

SUBMISSION

Productivity Commission

***Inquiry into the Impact of Policy Reforms on Rural
and Regional Australia***

Hearing held in Toowoomba
12th July 1999

***Reasonable Accommodation Allowances in Regional
Areas***

A report prepared for the

Toowoomba & Golden West Tourist Association

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1. The Issue

The *reasonable accommodation allowances*, set by the Australian Public Service Board and adopted by the Australian Tax Office, act as a means of indirect price setting for business travellers. Business travellers, who comprise approximately 44%¹ of all guests at regional accommodation houses, commonly adopt these rates.

We contend that the allowance set for accommodation in some country centres is artificially low, which has adverse consequences for the accommodation / tourism industry and subsequently the regional economy. For example the current accommodation allowance for employees on a salary of less than \$68, 228 in Toowoomba is \$54, which represents a 42% discount on the Brisbane allowance of \$93. For employees in the next salary bracket² the Toowoomba allowance is \$65, a 49% discount on the Brisbane allowance of \$127. Given that variable input costs are no different between the two centres, this appears an excessive discount. Further, the current regional accommodation allowance is also significantly less than the average Toowoomba room rate of \$76.45³.

While this issue is not central to NCP reforms, we believe it presents an example of where government policy acts against the interests of regional business and regional economic development. It is therefore, an issue that we feel should be drawn to the Inquiry's attention. In summary we would like to recommend:

- That the process of setting accommodation rates in country areas is made more transparent.
- That the survey process in country areas should give due recognition to the quality of accommodation provided.
- Government set accommodation rates should recognise the need to ensure a market return to accommodation providers and acknowledge the connection between deriving a market return in the accommodation industry and regional economic development.

¹ *Joint Regional Tourism Strategy* (1996), Taylor Byrne Tourism, report produced for the Toowoomba & Golden West and Southern Downs Regional Tourist Associations, October.

² Salary bracket \$68,228 to \$122,136.

2. Reasonable Domestic Allowances

Taxation Ruling 1999/7b gives the reasonable domestic travel allowances for taxation purposes for the 1999-2000 income year. This Ruling states that *the amounts set for domestic accommodation expenses shown in this ruling, represent amounts that could reasonably be expected to be incurred at commercial establishments such as hotels, motels and serviced apartments* (para. 27).

Daily travel allowances according to salary levels and destinations for the 1999-2000 income year are outlined in Paragraphs 30-33 and are reproduced in Appendix 1. Daily accommodation allowances are specified for capital cities and high cost, Tier 2 and other country centres. These rates are set by way of a market survey conducted by the Department of Employment, Workplace Relations and Small Business as follows.

5. A comprehensive survey of over 750 establishments has been used to determine the accommodation rates to apply for the payment of travelling allowance. Several country centres have changed classification as a result of the review. There has been some movement in the classification of other country centres between the High Cost, Tier 2, and other country classifications⁴.

Supply and demand factors obviously play a major role in establishing accommodation rates in different centres. Rates for the 30 high cost country centres are established individually and in many cases are equivalent to or even higher than rates for capital cities. A review of this list suggests that these high rates are driven as much by the monopoly power of suppliers as they are by the additional costs of providing accommodation in remote locations.

While the definition of a high cost country centre is self evident, it has not been possible to obtain a definition of what constitutes Tier 2 as opposed to an "other country centre". The vast majority of rural and regional centres are classified as other country centres. In general there appears to be a lack of transparency concerning the method by which the allowance for other country centres is established. Indeed, this method, which is driven by supply and

³ *Trend of Business in the Queensland Lodging Industry*, Howarth Asia Pacific (Qld), April 1999.

⁴ www.dewrsb.gov.au/group_wr/prod_ser/advices/99

demand factors, would appear to have a number of flaws in relation to setting prices for other country centres. In particular:

- Supply and demand conditions for country areas – where there are only one or two operators in remote locations, accommodation providers can use a monopoly-pricing mechanism.
- Country centres such as Toowoomba have a large number of establishments that are either not rated or are rated at less than 3 stars. These can skew an average price at the expense of operators that strive to offer a quality service. Appendix 2 contains a price survey by Howarth Asia Pacific (Qld) which indicates that the average cost of a room in Toowoomba for April 1999 was \$81.73. This contrasts markedly with the accommodation allowance rate of \$54. A possible explanation for this discrepancy is that the providers associated with Howarth's survey tend to operate at the 3 star and above level. We have not been able to establish whether the survey is stratified in country centres as to quality.
- The method of obtaining an average accommodation price across all country centres can result in establishing a rate that is less than the market rate in some centres. This flaw is acknowledged in the guidelines from the Department of Employment, Workplace Relations and Small Business as follows.

12. As the Other Country Centres rate is determined by averaging the cost of accommodation across all the country centres, **it is possible that accommodation may not always be available within the set rate**, especially in those centres with only one establishment. Agencies may have scope under the terms of their Agreements to adjust the daily rate of TA in appropriate circumstances⁵. (*Emphasis added*)

Many business organisations set travel allowance levels for employees at the Australian Taxation Office rates or less. According to a survey of accommodation suppliers, around 44%⁶ per cent of persons using accommodation facilities are business travellers. Arguably the rates determined by the ATO have the effect of asserting a form of indirect price control over the accommodation industry. More specifically the disparity between the rates recognised for country and metropolitan centres has the effect of exercising price control over different segments of the identified market.

⁵ www.dewrsb.gov.au/group_wr/prod_ser/advice/99

⁶ *Joint Regional Tourism Strategy* (1996), Taylor Byrne Tourism, report produced for the Toowoomba & Golden West and Southern Downs Regional Tourist Associations, October.

3. Input Prices (Costs)

While accommodation allowances for country centres represent a significant discount on capital city rates, the cost of providing such services is very similar regardless of location. Indeed, many operating costs are higher in country areas. The return on providing accommodation in country areas should not only recover such costs, but also provide a return to investors which is commensurate with the uncertainty of the investment.

Costs in the accommodation industry can be divided into capital costs and operating costs. Capital costs include the purchase of land and construction of premises. While land values vary considerably, they are usually higher in metropolitan areas. Costs of construction, however, are usually higher in country areas.

Major operating expenses are identified in Table 1. These include labour, rent leasing and hiring expenses associated with vehicles and equipment, occupancy expenses, cost of goods sold, entertainment expenses and other expenses. Other expenses include repairs and maintenance, office supplies, printing costs, electricity, telephone, postage, motor vehicle running expenses, credit card commissions etc.

Table 1: Major Expense Items, Accommodation Industry, Australia, 1991-92

<i>Type of Expense</i>	1991-92 \$m	% of total expenses
Total labour expenses	1263.8	29%
Total rent, leasing and hiring expenses of vehicles and equipment	31.6	1%
Total occupancy expenses	365.9	9%
Total entertainment expenses	13.9	0.3%
<i>Other expenses</i>		
Cost of goods sold	533.8	12%
Other operating expenses	1541.9	36%
Total operating expenses	3751.0	87%
Total non-operating expenses	549.9	13%
Total expenses	4300.9	100%

Source: ABS cat. No. 8674.0, p17. 1991-92 The Hospitality Industries - An Overview

As operating costs, which represent 87% of total expenses, are virtually identical in both markets it is difficult to sustain the argument that accommodation allowances for city and country areas should be so different.

4. The impact of fixing artificially low accommodation allowances

Tourism and the accommodation industry make a significant contribution to regional economies. The contribution of this industry to regional economic development in Toowoomba and the Darling Downs is contained in Appendix 3.

One of the most important aspects of local, regional and state tourism strategies throughout Australia is the need to address the poor yield being experienced by accommodation investors in regional areas. If the yield to operators in regional Australia cannot be improved in line with metropolitan areas and better develop regional tourism:

- new investment will not occur at desirable levels;
- existing properties will not be upgraded or maintained at levels deemed appropriate for the visitor services section of the industry; and,
- existing operators will not have the incentive to expand or improve upon their marketing efforts.

The business travel sector of the market is a strong and important part of the visitor mix in regional Australia. The efforts of government and industry bodies to enhance and build upon the tourism and visitor services sector will be significantly retarded if the capacity of this group to pay market rates for accommodation remain low.

Further, the failure of the business sector to pay full market rates unfairly disadvantages business people investing in regional areas, and has a negative impact upon capacity building efforts in regional communities.

Appendix 1: Abstract from Tax Ruling (TR 1999/7) on Reasonable Allowances

Reasonable daily travel allowance amounts

30. The reasonable daily travel allowance amounts, according to salary levels and destinations, for the 1999-2000 income year are as follows:

(i) Employee's annual salary is below \$68,228

Place	Accomm. \$	Food and drink \$			Incidentals \$	Total \$
		Bfast	Lunch	Dinner		
		14.55	16.20	27.90		
Adelaide	84		58.65		12.15	154.80
Brisbane	95		58.65		12.15	165.80
Canberra	76		58.65		12.15	146.80
Darwin	89		58.65		12.15	159.80
Hobart	70		58.65		12.15	140.80
Melbourne	110		58.65		12.15	180.80
Perth	91		58.65		12.15	161.80
Sydney	119		58.65		12.15	189.80
High cost country centres	see (a) below		58.65		12.15	see note (a) below
Tier 2 country centres (see note (b) below)	65	Bfast	Lunch	Dinner	12.15	130.55
		(12.95)	14.85	25.60		53.40
Other country centres	54		53.40		12.15	119.55

(i) Employee's annual salary range of \$68,228 to \$122,136

Place	Accomm. \$	Food and drink \$			Incidentals \$	Total \$
		Bfast	Lunch	Dinner		
		15.75	22.25	31.25		
Adelaide	112		69.25		17.25	198.50
Brisbane	127		69.25		17.25	213.50
Canberra	101		69.25		17.25	187.50
Darwin	119		69.25		17.25	205.50
Hobart	93		69.25		17.25	179.50
Melbourne	147		69.25		17.25	233.50
Perth	121		69.25		17.25	207.50
Sydney	159		69.25		17.25	245.50
High cost country centres	see note (a) below		69.25		17.25	see note (a) below
Tier 2 country centres (see note (b) below)	78	Bfast	Lunch	Dinner	17.25	153.55
		(14.55)	14.85	28.90		58.30
Other country centres	65		58.30		17.25	140.55

Notes: (a) Accommodation expenses for high cost country centres are listed in paragraph 31 of this Ruling. (b) Tier 2 country centres are listed in paragraph 32 of this Ruling.

31. High cost country centres - accommodation expenses:

Country centre	\$	Country centre	\$
Alice Springs (NT)	70.50	Karratha(WA)	110.00
Bright (VIC)	73.00	Kununurra (WA)	92.00
Broome (WA)	99.50	Newcastle (NSW)	75.50
Burnie (TAS)	70.00	Newman (WA)	97.50
Christmas Island	78.50	Nhulunbuy (SA)	100.00
Cocos (Keeling) Islands	92.50	Norfolk Island	94.00
Dampier (WA)	79.50	Paraburdoo (WA)	83.00
Derby (WA)	70.00	Pt Hedland (WA)	93.00
Devonport (TAS)	72.00	Roebourne (WA)	70.00
Exmouth (WA)	97.50	Thursday Island	117.00
Gold Coast (QLD)	85.50	Tom Price (WA)	73.00
Halls Creek (WA)	86.00	Weipa (QLD)	90.00
Horn Island	99.00	Wilpena (SA)	90.00
Jabiru (NT)	147.00	Wollongong (NSW)	81.50
Kalgoorlie (WA)	75.00	Yulara (NT)	259.50

32. Tier 2 country centres:

Country centre	Country centre
Albany (WA)	Griffith (NSW)
Ballarat (VIC)	Katherine (NT)
Bathurst (NSW)	Launceston (TAS)
Bendigo (VIC)	Marla (SA)
Broken Hill (NSW)	Port Pirie (SA)
Cairns (QLD)	Wagga Wagga (NSW)
Castlemaine (VIC)	

Employees with annual salaries above \$122,136

33. For employees with annual salaries above \$122,136 the following amounts are considered reasonable for the relevant components covered by a daily domestic travel allowance for the 1999-2000 income year:

Salaries above \$122,136

Place	Accommodation	Food and drink	Incidentals	Total
Sydney	\$270	\$69.25 Bfast Lunch Dinner \$15.75 \$22.25 \$31.25	\$17.25	\$356.50
Other Capital Cities	\$210	\$69.25 Bfast Lunch Dinner \$15.75 \$22.25 \$31.25	\$17.25	\$296.50
Non Capital City	\$120 or the relevant amount at paragraph 27 if higher	\$62.75 Bfast Lunch Dinner \$15 \$17 \$30.75	\$17.25	\$200.00

**Appendix 2: Survey of Accommodation Trends for the Queensland Lodging Industry
from Howarth Asia Pacific (Qld)**

TREND OF BUSINESS IN THE QUEENSLAND LODGING INDUSTRY

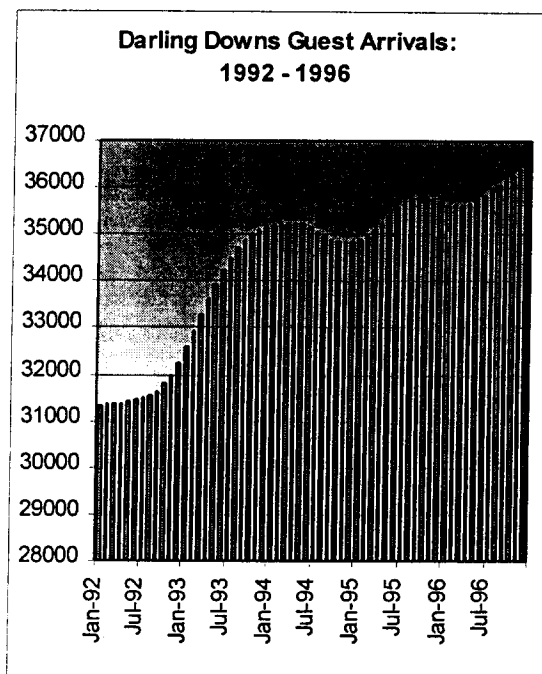
ZONE	NO. OF ROOMS	April 1999 COMPARED WITH April 1998					
		OCCUPANCY		AVE ROOM RATE		ROOM DENSITY	
		% THIS MONTH	CHANGE IN % POINTS OVER THIS MONTH LAST YEAR	\$ THIS MONTH	% CHANGE OVER THIS MONTH LAST YEAR	THIS MONTH	% CHANGE OVER THIS MONTH LAST YEAR
Brisbane and Southeastern	1-20	63.0	4	61.15	-1	1.8	-7
	21-40	50.2	2	91.27	4	1.4	1
	41-100	62.2	-1	99.69	3	1.6	3
	100+	67.2	-2	110.57	-6	1.4	4
	TOTAL	64.1	-1	104.93	-4	1.5	8
Gold Coast	1-20	52.0	0	64.00	0	1.9	-8
	21-40	52.9	2	64.29	1	2.0	3
	41-100	53.6	3	119.05	0	2.5	7
	100+	68.5	2	88.31	-9	2.0	0
	TOTAL	66.1	2	90.51	-8	2.1	0
Sunshine Coast	1-20	45.2	-5	72.48	-7	2.8	5
	21-40	60.3	9	66.62	-1	2.5	8
	41+	65.5	1	137.07	-4	2.1	-3
	TOTAL	64.2	4	128.41	-10	2.2	-5
Cairns and Far North Queensland	1-20	63.6	3	81.69	-2	1.9	-3
	21-40	43.7	-4	59.06	2	2.0	-3
	41-100	55.2	2	106.11	-1	1.9	-4
	100+	65.2	5	116.53	-2	1.4	-6
TOTAL	63.0	5	111.57	-2	1.5	-4	
Townsville and Northern	1-40	72.5	2	53.03	6	1.7	-3
	41+	64.4	6	81.28	1	1.6	3
	TOTAL	66.0	4	74.93	2	1.6	-1
Toowoomba		65.0	-2	81.73	2	1.8	5
Wide Bay		45.1	-9	73.74	-1	1.9	-4
Norwich Park Central		73.5	0	63.74	0	1.6	0
Mackay & White Monday		58.9	4	61.10	2	1.9	-6
Central Queensland & Far West		57.8	10	105.36	10	2.4	-3
STATE TOTAL	1-20	59.0	2	75.86	-2	2.1	-1
	21-40	61.7	3	71.63	3	1.8	-5
	41-100	58.5	2	93.13	0	1.9	0
	100+	66.6	2	104.81	-5	1.8	-4
	TOTAL	64.4	3	95.28	-5	1.8	-4

Appendix 3: The contribution of tourism to Toowoomba and the Darling Downs

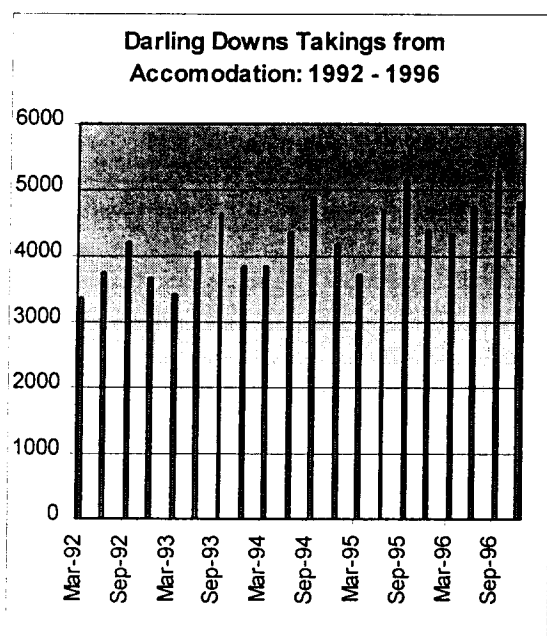
Toowoomba is internationally renowned as the “Garden City”, with thousands of tourists visiting each year to experience the gardens and parks, particularly in September for the Carnival of Flowers.

Guest arrivals steadily increased over the 1992 to 1996 period averaging 31,590 per month in 1992 to 35,955 per month in 1996.

Toowoomba and the Darling Downs are equipped with a variety of accommodation facilities including hotels, motels, caravan parks and historic ‘bed and breakfasts’. Room occupancy rates are typically highest in the month of September for the Carnival of Flowers, with approximately 56% of rooms being occupied. The average length of stay for tourists to the Darling Downs region is 1.40 days.



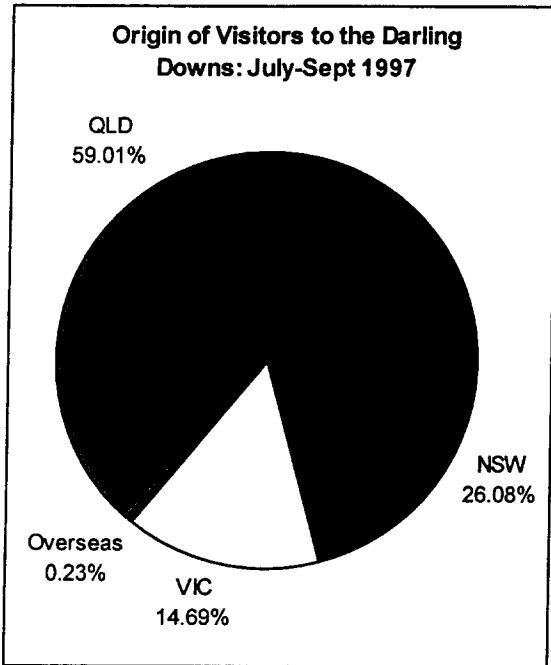
Grow Zone Database



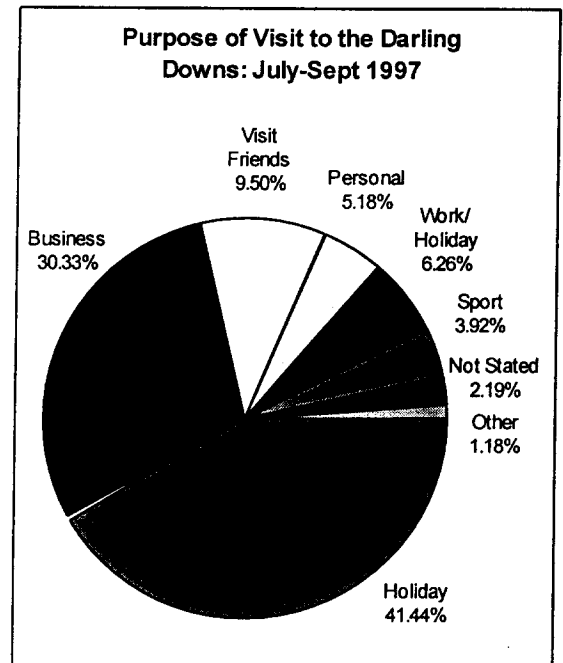
Grow Zone Database

The number of establishments, guest rooms and bed spaces has remained fairly constant, with a slight increase in guest rooms and bed spaces reflecting the opening of ten new establishments since 1992.

Tourists to the Darling Downs spent approximately \$5 million in 1996 on accommodation. Consistent with the increase in the number of tourists around Carnival of Flower time, takings from accommodation are greatest in September.

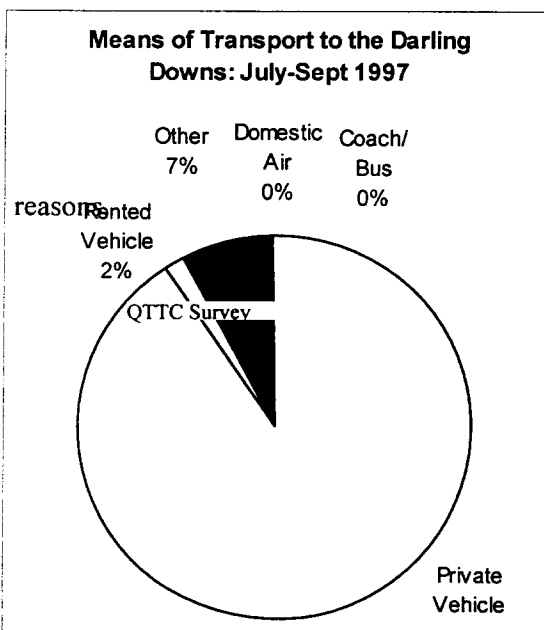


Visitors to Toowoomba and the Darling Downs mainly come from other parts of Queensland and the southern states of Australia. The 1997 Queensland Visitors Survey conducted for the Queensland Tourist and Travel Corporation (QTTC) found that 59% of visitors to the Darling Downs came from intrastate. The region also attracts visitors from New South Wales and Victoria, accounting for 26% and 15% of visitors respectively.



Visitors come to Toowoomba and the Darling Downs for a number of reasons. The 1997 Queensland Visitors Survey

found that 42% of visitors came to the Darling Downs for holidays, and 31% primarily for business. Others came to the Darling Downs to visit friends, for a working holiday, for a sporting event or for personal



The vast majority of visitors to the Darling Downs travel by private vehicle (91%). Transport to the region includes domestic air, buses, vehicles and a twice weekly passenger rail service linking Toowoomba to Brisbane.