

TOURISM

- 1 This working paper describes the expenses assessment for the Tourism category and provides information on its impact on GST revenue distribution for the 2008 Update. The Commission's assessment aims to estimate 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 comprises expenses on administration, regulation, planning, development, research and support of tourism and area promotion to attract tourists. More specifically, the category includes 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 2006-07, the category average of \$19.65 per capita represented 0.31 per cent of the total gross average expenses. In 2006-07, user charges accounted for 12.01 per cent of gross average expenses for this category.

Table 1 Tourism, average expenses and user charges, 2001-02 to 2006-07

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Average expenses (\$pc)	20.66	22.72	20.36	23.16	20.07	19.65
% of total State average expenses	0.40	0.43	0.37	0.41	0.33	0.31
Average user charges (\$pc)	3.84	4.24	4.79	5.84	2.48	2.36
% of category average expenses	18.56	18.65	23.52	25.24	12.34	12.01

DEVELOPMENTS SINCE THE 2007 UPDATE

5 There were no new developments affecting the assessment since the last update.

ASSESSMENT METHOD

Description of the assessment

6 The assessment for the 2007 Update was undertaken using four components: fixed costs, regulation, economic development and isolation. The assessment method was the same for the 2008 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.

Assessment structure

7 Table 2 summarises the assessment structure for the 2008 Update.

Table 2 Tourism, assessment structure for the 2008 Update, 2006-07

Component	Component Weight	Factors	Basis of calculation
	%		
Fixed costs	9.24	Administrative scale Input costs	General method General method, with weights of 80% for wages, 2% for accommodation and 0.5% for electricity.
Regulation	8.97	Input costs Economic environment	General method Based on per capita tourists for each State.
Economic development	80.69	None	Equal per capita
Isolation	1.1	Isolation	General method.

8 Table 3 summarises the components, component weights and disability factors assessed for this category for the last year, 2006-07, of the 2008 Update. It also shows the calculation of the category factor for 2006-07.

Table 3 Tourism, derivation of category factor, 2008 Update, 2006-07

Factors	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Fixed costs (component weight = 9.24 %)								
Administrative scale	0.38031	0.50456	0.63046	1.25230	1.65373	5.30328	7.74403	12.25245
Input costs	1.02528	0.99212	0.98387	0.99199	0.97579	0.95664	1.01939	1.01769
Component factor	0.38993	0.50059	0.62029	1.24227	1.61369	5.07334	7.89420	12.46916
A Wgtd comp factor	0.03621	0.04649	0.05761	0.11537	0.14987	0.47117	0.73314	1.15803
Regulation (component weight = 8.97 %)								
Economic environment	0.97813	0.76132	1.27175	1.08921	0.75927	1.21986	1.16171	2.36625
Input costs	1.01919	0.99309	0.98935	0.99482	0.98016	0.96490	1.01447	1.01260
Component factor	0.99690	0.75606	1.25820	1.08356	0.74421	1.17704	1.17851	2.39608
B Wgtd comp factor	0.08937	0.06778	0.11280	0.09714	0.06672	0.10552	0.10565	0.21481
Economic development (component weight = 80.69 %)								
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
C Wgtd comp factor	0.80689	0.80689	0.80689	0.80689	0.80689	0.80689	0.80689	0.80689
Isolation (component weight = 1.1 %)								
Isolation	0.04081	0.06917	0.11309	1.80761	1.09363	2.75060	1.22840	58.74083
Component factor	0.04081	0.06917	0.11309	1.80761	1.09363	2.75060	1.22840	58.74083
D Wgtd comp factor	0.00045	0.00076	0.00125	0.01991	0.01205	0.03030	0.01353	0.64705
Category factor	0.93293	0.92192	0.97854	1.03932	1.03552	1.41388	1.65922	2.82678

9 The category factor was calculated as follows:

$$\begin{aligned}
 \text{category factor} &= \text{fixed costs} + \text{regulation} + \text{economic} \\
 &\quad \text{development} + \text{isolation} \\
 \text{fixed costs} &= 0.0924 \text{ (administrative scale * fixed costs input} \\
 &\quad \text{costs)} \\
 \text{regulation} &= 0.0897 \text{ (economic environment * input costs)} \\
 \text{economic} &= 0.8069 \text{ (EPC factor)} \\
 \text{development} & \\
 \text{isolation} &= 0.0110 \text{ (isolation).}
 \end{aligned}$$

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 the category factor was rescaled to ensure that the sum of assessed equalled the sum of actual expenses.

RESULTS FOR 2006-07

- 11 Table 10 at the end of the section shows the average, actual and assessed expenses for all years of the 2008 Update.
- 12 Table 4 shows, for 2006-07, actual, average and assessed gross expenses per capita, and the assessed cost of service provision ratios.

Table 4 Tourism, assessment results, 2006-07

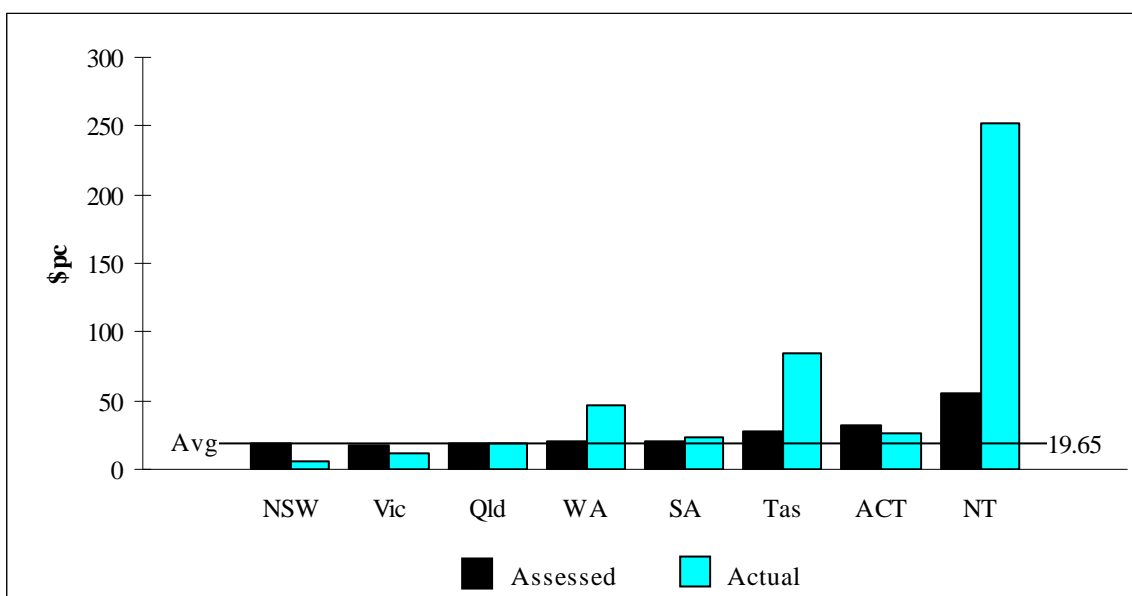
	NSW	Vic	Qld	WA	SA	Tas	ACT(a)	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual expenses	5.3	11.7	18.5	46.3	22.6	84.4	26.8	252.6	19.6
Assessed expenses	18.3	18.1	19.2	20.4	20.3	27.8	32.6	55.5	19.6
	%	%	%	%	%	%	%	%	%
Assessed cost of providing services ratio (b)	93	92	98	104	104	141	166	283	100

(a) ACT expenses may include municipal transactions.

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

- 13 Figure 1 shows the assessed, actual and gross average expenses for 2006-07.

Figure 1 Tourism, gross assessed, actual^(a) and average expenses, \$ per capita, 2006-07



- (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 less populous States, with the exception of the ACT, show a higher level of service provision than the Commission assessed.

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 2008 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, 2008 Update

Factor	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Fixed costs									
Administrative scale	-8.5	-5.1	-3.0	1.1	2.0	4.1	4.5	4.8	16.6
Input costs	0.4	0.0	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.4
Component factor	-8.3	-5.1	-3.1	1.1	1.9	4.0	4.6	5.0	16.5
Economic development									
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
Regulation									
Economic environment	-0.5	-2.6	2.7	0.3	-0.7	0.2	0.1	0.6	3.9
Input costs	0.4	0.0	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.4
Component factor	-0.2	-2.6	2.5	0.2	-0.7	0.2	0.1	0.6	3.6
Isolation									
Isolation	-1.6	-1.2	-0.9	0.4	0.0	0.2	0.0	3.0	3.7
Component factor	-1.6	-1.2	-0.9	0.4	0.0	0.2	0.0	3.0	3.7
Redistribution from EPC resulting from the 2008 Update assessment									
	-10.1	-8.9	-1.5	1.7	1.2	4.3	4.7	8.6	20.5

Differences from an equal per capita assessment

- 17 Table 5 indicates that the main driver of the assessment was the fixed costs (administrative scale) factor, which re-distributed \$16.6 million. Since the less populous States are more affected by administrative scale, the redistribution was towards them (Western Australia, South Australia, Tasmania, the Australian Capital Territory and the Northern Territory). The economic environment and isolation factors made smaller contributions to the distribution of GST revenue shares between the States.

CHANGES SINCE THE 2007 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 2007 Update, data for the period 2001-02 to 2005-06 were used, and for the 2008 Update, data for the period 2002-03 to 2006-07 was used. 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 changes or 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 2007 Update and the 2008 Update were brought about because the Commission:
- used revised financial data in the average expenses and other revised data in factor calculations for the years 2001-02 to 2005-06; and
 - replaced 2001-02 average expenses and factors with those of 2006-07 to move forward the five-year period on which GST revenue distribution was based. Moving the five-year period forward in this way ensures the assessments reflect recent trends in State priorities on the services provided and recent trends in State demographic, and economic circumstances on the relative costs of those services.
- 19 Table 6 shows the change in distribution of the pool resulting from the assessments in the 2007 Update and the 2008 Update as well as the total redistributed by each.

Table 6 Tourism, effect of assessment on distribution of the pool, 2007 Update to 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Redistribution from EPC resulting from the 2007 Update assessment (a)	-10.6	-9.4	-1.4	1.8	1.2	4.4	4.9	9.1	21.4
Effect of revising category averages and factors for 2001-02 to 2005-06									
Category average	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Category factors	0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.1
Interactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.2
Effect of replacing 2001-02 category averages and factors with those for 2006-07									
Category average	0.7	0.6	0.1	-0.1	-0.1	-0.3	-0.3	-0.6	1.4
Category factors	-0.4	-0.3	-0.2	0.1	0.1	0.3	0.2	0.3	0.9
Interactions	0.1	0.1	0.1	0.0	0.0	-0.1	-0.1	-0.1	0.3
Total	0.4	0.4	0.0	-0.1	0.0	-0.1	-0.2	-0.4	0.8
Redistribution from EPC resulting from the 2008 Update assessment (a)	-10.1	-8.9	-1.5	1.7	1.2	4.3	4.7	8.6	20.5
Total effect of revisions and updating (b)	0.5	0.5	0.0	-0.1	0.0	-0.1	-0.2	-0.5	1.0

(a) Using the same pool and populations that were used to calculate the 2007 Update redistribution.

(b) This figure shows the change in the amount redistributed among the States between the 2007 Update and the 2008 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 2008 Update redistributed \$20.5 million away from New South Wales, Victoria and Queensland to the other States. In the 2008 Update changes as a result of revision of the category averages and factors were negligible in comparison to the effect of replacement of the category expenses and factors.

21 Table 7 shows the changes in GST revenue attributable to changes in each factor arising from both revisions over the period 2001-02 to 2005-06 and replacing 2001-02 data with 2006-07 data. Administrative scale makes the largest contribution to the redistribution between updates (\$0.7 million). As the importance of administrative scale has fallen since the last update, GST revenue shares have been redistributed away from the less populous States to New South Wales, Victoria and Queensland.

Table 7 Tourism, effect of assessment on distribution of the pool by factor, 2007 Update to 2008 Update

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total redist'd
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Fixed costs									
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
Economic development									
EPC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Regulation									
Economic environment	0.0	0.2	-0.2	0.0	0.1	0.1	0.0	-0.1	0.3
Input costs	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Isolation									
Isolation	0.1	0.1	0.0	0.0	0.0	0.0	0.0	-0.1	0.2

22 The main reasons for the changes in GST revenue distribution between the two updates are explained in more detail in the following sections.

Changes due to revising average expenses and factors for years 2001-02 to 2005-06

23 *Revising average expenses.* In Table 8 the average expenses are shown for the six financial years of this update and those of the previous update. For this category, a small downward revision was made to average expenses in 2005-06. Overall, revisions had a negligible impact on the redistribution between Updates as reflected in the very minor changes observed in the revision of the category average in Table 6.

Table 8 Tourism, Average expenses used in the 2007 and 2008 Updates

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
2008 Update		20.66	22.72	20.36	23.16	20.07	19.65
2007 Update	17.65	20.66	22.72	20.36	23.16	20.43	
Difference	-	0.00	0.00	0.00	0.00	-0.36	-

24 *Revising category factors.* A redistribution of \$0.1 million away from the Northern Territory was the only difference due to revision of category factors. In this instance, the change was mostly due to adoption of 2006 Census data which resulted in an upward revision to mean resident population for the Territory. This slightly reduced the disability due to administrative scale and reduced its redistribution.

Changes in State circumstances — replacing 2001-02 with 2006-07 data

- 25 Table 9 shows the actual expenses and implied costs of service provision for 2001-02, the year that drops out, and 2006-07, the year that comes in, for the 2008 Update assessment.
- 26 *Replacing average expenses.* Since 2001-02, State spending on tourism services has increased only marginally (1.6 per cent), far less than the growth in the GST pool (43.9 per cent), reducing the importance of the category in State budgets between updates. When growth of the category expense is lower than growth in the GST pool, the category's importance in determining GST revenue shares diminishes. For States whose service provision costs are above the national average this means they will gain less GST than in the previous update. Therefore replacement of the 2001-02 average expenses with 2006-07 average has reduced the GST distribution to States with an above average service provision costs (Western Australia, South Australia, Tasmania, the ACT and the Northern Territory) and has increased the GST distribution of those with below average assessed costs of service provision (New South Wales, Victoria and Queensland).

Table 9 Tourism, actual expenses and assessed cost of providing services, 2001-02 and 2006-07

	NSW	Vic	Qld	WA	SA	Tas	ACT(a)	NT	Avg
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Actual expenses									
2001-02	9.5	8.5	29.4	33.9	28.4	65.6	81.0	136.3	20.7
2006-07	5.3	11.7	18.5	46.3	22.6	84.4	26.8	252.6	19.6
	%	%	%	%	%	%	%	%	%
Change between 2001-02 and 2006-07(b)									
	56.4	137.7	62.9	136.6	79.5	128.6	33.0	185.3	95.1
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Assessed expenses									
2001-02	19.5	19.2	20.4	21.4	21.1	27.4	32.3	53.8	20.7
2006-07	18.3	18.1	19.2	20.4	20.3	27.8	32.6	55.5	19.6
	%	%	%	%	%	%	%	%	%
Assessed cost of providing services ratio									
2001-02	94	93	99	104	102	133	156	260	100
2006-07	93	92	98	104	104	141	166	283	100

- 27 *Replacing category factors.* Table 9 shows that in 2006-07, assessed service provision costs fell in New South Wales, Victoria and Queensland and increased in all other States except Western Australia where they were virtually unchanged. This resulted in a redistribution of GST revenue shares away from the more populous States to Western Australia, South Australia, Tasmania, the Australian Capital Territory and the Northern Territory (Table 6). Increases in States assessed costs were driven in part by above average increases in the tourist visitation in most of the less populous States (except the Northern Territory which had near average growth). The main cause of the redistribution was diseconomies of small scale

(administrative scale disability). These have become more important in influencing assessed costs due a faster growth of these expenses compared with total expenses for tourism. The growing importance of this disability in 2006-07 compared with 2001-02 has resulted in a redistribution to the less populous States.

This working paper was prepared by the Transport and Other Services section of the Commonwealth Grants Commission. If you have any questions about its content please contact Glenn Pure on (02) 6229 8816 or glenn.pure@cgc.gov.au

A handwritten signature in black ink, appearing to read 'Glenn Pure', with a stylized flourish at the end.

Date: 29 February 2008

Table 10 Assessment of Expenses, Tourism

	2002-03		2003-04		2004-05		2005-06		2006-07	
	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita	Amount	Per Capita
	\$m	\$	\$m	\$	\$m	\$	\$m	\$	\$m	\$
Average Expenses		22.72		20.36		23.16		20.07		19.65
New South Wales										
Assessed difference	- 7.940	- 1.19	- 8.608	- 1.29	- 8.510	- 1.26	- 8.816	- 1.30	- 9.034	- 1.32
Expenses - Assessed	143.192	21.52	127.670	19.08	147.389	21.89	127.437	18.77	125.650	18.33
Actual	63.397	9.53	54.439	8.13	47.414	7.04	39.900	5.88	36.628	5.34
Victoria										
Assessed difference	- 7.213	- 1.47	- 6.715	- 1.35	- 8.005	- 1.59	- 7.461	- 1.47	- 7.926	- 1.53
Expenses - Assessed	103.994	21.24	94.205	19.01	108.222	21.56	94.714	18.60	93.591	18.11
Actual	68.000	13.89	45.000	9.08	46.000	9.16	50.000	9.82	60.325	11.67
Queensland										
Assessed difference	- 0.591	- 0.16	- 1.366	- 0.35	- 0.787	- 0.20	- 1.668	- 0.41	- 1.743	- 0.42
Expenses - Assessed	84.993	22.56	77.290	20.01	90.825	22.96	79.592	19.66	79.502	19.22
Actual	125.000	33.18	100.265	25.96	110.982	28.05	72.646	17.94	76.451	18.49
Western Australia										
Assessed difference	1.114	0.57	1.389	0.71	1.666	0.83	1.356	0.67	1.608	0.77
Expenses - Assessed	45.151	23.29	41.467	21.07	47.977	23.99	42.270	20.73	42.510	20.42
Actual	66.821	34.47	69.931	35.53	89.899	44.95	86.929	42.64	96.448	46.32
South Australia										
Assessed difference	0.836	0.55	1.076	0.70	0.872	0.56	1.219	0.78	1.100	0.70
Expenses - Assessed	35.510	23.26	32.359	21.06	36.686	23.72	32.537	20.85	32.074	20.34
Actual	37.117	24.32	45.143	29.38	57.157	36.96	51.114	32.76	35.667	22.62
Tasmania										
Assessed difference	3.378	7.11	3.582	7.45	3.614	7.45	3.871	7.92	3.997	8.13
Expenses - Assessed	14.170	29.83	13.370	27.81	14.840	30.61	13.674	27.99	13.656	27.78
Actual	35.000	73.68	29.000	60.33	56.000	115.51	46.000	94.17	41.489	84.39
Australian Capital Territory(a)										
Assessed difference	3.673	11.33	3.867	11.85	3.953	12.03	4.159	12.52	4.360	12.95
Expenses - Assessed	11.036	34.05	10.509	32.22	11.561	35.19	10.827	32.59	10.975	32.60
Actual	15.000	46.28	15.000	45.98	19.000	57.83	20.000	60.20	9.008	26.75
Northern Territory										
Assessed difference	6.743	33.81	6.775	33.72	7.196	35.23	7.340	35.17	7.637	35.89
Expenses - Assessed	11.273	56.52	10.866	54.09	11.926	58.38	11.529	55.24	11.817	55.53
Actual	38.984	195.47	48.959	243.69	42.973	210.37	45.992	220.35	53.758	252.62

(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.