where such units may also provide ancillary services for visitors and are regularly serviced and maintained by the owner or manager of the building	NA

¹ Note: Short-term accommodation refers to the temporary use of premises for a period typically not exceeding 2 months in any one 12 month period.

Anti competitive policies favour residential over tourism use

The distinction between tourism and residential use is critical because local, state and federal government policies deliberately support residential use. There are a myriad of planning and policies which are targeted at residential development and exclude commercial short term accommodation. Table 5 over page, provides an overview of the policy differentiation between tourism and residential uses.

Table 5: Planning and other policy distortions between residential and tourism use

Policy	Residential Use	Tourism Use
Planning Systems & Local Government Services		
Strategic Planning	Strategic planning typically forecasts residential growth and plans for adequate land supply.	Minimal forecasting of growth and no active planning for adequate land supply.
Zoning	Significant supply of land set aside (zoned) for residential use only.	Tourism typically excluded from residential zones and competing in mixed use zones. Few tourism specific zones.
Development Controls	Development controls mainly suit residential amenity.	Development controls e.g. noise, trading hours prevent tourism trade.
Approval	Often complying development does not need consent.	Typically complex non complying development with multiple agency approval at the federal, state and local level.
Building code and other regulatory approval	Lower regulatory burdens, construction and compliance costs. e.g. fire safety standards.	Higher regulatory burdens, construction and compliance costs. e.g. fire safety standards.
Local Services	Provision of basic services such as garbage collection and water at subsidised rates.	Provision of basic services such as garbage collection and water at higher costs.
Taxation		
Goods & Services Tax	GST is not payable on residential tenancies.	GST is payable on short term accommodation room rates.
Capital Gains Tax & Income taxes	Return on residential development is primarily capital gains rather than income flows. Capital gains are taxed with a 50% discount or 100% discount for owner occupiers. Residential investment is also supported by negative gearing of income tax.	Return on tourism development is primarily income from room rates which is fully taxed.
Land Tax & Stamp Duty	Exemptions for a range of residential uses in all states, primarily owner occupied.	No exemptions.
Capital Allowance	2.5 % per annum depreciation.	4% per annum depreciation.
Payroll	Residential use is not employment land and incurs little or no payroll tax to generate a return.	Tourism is labour intensive employment land and incurs a significant payroll tax to generate a return.
Transfers		
Income Support Assets Test	Home value exempt for assets test.	No benefit.
Rental Assistance	Subsidy for eligible tenants.	No benefit.
National Rental Affordability Scheme	Subsidy for eligible investors.	No benefit.
First Home Owner Grants	Subsidy for first home buyers.	No benefit.

The net and cumulative impact of these planning and other policies is to distort the market in favour of residential development. Since tourism and residential uses compete for suitable land, the unintended consequence of these policies is to discourage investment in tourism. Together with the market failure to capture the spill over effect, this has resulted in underinvestment in tourism development.

Residential conversion to tourism

Planning and other policies supporting residential use have underpinned the development of medium to high density strata title apartments in cities. At the same time, there has been underinvestment in tourism product.

While the definition of short term accommodation (e.g. limited to stays of 3 months or less) prevents tourism from converting to tourism use, there is no equivalent restriction on residential use (e.g. for stays of less than 3 months). Residential premises can be let as a residential tenancy for a single night and are competing with short term accommodation in the same market with the same product i.e. an apartment.

These residential premises have all the policy benefits of residential developments. For example, they do not charge GST; they enjoy the benefit of subsidised council services and have lower construction costs. Due to having these policy benefits, residential premises have a price competitive advantage in the short term accommodation market.

The effect of these policies is that apartments are built for residential uses and are converted to tourism use where they have an anti-competitive regulatory advantage. This trend reinforces the discouragement of tourism development. It is also obviously contrary to the intended purpose of the policy which supports residential use because the apartments are occupied by visitors not residents.

This conversion of residential to tourism is only permissible if the zoning or development approval allows for tourism use. However in many local jurisdictions tourism is not well defined, is typically included in residential use and there is therefore no 'conversion' to tourism use in a regulatory sense. Irrespective of the development approval however, the conversion of these individual apartments is contrary to the building approval under the Building Code of Australia which sets very different standards for Class 2 residential apartments and Class 3 tourism accommodation. Unfortunately enforcement of the application of building standards, after construction is completed, is very poor.

TTF submits that this key issue can be addressed by the national adoption of best practice standards which clearly define tourism use and by ensuring that development approvals do not allow for tourism use of residential Class 2 buildings.

This would ensure consistency between development and building approvals. Moreover it would mitigate the anti competitive impact of planning and other policies that favour and support residential development.

TTF Recommendation

Apply a national standard in all residential development approvals that Class 2 buildings cannot be used for stays of less than 30 days.

4.2 Effective functioning of cities and regions

Tourism contribution to the functioning of cities and regions

Tourism is critical to the effective functioning of our major cities and regions. Firstly, tourism is critical as a major economic driver and job creator. For example, the export earnings of international tourism to Sydney exceed the export earning of Australia's entire wheat and wool crop¹². The table below demonstrates the economic and export significance of tourism to Australia's top major city and regional destinations.

The second critical role of tourism in the functioning of major cities is as the provider of essential infrastructure for business services. Tourism provides the accommodation, meeting space and exhibition centres that underpin in-face business travel, exchanges and transactions.

Finally tourism is critical to the functioning of cities because it provides the infrastructure and services for sporting, cultural, natural and heritage events and products which bring communities together and improve the livability of regions.

Table 6: Australia's Top 20 Tourism Export Destinations

PRIORITY TOURISM DESTINATIONS						
EXPORT RANK	DESTINATION	STATE	TOURISM EXPORTS \$ Millions	SHARE OF NATIONAL EXPORTS	TOURISM GDP \$ Millions	SHARE OF NATIONAL GDP
1	Sydney & Surrounds	NSW	\$7,633	3.54%	\$6,678	0.64%
2	Melbourne & Surrounds	VIC	\$4,454	2.06%	\$5,475	0.52%
3	Perth & Surrounds	WA	\$2,001	0.93%	\$2,448	0.23%
4	Brisbane & SEQ	QLD	\$1,618	0.75%	\$2,794	0.27%
5	The Tropics	QLD	\$1,405	0.65%	\$1,858	0.18%
6	Gold Coast	QLD	\$1,223	0.57%	\$2,347	0.22%
7	Adelaide & Surrounds	SA	\$650	0.30%	\$1,572	0.15%
8	Sunshine & Fraser Coasts	QLD	\$419	0.19%	\$1,512	0.14%
9	Tasmania	TAS	\$359	0.17%	\$1,087	0.10%
10	Hunter & Coastal NSW	NSW	\$307	0.14%	\$2,154	0.21%
11	The Capital	ACT & NSW	\$299	0.14%	\$983	0.09%
12	The Red Centre	NT	\$233	0.11%	\$264	0.03%
13	Whitsundays & Reef Islands	QLD	\$209	0.10%	\$599	0.06%
14	Northern Rivers	NSW	\$201	0.09%	\$616	0.06%
15	Darwin & Kakadu	NT	\$175	0.08%	\$539	0.05%
16	South East Coast	NSW & VIC	\$161	0.07%	\$1,036	0.10%
17	Australia's South West	WA	\$135	0.06%	\$680	0.06%
18	Australia's Coral Coast	WA	\$97	0.04%	\$303	0.03%
19	Western Victoria	VIC	\$88	0.04%	\$557	0.05%
20	Australian Alps	VIC & NSW	\$28	0.01%	\$533	0.05%
Total Priority Destinations			\$21,696	10.05%	\$34,035	3.25%
Remaining 32 Tourism Regions			\$654	0.30%	\$4,900	0.47%
Total All Destinations			\$22,350	10.35%	\$38,935	3.72%

N.B. Destinations ranked higher for exports than GDP are destinations with a high proportion of international visitors.

¹² Australian Bureau of Statistics, International Trade in Goods and Services, Australia cat no. 5368.0

Improving the functioning of cities and regions

Strategic and statutory land plans can improve the efficient and effective functioning of cities and regions by coordinating the multiple land uses, businesses and government agencies which supply tourism infrastructure and product. Strategic land use planning is critical to addressing the market failure to optimise the spill over benefits of tourism.

This coordination of interrelated land uses with the tourism market is best delivered through tourism destination strategies. These strategies are developed by federal, state and local tourism authorities, such as Tourism Australia, working with the multiple local government authorities and state / federal land managers in a destination. Coordination is critical given the sheer number of statutory land use plans and approval authorities which manage most tourism precincts destinations. For example, Sydney harbour and surrounding foreshore includes fifteen federal, state and local planning and approval authorities.

Table 7: Sydney Harbour Planning, Development and Approval Authorities

Local	State	Federal
City of Sydney Council	NSW Parks and Wildlife	Sydney Harbour Federation Trust
Woollahra Council	NSW Maritime	Department of Defence
North Sydney Council	Barangaroo Delivery Authority	Department of Environment, Water, Heritage and the Arts
Mosman Council	Sydney Harbour Foreshore Authority	
Manly Council	Roads & Traffic Authority	
	Sydney Ferries Corporation	
	Royal Botanic Gardens Trust	
	NSW Department of Planning	

The *National Tourism Planning Guide: Key Issues & Future Directions* paper found that there is “not a strong connection between these various tourism strategies for a location and its overriding planning framework” and that “there is a lack of formality in coordination amongst planning authorities and strategic tourism bodies.”¹³

Similarly, despite the many agency concurrences through which tourism developments must pass, there is little formal referral of tourism development applications to state tourism authorities. These authorities can assist assessment of those developments against the destinations tourism strategy.

The effectiveness of strategic and or statutory land use planning for cities and regions could be improved by formal coordination with tourism strategies for those cities and regions. The effectiveness of tourism development approval in cities and regions could be improved by formal referral processes to tourism authorities to assist assessment.

TTF Recommendation

Planning authorities should seek formal input from tourism authorities in strategic and statutory planning for major cities and regions, and for assessment of tourism development applications.

¹³ TTF & Urbis, *National Tourism Planning Guide: Key Issues & Future Directions* Paper, 2010 at page 99

4.3 Planning for adequate land supply

Forecasting visitor growth

Most of the strategic and statutory land plans for the major Australian cities and regions include some forecasting of population growth rates and demographic trends. These forecasts concentrate on residential population and typically do not include the substantial proportion of people who are visitors to the city and region.

Failure to forecast visitor growth as well as residential growth underestimates the real population growth and land supply needs, particularly for accommodation. It also misjudges the mix of accommodation supply needed between short term accommodation and permanent residential accommodation. TTF contends that this is an anti-competitive practice whereby the demand for residential use is investigated and planned for, where tourism land use is not.

The plan-making process must be informed by information that is sufficient to enable effective evidence-based policy development and informed land use planning decisions. Planners need to consider relevant quantitative data, including data relating to the economics of tourism development, in order to understand the land use dimension of tourism in the plan-making process. As noted in the *National Tourism Planning Guide: Key issues & Future Directions* “data relating to key indicators of tourism demand and supply (including forecast growth in occupied room nights...) must be made available to the planner.”¹⁴

The necessary data for this strategic planning is available. The Australian Government’s Tourism Forecasting Committee provides forecasts of projected visitor night growth at the major city and regional level. National and State tourism authorities can assist planning authorities to forecast short term accommodation supply needs from this data. A detailed list of the information sources available can be found in Appendix 2 the *National Tourism Planning Guide: A Good Practice Approach*¹⁵.

TTF Recommendation

Strategic and statutory planning for major cities and regions should include forecasts for visitor night growth and short term accommodation supply needs.

Broaden tourism use across standard zones

Zoning is the pre-eminent tool for land use planning for the supply of available land. A survey of the standard or typical zone definitions used in each state and territory planning system reveals that tourism is not often a permitted use in most zones. This either prohibits tourism development or adds to compliance cost where rezoning is needed to permit tourism. Critically, tourism is often excluded from environmental, residential and primary production zones to which it is ideally suited.

¹⁴ TTF & Urbis, *National Tourism Planning Guide: Key Issues & Future Directions* Paper, 2010 at page 103

¹⁵ At page 15

The effect of excluding tourism land uses from many standard zones is to:

- Reduce the supply of land available for tourism as it is not a permitted use in the zone.
- Create an anti-competitive barrier to entry, particularly in zones where residential or primary production is permitted but tourism is not.
- Reduce the efficiency and effectiveness of cities and regions by preventing short term accommodation in zones which need visitors to function effectively and/or to create compatible economic value.

Our analysis indicates that tourism is often excluded from zones because it is incorrectly assumed to be incompatible or irrelevant to the objective of the zone. In truth, many land uses create the need for tourism. For example, intensive residential land uses such as nursing homes create the need for short term accommodation for visiting friends and relatives of nursing home residents.

Tourism can also add economic benefit and functionality to other land use zones. For example, short term accommodation provides primary production zones with additional economic value from farm stay tourism and facilities for fruit pickers who are working holiday makers.

Tourism use has also been excluded in zones as a means to prevent inappropriate development, such as a hotel development in sensitive environmental zones. However tourism is able to adapt to the value of the land it uses, such as demountable nature based tourism accommodation developed in environmentally sensitive areas.

Unfortunately planning systems lack the tools to differentiate between appropriate and inappropriate tourism and opted to prohibit tourism altogether in many zones. TTF and Urbis have developed national best practices definitions for a dynamic range of tourism land uses. These standard definitions are detailed in Appendix 2, *National Tourism Planning Guide: A Good Practice Approach*. These best practice definitions from Table 4 can be mapped to compatible zones as per Table 8 over page.

Adopting the tourism land use definitions from the Guide as a national standard will provide a consistent tool to expand the range of zones in which tourism is a permitted use. This will increase the supply of land available for tourism growth, remove anti-competitive measure and improve the functioning of those zones in capital cities and regions.

TTF submits that tourism should be permitted in all zones unless it can be demonstrated that there is not a single compatible tourism land use in that zone. Planning and approval authorities can still exercise control over the design and scale of tourism development to ensure development is appropriate with zone objectives.

TTF Recommendation

Extend compatible tourism land uses to all zones which include residential, industrial, rural, primary production, leisure, recreation, environmental, education, health, medical, retail or commercial uses (see Table 8 for compatible land use zones).

Table 8: Typical land use zones and compatible tourism land uses

Typical Land Uses / Zones	Visitation demand	Compatible short term accommodation
Residential (General)	Residential use attracts tourism demand from people visiting their friends and relatives that are living in the area.	<ul style="list-style-type: none"> ▪ Accommodation hotel, ▪ Bed and breakfast, ▪ Caravan park, ▪ Holiday letting, ▪ Motel, ▪ Serviced apartment
Residential (Intensive)	Retirement villages, seniors housing and other intensive residential land uses create strong demand for tourism from people visiting friends and relatives that are in the area.	<ul style="list-style-type: none"> ▪ Accommodation hotel, ▪ Bed and breakfast, ▪ Caravan park, ▪ Holiday letting, ▪ Motel, ▪ Serviced apartment
Recreation	Recreation and community land uses attract different types of tourists including holiday makers, and other leisure tourists.	<ul style="list-style-type: none"> ▪ Resort complex, ▪ Caravan park, ▪ Cabin ▪ Camping ground
Rural / Primary production	Rural land uses attract visitors such as working holiday makers, farm stay tourists and visiting friends and relatives for permanent residents in rural areas.	<ul style="list-style-type: none"> ▪ Backpacker hostel, ▪ Bed and breakfast, ▪ Cabins, ▪ Caravan park, ▪ Camping ground, ▪ Nature-based tourism, ▪ Farm stay, ▪ Resort complex
Commercial centres	Commercial centres drive corporate and business travel to CBD areas and other urban centres, creating demand for short term accommodation and meeting space. Commercial centres also drive commercial retail visitation and attract conferences, conventions and other meetings.	<ul style="list-style-type: none"> ▪ Accommodation hotel, ▪ Backpacker hostel, ▪ Bed and breakfast, ▪ Caravan park, ▪ Holiday letting, ▪ Motel, ▪ Serviced apartment
Industrial precincts	Industrial precincts drive corporate and business travel, creating demand for short term accommodation and meeting space.	<ul style="list-style-type: none"> ▪ Accommodation hotel, ▪ Bed and breakfast, ▪ Caravan park, ▪ Motel, ▪ Serviced apartment
Environmental	Environmental areas create strong demand for leisure tourism, including nature based tourism.	<ul style="list-style-type: none"> ▪ Nature based tourism accommodation, ▪ Resort complex
Education	Education land uses attract students seeking residential and short-term accommodation. These students also attract visitation from their friends and family.	<ul style="list-style-type: none"> ▪ Accommodation hotel, ▪ Backpacker hostel, ▪ Caravan park, ▪ Holiday letting, ▪ Motel, ▪ Serviced apartment

Health and Medical	Health and medical land uses such as hospitals and rehabilitation facilities attract tourism demand from people that are visiting friends and relatives, and visitors who travel for specific health services and consequently need supporting short term accommodation.	<ul style="list-style-type: none"> ▪ Accommodation hotel, ▪ Backpacker hostel, ▪ Caravan park, ▪ Holiday letting, ▪ Motel, ▪ Serviced apartment.
Correctional Facilities	Correctional facilities and law and justice facilities drive tourism demand through visitation by people visiting their friends and relatives.	<ul style="list-style-type: none"> ▪ Accommodation hotel, ▪ Backpacker hostel, ▪ Caravan park, ▪ Holiday letting, ▪ Motel, ▪ Serviced apartment

Use of tourism dedicated zones

Dedicated tourism zones which are explicitly tasked with facilitating tourism development have proven effective in delivering land supply for tourism use. This has particularly been the case with crown land precincts where land has been leased for tourism use. Where tourism zones do exist, they are primarily geared towards leisure infrastructure and short term accommodation.

TTF submits that tourism dedicated zones are effective in addressing market failure to supply short term accommodation by removing competition from alternate land uses. However the ability to apply new tourism dedicated zones where they don't already exist is limited. Primarily the small number of tourism dedicated zones should be retained to prevent residential encroachment and the subsequent introduction of anti-competitive development controls making tourism use unviable.

TTF Recommendation

Retain existing tourism dedicated zones to prevent the loss of existing tourism supply.

Active planning measures for adequate tourism supply

Given the market failure in tourism, higher return from competing land uses and anti-competitive policies; active planning incentives will be need to deliver adequate tourism supply. To achieve strategic land use planning objectives for tourism, planning authorities can use the following incentives¹⁶:

- Floor space and height inducements
- Exceptions from developer, car parking and other levies
- Implementation of dedicated tourism zones
- Facilitating mixed-use outcomes

Implementation of site specific development controls which encourage tourism development will be critical to supplying Australia's future tourism needs.

TTF Recommendation

Planning authorities should use site specific development controls and other planning measures as incentives for tourism development. These incentives should be applied in order to deliver the tourism supply needs in forecast in strategic and statutory land use plans.

¹⁶ TTF & Urbis, *National Tourism Planning Guide*, 2010 at page 29.

No risk of over-supply

Short term accommodation in our capital cities has reached capacity with historic highs of over 80 per cent occupancy and there is a growing shortfall in supply¹⁷. Given forecast growth it would extremely to keep pace with demand, and high unlikely that an over-supply would occur. This is a mature industry with excellent data on supply and demand which will not invest in an oversupply.

The critical safeguard is that there is less than 50 major tourism approvals per annum across Australia. New tourism development can be easily identified and managed in each major city and region to realise the spill over benefits without creating over supply.

4.4 Effective and competitive development approval

The key issue for the approval of tourism development is the level of the approval authority. Due to the characteristics of tourism, local approval is deemed inappropriate and creates anti-competitive practices.

Local level does not capture spill over effects

Local government is an appropriate level for approval for developments whose economic, social and environmental impacts are limited to the local government area. Where development impacts beyond an area, a higher regional, state or national level of approval is required.

As outlined in Section 2, tourism development has significant positive economic spill over effects. These spill over benefits are geographically spread across the journey of a visitor and are not captured within the local government area. For example, an eco retreat in regional NSW will attract international visitors who will spend money in Sydney and multiple regional local government areas in the course of their journey to, and onwards from, the eco retreat.

TTF submits that the very nature of tourism means that developments which attract and accommodate visitors have economic and other impacts well beyond the local government area. Therefore local government is not the appropriate level at which to approve tourism development.

It should be noted that this principle is well enshrined for the approval of tourism developments that impact on environmental and heritage matters of state or national significance. Many tourism developments go through local, state and federal approval because of state environment legislation and the *Environment Protection and Biodiversity Conservation Act* (1999). However the application of this principle to tourism developments of economic significance is less certain as it occurs through ministerial call in power.

Ministerial call in of approvals of state significance

All states have a ministerial call-in-power for approvals of state significance that includes economic significance. Most jurisdictions have broad criteria while some states have specific thresholds. Only the NSW system has specific criteria for tourism.¹⁸

The primary concern with ministerial call-in is that it is uncertain and encourages jurisdiction shopping between state and local approval. Where thresholds and specific criteria are used they tend to focus on

¹⁷ TTF, *Capital City Accommodation Index*, 2010

¹⁸ See Appendix 1, TTF & Urbis *National Tourism Planning Guide: A Good Practice Approach*, 2010 at page 79.

building cost and direct employment, whereas tourism development's economic significance is that it creates far more economic activity and jobs off site. TTF submits that tourism development with economic significance beyond a local government area should automatically be an approval of state significance.

Anti competitive development controls and decision making

The most significant barrier to tourism development is the presence of local development controls which make tourism trading unviable. Typically these are development controls applied by local government in response to the concerns of residents and are an inevitable by-product of local government being predominately governed by these residents.

Short term accommodation typically needs twenty-four hour operation, a minimum number of rooms to cover fixed costs, gathering space for people to meet and the inclusion or co-location of leisure and food and beverage facilities. The development controls which often make tourism unviable include limits on height, room numbers, noise, operating hours and other effective limits on the ability to conduct tourism trade. The cumulative net effect of these development controls is often to make tourism development unviable, even in zones where tourism is permitted. This creates an anti competitive advantage for residential use over tourism use.

Not only does this phenomenon prevent tourism from entering areas with established residential uses, but often results in residential displacement of tourism use. Perversely this starts with residents being attracted to lively tourism intensive areas with hotels, leisure, entertainment and food and beverage facilities. Once established however, these residential communities often seek to improve their amenity by restricting existing tourism operations or at least opposing growth. This phenomenon is a primary justification for the limited use of tourism specific zones where appropriate.

This is not to suggest that tourism development should not face development controls. However, the approval authority determining the balance between tourism intensity and residential amenity should not be local government, which is elected by those local residents.

Complying development and approval decisions

In most jurisdictions tourism must go through local council approval even when the development complies with controls and is permitted within the zone. Residential development, by comparison, can often proceed without consent as a complying development. This means higher compliance costs for tourism developments compared with residential.

Since viable tourism developments rarely comply with development controls designed for the amenity of residents, tourism development applications must also go beyond council officers to elected representatives. This makes the process uncertain, complex and political.

Fundamentally, some existing residents do not wish to share their local facilities and environments with new residents or with additional visitors. The governance structure of local approval authorities is fundamentally based on existing land users, particularly residents, and this creates an inherent conflict of interest with tourism uses competing with residential use. This can negatively influence approval decisions by elected local representatives on non-complying tourism developments.

Lack of local expertise in tourism approval

As noted in Section 2, average building approvals for short term accommodation are approximately 600 per annum across Australia, which is only 0.24 per cent of all building approvals. This means that the number of development approvals would have to be 600 or less per annum. Of those 600 approvals, only 50 are for major building work, valued at over \$5 million, which are likely to include new rooms.

Considering that there are 565 local governing bodies in Australia¹⁹, it is clear that most local government authorities have little practical experience with processing tourism development approvals. In addition, tourism developments by their nature are more likely to occur in areas of high heritage, environmental and cultural values. This means more state agency concurrences and greater complexity of approval for a type of development for which local government has limited experience.

TTF submits that given the small number and complexity of tourism development approvals, local government is not the appropriate level of development approval. These approvals should be concentrated at a regional or state level to develop expertise and capacity for greater efficiency and effectiveness.

Tourism development approval should be at state level

TTF submits that tourism development approval decisions should be made at a regional or state level by an independent approval authority. To be independent, the approval authority should have responsibility to balance competing land use needs, rather than by elected which favours existing residential land users. This should include all tourism development with a value greater than \$5 million involving the development of additional room stock.

This approach is appropriate because:

- The tourism spill over effect is not captured by local government;
- Local development controls can be anti-competitive and a higher approval authority is required for non complying tourism development;
- Approval authorities elected by residents have a conflict of interest in assessing tourism development which competes or conflicts with residential use;
- Tourism development is complex and typically involves many state level agency concurrences and usually subject to state approval on environmental or heritage matters; and
- There are only approximately 50 such developments per annum and the expertise on these complex developments should be concentrated at the state level for greater efficiency and effectiveness.

TTF Recommendation

Assessment and approval for all tourism development in excess of \$5 million should be undertaken by an independent authority at the state level.

¹⁹ Australian Government Department of Infrastructure Transport regional development and local government, www.infrastructure.gov.au/local/, accessed 31 August 2010

5. NATIONAL PLANNING SYSTEM REFORMS

TTF recommends the following reforms to the performance of state and territory planning systems. These reforms will enable tourism to compete by addressing market failure in tourism development and the unintended consequences of public policy supporting residential use.

In turn, this will improve the effective functioning of major cities and regions for which tourism is a key driver of economic activity, exports and employment.

Planning Definitions

- Adopt best practice definitions of tourism land use as nationally consistent standards.

Strategic & Statutory Planning

- Planning authorities should seek formal input from tourism authorities in strategic and statutory planning for major cities and regions, and for assessment of tourism development applications.
- Strategic and statutory planning for major cities and regions should include forecasts for visitor night growth and short term accommodation supply needs.
- Planning authorities should use site specific development controls and other planning measures as incentives for tourism development.

Land Use Zones Strategic & Statutory Planning

- Extend compatible tourism land uses to all zones which include residential, industrial, rural, primary production, leisure, recreation, environmental, education, health, medical, retail or commercial use.
- Retain existing tourism dedicated zones to prevent the loss of existing tourism supply.

Development Assessment & Approval

- Apply a national standard in all residential development approvals that Class 2 buildings cannot be used for stays of less than 30 days.
- Assessment and approval for all tourism development in excess of \$5 million should be undertaken by an independent authority at the state level.

TOURISM & TRANSPORT FORUM (TTF)
8th FLOOR
8-10 LOFTUS STREET
SYDNEY NSW 2000
T | +61 2 9240 2000
F | +61 2 9240 2020
www.ttf.org.au