

Unlocking Victorian Tourism

An Inquiry into Victoria's tourism industry

**Summary Report
June 2011**



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ISBN 978-1-921831-85-0 (paperback)

ISBN 978-1-921831-84-3 (PDF)

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An appropriate citation for this publication is:

Victorian Competition and Efficiency Commission 2011, *Unlocking Victorian Tourism: An Inquiry into Victoria's tourism industry*, summary report, June.

About the Victorian Competition and Efficiency Commission

The Victorian Competition and Efficiency Commission, which is supported by a secretariat, provides the Victorian Government with independent advice on business regulation reform and opportunities for improving Victoria's competitive position.

VCEC has three core functions:

- reviewing regulatory impact statements, measurements of the administrative burden of regulation and business impact assessments of significant new legislation
- undertaking inquiries referred to it by the Treasurer
- operating Victoria's Competitive Neutrality Unit.

For more information on the Victorian Competition and Efficiency Commission, visit our website at: www.vcec.vic.gov.au

Disclosure of interest

The Commissioners have declared to the Victorian Government all personal interests that could have a bearing on current and future work. The Commissioners confirm their belief that they have no personal conflicts of interest in regard to this inquiry.

Terms of reference

I, John Lenders MP, Treasurer, pursuant to section 4 of the State Owned Enterprises (State Body — Victorian Competition and Efficiency Commission) Order (‘the Order’), hereby direct the Victorian Competition and Efficiency Commission (‘the Commission’) to conduct an inquiry into the Victorian Tourism Industry.

Background

Tourism is a significant economic driver for Victoria. In 2007-08, directly and indirectly tourism contributed 5.9 per cent or \$15.8 billion to the economy, it also employed 185 000 people. Victoria is a popular tourist destination for residents in other Australian States and Territories as well as international travellers. The past decade has witnessed periodic surges in tourist numbers from China and other Asian neighbours in particular. The industry has a key role to play in Victoria’s future economic development.

The Victorian Government plays a significant role in supporting the tourism industry, through the provision of quality infrastructure, good road and air access and strong marketing of Victoria’s attractions. An inquiry into Victoria’s tourism industry will assist in providing an improved information base on which to frame future State Government policy development for the tourism industry and will identify regulatory and other major impediments to the future development and growth of the industry through a consultative process that has regard to the community-wide impacts of regulatory and broader policies.

Scope of the inquiry

The Commission is to inquire into and report on:

- 1) State and local regulatory barriers to the development of the tourism industry and the creation of new tourist infrastructure, particularly in localities with substantial growth potential;
- 2) opportunities to improve the management of state assets to better meet the needs of the tourism industry without compromising their primary management objectives; and
- 3) the impact of international and domestic aviation policy on the Victorian tourism industry and broader economy, and any implications for policy positions that the Victorian Government might adopt in its own right or present to the Commonwealth Government.

In undertaking this inquiry, the Commission should take into account any substantive studies or developments by the Commonwealth and other States, and international best practice. In particular, the Commission's Inquiry is meant to complement and not duplicate work undertaken by Commonwealth and State Tourism Ministers under the auspices of the Council of Australian Governments.

Inquiry process

In undertaking this inquiry, the Commission is to have regard to the objectives and operating principles of the Commission, as set out in section 3 of the Order. The Commission must also conduct the inquiry in accordance with section 4 of the Order.

The Commission is to consult with key interest groups and affected parties, and may hold public hearings. The Commission should also draw on the knowledge and expertise of relevant Victorian Government departments and agencies.

The Commission is expected to produce the following documents:

- an issues paper at the beginning of the inquiry process
- a draft report containing analysis and draft recommendations after the receipt of public submissions; and
- a final report to be provided to me as soon as possible, but not later than ten months after receipt of these terms of reference.

JOHN LENDERS MP
Treasurer
23 September 2010

Contents

Terms of reference	v
Contents	vii
Key messages	1
Summary report	3
Recommendations	31

Key messages

A review of potential regulatory and other barriers to the development of Victoria's tourism industry is timely, given the challenges and opportunities facing the industry:

- International competition is becoming more intense, a number of international markets, particularly China, are growing, and the market for domestic tourists is increasingly competitive.
- To respond to these changes the industry will need adaptable entrepreneurs willing to take risks in developing new tourism products and services.
- The situation is most challenging in regional Victoria because domestic tourists are the traditional market of the regions and only a small number of tourists from the growing markets travel outside of Melbourne and its environs.

The ability of regional businesses to respond is being constrained by the way private and public lands are managed and regulated, which reflects a presumption that tourism development necessarily undermines environmental, heritage and other outcomes:

- Poor development may create conflicts with existing land uses. Such conflicts can be productively managed, based on the experience of private developments in areas of high environmental value in Australia and internationally that have maintained or enhanced overall environmental outcomes.

Planning controls on private land limit tourism investment in rural areas and in the green wedge zones bordering Melbourne:

- Land-use controls in much of regional Victoria restrict tourism investment. For example, on land adjacent to national parks or attractions such as the Great Ocean Road. These restrictions undermine the policy that such investment should generally occur outside the national parks.
- The Government should introduce a more flexible approach to tourism investment in regional and green wedge areas, supported by a more strategic approach to regional land-use planning for tourism and other issues.

Features of the regulation and management of public land, especially national parks, further impede private investment in tourism:

- A lack of facilities on or near national parks diminishes their value to the community and visitors. Victoria is one of only two Australian jurisdictions that prohibit private tourist facilities in national parks.
- The Commission recommends Government remove the prohibition on private development of tourist facilities in national parks where they complement environmental, heritage and other values, and generate a net public benefit. Such a change would complement reforms to land-use planning. While most tourist facilities can be located outside national parks, for a small number of facilities that meet the required environmental credentials the park is a superior location.

Finally, there are opportunities to improve the environment for tourism investment through changes to aviation policy, the taxi industry, building regulations, occupational health and safety regulations covering events, fire safety requirements for caravan parks and supply-side cooperation and coordination.

Summary report

Victoria's tourism industry is an important part of the State's economy. It faces intense competitive pressures from the appreciating Australian dollar and from other Australian and international destinations. Reflecting these pressures, Australian governments have been examining ways to strengthen the continued development of the industry. A key priority has been to improve the marketing of Victoria to the rest of Australia and the world. Another priority has been to build a strong calendar of cultural, business and sporting events, along with the infrastructure to support these events.

These policies have succeeded in stimulating additional visits to Victoria, especially to Melbourne. The longer term success of the tourism industry will hinge on the industry's capacity to supply the tourism experiences that match the marketing promises. This capacity, in turn depends on investment in new and improved tourist facilities such as attractions, accommodation, recreational facilities, conference and convention centres, and restaurants that will help retain domestic tourists and appeal to international visitors.

State and local governments can influence the costs of starting, expanding and operating tourism businesses through how they design and administer regulation. The State Government also manages assets that are important attractions for visitors, such as Victoria's national parks, visitor centres, sports grounds, galleries, commercial precincts such as Docklands, and cultural facilities. Unnecessarily burdensome regulations or poorly managed state assets can impede the development of Victoria's tourism industry by imposing unnecessary costs on businesses.

This inquiry is about ensuring regulation and its administration, as well as the management of state assets, do not unnecessarily impede private sector investment in new tourism facilities and services. A key theme is the marked divergence emerging in the patterns of tourism and industry investment between Melbourne and regional Victoria. The State Government, councils and the organisations that operate Melbourne's sporting and cultural assets recognise the importance of tourism to the economy and how tourism adds to the vibrancy, diversity and liveability of Melbourne. As a result, the administration of regulation and the management of state assets in Melbourne generally do not impede tourism investment.

Outside Melbourne, the regulatory frameworks and their administration often direct tourism investment to the towns and limit its encroachment on land on, or adjacent to, state and national parks, along the coastline, or that has historically been used for farming. This approach commonly assumes investment in tourism is incompatible with using rural land for agriculture, and with maintaining the environment, heritage, residential amenity and rural lifestyles.

The Commission considers more creative approaches to tourism development can be compatible with, and often enhance, the other values of rural land. To deliver the marketing promise of Victoria being a great place to visit, there needs to be new private investment in tourism facilities and services across the state, not just in Melbourne. Securing this investment will require a significant shift in policy and regulation by State and local governments, to recognise tourism contributes to the economic, environmental and social values that policy and regulation are striving to enhance. It will also require efficient processes and checks to ensure these values are maintained.

Victoria's tourism industry

The tourism industry is essentially defined by the demand or consumer side of the market, rather than the supply or producer side. Standard definitions of 'tourism' are based on the activities of a visitor:

A visitor is a traveller taking a trip to a main destination outside his/her usual environment, for less than a year, for any main purpose (business, leisure or other personal purpose) other than to be employed by a resident entity in the country or place visited. These trips taken by visitors qualify as tourism trips. Tourism refers to the activity of visitors. (United Nations World Tourism Organization 2010, para. 2.9)

Accepted definitions of the tourism industry also include visitors for the purpose of education, highlighting the diverse nature of the tourism industry in Victoria.

Businesses in the tourism industry are similarly diverse. They come from many sectors and may not perceive themselves as part of the tourism industry. Businesses in the industry provide a range of goods and services, including:

- cultural and recreational services such as entertainment, sporting and cultural events and tours
- transport services such as airlines, taxis, hire cars and river cruises
- primary produce such as farm sales from wineries, orchards and farms
- business convention, exhibition and catering services
- accommodation, restaurants and retail services.

These businesses are linked because most visitors to Victoria come to experience a range of attractions, and require transport and other services. For example, visitors to the Spring Racing Carnival in Melbourne experience a variety of accommodation, food and retail services that are available. The convergence of various attractions, transport, supporting services and other tourism infrastructure forms the tourism product—the total experience—or visitors to Victoria.

The tourism industry's contribution to the Victorian economy

Tourism is an important part of the Victorian economy. The latest available figures (for 2007-08)¹ indicate:

- the total value of the goods and services produced by the tourism industry is around 3.2 per cent (or \$8.6 billion) of the total value of goods and services produced in Victoria
- total employment in the tourism industry is around 105 000 people (four per cent of total Victorian employment).

While direct effects are the most appropriate measure of the economic contribution of tourism, tourism also has indirect effects on other industries.² Accounting for these indirect effects of tourism, the size of the sector's overall contribution to the Victorian economy is significantly larger — around 5.9 per cent (or \$15.8 billion) of the total value of goods and services produced in Victoria.

The composition and performance of the Victorian tourism industry

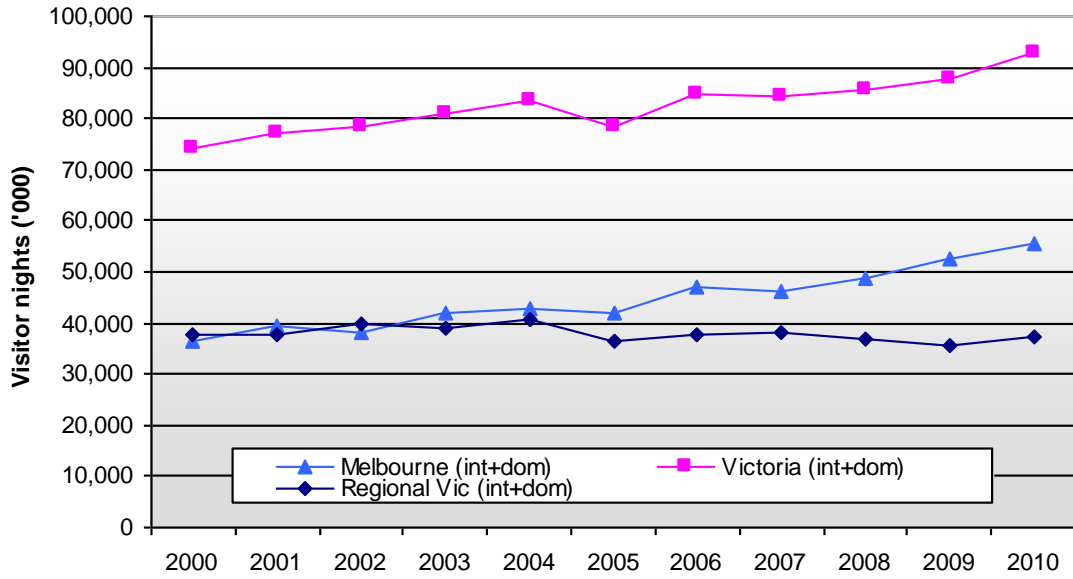
Overall, tourism in Victoria grew over the past decade (figure 1), as did Victoria's share of the total Australian tourism market (figure 2). These results mask significant differences between trends for Melbourne and regional Victoria in the past decade:

- Victoria's share of total visitor nights in Australia grew from around 18 per cent to almost 21 per cent. This is entirely made up of a larger share of international visitor nights. Melbourne's share of international visitor nights (including education visitors) increased by around five per cent against other capital city destinations. Regional Victoria's share rose by around three per cent against other regional destinations.
- Almost all of Victoria's growth in visitor nights can be attributed to the near doubling of international visitors and their stays in Melbourne. This increase more than offset a decline in domestic visitor nights in Victoria.

¹ The Commission understands that these are the latest figures available for Victoria. Disaggregated figures for states and territories based on the latest Australian Tourism Satellite Accounts (2008-09) were not available at the time this report was finalised.

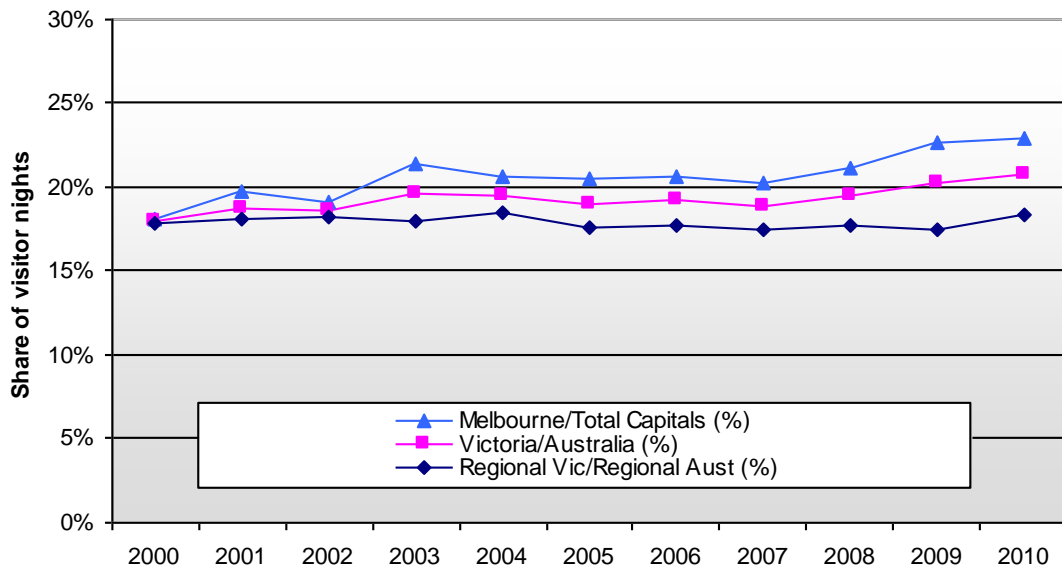
² Indirect effects occur through flow-on effects to industries which do not themselves have direct contact with the visitor but nonetheless supply goods and services attributable as tourism consumption. While direct effects are considered to be the most appropriate measure for comparing the economic contribution of tourism with other non-tourism industries, the aggregation of tourism's direct and indirect effects contribute to a fuller understanding of flow-on effects of tourism to output and employment within other industries, and across the economy generally' (Pambudi et al. 2009, p. 2).

Figure 1 **Estimated visitor nights for Victoria, Melbourne and regions, 2000–10**



Source: Tourism Forecasting Committee 2010a, pp. 3, 11.

Figure 2 **Market shares of Australia, capital city, and regional visitor nights, 2000–10**



Source: Tourism Forecasting Committee 2010a, pp. 3, 11.

- Victoria, like other destinations in Australia, experienced declining domestic overnight visitor numbers in the past decade. Regional Victoria relied heavily on domestic visitors, which accounted for 90 per cent of their visitor nights. Although the number of international visitor nights also doubled over the decade, the rise was from a much smaller base. The net result was a slight fall in total visitor nights in the regions.

There are several differences between Melbourne and regional Victoria:

- Most expenditure by international visitors occurs in Melbourne. International visitors are relatively small in absolute numbers (only nine per cent of all overnight visitors), but are high spending (accounting for 35 per cent of total visitor expenditure in Victoria). In 2010, international visitors spent an estimated \$3584 million in Melbourne, compared with \$285 million in regional Victoria.
- Melbourne is the primary destination for business tourists. In 2009, around 66 per cent of all domestic business visitor nights and 90 per cent of all international business visitor nights were in Melbourne. Business travel includes purposes such as meetings, company incentives for employees, conventions and business events. These visitors also tend to spend significantly more than international leisure tourists.
- Melbourne is the dominant destination for international education visitors to Victoria. In 2010, students accounted for about nine per cent of all international visitors to Victoria. Because students tend to stay longer than other types of visitors, they account for about 40 per cent of total international visitor nights in Victoria.
- Compared with Melbourne, the main purpose of visits to regional Victoria is domestic holidays, with nearly 80 per cent of total domestic holiday visitor nights in Victoria in 2009 spent in regional Victoria.

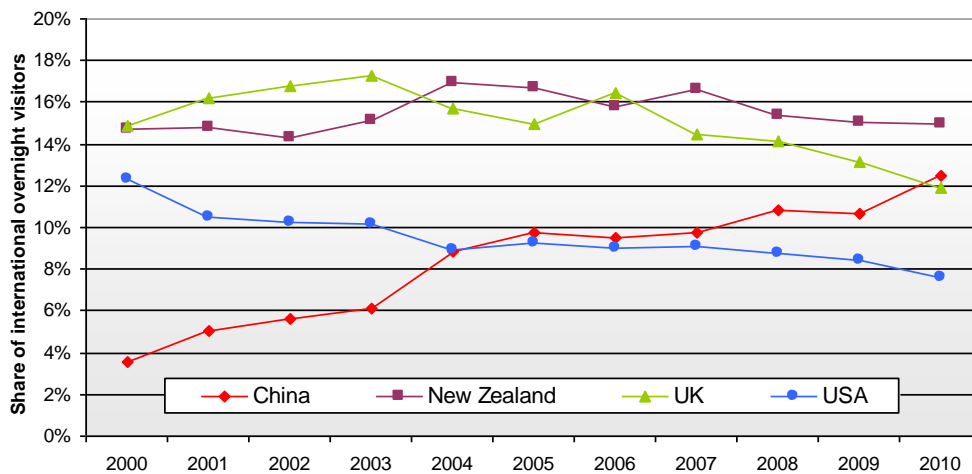
Influences on the future of the Victorian tourism industry

The performance of the Victorian tourism industry is affected by the operating environment, such as international and domestic economic conditions, weather and natural disasters, currency movements, fuel prices and consumer preferences. It also faces ‘game changing’ trends in its operating environment. The relative contributions of the four most important source markets for international visitors to Victoria (New Zealand, the United Kingdom, the United States and China) have been changing (figure 3). China’s share of international visitors has been growing rapidly. This trend is significant partly because tourists from high growth markets such as China and India typically spend most of their time in Melbourne.

Other key trends affecting tourism markets include:

- changing consumer preferences, including increased demand for spas and wellbeing, walking and bike trails, food and wine, the arts, culture and heritage, and organised sports
- the growing interest in nature-based tourism, which relies on experiences directly related to natural attractions such as eco-tourism, adventure tourism, extractive tourism and nature retreats
- strong competition from interstate and international destinations that are vigorously promoting their tourism industries.

Figure 3 **Share of international visitors to Victoria, by major markets, 2000–10**



Source: VCEC based on Tourism Victoria 2011a and Tourism Victoria correspondence 4/5/2011.

The development of Victoria’s tourism industry will depend on how new and existing businesses respond to changes in consumer demand (including domestic tourists), economic opportunities arising from growth in Asia, and vigorous competition from other destinations. State and local governments have an important role in ensuring regulatory processes intended to benefit communities do not unnecessarily and unintentionally stifle private initiative. This inquiry identifies opportunities to frame a regulatory environment that is more conducive to private investment in tourism facilities on areas of private and public land, while ensuring such developments complement other land values and are in the public interest.

Impediments to the development of Victoria's tourism industry

For the State as a whole, the recent investment record in Victoria for tourism is positive, with a growing supply of tourism accommodation, especially in Melbourne. Inquiry participants and recent government reports identified, however, regulatory and other potential obstacles to the development of a more dynamic and competitive tourism sector, including:

- land-use zoning provisions that restrict the development and diversification of restaurants, accommodation and recreational activities in regional areas and Melbourne's Green Wedge areas
- barriers to private investment in tourist facilities that are compatible with the environmental, heritage and other values of public land
- aspects of aviation policy, including restrictions on the capacity of international airlines to fly to Victoria
- cost burdens on tourism-related businesses, arising from the way in which building, public health, occupational health and safety, caravan parks, taxi industry and other areas of regulation are designed and administered.

In addressing these and other potential impediments to the development of the tourism industry, the Commission has identified the outcomes that regulation and the management of state assets are intended to achieve, and examined whether greater flexibility in tourism investment can be accommodated without diminishing the intended outcomes. The Commission recognises that efficient regulation and well managed state assets contribute to the attractiveness of Victoria as a place to visit.

The changing nature of domestic and international tourism means the Victorian industry needs to develop new products and services. These include new experiences for domestic tourists interested in experiencing the natural environment, food and wine, as well as experiences expected by tourists from particular countries. Ultimately, the continued viability of Victorian tourism depends on the industry's ability to respond to these changing consumer demands. Regulation should enable industry adaptation, in ways that maintain or strengthen the economic, environmental and social outcomes that government is seeking.

Land-use planning

Tourism businesses need to adapt, take risks and innovate. Submissions and recent reviews of the tourism sector suggest that aspects of Victoria's land-use planning framework and its administration impede the industry's capacity to do so, particularly in regional Victoria and on Melbourne's fringe. The Commission therefore examined how land-use planning regulation affects tourism investment and opportunities for improvement.

How does land-use planning affect tourism investment?

A proponent wishing to develop new tourism accommodation or other facilities in Victoria may be required to obtain a planning permit from the relevant council. Local planning schemes contain the rules for permissible land uses in a local area. To understand how the rules governing land use and development impact on the tourism industry, it is necessary to understand key features of planning schemes and the permit application process:

- Planning schemes show the zones and overlays applying to land. Zones outline uses of land that are permitted. Table 1 shows whether certain types of tourism-related uses are allowed without a permit ('as-of-right'), subject to obtaining a permit or prohibited in the three main zones applying to land in rural areas and the green wedge areas on Melbourne's boundaries. The planning scheme may also show a piece of land has one or more overlays affecting it. Overlays usually apply to land with special features, such as heritage buildings, significant vegetation or flood risks.
- Planning schemes contain statements of state and local policies and objectives. These policies identify the outcomes that state and local government expect from the administration of planning. The State Government's relevant policy objectives outlined in the State Planning Policy Framework (SPPF) broadly support tourism development. The purpose of local policies is to apply the State's objectives to local circumstances. In theory, local policies should be consistent with state objectives and policies, but some local policies seek to limit tourism development in farming and other areas outside the towns (box 1).
- The planning permit process is the vehicle for assessing whether to allow a proposed tourism development and, if so, under what conditions. While councils usually decide on permit applications, the Planning Minister can 'call in' projects. The Minister may call in an application that: raises major policy issues; might have a substantial effect on the achievement of planning objectives; has been unreasonably delayed, to the disadvantage of the applicant; or would be facilitated by referral to the Minister (for example, when the Minister must also consider the development under another Act or regulation).

Table 1 Permit requirements in the green wedge and rural zones

<i>Tourism-related activity</i>	<i>Green wedge zone (GWZ)</i>	<i>Rural conservation zone (RCZ)</i>	<i>Farming zone (FZ)</i>
Bed & breakfast	No permit required (max. 6 guests)	No permit required (max. 6 guests)	No permit required (max. 6 guests)
Camping & caravan	Permit required	Prohibited	Prohibited
Host farm	Permit required	Permit required	Permit required
Group accommodation	Permit required, 'in conjunction with' other activities (max. 40 dwellings)	Permit required, 'in conjunction with' other activities (max. 6 dwellings)	Permit required, 'in conjunction with' other activities (max. 6 dwellings)
Residential building (e.g. backpackers' hostel)	Permit required, 'in conjunction with' other activities	Prohibited	Prohibited
Residential hotel (includes motel)	Permit required, 'in conjunction with' other activities (max. 80 bedrooms)	Permit required, 'in conjunction with' other activities (max. 80 bedrooms)	Permit required, 'in conjunction with' other activities
Restaurant	Permit required, 'in conjunction with' other activities (max. 150 patrons)	Permit required, 'in conjunction with' other activities (max. 150 patrons)	Permit required, 'in conjunction with' other activities
Outdoor recreation facility	Permit required	Prohibited	Permit required
Exhibition centre (e.g. art gallery)	Permit required	Prohibited	Permit required (must not be used for more than 10 days in a calendar year)
Function centre	Permit required, 'in conjunction with' other activities (max. 150 patrons)	Prohibited	Permit required (must not be used for more than 10 days in a calendar year)

Source: Victoria Planning Provisions, clauses 35.04, 35.06 and 35.07.

Box 1 **Local planning policies affecting tourism activities**

Some local policy requirements may impact directly or indirectly on tourism-related activities in regional areas, as in the following examples from planning schemes covering Corangamite and the Mornington Peninsula.

Corangamite Shire

The Shire's Economic Development policy (cl. 22.03-1) states 'Agricultural land will be protected as an economic and environmentally valuable resource. Conversion of land to non-soil based use and development will be strongly discouraged unless there is no other suitable site for the proposed use and development and overwhelming public benefit is demonstrated.' This policy applies to all land in the rural zones.

The Shire also has a Tourist Use and Development policy (cl. 22.03-4), with the following objectives:

- to support quality tourist development in association with the landscape and the heritage values of rural and urban areas
- to promote coastal-related use and development to be focused in the towns of Port Campbell and Princetown
- to encourage tourism development related to agricultural and other rural based industries.

Mornington Peninsula Shire

The planning scheme states that key objectives of planning in the Shire are to:

- protect and conserve the rural landscape and character of the Peninsula as a major recreational resource for both the local and wider metropolitan community
- supporting the continued agricultural use of land by avoiding the establishment of uses that may exclude or limit legitimate rural activities and farm management practice
- promote the growth of major and township activity centres and avoid inappropriate out-of-centre commercial developments (cl. 22.07-1).

To give effect to these objectives, the local planning policy states 'applicants for commercial development [in the Green Wedge or Farming Zones] must demonstrate that their proposal addresses a need or gap in the tourist industry and is not dependent on the development of other residential or commercial activities on the site or in the locality,' and 'Restaurant facilities in rural areas should generally avoid night time operation due to the potential impact on rural amenity from additional traffic, noise and light' (cl. 22.07-3).

Source: Corangamite and Mornington Peninsula Shire planning schemes.

Issues raised

Submissions and recent reports on the tourism sector suggested aspects of Victoria's land-use planning framework impede the development of tourism and related businesses. Tourism businesses across the State were concerned about the complexity, uncertainty, time and costs of obtaining planning approval.

Participants also identified regulatory barriers to tourism investment in regional Victoria, including:

- conflicting objectives of State and local government in relation to tourism development
- restrictive zonings and overlays on private land suitable for tourism-related developments
- other regulations applying to land use and development, such as the Victorian Coastal Strategy.

Despite a number of State and regional tourism strategies being developed, the outcomes desired by the State Government are not well connected to the policies and planning controls in local planning schemes. For example, the State Government developed a *Regional Tourism Action Plan* in consultation with local government and the tourism industry, which outlines key priorities in each of Victoria's regions. This strategy is not referenced directly in the SPPF or in local policies contained within planning schemes, so councils are not obliged to consider the strategy's objectives when applying land-use controls such as zones or in assessing tourism-related planning applications.

The impact of this disconnect between State and local policy objectives for tourism is compounded by the way land-use zones are used in regional Victoria. The land-use zones applying to much of regional Victoria are intended to achieve purposes such as protecting land for agricultural uses, conserving environmental assets, preserving the amenity and rural character of particular areas, and preventing urban encroachment into rural areas. In doing so, they inhibit the development of new tourism-related facilities and the expansion of existing tourism businesses:

- The Farm and Rural Conservation zones are intended to encourage the retention of productive agricultural land and the conservation of environmental and landscape values. However, they prohibit or limit the scale of a wide variety of tourism activities in areas that could attract additional tourism investment, such as on coastal land along the Great Ocean Road. The impact of these zones on tourism investment is exacerbated by their broad application across the State.

- Closer to Melbourne, the Green Wedge Zone allows a wider range of tourism activities but restricts the nature and scale of new businesses. The zone also limits the capacity of existing businesses to expand.
- Although a primary purpose of the rural and Green Wedge zones is to retain productive agricultural land, the zones do not allow the range of uses increasingly associated with farming and agriculture, such as sales of processed farm produce.
- To overcome these zoning barriers, businesses can seek to have land rezoned to a more flexible land-use zone, such as the Rural Activity Zone, through the planning scheme amendment process. But the rezoning process is time consuming, costly and uncertain, and small businesses in particular are not well placed to undertake them.

Impact on the tourism industry—the Commission's view

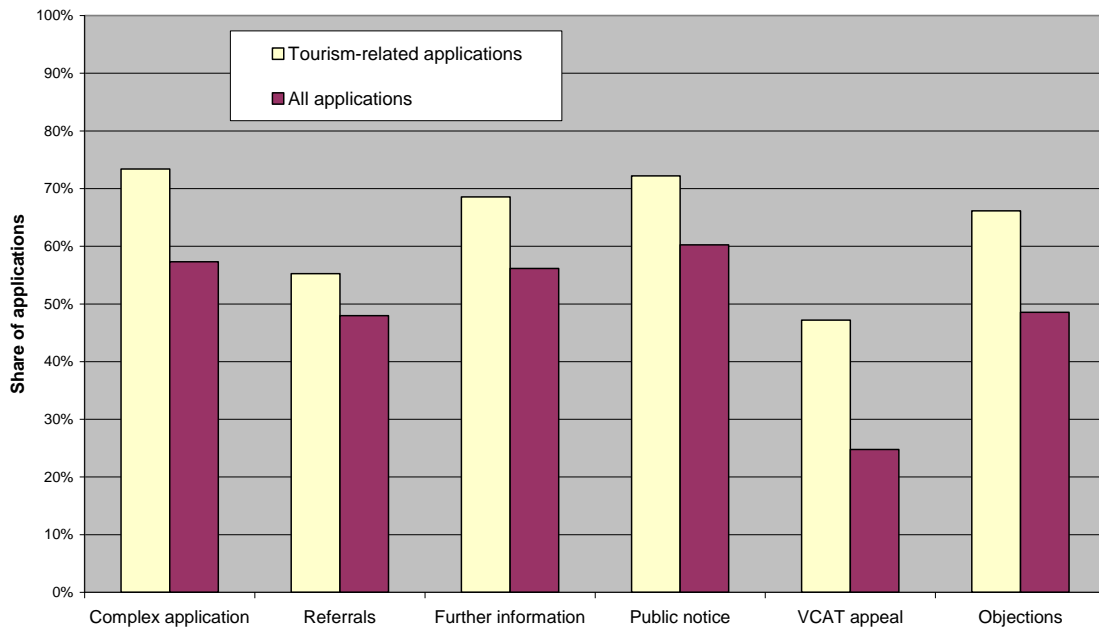
The Commission was unable to assess the overall impact of land-use planning regulation and its administration on investment by the tourism industry. Some projects have proceeded in the Green Wedge and Rural zones despite the process. Equally, some projects were proposed but did not proceed, because they were not approved or for other reasons. Also it is not easy to ascertain whether projects have not been put forward, or have gone ahead in other parts of Australia instead because of the costs of obtaining planning permission.

Analysis of recent planning applications with a tourism-related component tends to support the industry's view that land-use planning regulation has a significant effect on tourism development (figure 4). The Commission's examination of large-scale projects (those with a value of \$5 million or more) highlighted that applications with a tourism-related component are perceived by council planners as being more complex than other applications and also more likely to:

- prompt a request to provide further information
- be referred to one or more regulatory bodies
- be notified to the public and to attract objections
- end up at appeal to the Victorian Civil and Administrative Tribunal (VCAT).

The median timeframe for determining high value tourism-related projects (229 days, or 32 weeks) was also greater than the median timeframe for all high-value applications (189 days, or 27 weeks). Overall, these data are supported by many examples presented to the Commission during the inquiry of new projects and modifications to existing businesses that faced complex, costly and time consuming application processes.

Figure 4 **Characteristics of tourism-related planning applications**



Source: Commission analysis of planning permit activity data.

Improvements

Previously proposed changes to the *Planning and Environment Act 1987* (Vic) and the recommendations in the Commission’s inquiry into local government regulation (VCEC 2010a) are intended to reduce uncertainty and improve the administration of land-use planning regulation to help reduce time delays and costs to business, including those in the tourism industry.³ To complement these broader reforms there is scope to address a number of specific barriers to the development of tourism, especially in regional areas.

The Government could reduce the uncertainty, time and costs associated with the planning system, by adopting the following recommended changes:

- *Clarifying the State’s objectives for tourism development and reflecting them in the State Planning Policy Framework.* The Government should indicate the outcomes for the tourism industry it expects from the administration of land-use planning

³ The Commission’s recommendations on council administration of the land-use planning system are outlined in the final report of the inquiry into local government regulation. That report was submitted to the Government in August 2010, and at the time of writing had not been publicly released. References in this report, therefore, are to the draft inquiry report, which was released for consultation in April 2010 (VCEC 2010a).

regulation, such as encouraging tourism investment in particular areas of the State and/or in particular types of product (for example, nature-based tourism). A series of regional land-use plans currently being developed by State and local governments are potential vehicles for developing and identifying such an agreed set of tourism outcomes. To ensure the outcomes are widely understood and accepted, the plans should be developed in consultation with local communities and the tourism industry. Local planning policies (including the application of zones) should then be aligned with the agreed regional priorities. This work will take some time and will need to be reviewed regularly to deal with changing circumstances facing the tourism industry and the broader community.

- *Widening the range of permitted tourism-related investments in the Farming Zone, the Rural Conservation Zone and the Green Wedge Zone.* These zones should not require tourism activities to be ‘in conjunction with’ agricultural activities, and should allow a wider range and larger scale of activities. Their requirements were introduced to protect agricultural land from residential encroachment, and limit conflicts between existing uses and tourism (such as noise and odours from farming activities). But there are also alternative ways to deal with residential encroachment and land-use conflicts — ways that do not restrict investment in tourism or limit the opportunities to diversify farm income (for example, using buffers and attaching specific conditions to development proposals). The options for dealing with these issues can be addressed in the planning permit process, and do not require uniform prohibitions or scale limits.
- *Providing guidance and other support to councils, to enable them to effectively and consistently implement the modified zones.* This support may include guidance on the information that an application must provide, and model conditions to deal with issues such as residential encroachment, noise and other impacts of land use.
- *Clarifying the circumstances where the State Government will intervene to facilitate tourism developments.* The Government previously indicated that it would review the process of Ministerial intervention in planning applications to, amongst other things, establish guidelines ‘for the use of intervention on the basis of state significance’. The Commission supports the use of an improved, broadly-applicable call-in process to deal with large, complex developments. The Commission has not supported an automatic call-in process for major tourism developments at this time. Since implementing the Commission’s recommendations will take some time, Tourism Victoria and Department of Planning and Community Development (DPCD) could in the interim, consider giving increased priority to assisting tourism businesses work through the planning process.

Making these changes would improve the climate for investment in tourist facilities in regional areas, including land adjacent to the coastline and national parks. Although the possible new investment in tourism projects cannot be quantified, the Commission's proposed changes would enhance the economic contribution of tourism to regional Victoria, and contribute to the diversification of income in communities that have traditionally depended on agriculture, improving their resilience.

The management and regulation of public land

Public land provides important environmental, heritage and social values for current and future generations of Victorians. It also has important value to the community by providing recreational and tourism opportunities for individuals and businesses. A number of participants argued that aspects of policy, regulation and the institutional arrangements governing public land management deter private sector investment in tourist facilities (such as accommodation, visitor centres and other infrastructure) on public land, including national parks.

The term 'public land' covers a variety of land tenures, but most relevant from a tourism industry perspective is land reserved under the *National Parks Act 1975* (Vic) and certain land reserved under the *Crown Land (Reserves) Act 1978* (Vic), such as alpine resorts, coastal reserves, state forest reserves, metropolitan parks and wildlife reserves. Public land comprises around 40 per cent of the State, and national parks and state forest reserves account for the bulk of this land (around 90 per cent). In this section the term 'national parks' specifically refers to land reserved under the National Parks Act, while the term 'public land' refers to all land areas referred to above, including national parks.

Public land is an important tourism asset:

- According to Parks Victoria, around 89 million visits were made to public land under its management in 2008-09, including 33 million visits to Victorian national parks. The most visited parks were at Port Campbell on the Great Ocean Road, the Yarra Valley and Dandenong Ranges, the Mornington Peninsula, the Otways, the Grampians, Wilsons Promontory and the Alpine region. This highlights the value people place on being able to visit areas of natural beauty.
- Estimates of the economic value provided by some of these parks reflect their high economic value to the community. The *Victorian Nature-based Tourism Strategy* (Tourism Victoria 2008a) reported the combined annual economic value of Wilsons Promontory, Port Campbell and the Grampians was around \$481 million per year.
- A number of businesses provide facilities and services for tourists on public land. Approximately 450 commercial tour operators are licensed to operate

tourism services on public land. Businesses have also entered into over 750 commercial leases to operate tourism-related assets on public land. Parks Victoria also operates accommodation, camping and other facilities for visitors at a number of locations.

- Reflecting the growth in international overnight visitors to Victoria (see above), international visitation to national parks has also increased. While around 20 per cent of international tourists visited a national park, these were mostly day trips to locations such as Phillip Island, Port Campbell and the Mornington Peninsula.

The management of public land in Victoria

Tourism industry participants identified features of the policy and regulatory frameworks for managing public land in Victoria that affect the climate for private investment in nature-based tourist facilities in locations with high natural values:

- Some important elements of public land policy and regulation appear to assume private development is intrinsically incompatible with maintaining the environmental, heritage and conservation values of public land. This assumption has prohibited private investment in areas managed under the National Parks Act.
- Low maximum lease terms are an additional barrier to private investment in tourist facilities in national parks. Participants argued the maximum lease terms for national parks are too low to encourage private investment and also undermine incentives to maintain the environment and physical assets. Other types of public land allow greater maximum lease terms. However, broader concerns on lease terms and conditions create other barriers and uncertainty for business.
- The approval processes for proposed tourist developments on public land are challenging to understand, and involve many steps and dealings with multiple parties (each with a potential right of veto over a proposed development). While a rigorous assessment of proposals is warranted, some argued the approval process is administered in a way that only seeks to minimise environmental impacts, rather than looking to achieve innovative, win–win outcomes for the environment and the economy.
- The Department of Sustainability and Environment (DSE) advises on policy relating to public land management and regulation. In practice, it delegates some of its regulatory responsibilities to other bodies, such as Parks Victoria and committees of management. However, some participants were concerned about conflicts of interest arising from DSE’s combined roles in developing policy and administering regulation.

- Parks Victoria, in addition to managing land and regulating tour businesses, operates some tourist facilities, such as accommodation and camping facilities. Some participants were concerned about Parks Victoria's conflict of interest between its role in regulating and providing some commercial activities on the land it manages.

The impact on investment of these regulations and processes was contested among participants. In discussions with the Commission, DSE argued private development of tourist facilities is permitted on many types of public land, and there is little commercial interest in the development of large-scale nature-based tourist facilities on public land in Victoria. It noted it recently sought expressions of interest from the private sector to develop nature-based tourist accommodation at selected sites in state forest reserves but failed to elicit any proposals for these sites.

Others argued the demand for nature-based tourism in Victoria exists and will grow. It was argued that there is commercial interest in developing nature-based tourist facilities at a range of sites, on private and public land, including within national parks. The industry considered development of business cases has not been forthcoming because of the policy of prohibiting private development of tourist facilities in national parks, together with other impediments. Tourism groups pointed to evidence of increasing consumer demand for nature-based experiences, and to forecasts for growth in such tourism. The Commission notes that this type of development is happening in other jurisdictions in Australia and internationally.

On balance, the Commission considers the policy and regulatory framework surrounding public land regulation and its administration is not conducive to encouraging private investment in tourist facilities on public land. This is especially evident in national parks, where private investment is assumed to be contrary to environmental protection efforts.

Opportunities for improvement

The Commission has proposed changes to the regulatory and institutional framework that are more enabling for private investment in tourist facilities in national parks where such investment is consistent with, or enhances, the environmental, heritage and other values of the park.

To provide some certainty for business about where private developments may be permitted and the criteria for approval, the Government should publicly announce the change in policy and develop appropriate guidance, including identifying broad areas of the state where it would be willing to consider proposals for private tourist developments in national parks.

Opposition to private investment in national parks has been based on views that:

- any development would be incompatible with the objectives of national parks, namely, the preservation and protection of the natural environment
- private tourist developments should be located on adjacent private land, given the size and shape of Victoria's national parks
- demand for private development in national parks does not exist.

The available evidence indicates, however, that it is possible to protect the environmental and biodiversity values of national parks through effective management. This view has been informed by a number of credible reports, including by the International Union for the Conservation of Nature. There are examples in other states and territories, and overseas, of sensible and sensitive developments, which complement or enhance features of the natural environment (box 2).

A combination of reforming unnecessary land-use planning restrictions and implementing appropriate controls on private development in national parks will both facilitate and encourage adjacent development. However, there are instances where investing in facilities inside park boundaries is required to provide particular tourism products. For example, huts along a long distance and remote walking trail, such as, the Cradle Huts along the Overland Track walk in Tasmania's Cradle Mountain — Lake Saint Clair National Park.

In general, the Commission considers that the best course is to develop tourism ventures outside the boundaries of a national park where this is practical. But, as noted above, for some types of investments the park may be a superior location. Those private tourism businesses seeking to invest in facilities in a national park should, however, expect to be subject to environmental controls that are not inappropriately burdensome but reflect the environmental sensitivity of the area. Again this may encourage some investors to develop facilities outside the park. Overall the Commission anticipates that only a small number of small-scale facilities with high environmental credentials are likely to be suited to be being located in Victoria's national parks.

Allowing private investment in tourist facilities in national parks would improve the investment climate for new tourism development in Victoria but realising the opportunities will also require the Government to increase the maximum duration of leases in national parks and review existing leasing requirements. These leases should be commercially realistic while also being used as a tool to ensure environmental protection and ecological sustainability is maintained, particularly for leases in national parks.

Box 2 **Examples of sensible and sensitive developments in other jurisdictions**

Karijini Eco Retreat, Karijini National Park, WA

Located in Karijini National Park, Karijini Eco retreat has been operating since 2007 and offers luxury eco tents and camping for around 140 people. The site was originally a national park campground; however, after an expression of interest process found no willing operators, the site was then put out to tender for accommodation. Operating a campground was not a financially viable business. The Gumala Aboriginal Corporation was successful in obtaining the lease and owns the accommodation property.

Sal Salis Ningaloo Reef, Cape Range National Park, WA

Sal Salis Ningaloo Reef is an exclusive safari camp in Western Australia's Cape Range National Park. Nine wilderness tents are metres from the water's edge. Sal Salis' ecological principles ensure minimal environmental footprints.

Cradle Mountain Huts, Cradle Mountain—Lake Saint Clair National Park, Tasmania

The 60km Overland Track, within Tasmania's World Heritage Area, runs from Cradle Mountain to Lake Saint Clair. The walk is one of the most widely recognised and patronised walking tracks in Australia. Walkers can arrange their own itinerary, staying in public huts or campsites, or complete the track with the assistance of a private operator, Cradle Mountain Huts, who offer six-day guided walks, with guests staying in private hut accommodation.

Ultimate Hikes, Fiordland National Park, NZ

Ultimate Hikes runs the Milford Track Walk, which is a five-day, four-night hut-based bushwalking product through Fiordland National Park in New Zealand. Ultimate Hikes has the sole commercial licence from the Department of Conservation to operate this walk commercially. The walk offers accommodation and amenities at points along the walk. The accommodation is owned by a private company that contributes significantly to the conservation of the national park.

Source: Karijini Eco Retreat 2011; Sal Salis Ningaloo Reef 2011; Susan Moore et al. 2009, p. 12; Tourism Victoria 2008a, p. 56; Ultimate Hikes 2011.

Furthermore, the Government should review the leasing requirements for all public land and streamline the assessment of private sector proposals to develop tourist facilities on public land. While rigorously assessing potential environmental, heritage and other effects, a streamlined process should have the following characteristics:

- Each stage of the assessment process should progressively reduce uncertainty for the proponents about the likely outcome, and sharpen the focus on key issues or areas of uncertainty.

- Responsibility for developing policy and assessing proposals should rest with separate entities (both currently rest with DSE).
- Proponents should have increased certainty about the timeframes for assessment.
- The assessment and decision-making process should be more integrated, lessening the need for proponents to seek multiple approvals from different regulatory bodies.

To address potential conflicts between the functions of the bodies that make policy, administer regulation, and manage public land, the Government should seek to clarify the roles and responsibilities of DSE and Parks Victoria. The Commission considers DSE should continue to advise the Environment Minister on policy and regulation relating to public land; DSE should develop regulation, regulatory process and the associated guidance, with input from Parks Victoria and other relevant agencies and land managers. But for land managed by Parks Victoria, responsibility for regulating private activities, including assessing proposed developments, should rest with Parks Victoria.

The Government should also clarify the roles and responsibilities of Parks Victoria in regulating and managing private tourist facilities and activities on public land. To address the conflict between its regulatory and commercial functions, and to create a more effective environment for private investment, Parks Victoria should extend its role as a ‘sophisticated landlord’, supporting private business to identify opportunities for investment on relevant public land (including national parks), facilitating the assessment of applications to develop private tourist facilities, and regulating the activities of licensed tour operators.

Parks Victoria should then wind down its own commercial operations and focus on providing facilities where there is an identified gap in the offerings of the private sector.

Aviation policy

The capacity to meet the expected growth in international visitors to Victoria partly depends on the availability of adequate airport infrastructure and the costs of air travel. In this context, the terms of reference required the Commission to report on ‘the impact of international and domestic aviation policy on the Victorian tourism industry and the broader economy, and any implications for policy positions that the Victorian Government might adopt in its own right or present to the Commonwealth Government’.

Aviation policy covers international, domestic and regional aviation. International policy includes issues that are largely outside the Victorian Government’s control, such as the arrangements that govern airlines’ access to

international passenger markets. Domestic aviation policy covers issues such as government investment in, and regulation of, airports; it also covers safety and security regulations applying to international and domestic airlines operating in Australia. In both areas, the Victorian Government is largely limited to making representations to the Commonwealth Government.

Recognising the broad scope of aviation policy and the Victorian Government's limited direct role, the Commission focused on two areas of potential constraint:

- (1) the capacity of airlines to fly to Australia, and Melbourne in particular, especially from markets that are forecast to experience rapid growth
- (2) potential impediments to the development of additional airport infrastructure capacity in Melbourne.

Restrictions on capacity

Victoria is considered to be well served by airport capacity, and has advantages as a destination compared with other major gateways. Unlike Sydney airport, for example, Melbourne airport does not have a curfew, it has access to future additional runway capacity, the location of the airport means noise is less of a constraint than for Sydney airport, and it also has relatively low airport fees and charges. In future, Avalon airport may add to the capacity to accommodate international flights.

Some participants considered the system of bilateral air service agreements (ASAs) is the major threat to the continued growth in international arrivals in Victoria. Australia has 68 bilateral ASAs. The Commonwealth Government negotiates these agreements with other countries, and they generally set out the number of seats that the airlines of the two countries can provide to identified cities in each country, and the rights to operate to third countries. These agreements typically also include provisions on airline ownership and control, competition law, safety and security. Once an agreement is finalised, the capacity available to Australian carriers on these routes is allocated by the Australian Government's International Air Services Commission.

The ability to continue to increase international arrivals to Victoria partly depends on the available capacity under some of the ASAs. There are no capacity limits under Australia's ASAs with several countries that are important sources of visitors to Victoria (the United Kingdom, the United States, New Zealand and Singapore). For inbound tourism markets such as China, Hong Kong, Indonesia, Malaysia and Vietnam, however, capacity limits exist that may affect the future growth in tourism demand from these markets if future additional capacity is not provided. Seat capacity entitlements between Australia and some key Asian markets are at or close to capacity. These include for example, Hong Kong, Indonesian and Malaysian airlines that currently operate at about 80 to 100 per

cent of their current seat capacity entitlements. China was also at capacity, until a new Memoranda of Understanding was signed that increased the cap.

The Commission understands airlines have the flexibility to use available capacity on inbound flights to Melbourne or other major gateways such as Sydney, Brisbane and Perth. In the majority of cases, therefore, commercial decisions rather than regulatory controls determine the likely entry point for tourists.

While the Victorian Government does not have any direct role in the international negotiation of bilateral ASAs, it has several avenues to influence the Commonwealth Government's position. One such avenue is Victoria's membership of the Tourism Access Working Group. Consistent with Australia's international aviation policy goal of an 'an open and competitive international aviation market that serves the national interest', the Victorian Government can constructively argue for an open skies agreement with countries that are major sources of tourists such as China, Hong Kong, Indonesia, and Malaysia. It can also seek to ensure negotiations for more liberalised air services are driven by a full understanding of the relative net benefits of preferred negotiated outcomes. To develop that understanding, the Commonwealth Government could estimate the expected costs and benefits of potential outcomes, and test these estimates through existing consultation mechanisms.

To cater for growth in international visitation, some participants supported designating Avalon as a regional international airport. Foreign airlines could then access Victoria without affecting their government's capacity agreements with Australia (under what is often referred to as the 'regional package'). The Commission understands major infrastructure, customs and security issues would need to be addressed for Avalon to accept international flights and to compete effectively with Melbourne Airport. The private sector needs to ensure the expansion activities necessary to cater for international air services are commercially viable. Following the development of a business case and the preparedness of a private sector operator to invest in required airport upgrades, the Victorian Government should advocate for regional status for Avalon.

Other regulatory and supply-side issues

Reflecting the diversity of the tourism industry, participants also identified the following regulatory and other potential barriers to industry development:

- taxi industry regulation
- short-term accommodation
- other supply-side issues.

The Commission examined each of these issues to determine whether it is within the scope of the inquiry and, if so, whether it can be addressed without having wider impacts on other industries. Some issues of major importance to the industry are beyond the scope of the inquiry—for example, the regulation of international students, skills and training, and perceived gaps in public infrastructure in areas such as transport (for example, airport rail and bus links), tourist attractions, and facilities for recreational vehicles.

Taxis

Taxis are an important element in the experience of tourists, many of whom arrive at their travel destination without personal transportation. These tourists rely on taxis, public transport and rental vehicles for mobility, and the quality and price of transport services can therefore affect visitors' experience. Tourists are also an important source of taxi industry revenue, with one study reporting tourism demand accounts for about 17 per cent of taxi industry revenue in Victoria (ESC 2009, p. 57).

Bodies representing the tourism industry noted a perception of serious problems in the taxi industry:

Poor customer service and driver knowledge, uncleanliness and poor availability and reliability continue to be major problems with the taxi industry. Of particular concern is the lack of competition in the industry. The major taxi companies in Victoria have holdings in a vast number of subsidiaries, including fare payment systems, resulting in poor service standards and general customer dissatisfaction. (Tourism and Transport Forum, sub. 44, p. 41)

To address these issues and the impact on the tourism industry, participants called for a wide-ranging and comprehensive review of the taxi and hire car industry and its regulatory settings. These participants included, for example, the Department of Transport (sub. 54 p. 9).

On 28 March 2011, after the release of the draft report, the Victorian State Government announced a major independent inquiry into the Victorian taxi and hire car industry ('Taxi Industry Inquiry'). The Commission previously advocated for a public and independent review of the taxi industry and therefore welcomes this inquiry.

The Commission understands that the Taxi Industry Inquiry intends to consider, as part of its comprehensive review of the taxi and hire car industry, the appropriateness of the zoning conditions under the current licences in Victoria (Taxi Industry Inquiry 2011, p. 14). The Commission heard that zoning restrictions affect the availability and cost of taxi services to and from Avalon Airport. Avalon Airport is in the Geelong zone for taxis. This means that Melbourne-based drivers are not permitted to pick up passengers at the Airport

for travel to Melbourne. Likewise, Geelong-based drivers who pick up passengers at Avalon Airport for travel to Melbourne cannot pick up customers in Melbourne for their return trip. Consequently, Melbourne and Geelong-based drivers ordinarily return to their respective zone with their taxis empty.

Assuming that, prior to responding to this report the State Government has not made a decision on zoning at Avalon Airport, the Commission considers that a trial should be conducted to evaluate the impact of freeing up zoning arrangements preventing Melbourne-based drivers from picking up passengers at Avalon Airport. Such a trial would provide valuable information relevant to the consideration of broader taxi reforms.

Short-term accommodation

Several participants argued national building standards and their administration in Victoria impede the development of major new hotel accommodation in Melbourne and regional Victoria. The problem arises when buildings originally constructed for residential purposes are offered as short-term accommodation without being modified to incorporate the higher standards required for purpose-built accommodation.

According to participants, building standards for apartments operating in the short-term tourist market and hotels differ in areas such as disability access and fire safety. These standards exist to improve access to accommodation for older people as well as those with a disability and to reduce risks and damage resulting from fires. It was argued, however, that the standards also impose costs, including:

- lost revenue from the hotel floor space required for accessible rooms, which would otherwise have been used for additional non-accessible rooms with higher occupancy rates
- higher costs of construction and greater lending requirements for hotels compared with serviced apartments
- lost revenue to hotels competing in the short-term market with lower room rates because they do not have to cover the cost of providing accessible rooms.

A survey by the Tourism and Transport Forum and Australian Hotels Association on the requirements for disability access reported the 'average demand for accessible rooms was 0.47 per cent of rooms per night, per establishment' and 'occupancy for accessible rooms was 30.7 per cent compared to 71.4 per cent for other rooms' (sub. 44, p. 38). There is, however, some debate about why the take up of these rooms is low.

On balance, the Commission considers the DPCD, in consultation with the accommodation industry, should evaluate the accessibility ratio standards. The evaluation would assess the costs and benefits of this regulation, and their distortion on hotel supply, if any. This evaluation should inform Victoria's position on the accessibility ratios and a decision to pursue potential changes to the accessibility ratios nationally.

Other issues

Further supply-side issues raised by participants included:

- regulations affecting backpacker hostels
- the registration of tourist accommodation
- caravan park regulation
- occupational health and safety requirements for events
- other supply-side issues, such as education exports and skills.

Recent changes to regulation addressed some of these issues. Changes to liquor licensing, for example, dealt with concerns about excessive liquor licensing fees and requirements for low-risk tourism businesses such as bed and breakfast accommodation.

The Government has scope, however, to reduce further unnecessary uncertainty, time and costs for tourism businesses by:

- evaluating whether the installation of sprinklers in shared accommodation buildings has produced a net benefit, and using the results to inform policy
- requiring council health inspections for visitor accommodation to focus on high-risk premises such as those that do not have a star rating or other accreditation through a recognised accommodation rating or accreditation body
- reassessing the costs and benefits of complying with fire safety standards in caravan park regulation and the Country Fire Authority instituting an internal review process, for decisions on whether caravan park owners have satisfied these standards
- WorkSafe, in consultation with the events industry, advocating for national guidelines for events that address the underlying occupational, health and safety issues in an effective and proportional way.

Cooperation and coordination

In the face of the tourism industry's changing environment and growing competition, the quality of cooperative structures and cultures will be important to the industry's success. Destinations that engage in sustained cooperation appear to be able to respond more effectively when opportunities emerge. Victoria already has a wide range of cooperative arrangements across the tourism industry. In Melbourne, for example, coordination seems to work well and contribute to the city's overall success as a tourist destination. A recent study by the Cooperative Research Centre for Sustainable Tourism found:

One of the issues commented upon by many people interviewed was that there is a sense of cooperation between major players in state and local government and industry that supports the effort in attracting tourists and tourism investment. (Driml et al. 2010, p. 38)

But participants also suggested cooperative arrangements could be improved:

- within and between levels of government
- in some regions, such as south western Victoria
- in some areas of Melbourne — that is, the City of Melbourne suggested bolstering coordination mechanisms for the Queen Victoria Markets, the Sturt Street Arts/Culture Precinct and Docklands.

A number of the participants' concerns have been recognised, and private and government bodies are implementing improvements such as:

- government initiatives to promote the use of 'destination management planning'
- re-organisation of 'regional industry structures', including the creation of a regional tourism board for each region to set the overarching strategic vision and direction for tourism
- evolution and some rationalisation of private sector associations.

If successfully implemented, these initiatives would improve cooperation and coordination in the industry. Given the importance of this issue for improving the competitiveness of the Victorian tourism industry as a whole, the Commission considers that the regional tourism boards and destination management planning should be monitored and evaluated for their effectiveness in, among other things, achieving more cooperative and coordinated outcomes.

The contribution of coordination mechanisms to reform

Effective cooperation and coordination processes can enhance the ability of industry to inform regulatory reform decisions. Several of the recommendations in this report would require substantial input from the tourism industry—for

example, explicitly factoring tourism growth into strategic land-use planning. Other examples include drawing on the private sector to help identify public land sites that may suit the development of tourist facilities, and having local government use industry ratings and accreditation schemes to inform their risk assessment of tourism accommodation providers. The consultation needed to feed into these reforms would be less costly and more effective if it can call on existing, well functioning coordination processes.

Other recommendations require coordination among government agencies. In this case, the Commission noted scope for government agencies to improve cooperation, communication and the clarity of their various roles and responsibilities. Already, government support for systems that encourage cooperation and coordination is common. This role is consistent with recognised barriers to businesses achieving sufficient coordination on their own. It is also supported by industry. The Victorian Tourism Industry Council argued:

... we need a strong Tourism Victoria, with a strong marketing focus, that works in partnership with industry to maximise strong cooperative marketing and development. (sub. 40, p. 31)

But the role of government needs to be approached cautiously, so it does not extend into areas that the private sector could manage.

Conclusion

Victoria's tourism industry is facing challenges and opportunities. International competition is intensifying, domestic tourism is gradually declining and several international markets are growing. To capitalise on these changes the industry will need adaptable private entrepreneurs who are willing to take risks and develop new tourism products and services.

Melbourne's tourism industry has grown recently and that growth is expected to continue. While the regulatory environment in Melbourne could be improved, the industry, and state and local governments are already tackling the challenges of coordinating their approach to tourism development.

Capturing these opportunities will be most challenging in regional Victoria because the regions' traditional market — domestic tourists — is declining and few tourists from the growing international markets travel beyond Melbourne. Regional businesses' ability to respond is also constrained by the way public and private lands, in particular, are managed and regulated.

These constraints appear to be based on an assumption that tourism development is intrinsically incompatible with the community's environmental and social goals. The Commission does not accept this view. Elsewhere in

Australia and internationally there are many instances of private sector developments, even in areas of high environmental value, that are sensitive to community values and enhance environmental outcomes. Similarly, constraints on development in some farming areas limit the capacity to diversify farm incomes and strengthen communities. While poor development can create conflicts with existing land uses, such conflicts are not automatic and could be managed.

It is difficult to predict the outcomes of easing constraints on developing public land, particularly national parks, and private land in rural areas. Given the market environment for tourism, particularly in regional Victoria, large numbers of major projects are unlikely. In national parks, the Commission considers that the most likely outcome of its recommendations would be only a small number of small-scale facilities with high environmental credentials, with larger scale development being located adjacent to national parks. Without regulatory reforms and a shift in focus to how tourism can enhance the environment and regional goals, the Victorian tourism industry is likely to stagnate.

Recommendations

The 17 recommendations are listed in the order they appear in the full report, and they need to be understood in the context of the discussion in the chapters.

Land-use planning regulation

Recommendation 3.1

That the Victorian Government revise its objectives for tourism development and incorporate them in the State Planning Policy Framework. The Victorian Government's role is to clearly indicate the outcomes it expects from the administration of land-use planning regulation for the tourism industry, such as the facilitation of tourism investment in particular areas of the State and/or particular types of product (such as nature-based tourism). Local government is accountable for ensuring that their planning schemes are capable of delivering the State's objectives for tourism through approaches that have regard to the objectives of the communities they represent.

Recommendation 3.2

That the Victorian Government implement a strategic approach to land-use planning for tourism, so as to:

- address tourism issues in developing regional land-use plans
- engage the tourism industry in the development of regional strategic land-use plans
- ensure local planning objectives are clarified and consistent with the State's objectives
- revise the application of land-use controls and approval processes to identify opportunities to proactively rezone land
- indicate the circumstances and processes whereby the State will intervene to ensure that local councils' planning schemes are capable of delivering the State's objectives.

Recommendation 3.3

That by 1 July 2012, the Victorian Government provide more flexibility for tourism investment in the Farming Zone, the Rural Conservation Zone and the Green Wedge Zones by:

- expanding the purpose of the zones to recognise the potential compatibility of tourism uses with a zone's agricultural and environmental purposes
- removing the requirement that tourism activities are undertaken 'in conjunction with' agricultural and other activities
- allowing a wider range and scale of activities in the zone.

Recommendation 3.4

That the Department of Planning and Community Development, in giving effect to recommendation 3.3, encourage a consistent approach to administering the new zones, by providing guidance and other support for councils to effectively and consistently implement the modified zones. This guidance may include the information required in an application, as well as model conditions.

Public land regulation

Recommendation 4.1

That the Victorian Government remove regulatory obstacles to private sector investment in tourism infrastructure in Victoria's national parks so that from 1 January 2012 private sector investment is permitted and businesses are allowed to:

- propose sensible and sensitive developments in national parks provided they complement environmental, heritage and other values and generate a net public benefit
- lease land within a national park for this development, provided they meet a set of guidelines and agree to a standard operating contract that includes incentives for the conservation and biodiversity protection of the national park (see recommendation 4.2).

The Victorian Government should publicly announce this new policy approach.

Recommendation 4.2

That the Victorian Government:

- increase the maximum duration of leases on land managed under the National Parks Act, based on an appropriate incentive scheme
- identify and address any provisions in public land leasing requirements and practice that undermine commercial interests without also delivering substantial offsetting benefits to land managers
- identify and address any other regulatory barriers that exist in land-use planning and public land regulation that may be inconsistent with private investment.

Recommendation 4.3

That the Victorian Government introduce a streamlined development approval process for public land, which:

- progressively reduces uncertainty about the overall outcome, and sharpens the focus on key issues of uncertainty

- separates responsibility for developing policy and administering the approval process
- provides more certain timeframes for assessment, such as binding or negotiated time limits, and public reporting against these limits
- provides a more integrated decision-making process.

Also, that the Department of Sustainability and Environment release revised guidelines that identify:

- the steps involved in any revised development approval process
- the relevant contacts at each stage of the development approval process
- criteria for assessing proposals.

The Department of Sustainability and Environment develop the approval process and associated guidance material in consultation with the tourism industry, Parks Victoria, Tourism Victoria, local government, the Department of Planning and Community Development, and any other relevant stakeholders.

Recommendation 4.4

That the Victorian Government clarify the roles and responsibilities of the Department of Sustainability and Environment in developing and administering public land regulation. The Department would take the lead on:

- advising the Minister on policy and regulation for private tourism investment in facilities and operations on public land, in consultation with other bodies such as Parks Victoria
- developing processes and guidance for assessing proposals to develop private facilities on public land (associated with recommendation 4.3)
- monitoring the administration of the development approvals and licensed tour operator systems.

Responsibility for regulating private sector investment on public land should rest with Parks Victoria and, where relevant, with Committees of Management.

Recommendation 4.5

That the Victorian Government clarify the roles and responsibilities of Parks Victoria for the administration of relevant public land regulation and private sector access to national parks. Parks Victoria's role as a sophisticated landlord for the parks would be extended to take the lead on:

- supporting private business to identify opportunities for private investment in tourist facilities in national parks
- facilitating the assessment of applications to develop private tourist facilities in national parks through the approvals process

- regulating private activities on public land to ensure compliance with the Licensed Tour Operator system and leasing policy.

As part of these changes, Parks Victoria would divest its own commercial operations and focus on providing facilities where there is an identified gap in the offerings of the private sector.

Aviation policy

Recommendation 5.1

That the Victorian Government seek agreement from the Commonwealth Government that, in the lead-up to future air service negotiations, the Commonwealth would develop estimates of the potential costs and benefits of potential outcomes and test these in discussions with stakeholders (including state governments) through existing consultation mechanisms. This would ensure that negotiations for more liberalised air services are driven by a full understanding of the relative net benefits of preferred negotiated outcomes.

Other issues

Recommendation 6.1

That the Department of Transport conduct a twelve-month trial to evaluate the impact of freeing up zoning restrictions that prevent Melbourne-based taxi drivers from accepting fares (that have not been pre-booked) from Avalon Airport.

Recommendation 6.2

That the Department of Planning and Community Development, in consultation with the accommodation industry, evaluate the accessibility ratio standards. The evaluation would assess the costs and benefits of the standards, and their impact on hotel supply. This evaluation should inform Victoria's position on the accessibility ratios and a decision to pursue potential changes to the accessibility ratios nationally.

Recommendation 6.3

That the Department of Planning and Community Development evaluate the operation of fire safety standards for sprinkler systems in shared accommodation buildings, ensuring that information gaps in the regulatory impact statement are addressed in the evaluation. The evaluation would consult with the relevant stakeholders and be released with recommendations on appropriate fire safety standards for backpacker hostels within 12 months.

Recommendation 6.4

To better target non-compliant operators, that the Victorian Government require councils to adopt a risk-based inspection program, whilst maintaining the current system of registration. In determining the risk profile of accommodation providers, regulators should draw on star rating and other accreditation schemes administered by recognised ratings and accreditation bodies, and concentrate their attention on those areas that are of high risk.

Recommendation 6.5

That the Department of Planning and Community Development review the *Residential Tenancies (Caravan Parks and Movable Dwellings Registration and Standards) Regulations 2010 (Vic)* to reassess the costs and benefits of fire safety standards required by regulations 20 and 21.

That the Country Fire Authority establish an internal review process for decisions about compliance with regulations 20 and 21 of *Residential Tenancies (Caravan Parks and Movable Dwellings Registration and Standards) Regulations 2010 (Vic)* and referenced Country Fire Authority Caravan Park Fire Safety Guidelines. This would allow caravan park owners to request that adverse findings about compliance with fire safety standards, be reviewed against the performance measures contained in the CFA Guidelines.

Recommendation 6.6

That WorkSafe, in consultation with the events industry, advocate for national guidelines for events that address the underlying occupational, health and safety issues in an effective and proportional way. If the development of national guidance for the events sector has not been progressed within one year of harmonisation, discussions between the industry and WorkSafe on the development of such guidance in Victoria should recommence.

Cooperation and coordination

Recommendation 7.1

That Tourism Victoria undertake and publish an evaluation, by 2014, of:

- the performance and impact of the Regional Tourism Boards (RTBs) established in Victoria
- the performance and impact of the Destination Management Plans (DMPs) developed and implemented in different Victorian tourism destinations or regions.

This evaluation would:

- determine the extent to which the intended benefits from these reforms were achieved, including: an integrated tourism experience, coordinated approach to tourism, minimisation of research duplication, clear roles, better value for money from local council tourism investment, a representative and coordinated voice on tourism issues, and regional ownership
- consider the impact of RTBs and DMPs on key demand indicators (such as, visitor numbers, nights, and expenditure, return visits) and supply side indicators (for example, investment in tourism infrastructure, new attractions and supporting coordination mechanisms) in the relevant destination or region
- highlight case examples of where cooperation and coordination have added value to the overall tourism offering at the destination
- identify any persisting coordination failures and opportunities for stronger cooperation and/or coordination mechanisms to improve the competitiveness of the destination in domestic and global tourism markets.