

# TOURISM

- 1 This working paper describes how the Commission estimated what the expenses each State would face if it provided the Australian average level of services to tourism. The development of the assessment method is discussed in Volume 5 of the 2004 Review Working Papers.

## DESCRIPTION OF THE CATEGORY

- 2 The category comprised expenses on administration, regulation, planning, development, research and support of tourism and area promotion to attract tourists. More specifically, the category included expenses on:
- (i) tourist bureaus, in Australia and overseas;
  - (ii) information offices;
  - (iii) caravan parks and camping areas; and
  - (iv) liaison activities with transportation establishments and other industries benefiting from the presence of tourists.
- 3 Starting in 2005-06, the Commission included the Special Purpose Payment (SPP) 'Strengthening Tasmania' in the category.
- 4 Table 1 shows the gross average expenses on States' tourism services for the last six financial years. In 2005-06, the category average of \$20.51 per capita represented 0.34 per cent of the total gross average expenses. In 2005-06, user charges accounted for almost a quarter of gross average expenses for this category.

**Table 1** Tourism, average expenses and user charges, 2000-01 to 2005-06

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Average expenses (\$pc)	17.65	20.67	22.74	20.40	23.22	20.51
% of total State average expenses	0.36	0.40	0.43	0.37	0.41	0.34
Average user charges (\$pc)	3.63	3.84	4.24	4.80	4.97	5.06
% of category average expenses	20.57	18.56	18.65	23.52	21.41	24.65

## ASSESSMENT METHOD

### Description of the assessment

5 The assessment for the 2006 Update was undertaken using four components: fixed costs, regulation, economic development and isolation. The assessment method for the 2007 Update was the same as was used for the 2006 Update.

- (i) The expenses for fixed costs were assessed using the general method.
- (ii) The expenses for regulation were assessed using economic environment and input cost factors.
- (iii) The expenses for economic development were assessed on an equal per capita basis.
- (iv) The expenses for isolation were assessed by the general method.

### New developments for the 2007 Update

6 There were no significant new developments to report for the 2007 Update.

### Assessment structure

7 Table 2 summarises the assessment structure for the 2007 Update.

**Table 2 Tourism, assessment structure for the 2007 Update, 2005-06**

Component	Component Weight	Factors	Basis of calculation
	%		
Fixed costs	8.67	Administrative scale Input costs	General method General method, with weights of 80% for wages, 2% for accommodation and 0.5% for electricity.
Regulation	9.03	Input costs Economic environment	General method Based on per capita tourists for each State.
Economic development	81.23	None	Equal per capita
Isolation	1.08	Isolation	General method.

8 Calculating the category factor summarises the components, component weights and disability factors assessed for this category for the last year, 2005-06, of the 2007 Update. It also shows the calculation of the category factor for 2005-06.

**Table 3 Tourism, derivation of category factor, 2007 Update, 2005-06**

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
<b>Fixed costs (component weight = 8.67 %)</b>								
Administrative scale	0.37633	0.50595	0.63736	1.25990	1.65290	5.24912	7.81806	12.47610
Input costs	1.02885	0.99514	0.97511	0.98495	0.97832	0.96027	1.02142	1.02379
Component factor	0.38718	0.50349	0.62150	1.24094	1.61707	5.04058	7.98555	12.77287
<b>A Wgted comp factor</b>	<b>0.03370</b>	<b>0.04382</b>	<b>0.05409</b>	<b>0.10800</b>	<b>0.14073</b>	<b>0.43868</b>	<b>0.69497</b>	<b>1.11161</b>
<b>Regulation (component weight = 9.03 %)</b>								
Economic environment	0.96367	0.78985	1.27625	1.03938	0.83331	1.22322	1.09437	2.16612
Input costs	1.02254	0.99590	0.98112	0.98853	0.98249	0.96833	1.01629	1.01849
Component factor	0.98539	0.78661	1.25215	1.02746	0.81872	1.18448	1.11219	2.20618
<b>B Wgted comp factor</b>	<b>0.08901</b>	<b>0.07105</b>	<b>0.11310</b>	<b>0.09281</b>	<b>0.07395</b>	<b>0.10699</b>	<b>0.10046</b>	<b>0.19928</b>
<b>Economic development (component weight = 81.23 %)</b>								
EPC	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Component factor	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
<b>C Wgted comp factor</b>	<b>0.81226</b>	<b>0.81226</b>	<b>0.81226</b>	<b>0.81226</b>	<b>0.81226</b>	<b>0.81226</b>	<b>0.81226</b>	<b>0.81226</b>
<b>Isolation (component weight = 1.08 %)</b>								
Isolation	0.04030	0.07374	0.11575	1.86107	1.08664	2.90754	1.21355	58.91048
Component factor	0.04030	0.07374	0.11575	1.86107	1.08664	2.90754	1.21355	58.91048
<b>D Wgted comp factor</b>	<b>0.00044</b>	<b>0.00080</b>	<b>0.00125</b>	<b>0.02012</b>	<b>0.01175</b>	<b>0.03143</b>	<b>0.01312</b>	<b>0.63676</b>
<b>Category factor</b>	<b>0.93540</b>	<b>0.92793</b>	<b>0.98070</b>	<b>1.03318</b>	<b>1.03869</b>	<b>1.38935</b>	<b>1.62081</b>	<b>2.75990</b>

9 The category factor was calculated as follows:

$$\begin{aligned}
 \text{category factor} &= \text{fixed costs} + \text{regulation} + \text{economic} \\
 &\quad \text{development} + \text{isolation} \\
 \text{fixed costs} &= 0.0867 \text{ (administrative scale * fixed costs input} \\
 &\quad \text{costs)} \\
 \text{regulation} &= 0.0903 \text{ (economic environment * input costs)} \\
 \text{economic} &= 0.8123 \text{ (EPC factor)} \\
 \text{development} & \\
 \text{isolation} &= 0.0108 \text{ (isolation).}
 \end{aligned}$$

10 In each case, the contribution to the category factor was calculated as the expenses component weight multiplied by the component factor (the bracketed terms in the formulas). Each contribution to category factor was rescaled to ensure that the sum of assessed equalled the sum of actual expenses.

## RESULTS FOR 2005-06

11 Table 10 at the end of the section shows the average, actual and assessed expenses for all years of the 2007 Update.

12 Table 4 shows, for 2005-06, actual, average and assessed gross expenses per capita, and cost of service provision and level of service provision ratios.

**Table 4 Tourism, assessment results, 2005-06**

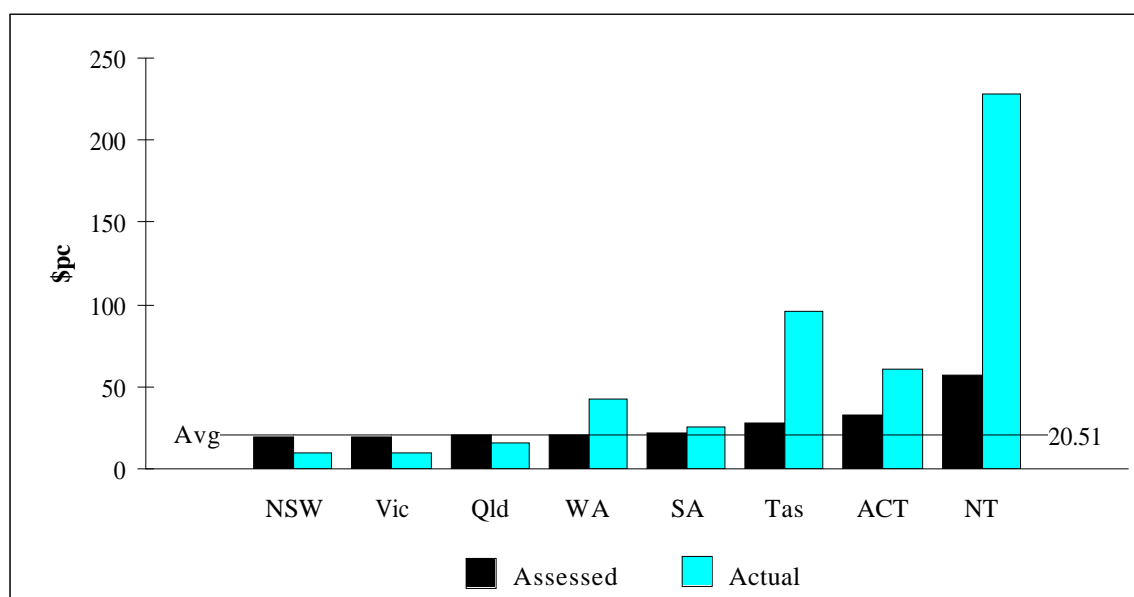
	NSW	Vic	Qld	WA	SA	Tas	ACT(a)	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual expenses	10.01	10.15	15.26	42.65	25.29	96.00	60.61	228.35	20.51
Assessed expenses	19.19	19.04	20.12	21.19	21.31	28.50	33.25	56.62	20.51
	%	%	%	%	%	%	%	%	%
Assessed cost of providing services ratio (b)	94	93	98	103	104	139	162	276	100

(a) ACT expenses may include municipal transactions.

(b) The cost of service provision ratio is the ratio of assessed to average gross expenses per capita.

13 Figure 1 shows the gross expenses per capita for 2005-06 in terms of assessed, actual and gross average expenses.

**Figure 1 Tourism, gross assessed, actual<sup>(a)</sup> and average expenses, \$ per capita, 2005-06**



(a) ACT expenses may include municipal transactions.

**Cost of service provision ratios**

14 A State’s cost of service provision ratio is the ratio of assessed gross expenses per capita to average gross expenses per capita. For this category, the key drivers of the cost of service provision ratio are expenses associated with planning for improving and promoting tourism.

15 **Level of service provision ratios.** A State’s level of service provision ratio is the ratio of actual gross expenses to assessed gross expenses. In this category, the smaller States appear to consistently show a higher level of service provision.

## CONTRIBUTION TO GST AND HCG POOL DISTRIBUTION

16 Table 5 shows the category's contribution to the distribution of the GST and health care grants pool (the pool) implied by the 2007 Update. It also shows the contribution of each factor and component to the total distribution of the pool.

**Table 5 Tourism, contribution of assessment to pool distribution, 2007 Update**

Factor	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Fixed costs</b>									
Administrative scale	-8.4	-4.9	-2.8	1.1	1.9	4.0	4.3	4.7	16.1
Input costs	0.4	0.0	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.5
Component factor	-8.2	-4.9	-2.9	1.0	1.8	3.9	4.5	4.8	16.0
<b>Economic development</b>									
EPC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Component factor	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Regulation</b>									
Economic environment	-0.5	-2.6	2.8	0.3	-0.7	0.1	0.1	0.6	3.8
Input costs	0.4	0.0	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.4
Component factor	-0.1	-2.6	2.5	0.2	-0.8	0.1	0.1	0.6	3.5
<b>Isolation</b>									
Isolation	-1.6	-1.1	-0.9	0.4	0.0	0.2	0.0	2.9	3.6
Component factor	-1.6	-1.1	-0.9	0.4	0.0	0.2	0.0	2.9	3.6
<b>Redistribution from EPC resulting from the 2007 Update assessment</b>									
	-9.9	-8.7	-1.3	1.7	1.1	4.2	4.6	8.4	19.9

### Differences from an equal per capita assessment

17 The table indicates that the main driver of the assessment was the administrative scale factor, which re-distributed \$16.1 million. Since the smaller States are more affected by administrative scale, the redistribution was towards them.

## CHANGES SINCE THE 2006 UPDATE

### Effect of assessment on the distribution of the pool

18 The assessments in each update are based on a five year average of the most recent expense data and indicators of disability. For the 2006 Update, data for the period 2000-01 to 2004-05 were used, and for the 2007 Update the data covered 2001-02 to 2005-06. In addition to 'shifting' the data window one year forward when performing the next update, data for each year are revised where necessary to account for any corrections since the last update. For

example, expense data can be revised by the ABS between the updates. Hence, changes in the distribution of the pool between the 2006 Update and the 2007 Update can result from two possible causes:

- use of revised financial data in the average expenses and other revised data in factor calculations for the years 2000-01 to 2004-05; and
- replacement of 2000-01 average expenses and factors with those of 2005-06 to move forward the five-year period on which distribution of the pool was based.

19 Table 6 shows the distribution of the pool resulting from the assessments in the 2006 Update and the 2007 Update. It also summarises the effect of revisions and the effect of moving the five year window forward showing that, overall, the replacement of 2000-01 expense data and factors with those for 2005-06 was the main source of change between the two updates. The total change in redistribution between the updates was small, amounting to \$0.8 million in total.

**Table 6 Tourism, effect of assessment on distribution of the pool, 2006 Update to 2007 Update**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Redistribution from EPC resulting from the 2006 Update assessment (a)</b>	-10.2	-9.1	-1.4	1.7	1.1	4.3	4.8	8.8	20.7
<b>Effect of revising category averages and factors for 2000-01 to 2004-05</b>									
Category average	-0.4	-0.3	0.0	0.1	0.0	0.2	0.2	0.3	0.7
Category factors	0.3	0.2	0.2	0.0	0.0	-0.1	-0.2	-0.3	0.6
Interactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Total	0.0	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.2
<b>Effect of replacing 2000-01 category averages and factors with those for 2005-06</b>									
Category average	0.3	0.3	0.0	0.0	0.0	-0.1	-0.1	-0.3	0.6
Category factors	0.0	0.2	0.0	0.0	0.0	0.0	-0.1	-0.2	0.3
Interactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.3	0.5	0.0	0.0	0.0	-0.1	-0.2	-0.4	0.8
<b>Redistribution from EPC resulting from the 2007 Update assessment (a)</b>	-9.9	-8.7	-1.3	1.7	1.1	4.2	4.6	8.4	19.9
<b>Total effect of revisions and updating (b)</b>	0.2	0.4	0.1	0.0	0.0	-0.1	-0.2	-0.4	0.8

(a) Assuming same pool and a constant population.

(b) The total redistributed amount shows the change in the amount redistributed among the States between the 2006 Update and the 2007 Update. It does not necessarily equal the difference in the total redistribution from EPC between the two inquiries.

20 Compared with an equal per capita (EPC) assessment, the 2007 Update redistributed \$19.9 million from New South Wales, Victoria and Queensland to the other States.

21 The State with the largest redistribution (on a per capita basis) between the updates is the Northern Territory, but this amounted to less than \$3 per capita.

22 Table 7 shows the changes in distribution of the pool attributable to changes in each factor arising from the combined effect of revisions over the period 2000-01 to 2004-05 and replacing 2000-01 data with 2005-06 data. The administrative scale factor is the main contributor to the redistribution between the updates. This is consistent with the fact that this factor is responsible for more than two thirds of the redistribution from EPC for the category.

**Table 7 Tourism, effect of assessment on distribution of the pool by factor, 2006 Update to 2007 Update**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Fixed costs</b>									
Administrative scale	0.5	0.2	0.0	-0.1	-0.1	-0.2	-0.2	-0.2	0.7
Input costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
<b>Economic development</b>									
EPC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Regulation</b>									
Economic environment	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Input costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Isolation</b>									
Isolation	0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.1

23 The main reasons for the changes in distribution of the pool between the two updates are explained in more detail in the following sections.

**Changes due to revising average expenses and factors for years 2000-01 to 2004-05**

24 *Revising average expenses.* Table 8 shows the average expenses for the six financial years of this and the previous update. Overall, there was an increase due to revisions in the average expenses for 2000-01 to 2004-05. For those States with below average assessed cost of providing services for this category (particularly New South Wales and Victoria) the revisions to average expenses would result in an increase in the redistribution of the pool away from them. This can be seen in Table 6, which shows negative contributions to redistribution for these States.

**Table 8 Average expenses used in the 2006 and 2007 Updates**

	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
2007 Update		17.65	20.67	22.74	20.40	23.22	20.51
2006 Update	18.18	17.63	19.46	20.58	20.39	23.18	
Difference	-	0.02	1.21	2.16	0.01	0.04	-

25 *Revising category factors.* Revision to category factors had a small effect, contributing \$0.6 million in total to the redistribution between the two updates. The largest effect, in per capita terms, was for the Northern Territory but the effect was less than \$2 per capita. The change in redistribution from revisions to category factors is actually misleading. The cause was upward revision to the category average expenses which, in turn, lessened the effect of

the administrative scale factor<sup>1</sup>, causing a redistribution to those States with a scale factor less than 1.0 (New South Wales, Victoria and Queensland). The combined effect on redistribution of revisions to average expenses and revisions to factors is close to zero as the two almost cancel each other out.

**Changes in State circumstances — replacing 2000-01 with 2005-06 data**

26 Table 9 shows the actual expenses, the assessed expenses and implied costs of service provision for 2000-01, the year that drops out of the assessment period, and 2005-06, the year that comes in, for the 2007 Update assessment.

**Table 9 Tourism, actual expenses and assessed cost of providing services, 2000-01 and 2005-06**

	NSW	Vic	Qld	WA	SA	Tas	ACT(a)	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual expenses									
2000-01	7.72	9.84	26.71	10.99	27.93	67.86	75.68	142.79	17.65
2005-06	10.01	10.15	15.26	42.65	25.29	96.00	60.61	228.35	20.51
	%	%	%	%	%	%	%	%	%
Change between 2000-01 and 2005-06(b)	130	103	57	388	91	141	80	160	116
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Assessed expenses									
2000-01	16.51	16.20	17.33	18.22	18.26	24.62	29.17	51.48	17.65
2005-06	19.19	19.04	20.12	21.19	21.31	28.50	33.25	56.62	20.51
	%	%	%	%	%	%	%	%	%
Assessed cost of providing services ratio									
2000-01	94	92	98	103	103	139	165	292	100
2005-06	94	93	98	103	104	139	162	276	100

(a) ACT expenses may include municipal transactions.

(b) Changes may occur over time in how expenses are classified so trends for individual States should be treated with some caution.

27 **Replacing average expenses.** Between 2000-01 and 2005-06, the category average expenses have risen by 16 per cent, while during the same period, the GST and HCG pool has increased 43 per cent. The net negative growth in the category average relative to the pool has reduced the importance of the category in State budgets between the two updates. Assuming a constant pool is used for these two years for analysis of change purposes, the redistribution caused by replacing the average expenses will be smaller in the 2007 Update than in the 2006 Update. For States with a negative redistribution from EPC (New South Wales, Victoria and to a lesser extent Queensland), the redistribution will become smaller, resulting in a net

<sup>1</sup> Administrative scale proportion is total fixed costs divided by total category expenses. Fixed costs have grown more slowly than the category, reducing the effect of the factor.

positive redistribution to those States between the two updates. For the other States, the reverse will be true, resulting in a net negative redistribution between the updates, consistent with the pattern seen in Table 6.

- 28 ***Replacing category factors.*** A decrease in the assessed cost of providing services between the 2006 and 2007 Updates reflects a decrease in the category factor for a State, and will contribute a lower GST redistribution to that State. The Northern Territory, and to a lesser extent the ACT, had a fall in this ratio between the two updates. Hence the effect of replacing the 2000-01 factors with the 2005-06 factors will have contributed to a decreased GST redistribution to the Northern Territory, and a smaller decrease for the ACT — again as observed in Table 6. The overall contribution of replacing factors was, however, small and amounted to a total change in redistribution between the updates of \$0.3 million.

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**Table 10 Assessment of Expenses, Tourism**

	2001-02		2002-03		2003-04		2004-05		2005-06	
	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita
	\$m	\$	\$m	\$	\$m	\$	\$m	\$	\$m	\$
<b>Average Expenses</b>		20.67		22.74		20.40		23.22		20.51
New South Wales										
Assessed difference	- 7.680	- 1.16	- 8.011	- 1.20	- 8.727	- 1.30	- 8.676	- 1.29	- 9.012	- 1.33
Expenses - Assessed	128.914	19.51	143.441	21.54	128.028	19.10	147.967	21.94	130.496	19.19
Actual	62.544	9.46	63.396	9.52	54.440	8.12	47.414	7.03	68.092	10.01
Victoria										
Assessed difference	- 6.919	- 1.43	- 7.205	- 1.47	- 6.709	- 1.36	- 7.989	- 1.60	- 7.479	- 1.48
Expenses - Assessed	92.962	19.24	103.895	21.27	94.056	19.04	108.003	21.62	96.288	19.04
Actual	41.000	8.48	68.000	13.92	45.000	9.11	46.000	9.21	51.348	10.15
Queensland										
Assessed difference	- 1.013	- 0.28	- 0.584	- 0.16	- 1.350	- 0.35	- 0.755	- 0.19	- 1.590	- 0.40
Expenses - Assessed	74.827	20.39	84.875	22.59	77.117	20.05	90.552	23.03	80.782	20.12
Actual	108.000	29.44	125.000	33.26	100.265	26.07	110.982	28.23	61.283	15.26
Western Australia										
Assessed difference	1.403	0.73	1.123	0.58	1.409	0.72	1.684	0.84	1.383	0.68
Expenses - Assessed	40.960	21.40	45.163	23.32	41.491	21.12	48.004	24.07	43.053	21.19
Actual	64.931	33.93	66.821	34.51	69.931	35.60	89.899	45.07	86.632	42.65
South Australia										
Assessed difference	0.682	0.45	0.845	0.55	1.090	0.71	0.892	0.58	1.229	0.79
Expenses - Assessed	32.003	21.12	35.471	23.30	32.302	21.12	36.595	23.80	32.992	21.31
Actual	43.138	28.47	37.116	24.38	45.143	29.51	57.158	37.18	39.158	25.29
Tasmania										
Assessed difference	3.187	6.75	3.379	7.12	3.603	7.50	3.643	7.53	3.894	7.99
Expenses - Assessed	12.947	27.42	14.176	29.86	13.400	27.91	14.885	30.75	13.896	28.50
Actual	31.000	65.65	35.000	73.73	29.000	60.39	56.000	115.68	46.808	96.00
Australian Capital Territory(a)										
Assessed difference	3.740	11.67	3.676	11.40	3.873	11.97	3.963	12.20	4.169	12.74
Expenses - Assessed	10.362	32.34	11.012	34.14	10.474	32.37	11.504	35.43	10.884	33.25
Actual	26.000	81.15	15.000	46.50	15.000	46.36	19.000	58.51	19.841	60.61
Northern Territory										
Assessed difference	6.601	33.32	6.777	34.19	6.812	34.24	7.236	35.91	7.406	36.10
Expenses - Assessed	10.697	53.99	11.286	56.93	10.870	54.65	11.916	59.14	11.614	56.62
Actual	27.059	136.57	38.984	196.64	48.959	246.13	42.973	213.27	46.842	228.35

(a) ACT expenses may include municipal transactions.

Note: refer to Attachment A of the 2007 Update, Relative Fiscal Capacity of States for how these figures are compiled.