



31 January 2020

Budget Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Prebudgetsubs@treasury.gov.au

Dear Sir/Madam,

Pre-Budget Submission FY21

The Australian Hotels Association (AHA) is an organisation of employers in the hotel and hospitality industry registered under the *Fair Work (Registered Organisations) Act 2009*. Its diverse membership includes pub-style hotels, bars, taverns, restaurants plus three, four and five-star international accommodation hotels located in each state and territory. The size and scope of the Australian hotel industry includes:

- Over 5,000 businesses
- Generating over \$12,000,000,000 economic benefit
- Providing over 270,000 jobs
- Supporting over 50,000 community groups

COVID-19

The AHA believes a key goal of this federal budget should be ensuring that businesses bearing the brunt of the COVID-19 pandemic are provided with short-term relief and medium-term stimulus to assist in paying back their accrued debts and employing more people. In the last 74 days alone, nearly 10 million Australians have been locked down in the following regions, with consequent economic loss, employment loss and social harm:

- South Australia (1.7m population)
- Sydney Northern Beaches (0.25m population)
- Greater Brisbane (2.6m population)
- Perth and surrounds (2.1m population)

In regard to strategies to assist recovery from COVID-19, the AHA proposes:

- Short term relief – wage subsidy for businesses still impacted by government restrictions
- Medium term stimulus – suspend FBT for three years

TAA and ACCI submissions

- AHA notes that Tourism Accommodation Australia (TAA) has also made a submission. TAA is a division of the AHA representing the specific needs and interests of the owners and operators of Australia's accommodation industry. The AHA supports the TAA submission.
- AHA is a member of the Australian Chamber of Commerce (ACCI), which has made a submission. The AHA supports the ACCI submission.

1 SOUTH AUSTRALIA CASE STUDY

Set out below is an extract from a report prepared by the South Australian Centre for Economic Studies, University of Adelaide (**attached**). The report examines the heavily adverse impact of the lockdown of South Australia on 18 November 2020.

“The broad characteristics of AHA members and employment in the SA hotel industry are:

- *15,750 employed in the 280 metropolitan venues*
- *10,500 employed in the 351 non-metropolitan venues*

For the initial lockdown period:

- *employment is estimated to have dropped by some 79 per cent or 20,000 per day between Thursday 19 November and Wednesday 25 November. This was equivalent to 2.4 per cent of South Australia’s employment prior to the lockdown;*
- *all types of workers were affected. Around 30 per cent of hotels responding to the survey reported over 80 per cent of permanent employees were put off and over half of their casual employees, which comprise some 61 per cent of total employment in South Australian hotels, lost employment; and*
- *some \$7 million to \$10 million of food, alcohol etc was wasted by having to be disposed of quickly. 40 per cent of survey respondents reported that with more notice they could have reduced this waste by between 76 per cent and 100 per cent.*

Despite the lockdown being later reduced to three days, ... other severe restrictions remained in place. The resulting cancellations or disruptions to planned functions; limited dining and drinking capacity; and heightened uncertainty about what new restrictions could be quickly imposed without consultation with industry sharply reduced business activity, turnover, purchases and employment in the following weeks through to 31 December:

- *employment is estimated to have, on average, been 12,500 lower per day through the period 26 November to 31 December than would have otherwise been the case if the new COVID-19 restrictions had not been in place;*
- *turnover is estimated to have been lower by some \$100 million, or between a quarter and a third, in the five weeks to 31 December;*
- *spending on food and produce is estimated to have been lower by between \$21 million and \$30 million.*
- *42.7 per cent of respondents to the survey reported a reduction of purchases of between \$10,000 and \$50,000;*
- *spending on services that would have otherwise been provided by subcontractors or tradespeople is estimated to be down by between \$11 million and \$15 million;*
- *total accommodation revenue lost for the 30 days following the lockdown is estimated at between \$4.7 and \$15.5 million.”*

The case study above is demonstrative of the economic and social harm caused to employers and workers as a direct result of hotels being locked down to save Australian lives. It is not unreasonable that the hospitality and accommodation industries seek relief and stimulus to assist in their recovery.

2 WAGE SUBSIDY (SHORT TERM RELIEF)

The AHA supports the Pre-Budget Submission of the Australian Chamber of Commerce as it relates to support for businesses still affected by government-imposed trading restrictions arising from the COVID-19 pandemic.

The essence of the ACCI submission is repeated below. It proposes that the best support for business post March 2021 is:

- certainty in the way State & Territory governments respond to COVID cases in accordance with the national framework;
- a clear path to reopening international travel that appropriately manages the health risk, and
- effective roll out of vaccine and as a consequence easing of restrictions.

Any financial support beyond March 2021 should be targeted to those businesses:

- that were successful economic contributors and job generators prior to COVID;
- that as a result of government restrictions and through no fault of their own are still being significantly impacted, and
- which would be of high value to the economic opportunities that arise as Australia and the world come out of the crisis - in other words we are preserving future jobs.

The AHA supports the ACCI submission that a new program operate from 1 April 2021 to support businesses that are still highly impacted by restrictions imposed by Government with the policy objective of preserving future jobs and skills. It is proposed that the following conditions would apply:

- The wage subsidy support would operate via payroll but in addition to a reduction in turnover, the business confirms they operate within a business that is still highly impacted by restrictions imposed by Government to manage COVID19
- Two turnover thresholds, one at a one third reduction in turnover and one at a two thirds reduction compared to either the same quarter in 2019 or 2020
- Needs to continue for as long as restrictions are in place and these businesses are still experiencing this level of revenue impact
- IR flexibilities retained
- Eligibility tested quarterly
- The subsidy would be \$450 per week per Tier 1 eligible employee for business one third down and \$700 per week for businesses two thirds down (employees less than 20 hours per week would be proportionately less)
- Eligible staff are those employed on or before 1 January 2021

3 FRINGE BENEFIT TAX (MEDIUM TERM STIMULUS)

Recommendation

The AHA recommends the Government enable taxpayers who carry on a business, for the next three years:

- Be allowed to claim a tax deduction and GST inputs on accommodation, meal entertainment and beverages (excluding alcohol)
- Together with allowing a credit for the related GST and not requiring any FBT for the business owner or their employees.

Rationale

The hospitality industry has been particularly affected by the restrictions implemented due to COVID-19. The Federal Government has provided significant assistance to business such as the Cash Boost Scheme and JobKeeper – and we thank the Government for all its efforts and leadership.

However, accommodation occupancy and hospitality revenue for many regions such as Sydney CBD, Melbourne CBD and Far North Queensland are still down by more than 50%. There is continued uncertainty regarding domestic travel, bans on international travel, and a slow move back to work in many office precincts.

Those businesses that are now trading back at near or above normal levels have accrued significant debt due to government-imposed lockdowns and trading restrictions. Debts that accrued for example include deferred interest and rent payments plus a range of other charges such as electricity, taxes and rates.

EY modelling summary

Suspending FBT on meals and accommodation will provide a much-needed medium term stimulus creating instant jobs. Economic modelling conducted by EY (draft report **attached**) shows that suspending FBT would have the following positive impacts per annum over three years:

- Impact on GDP – ranging from \$239m to \$500m
- Impact on employment FTE – ranging from 1,703 to 2,474
- GDP per dollar of cost to government – ranging from \$1.89 to \$3.81

The AHA notes that the GDP per dollar cost to government is similar to that enabled by the Home Builder scheme, which has delivered significant investment to the building industry

Inequity

The arguments against suspending FBT are often based on the “equity principle”. Unfortunately, the equity principle of FBT has been circumvented largely by those who it was intended to capture. Many large-scale firms provide in house benefits that would otherwise attract FBT, e.g., childcare, gymnasiums, and board room lunches. Thus, they have successfully circumvented the payment of FBT. This circumvention gives those firms with the scale to avoid FBT an unfair advantage over smaller to medium enterprises who do not have the required scale or capacity.

Two scenarios

EY modelled two scenarios of a three-year suspension of FBT expenses for accommodation and meal expenses.

- Scenario 1: all sized businesses
- Scenario 2: small to medium enterprises only

| Summary of potential direct costs to Government by scenario | | |
|---|--------------------------------------|--------------------------|
| Year | Scenario 1 (all sized businesses) | Scenario 2 (SME only) |
| 2020/21 | \$167m | \$113m |
| 2021/22 | \$152m | \$99mm |
| 2022/23 | \$154m | \$100 |

If the Government chose not to exempt large businesses, just exempting SME businesses would put SME businesses on the same FBT footing that larger businesses have successfully enjoyed.

Economic benefit

In 2017/18. The EY report shows that a temporary suspension of FBT in both the below options has a positive economic benefit. In FY22 and FY23, the economic returns range from 3.25x to 3.81x.

| Scenario summary potential results by financial year | | | |
|--|---------|------------|------------|
| | | Scenario 1 | Scenario 2 |
| Impact on sector output, \$m | 2020/21 | \$125 | \$95 |
| | 2021/22 | \$307 | \$232 |
| | 2022/23 | \$310 | \$235 |
| Impact on GDP, \$m | 2020/21 | \$315 | \$239 |
| | 2021/22 | \$497 | \$377 |
| | 2022/23 | \$500 | \$379 |
| Impact on employment, FTE | 2020/21 | 2,249 | 1,703 |
| | 2021/22 | 2,462 | 1,865 |
| | 2022/23 | 2,474 | 1,874 |
| GDP per dollar of cost to government | 2020/21 | \$1.89 | \$2.11 |
| | 2021/22 | \$3.26 | \$3.81 |
| | 2022/23 | \$3.25 | \$3.79 |

Industry need

Due to COVID-19, the accommodation and food services sector were locked down to solve a public health crisis. The lockdown caused businesses to be unable to trade for months and saw a widespread layoff of workers. The sector has been the worst affected during the Covid-19 crisis, e.g.

- 84% of businesses reported decreased revenue, with 53% reporting revenue decreases of 50% or greater (N.B. this is the highest proportion of any industry to report revenue decreases in this range)
- 15% of businesses reported that their operations could be supported by less than a month through currently available cash at hand (N.B. once again the highest of any industry)

Over 98,000 establishments participate in the sector, employing over 900,000 people:

- Female workforce participation is well above the national average (60% of accommodation workers and 54% of F&B workers are female - Australian average is 48%)
- High levels of employment for younger Australians (47% of workers are under the age of 25 years)
- Approximately 67% of businesses in the sector indicate that JobKeeper has influenced their employment decisions.

AHA research estimates:

- A national decline of 71% in turnover for pubs in the March to June 2020 period from last year
- A national average fall in accommodation hotel room revenue of 77% and a fall in occupancy rates of 66% (forward looking data shows occupancy rates below 50% of capacity based on current bookings over the 90-day period from 15 June to 12 September)

Conclusion

The hospitality and accommodation sectors play a vital role in providing jobs, especially to females and younger Australians. The sector was the hardest hit during the COVID-19 pandemic, and remains under government mandated ongoing restrictions. Whilst many businesses are recovering, and some businesses are doing extremely well, unfortunately many businesses are still likely to be severely financially distressed.

Suspending FBT will increase economic activity in the sector, remove inequity between businesses of different size, increase GDP, increase employment, and stimulate the wider economy – saving businesses and thousands of jobs.

The AHA recommends the Government enable taxpayers who carry on a business, for the next three years:

- Be allowed to claim a tax deduction and GST inputs on meal and beverage entertainment
- Together with allowing a credit for the related GST and not requiring any FBT for the business owner or their employees.

4 ALCOHOL EXCISE

The AHA understands the legitimate concerns about the misuse of alcohol in the community; this is especially the case in unregulated environments. The hotel industry shares many of these concerns and acknowledges its responsibility to serve alcohol responsibly to minimise misuse. The AHA notes the following improvement in indicators related to alcohol consumption, e.g.:

- Alcohol consumption in Australia has fallen 25% over the last 40 years
- Just 6% of Australians drink daily – down from 9% a decade ago
- A shift to low and mid strength beers means that low and mid strength beer now accounts for 24% of all beer sales in Australia

The AHA notes:

- Only 19% of alcohol is consumed in pubs, bars and taverns, which are heavily regulated
- The remaining 81% of alcohol is consumed in unregulated environments

The AHA also notes the positive social and economic effects when comparing the consumption of alcohol at licensed venues compared to alcohol consumed in unregulated environments. The positive social benefits include:

- Trained staff enforcing the Responsible Service of Alcohol (RSA)
- A safer environment in which to consume alcohol, e.g., security, lighting, CCTV
- Increased social interaction and capacity to support community groups
- Increased social inclusion through workforce participation
- Provision of entertainment, e.g., live music

Business activity in hotels creates positive economic multiplier benefits that do not exist in unregulated environments, e.g.:

- Payment of staff wages, training, work cover insurance, superannuation, etc.
- Purchase of equipment e.g., beer taps, cold rooms, air conditioning, glassware
- Purchase of furniture, floor coverings, CCTV, televisions, sound systems
- Expenditure on building construction, improvements and maintenance
- Expenditure on power, utilities and consumables

The AHA is concerned that the six-monthly CPI increase on beer and spirits acts as a virtual payroll tax for the federal government, forcing up the cost of living, and will inevitably lead to a drop in employment and other economic activity.

The AHA advocates a moratorium on CPI increases for all excise rates for beer and bottled spirits.



STEPHEN FERGUSON
NATIONAL CEO



South Australian Centre for Economic Studies

Impacts of COVID-19 Lockdown:

A Case Study of the South Australian Hotel Industry

November 2020

Report commissioned by:

Australian Hotels Association (SA Branch)

Report prepared by:

The South Australian Centre for Economic Studies

University of Adelaide

January 2021

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Acknowledgement: This Case Study and survey was undertaken with the assistance of the South Australian Hotel Industry. We record our appreciation of their assistance and AHA | SA members who took the time to contribute to the survey at a time when the industry, owners, managers and employees were under considerable business and personal pressure.

The Case Study was initiated by the AHA | SA not on the basis that they sought any special assistance or treatment relative to other sectors of the economy or that they were not cognisant and responsive to the impact of COVID-19. The study is intended as a contribution to policy considerations with respect to COVID-19, the lockdowns and health responses designed to stem the tide of the pandemic and what we have learnt to date.

The Case Study was undertaken with the assistance of SACES Independent Research Fund and we acknowledge the founding members of that fund and their on-going support.

Executive Summary

The South Australian hotel industry was heavily adversely impacted by the South Australian Government's decision on 18 November 2020 at, effectively, seven hours notice to impose a six-day COVID-19 circuit breaker (aka the lockdown). This decision effectively required the sector to close apart from takeaway sales.

For the initial lockdown period:

- employment is estimated to have dropped by some 79 per cent or 20,000 per day between Thursday 19 November and Wednesday 25 November. This was equivalent to 2.4 per cent of South Australia's employment prior to the lockdown;
- all types of workers were affected. Around 30 per cent of hotels responding to the survey reported over 80 per cent of permanent employees were put off and over half of their casual employees, which comprise some 61 per cent of total employment in South Australian hotels, lost employment; and
- some \$7 million to \$10 million of food, alcohol etc was wasted by having to be disposed of quickly. 40 per cent of survey respondents reported that with more notice they could have reduced this waste by between 76 per cent and 100 per cent.

Despite the lockdown being later reduced to three days, i.e. ending 12.10am Sunday 22 November, other severe restrictions remained in place. The resulting cancellations or disruptions to planned functions; limited dining and drinking capacity; and heightened uncertainty about what new restrictions could be quickly imposed without consultation with industry sharply reduced business activity, turnover, purchases and employment in the following weeks through to 31 December:

- employment is estimated to have, on average, been 12,500 lower per day through the period 26 November to 31 December than would have otherwise been the case if the new COVID-19 restrictions had not been in place;
- turnover is estimated to have been lower by some \$100 million, or between a quarter and a third, in the five weeks to 31 December;
- spending on food and produce is estimated to have been lower by between \$21 million and \$30 million. 42.7 per cent of respondents to the survey reported a reduction of purchases of between \$10,000 and \$50,000;
- spending on services that would have otherwise been provided by subcontractors or tradespeople is estimated to be down by between \$11 million and \$15 million;
- total accommodation revenue lost for the 30 days following the lockdown is estimated at between \$4.7 and \$15.5 million.

Mental health conditions were reported by respondents to have deteriorated in the hotel sector, including amongst customers. This is consistent with analysis reported in an increasing volume of peer-reviewed literature internationally and in Australia, about the employment, financial distress, societal and personal impacts, including loneliness, of the COVID-19 pandemic and the associated policy responses, including lockdowns. This literature points to more concern amongst citizens about how societal changes will impact their psychological and financial wellbeing than getting ill with COVID-19.

In future cases of COVID-19 or other pandemic outbreaks, consultation with the South Australian hotel industry can help meet the SA Government's desired suppression outcomes while likely reducing the risks of adverse mental health, societal, employment, business and economic outcomes that have resulted from the November lockdown.

To provide superior outcomes for all, the consultation should include:

1. reasons for the proposed measures;
2. type and coverage by industry and geography (see a below) ;
3. timing of implementation and duration (see b below);
4. what options/alternatives may be available for discussion;
5. conditions that may result in faster rollback or extension of the measures;
6. communication processes; and
7. what, if any, compensation is being considered.

In addition, other industries would presumably support this type of approach.

- a) A more nuanced approach to sector and geographical measures, coverage and timing we consider is feasible to minimise the adverse impacts while ensuring that the proposed health benefits are still met. For example, there would appear to have been no justification to close country pubs/venues on 19 November and ban weddings and funerals when there were no indications of country community infections and no country medi-hotels. Other States seem to be able to handle a more regional approach.
- b) Timely, albeit limited but advanced warning is critical to minimise disruption and wastage that also allows food stocks to be sent elsewhere to the benefit of the community.
- c) It would be helpful to host discussions with the AHA (SA) to investigate and agree what state-wide measures can be adopted that would prepare the sector to operate in the event of another outbreak while meeting the health objectives, e.g. the deployment and monitoring of attendance utilising the QR app now and potential for hoteliers in future to restrict entry by unvaccinated clients and not have to employ unvaccinated staff. That would presumably allow the Hotels to have a "quarantined" set of people allowed in which might assist the smaller bars and hotels compared with a blanket restriction via space per person. There may also be consideration of the operation of gaming facilities in the event of a lockdown as this activity currently must provide for social distancing and staff time to clean machines (that rely on hand activation with the potential to readily transmit the virus).

Introduction

The Australian Hotels Association (SA Branch) has commissioned the South Australian Centre for Economic Studies (SACES) of the University of Adelaide to undertake a brief survey of the hotel industry in South Australia relating to the sudden lockdown of South Australia due to COVID-19 in November 2020.

Size and scope of the study

Contribution of the hotel industry to South Australia

The hotel industry is a major contributor to employment, the economy and the social fabric of South Australia. Disruption to its activities, particularly such as those imposed at very short notice without consultation as with the 18 November lockdown, are likely to have severe impacts on employment, the economy, social fabric and mental health.

In 2016 the SA Centre for Economic Studies, in conjunction with the AHA (SA), released the **Economic Contribution of the Hotel Industry in South Australia** report. The report estimated that in 2015 total employment in the South Australian Hotel Sector was 26,250¹, representing about 3.2 per cent of South Australia's then total employment. The broad characteristics of this employment were:

- 15,750 were employed in the 280 metropolitan venues;
- 10,500 were employed in the 351 non-metropolitan venues;
- 25.4 per cent were permanent full-time employees;
- 13.9 per cent were permanent part-time employees;
- 60.7 per cent were casual employees; and
- on average metropolitan hotels employed 56.2 staff and non-metropolitan hotels employed 29.9.

The broad characteristics of income and expenses were:

- Total income of \$3,627 million, comprising:

| | |
|--|---------------|
| ○ Sale of liquor and other beverages on premises | 18.9 per cent |
| ○ Sale of liquor and other beverages (take-away) | 27.0 per cent |
| ○ Accommodation | 13.8 per cent |
| ○ Net Gaming revenue | 17.4 per cent |
| ○ Takings from meals and food sales | 18.8 per cent |
| ○ Other | 4.0 per cent |
- Outgoings and expenses comprised:

| | |
|--|---------------|
| ○ Total Wages and Allowances | \$958 million |
| ○ Purchases of liquor and beverages | \$963 million |
| ○ Purchases of foodstuffs | \$240 million |
| ○ Overheads including Rent, Utilities, Repairs & Maintenance | \$710 million |
| ○ Taxes – Gambling | \$307 million |
| ○ Taxes – Other | \$139 million |

This report provides an important background to the understanding and analysis in the following report.

Survey methodology

The South Australian branch of the Australian Hotels Association, in conjunction with SACES, conducted in mid-December 2020 an online survey of its members to get an understanding of the various impacts on the South Australian hotel industry of the SA Government's announcement of the November six-day lockdown.

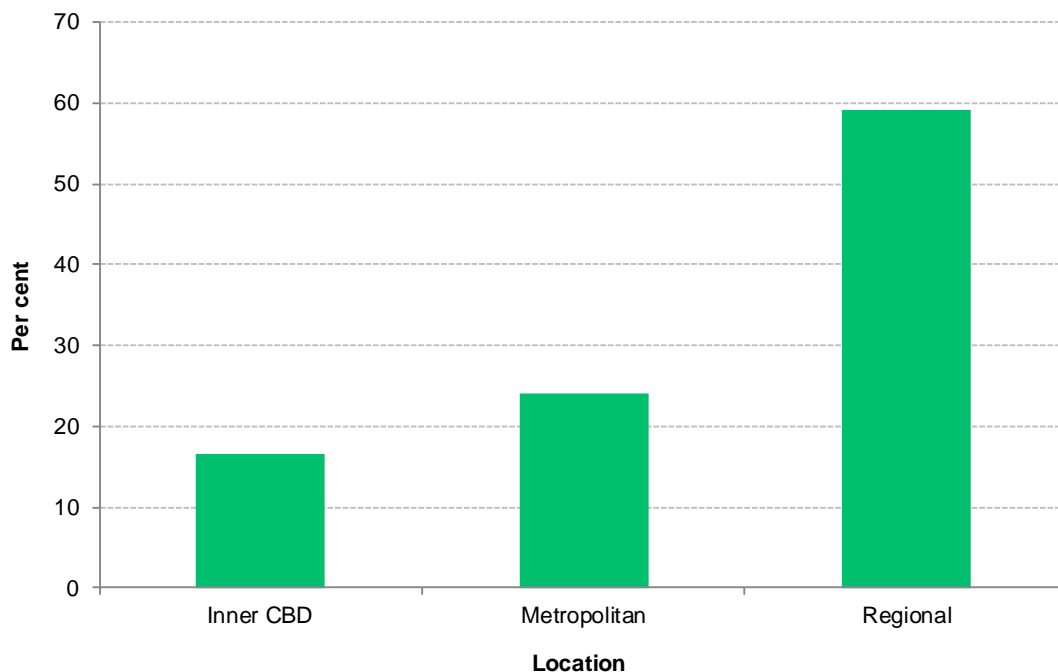
SACES independently designed the survey questions and provided them to the AHA who formatted the survey and sent out to a random selection of AHA members. Responses were returned direct to the AHA and collated using the Survey Monkey methodology. There were 120 survey responses, representing around 20 per cent of the estimated hotels in South Australia. (*From the SACES 2016 Report*).

¹ "Economic Contribution of the Hotel Industry in South Australia" (2016), The South Australian Centre for Economic Studies, University of Adelaide, January.

Location of respondents

As shown in Figure 1, 16.7 per cent of the responses were from inner CBD hotels, 24.1 per cent from non-CBD metropolitan hotels and 59.2 per cent from country and regional hotels. It is estimated that there is likely to be some over representation of country and regional hotels, but from previous surveys we know that they are on average smaller businesses relative to metropolitan hotels and accommodation venues and hence may lead to an understatement of impacts overall.

Figure 1 Location of hotel



Source: Survey of South Australian hotel industry, December 2020.

Expected employment prior to lockdown

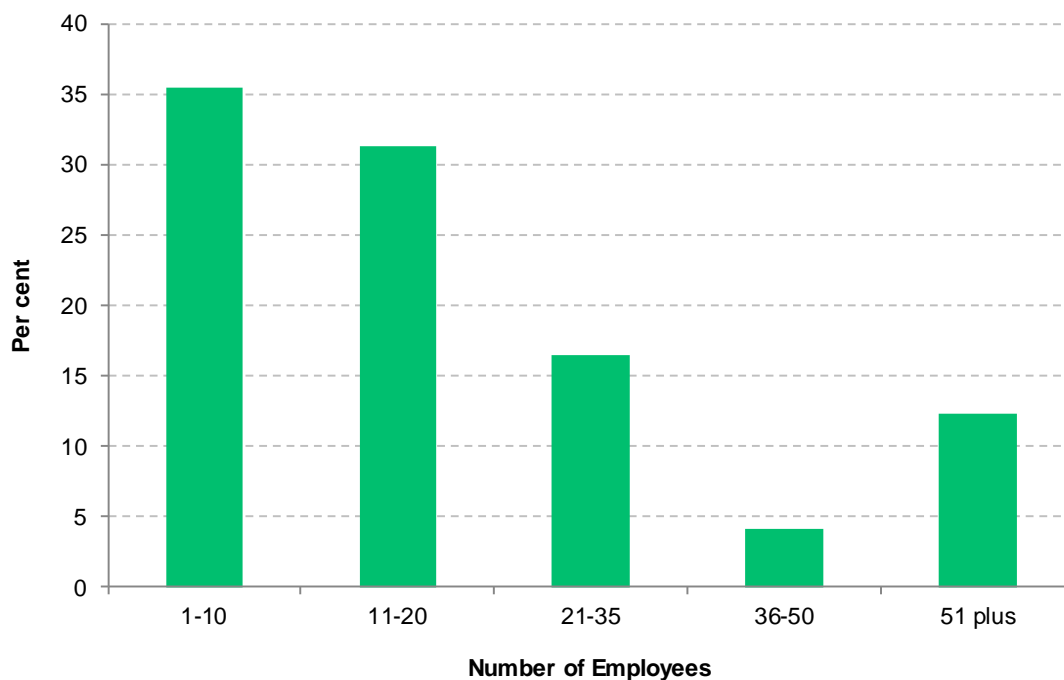
The respondents reported a range of expected employment in the week beginning 19 November 2020. Some 35.4 per cent expected to employ between 1 – 10 people per day while 12.4 per cent expected to employ 51 or more per day. We estimate these respondents were expecting to employ some 2,500 people per day on average in the week beginning 19 November 2020. We estimate this comprised about 10 per cent of total people employed in the South Australian hotel industry in the period prior to the lockdown.

To put this in context, the Australian Bureau of Statistics (ABS) estimated that hotels, taverns and bars in South Australia in November employed on average 13,735 people per day.² The ABS November Labour Force Survey covered the fortnight to Sunday 14 November and was therefore prior to the announcement of the South Australian lockdown.

However, for definitional and methodological reasons, this may be a considerable underestimate of employment in South Australia in the hotel industry when considering its broader operations including:

- liquor retailing, in house and packaged, i.e. takeaway;
- meals;
- accommodation;
- entertainment, including live music;
- conferences; and
- electronic gaming machines.

² ABS Cat 6291.0.55.003 – EQ06- Employed Persons by Industry group of main job (ANZSIC), Sex, State and Territory, November 1984 onwards. Released 11.30am 23 December 2020.

Figure 2 Expected employment numbers, 19-25 November 2020 (Q3 survey)

Source: Survey of South Australian hotel industry, December 2020.

In the **Economic Contribution of the Hotel Industry in South Australia** report noted above, total employment in the South Australian Hotel Sector in 2015 was estimated at 26,250. We will use that aggregate and the associated details as the basis for our estimates of the employment impacts in 2020 of the lockdown.

The ABS estimates for jobs from the quarterly data by industry of main occupation released from the monthly Labour Force surveys for 2015, 2019 and 2020 were averages of:

| | 2015 | 2019 | 2020 |
|------------------------|--------|--------|--------|
| Accommodation | 8,543 | 7,858 | 4,934 |
| Pubs, Taverns and Bars | 8,070 | 11,482 | 11,253 |
| Clubs | 1,079 | 1,620 | 1,118 |
| Total of Above | 17,692 | 20,960 | 17,305 |

Source: ABS Electronic Delivery 6291.0.55.003 - EQ06 - Employed persons by Industry group of main job (ANZSIC), Sex, State and Territory, November 1984 onwards Released 23 December 2020.

We make the assumption that employment in the South Australian hotel industry as defined in the SACES report, which were collected from employers in 2015, moves broadly in line with the combined totals of the ABS quarterly estimates of employment in the three industry sub-categories as collected from the labour force participants.

In that case we estimate total hotel industry employment heading into the November lockdown at 26,000. This is likely to be an underestimate as this figure is based on 2015 as a likely average for the year whereas employment would have been on a seasonal upswing by mid-2020.

The Survey respondents estimated expected employment is therefore estimated to be in the order of 10 per cent of total employment in the South Australian hotel industry in November. The estimated share in the hotel sector of the respondents, as a proportion of total establishments and of the employment they were expecting to provide, suggests their responses should not be unrepresentative of the South Australian hotel industry as a whole.

The costs of lockdown

With the announcement on 18 November of the six-day lockdown to begin 12.01 am Thursday 19 November, hotel businesses had to move quickly to reduce staffing; cancel already booked functions; dispose of perishable supplies; cancel new food and other orders; and cancel or reschedule work planned to be done by contractors and tradespeople.

While the lockdown was progressively raised after three days, the initial planning by hotel operators was for a full lockdown of six days and possibly longer. In addition, it was difficult to immediately reopen hotel businesses as a result of getting people back to work; re-scheduling social and other functions; ordering and getting deliveries of food and other supplies; and meeting the new post lockdown requirements of the State Government.

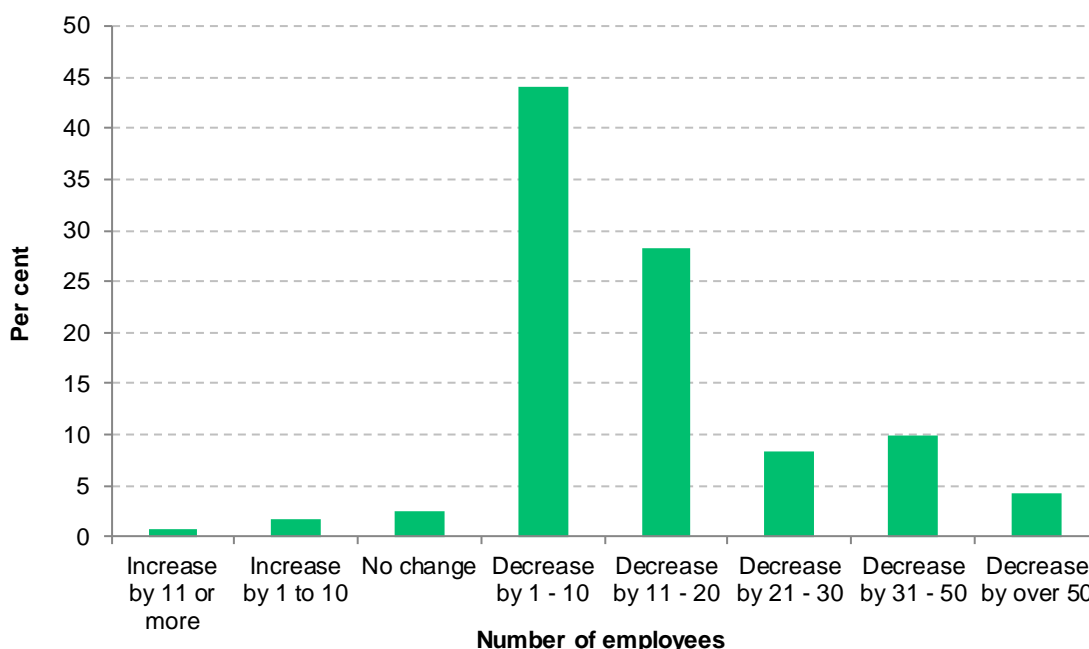
Employment losses

The hotel sector, being a high touch service industry, is very labour intensive across a broad range of occupations. The sector employs a large number of South Australians both directly and as associated suppliers such as food and produce suppliers; cleaners; maintenance, trades and security workers etc. Their employment is generally directly related to the number of people attending and consuming hotel services on site.

It is not an industry that can easily or effectively provide its services remotely. As a result, employment and turnover will be, generally, immediately affected by the lockdown.

Some 95 per cent of survey respondents reported they had decreased direct employment during the period Thursday 19 November to Wednesday 25 November with 44.2 per cent reporting a decrease in employment on an average per day by between 1 and 10 staff; 37 per cent by between 11 and 30 staff and 14 per cent by over 30 staff.

Figure 3 Actual employment numbers, 19-25 November 2020 (Q4 survey)



Source: Survey of South Australian hotel industry, December 2020.

We also note as shown by ABS labour force estimates, that South Australian employment and average hours worked in hotels, taverns and bars and clubs generally lifts in November in line with the late Spring and early Summer temperature increases; the seasonal lift in end of work social functions; and the build-up to Christmas social events.

In addition, this increase in employment is most marked for females who generally comprise over 50 per cent of the sector's workforce. On average over the 10 years to November 2019, November female full time and part time employment has risen 29 per cent and 11 per cent respectively on the previous August. This likely reflects many workers moving from part time to full time hours. For the last decade, total hours worked by both sexes was on average 12 per cent higher in November than in August.

The lockdown therefore came at possibly the very worst time for employment and hours worked in hotels, taverns and bars and clubs. This was not only for the expected seasonal lift but also as activity was rebounding as earlier COVID-19 restrictions were being lifted. The ABS estimated hours worked in November 2020, based on conditions prior to the lockdown, at 14 per cent higher than in February 2020 and 20 per cent higher than

in November 2019. In prospect, it was to be the best November since 2011. The lift would also have helped in part offset the losses in accommodation turnover, and associated employment, through 2020.

As noted above, we have used an estimate of 26,000 as employment in the South Australian hotel industry prior to lockdown. On the basis of the survey results, this would suggest employment in this industry dropped by an average of around 20,500 jobs per day over the period Thursday 19 November to Wednesday 25 November inclusive.

This would be equivalent to around 2.4 per cent of South Australia's total employment in November prior to the lockdown.

According to the survey results, and as shown in the Table 1, most workers in the sector suffered a loss of employment. Over a third of hotels reported reducing employment substantially across permanent full and part time positions and casual full and part time positions:

- 39.3 per cent of employers reported reducing employment by at least 50 per cent for permanent full-time employees. 24.3 per cent of employers reported employment being reduced for this group by between 91 and 100 per cent;
- 35.5 per cent of employers reported reducing employment by at least 50 per cent for permanent part time employees. 26.9 per cent of employers reported employment being reduced for this group by between 91 and 100 per cent;
- 54.7 per cent of employers reported reducing employment by at least 50 per cent for casual full-time employees. For these employees, 10.5 per cent of businesses reported reducing employment between 81 and 90 per cent and a further 32.6 per cent reported employment being reduced for this group by between 91 and 100 per cent; and
- 68.7 per cent of employers reported reducing employment by at least 50 per cent for casual part-time employees. For these employees, 10.4 per cent of businesses reported reducing employment between 81 and 90 per cent and a further 41.7 per cent reported employment being reduced for this group by between 91 and 100 per cent.

Table 1 Reported reduction by hotel and employee type

| | Permanent Full Time Employees | Permanent Part Time Employees | Casual Full Time Employees | Casual Part Time Employees |
|----------------------------|-------------------------------|-------------------------------|----------------------------|----------------------------|
| Number of Responses | 107 | 93 | 95 | 115 |
| 0-11 per cent | 33.6 | 48.4 | 30.53 | 13.91 |
| 11-20 per cent | 11.2 | 7.5 | 5.26 | 8.70 |
| 21-30 per cent | 6.5 | 3.2 | 5.26 | 3.48 |
| 31-40 per cent | 6.5 | 2.2 | 2.11 | 0.87 |
| 41-50 per cent | 2.8 | 3.2 | 2.11 | 4.35 |
| 51-60 per cent | 3.7 | 1.1 | 4.21 | 6.96 |
| 61-70 per cent | 2.8 | 2.2 | 5.26 | 4.35 |
| 71-80 per cent | 3.7 | 2.2 | 2.11 | 5.22 |
| 81-90 per cent | 4.7 | 3.2 | 10.53 | 10.43 |
| 91-100 per cent | 24.2 | 26.9 | 32.63 | 41.74 |

Source: Survey of South Australian hotel industry, December 2020.

As noted in the SACES 2016 report, the hotel industry is a major employer of part-time and casual workers; 13.9 per cent of employees in 2015 were permanent part-timers and 60.7 per cent were casual workers. In addition, according to the ABS, in 2019, prior to the COVID-19 impacts on business activity and employment, accommodation, hotels, taverns, bars and clubs averaged 13,374 part-time employees per day, comprising 63 per cent of total employment in these areas and 4.4 per cent of all of South Australians employed part-time as their main job.

While the intensive conditions of the initial six-day lockdown period were, at the time of preparation of this Report, being progressively lifted, the lockdown continued to have a seriously adverse impact on employment well past November. This was due to:

- the new isolation requirements;
- the cancellation of already booked social and other end-of-year functions; and

- after the lack of notice and consultation by policy makers with hotel operators when implementing the 18 November lockdown, the heightened uncertainties for both consumers and hotel operators of what policy makers might impose if a new COVID-19 outbreak was to occur through December.

Participants in the survey were asked “what was the estimated impact on employment per day for the period from 26 November to end December 2020 compared to the situation if all restrictions had been lifted”.

Approximately 47 per cent of 120 respondents reported employment would have been lower between 1 and 10 than if restrictions had been lifted while a further 18.3 per cent estimated employment would be down between 11 and 20, a further 8.5 per cent estimated employment would be lower by 31 or more.

Table 2 Change in number of employees that worked during lockdown compared to number of employees usually employed

| Options | Change in number of employees at work during lockdown | |
|------------------------|---|--------|
| | Per cent | Number |
| Increase by 11 or more | 0.8 | 1 |
| Increase by 1 to 10 | 6.7 | 8 |
| No change | 15.0 | 18 |
| Decrease by 1 - 10 | 46.6 | 56 |
| Decrease by 11 - 20 | 18.3 | 22 |
| Decrease by 21 - 30 | 5.0 | 6 |
| Decrease by 31 - 50 | 4.2 | 5 |
| Decrease by over 50 | 3.3 | 4 |

Source: Survey of South Australian hotel industry, December 2020. Q10

We estimate employment for this period was therefore down 1,300 on average per day for these respondents compared to what would have otherwise been expected if restrictions had been fully lifted. This compares with the expected employment prior to the lockdown for these respondents of around 2,500 per day.

We extrapolate this foregone employment to 12,500 jobs across the South Australian hotel industry in what would normally be considered to be the sector’s strongest period for business activity, financial turnover and employment overall, and casual and part time employment in particular.

So, while employment would have lifted as restrictions were eased, it would have remained well below what would otherwise have been expected at the busiest time of the year.

This reduction in employment was a reflection of the reduced business activity and turnover due to the restrictions. As noted above, the types of services provided by the hotel sector are very difficult to provide online or remotely.

Loss of business turnover

Looking at the estimated impact on turnover for the period 26 November to 31 December compared with what was planned or expected by hotel operators prior to 18 November, 92.6 per cent of the 120 respondents reported an estimated decline of over \$10,000 while 62.0 per cent reported an expected decline of over \$50,000 and 32.2 per cent of over \$100,000.

Table 3 Estimated change in turnover (due to lockdown and on-going restrictions 26 Nov-31 Dec)

| Options | Change in turnover | |
|-----------------------|--------------------|--------|
| | Per cent | Number |
| \$1 - \$10,000 | 7.4 | 9 |
| \$10,001 - \$25,000 | 12.4 | 15 |
| \$25,001 to \$50,000 | 18.2 | 22 |
| \$50,001 to \$75,000 | 15.7 | 19 |
| \$75,001 to \$100,000 | 14.1 | 17 |
| Over \$100,000 | 32.3 | 39 |

Source: Survey of South Australian hotel industry, December 2020.

We estimate this reduction in turnover from what was planned or expected by the respondents to be in the order of \$9.7 million. For the South Australian hotel industry as a whole, we project this in the order of \$100 million.³

³ The respondents account for about a 10 per cent share of estimated employment but around 18 per cent of the number of AHA SA members and have a marginally high country weight compared to the base. 44 per cent metro: 56 per cent non-metro in SACES 2016 study of with 41 per cent metro: 59 per cent non-metro in this survey. Turnover per employee is also lower in non-metro (\$127,726) than in Metro (\$145,134) on the SACES 2016 Report.

Looking at losses to accommodation revenue, November is the peak month for rooms sold and total revenue. In November 2019, rooms sold totalled 162,994 with total revenue of \$28.233 million. After the April 2020 slump to 24,134 rooms sold, there had been a part recovery in demand for rooms through to 18 November with total room demand for November to that date running at a monthly rate of 105,000, (*nb average daily room demand 1-18 November 2020 3,483 = 104,490 over 30 days*).

This would have been up 9.6 per cent on October and 59 per cent on September and while still well down on November 2019, the highest since February 2020. A continuation of the recovery through November and into December was therefore of critical importance to revenue and employment.

The immediacy of the lockdown and likely uncertainty surrounding whether the restrictions on travel and the accommodation sector would be relaxed in following weeks but potentially reintroduced, resulted in an accelerated pace of cancellations and drop off in new bookings. Average daily demand for rooms in the week to Sunday 14 November had averaged 3,639. This fell to an average of 1,456 per day in the week to Wednesday 25 November. Total accommodation revenue for the latter period was down 67 per cent compared with the week to Sunday 14 November.

Despite the lockdown being lifted after three days and the progressive lifting of the restrictions, continued uncertainty saw only a gradual recovery in accommodation demand and revenue. It was not until 18 December that room demand and occupancy rates got back to levels consistent with the December seasonal pattern. By then, however, the sector had lost around four weeks of its peak levels of activity, revenue and employment.

Table 4 indicates the losses in activity and revenue compared with the period 1 to 18 November 2020 and 19 November to 18 December 2019.

Table 4 Comparison of losses in activity and revenue, 1-18 November 2020 – 19 November to 18 December 2019

| | 1-18/11/2019 | 1-18/11/2020 | Difference (per cent) | 19/11-18/12/2019 | 19/11-18/12/2020 | Difference to 19/11-18/12/2019 (per cent) | Difference to 1/11-18/12/2019 (per cent) |
|---|--------------|--------------|-----------------------|------------------|------------------|---|--|
| Average Daily Occupancy (per cent) | 90.3 | 56.1 | -34.2 | 83.5 | 35.1 | -48.4 | -21.0 |
| Average Daily Room Rate \$ | 168.6 | 133.8 | -20.6 | 161.2 | 136.5 | -15.3 | 2.0 |
| Average Daily Revenue per Available Room \$ | 153.1 | 76.1 | -50.3 | 137.6 | 49.6 | -64.0 | -34.8 |
| Average Daily Supply of Rooms (No.) | 6,045 | 6,208 | 2.7 | 6,045 | 6,320 | 4.6 | 1.8 |
| Average Daily Demand for Rooms (No.) | 5,457 | 3,483 | -36.2 | 5,047 | 2,226 | -55.9 | -36.1 |
| Average Daily Revenue \$'000 | 925,488 | 472,260 | -49.0 | 832,039 | 314,780 | -62.2 | -33.3 |

The total estimated revenue loss over 30 days was:

- 19 November – 18 December 2019: \$4,724,405; and
- 1 November – 18 December 2019: -\$15,517,784.

Impact on waste, other suppliers and tradespeople

The lockdown and subsequent isolation restrictions and reduced turnover also had a significant impact on the demand for intermediate inputs, such as foodstuffs, and various overhead items such as cleaning, repairs and maintenance and marketing etc.

The broad magnitude of these types of expenses in 2014/15 were outlined in the SACES report *The Economic Contribution of the Hotel Industry in South Australia (2016)*.

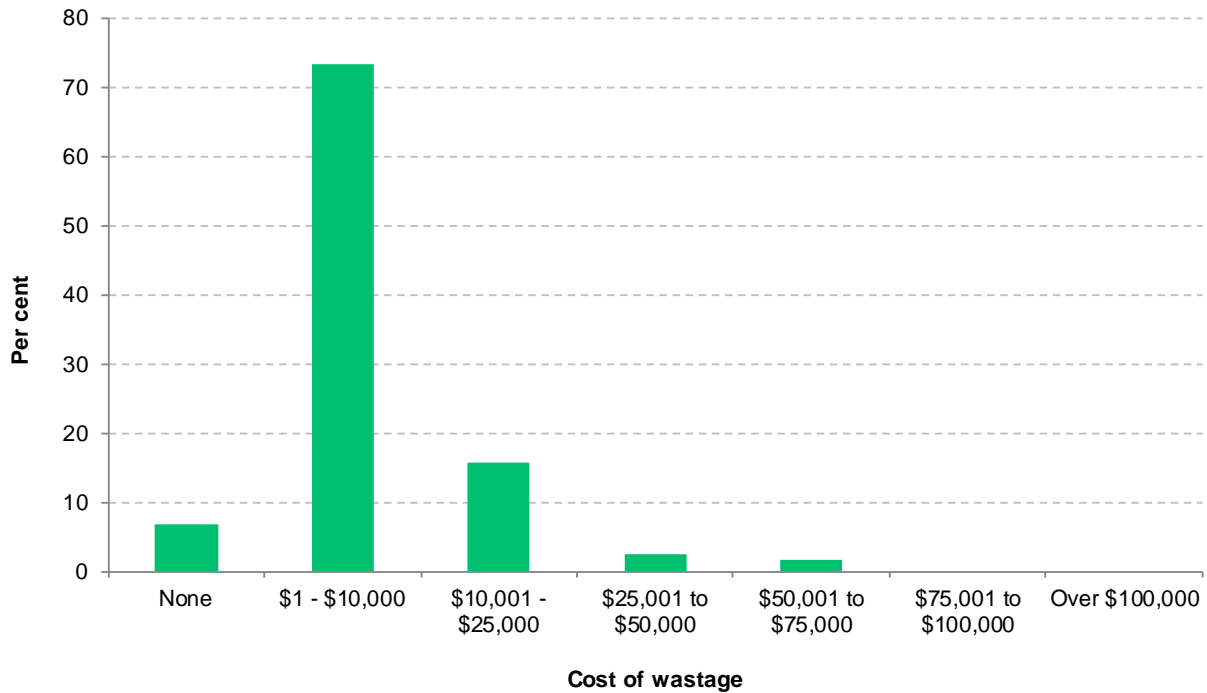
In 2014/15, spending on such purchases likely to be affected was estimated as:

- purchases of foodstuffs used to prepare meals: \$240 million;
- repair and maintenance \$48 million;
- advertising, marketing, promotion and sponsorships \$92 million;
- other contract, subcontract and commission expenses \$29 million.

An immediate impact was having to dispose of food, alcohol and other items that would have perished or deteriorated over the expected six-day lockdown period.

Some 73.3 per cent of the 120 respondents reported wastage costs of up to \$10,000 over the period from 19 November to 25 November with an additional 15.8 per cent reporting wastage costs of between \$10,001 and \$25,000, 4.2 per cent reported wastage costs of between \$25,001 and \$75,000. We estimate the overall costs to the respondents to be in the order of \$7 million to \$10 million across the sector.

Figure 4 Cost of wastage of food, alcohol and other items (19 November-25 November)



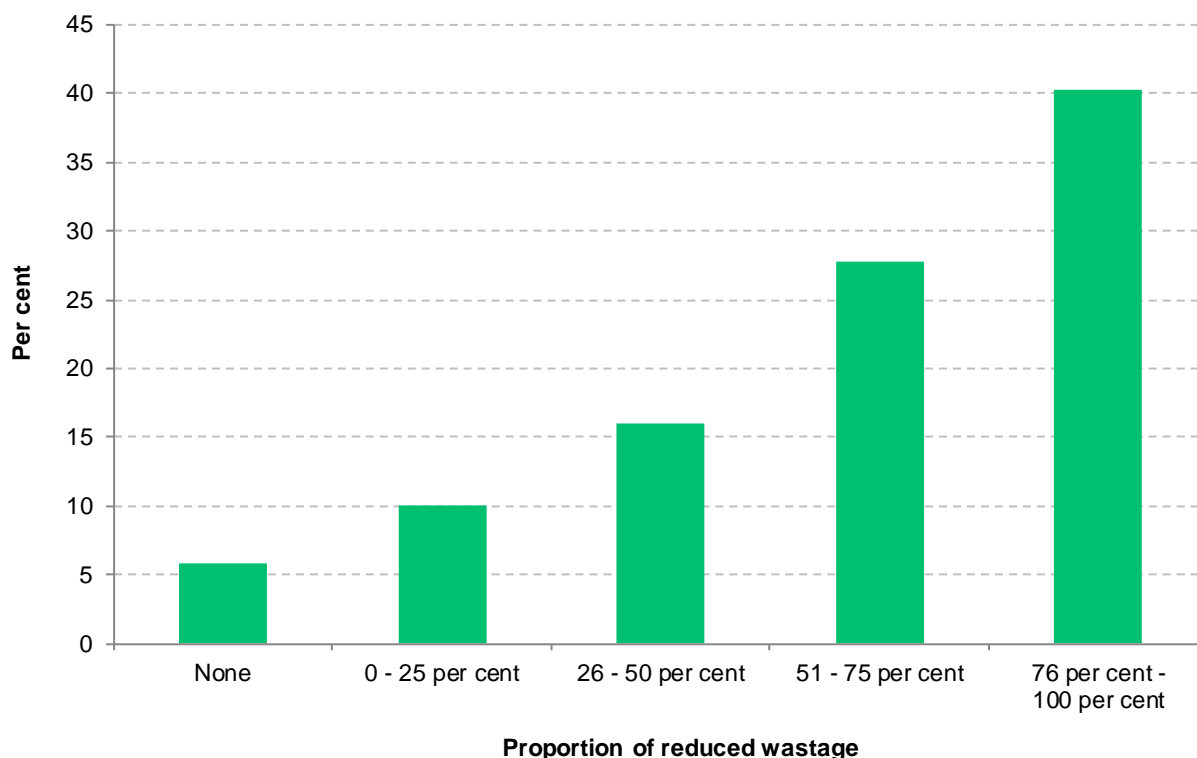
Source: Survey of South Australian hotel industry, December 2020.

The survey also revealed a major part of this wastage could have been reduced by more warning of the lockdown.

Almost all venues (94 per cent of respondents) said they could reduce some wastage, while 40 per cent of respondents reported they could have reduced wastage by between 76 per cent and 100 per cent.

While the survey did not ask how the wastage may have been reduced, it could be reasonably expected some of the food could have been diverted to charities for distribution.⁴

⁴ Foodbank reported in 2019 it was providing meals in South Australian to around 134,620 people per month of which the School Relief Program comprised 126,000.

Figure 5 Proportion of waste that could have been reduced by pre-warning of lockdown

Source: Survey of South Australian hotel industry, December 2020.

Looking at longer term disruption following the lockdown, the South Australian hotel industry is a major purchaser of food and other produce, particularly from local suppliers. As noted above, in 2014/15 South Australian hotels spent \$240 million on food purchases for the estimated 837 meals served on average each week that year by the 684 hotels, pointing on average to a third of adult South Australians having a hotel meal each week.

Reducing the purchases by hotels would therefore have a substantial impact on local suppliers and producers across the broader hospitality sector.

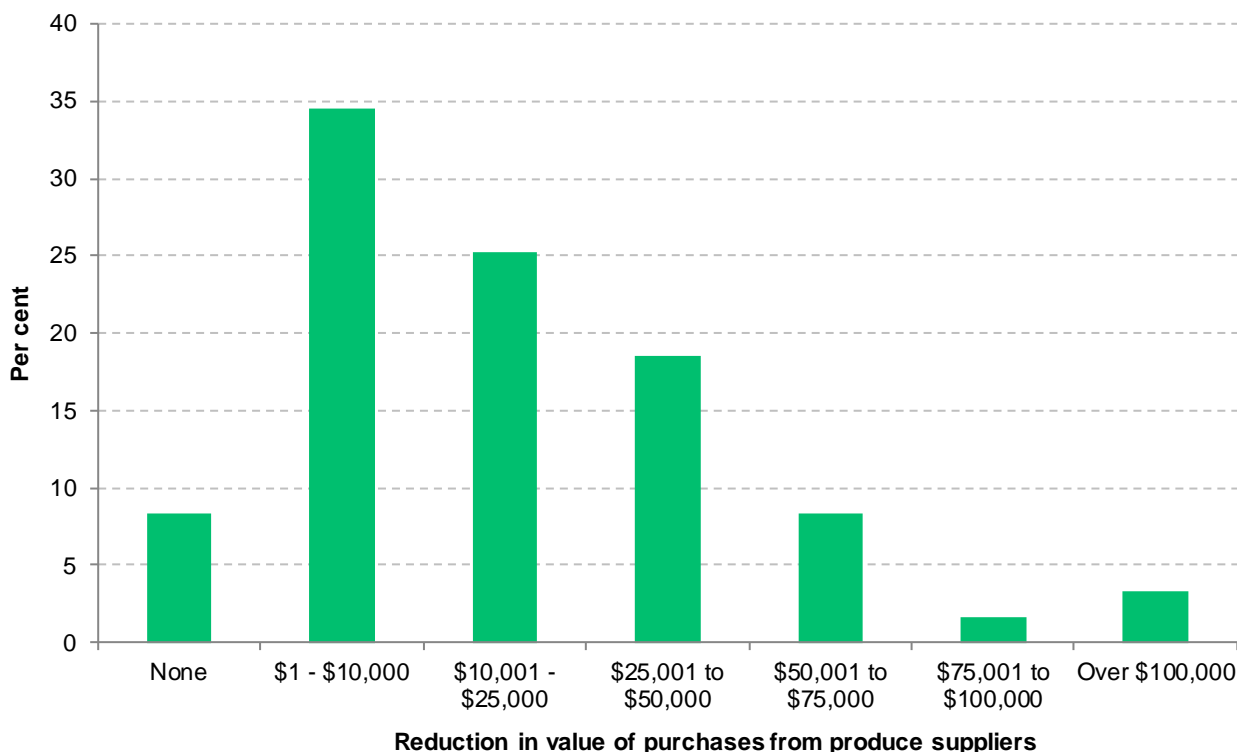
The lockdown and ongoing COVID-19 isolation restrictions caused disruption to, or cancellation of, already organised functions at SA Hotels, made planning of new functions highly problematic and severely limited capacity for ongoing dining.

Over a third of the 120 respondents reported they would be reducing the value of their purchases by up to \$10,000 up to 31 December. A further 42.7 per cent indicated a reduction of between \$10,000 and \$50,000 while an additional 13.4 per cent reported a reduction of over \$50,000.

We estimate the total reduction in spending on food and produce by the respondents at around \$3 million and between \$21 million and \$30 million across the South Australian hotel industry.

The lockdown and associated subsequent isolation restrictions and reduced turnover also affected spending on various overhead items such as cleaning, repairs and maintenance and marketing etc and likely disrupted investment spending.

As noted above, in 2014/15 this type of spending was estimated by SACES in the order of \$170 million per annum. In addition, capital expenditure averaged \$133 million per annum over the five years to 2014/15. In view of the upswing occurring in South Australian economic activity more broadly through the second half of 2020 as previous COVID-19 restrictions were being eased, it would be expected spending in these categories would have been at least in this order on an annualised basis in late 2020.

Figure 6 Reduction in value of purchases from produce suppliers (to end December inclusive)

Source: Survey of South Australian hotel industry, December 2020.

Survey respondents reported that for the period 26 November to 31 December, 49.1 per cent had reduced spending on services normally provided by subcontractors or tradespeople by up to \$10,000, 41.5 per cent had reduced spending by between \$25,000 and \$50,000 and 9.4 per cent had reduced spending by over \$50,000.

Table 5 Change of spending on subcontractors or tradespeople (end November to 31 December)

| Options | Change in spending | |
|-----------------------|--------------------|--------|
| | Per cent | Number |
| \$1 - \$10,000 | 49.06 | 52 |
| \$10,001 - \$25,000 | 30.19 | 32 |
| \$25,001 to \$50,000 | 11.32 | 12 |
| \$50,001 to \$75,000 | 5.66 | 6 |
| \$75,001 to \$100,000 | 0.94 | 1 |
| Over \$100,000 | 2.83 | 3 |

Source: Survey of South Australian hotel industry, December 2020.

We estimate this spending reduction was in the order of \$2.2 million for these respondents and between \$11 million (and \$15 million across the South Australian hotel industry overall).

Mental health impacts

Mental health disorders in Australia and South create substantial costs to individuals, the community, business and the broader economy. In South Australia, drawing on the studies noted below, we estimate the current costs to the economy in 2018/19 could be in the order of \$4.5 billion to \$5.0 billion. This is the equivalent of between 4 to 4.5 per cent of Gross State Product (GSP) in 2018/19 or around \$2,800 per head of population.

There is an increasing volume of medical research on the impacts on mental health and wellbeing of the policy responses to the COVID-19 pandemic, including through the effects on work and social functioning. This research points to some of these policy responses having adverse impacts on mental health and wellbeing.

We see no reason why these responses would be lower in South Australia than reported nationally and should be taken into account when policy makers are setting and implementing policies such as lockdowns.

The latest National Health Survey report by the ABS⁵ estimated that in 2017/18 there were 4.8 million people, or 20.1 per cent of the Australian population of all ages, with a mental or behavioural condition. This was up 17 per cent on the previous survey in 2013/14.

South Australia was broadly in line with the national estimates with 19.9 per cent of the population over 15 years of age having a mental or behavioural condition. The ABS estimates the proportion for South Australian standardised for age was 19.7 per cent. These proportions represent the second highest selected current long-term condition after hayfever and allergic rhinitis.

In *Mental health in Australia: a quick guide* prepared by the Australian Parliamentary Library in February 2019⁶, the following studies on the costs of mental illness were reported:

1. the cost of severe mental illness was estimated at \$56.7 billion per annum in 2014 in a report commissioned by the Royal Australian and New Zealand College of Psychiatrists. This included “the direct economic costs of severe mental illness arising from the use of health and other services, as well as indirect costs due to lost productivity ...”. This was similar to the \$60 billion cost reported in 2016 by the National Mental Health Commission;
2. In 2018, KPMG and Mental Health Australia reported an average workplace cost of \$3,200 per employee with mental ill health for a total cost of workplace mental ill health of \$12.8 billion in 2015/16; and
3. the Australian Institute of Health and Welfare (AIHW) estimated spending in 2015/16 on mental health related services was around \$9 billion. Of this, \$5.4 billion was provided by State and Territory governments; \$3.1 billion by the Federal Government and \$0.5 billion by private health funds.

For 2017/18, the AIHW estimated Federal Government spending had risen to \$3.4 billion while in 2018/19 4.3 million Australians received mental health related medication prescriptions.⁷

These measures indicate the substantial financial costs of mental ill health in the Australian community and economy prior to the COVID-19 pandemic.

There is a growing body of analysis internationally around the distributional and mental health impacts of the COVID-19 pandemic and the policy responses, including lockdowns.

In June 2020 the International Monetary Fund (IMF) Working Paper 20/96 *The Distributional Impact of Recessions: The Global Financial Crisis and the Pandemic Recession*⁸ looked at the experience in the USA. It noted,

“... the social distancing policy prohibited operations of “social jobs” that require physical interaction, such as leisure and hospitality industries.”

“Social and non-essential industries, particularly jobs in leisure and hospitality, have been much more severely affected than jobs in other industries during the current recession than the previous recession.”

“... this paper corroborates the findings of other research that Hispanic and female workers have been more affected than their counterparts during the current Pandemic Recession.”

“... younger workers, particularly the workers between 21-30 years old, saw a sharper decline in employment during the current pandemic recession than the other age groups.”

“Less educated workers have seen a much sharper decline in both the employment rate and the average hours worked than more educated workers.”

These types of outcomes, while in another country and with different policy responses, can, however, provide important leads as to which demographic groups would have felt the greater increased mental health stress as a result of the policy responses to the pandemic and consequent loss of jobs and incomes, increased financial stress and reduced social contact. In turn, that may provide pointers as to which groups may have been likely to suffer higher adverse mental health and wellbeing outcomes and so how lockdown policies may be better targeted and nuanced.

⁵ <https://www.abs.gov.au/statistics/health/health-conditions-and-risks/national-health-survey-first-results/latest-release#mental-and-behavioural-conditions>. Catalogue 436405001D002-20172018. Released 12 December 2018.

⁶ Mental health in Australia: a quick guide, Lauren Cook, Social Policy Section, Research Paper Series, 2018-19, Parliamentary Library, Parliament of Australia

⁷ Australian Institute of Health and Welfare 2020. Mental Health services in Australia, Canberra: AIHW. <https://www.aihw.gov.au/reports/mental-health-services/mental-health-services-in-australia>

⁸ IMF Working Paper [The Distributional Impact of Recessions: The Global Financial Crisis and the Pandemic Recession WP/20/96](https://www.imf.org/en/Publications/WP/Issues/2020/06/01/the-distributional-impact-of-recessions-the-global-financial-crisis-and-the-pandemic-recession-wp/20/96), IpeI Shibata, Washington USA June 2020

In Australia this type of analysis has been reported in a major longitudinal study of 1,296 adults which began in March 2020⁹. Importantly, and this may reflect Australia's very good results in COVID-19 suppression, the statistically significant impacts on mental health and wellbeing reported came via the policy responses rather than the exposure to, or fear of, COVID-19 infection.

The authors noted:

"We found the social, work and financial disruptions induced by the acute phase of the COVID-19 pandemic were associated with considerable impairments in community mental health in Australian adults. In contrast, exposure to COVID-19 was not found to predict mental health in this cohort."

"... at a population level, changes to social and work functioning were more strongly associated with decrements in mental health than amount of disease contact. This finding is consistent with a recent UK-based finding that their citizens were more concerned about how societal changes will impact their psychological and financial wellbeing, than becoming unwell with the virus."

"This finding is also consistent with emergent work indication that loneliness is playing a central role in the observed mental health impacts of the COVID-19 pandemic."

"... the effects of financial distress and overall work and social impairment (*on mental health impairment*) were independent and not better accounted for by demographic or other background factors. Job loss however did not have a significant independent association with mental health after accounting for financial distress and other covariates. ...In contrast, the regression analyses found no significant unique association between exposure to COVID-19 and depression or anxiety symptoms, or wellbeing."

"... within these regression models, we also found that younger age, identifying as female and having at least one current mental health disorder were each independently associated with higher levels of depression and anxiety, and decreased wellbeing."

These findings suggest policy actions such as lockdowns in the hospitality sector, and more generally, need to be carefully considered and managed as they will impact a large number of:

- businesses, many of which are small and will have owners and managers already under financial stress due to underlying business conditions which have been exacerbated by COVID-19 impacts;
- employees, with many of the cohorts identified in recent studies as already being at relatively high risk of financial and mental stress, i.e. casual and part time, young and female; and
- consumers, for many of which social interaction at hospitality venues may be an important contributor to mental health and wellbeing.

Aside from the personal non-financial distress these policies may incur, the already high financial and broader economic costs of mental ill health in South Australia suggest even small increases in its incidence would have quite large net financial impacts for individuals, households, businesses and government. We note that Beyond Blue and other organisations have reported increased calls for mental health assistance through the course of 2020.

In that regard, the Dawel et al study⁹ notes that 20.3 per cent and 16.4 per cent of its sample scored above the clinical cut-offs for their depression and anxiety measures respectively. These scores were respectively around 4 times and 2.5 times the proportions reported in other representative community-based samples.

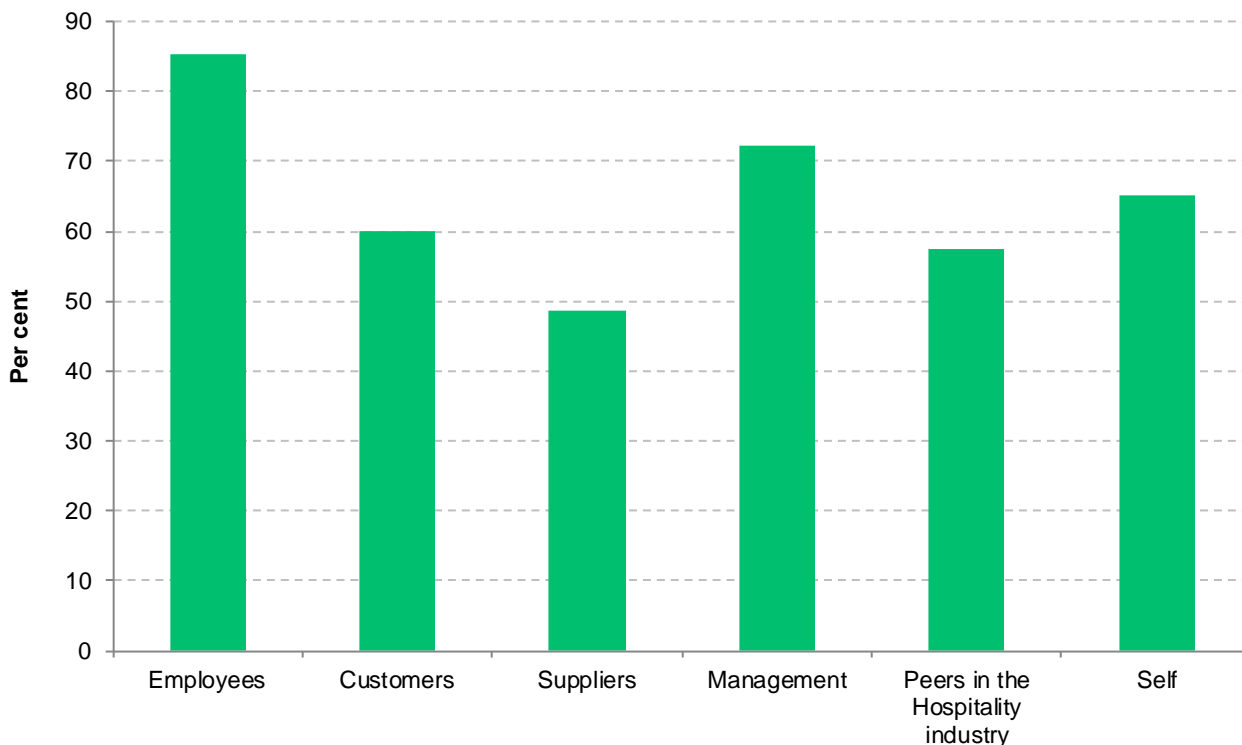
The respondents to the AHA (SA) survey reported high levels of increased awareness of mental health concerns as a result of the lockdown. While this increase was reported across a number of different types of contact groups, employees and management were reported as being most substantially affected. 85.2 per cent of respondents reported an increased awareness of mental health concerns for employees and 72.1 per cent reported an increased awareness for management while 65.2 per cent reported increased concerns for their own mental health.

This type of response is quite consistent with the Dawel study noted above in Australia and studies it referenced. This is where mental health concerns related to COVID-19 were not necessarily related to the virus's potential health effects on the individual but more how the policy responses were affecting issues such as current employment; the outlook for employment and the individual's financial situation and social isolation.

⁹ Dawel A, Shou Y, Smithson M, Cherbuin N, Banfield M, Calear AL, Farrer LM, Gray D, Gulliver A, Housen T, MCCallum SM, Morse AR, Murray K, Newman E, Rodney Harris RM and Batterham PJ (2020) The Effect of COVID-19 on Mental Health and Wellbeing in a Representative Sample of Australian Adults. *Frontiers in Psychiatry* 11:579985, doi: 10.3389/fpsy.2020.579985

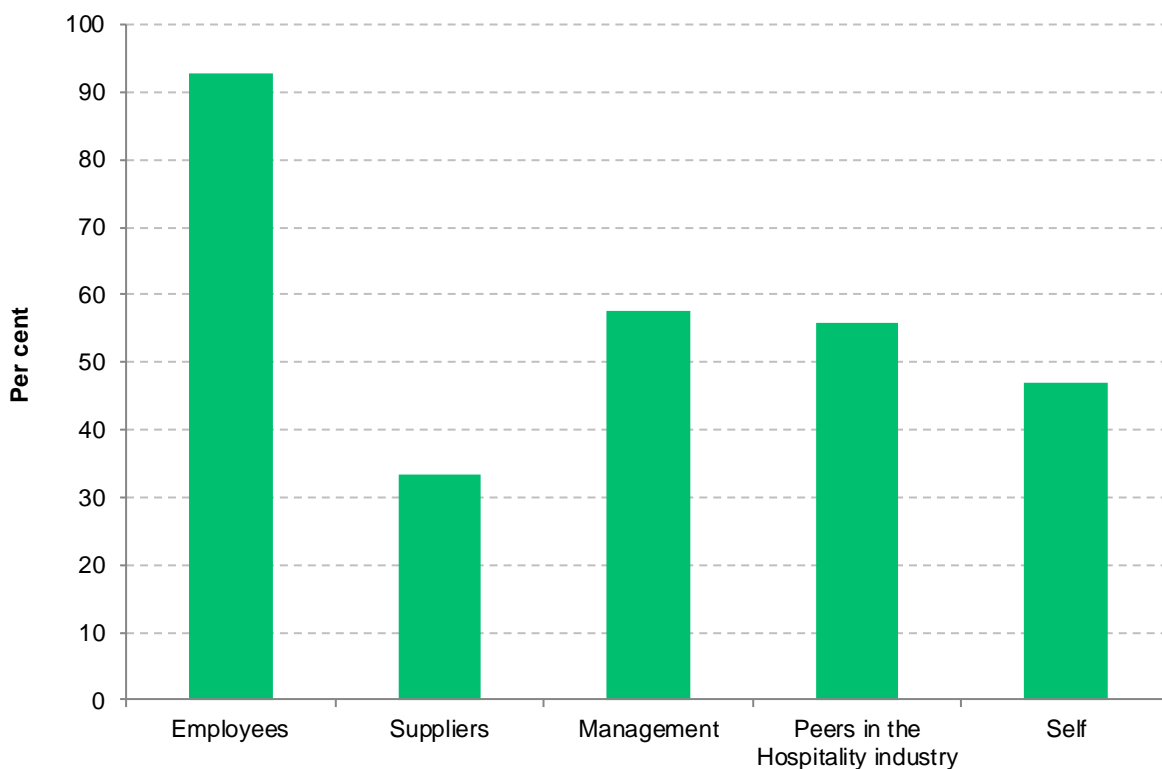
Related to the mental health issues are changing expectations about COVID-19 and the impacts on employees and businesses of the policy responses such as how the lockdown can impact peoples' livelihoods. This is likely to be an issue across many occupations and industry sectors as expectations change about the willingness and ability to effectively and safely enact restrictions in various workplaces or remotely; to use public and private transport; adaptations to social isolation; and new requirements regarding recreation, entertainment, tourism, business travel etc.

Figure 7 Increased mental health concerns



Source: Survey of South Australian hotel industry, December 2020.

Figure 8 Willingness to remain in hospitality industry



Source: Survey of South Australian hotel industry, December 2020.

A number of industries such as retailing, medicine, construction and education have been able to adapt with more or less success to the COVID-19 social distancing policy requirements.

In addition, many policy makers, the media and commentators, and influencers can often work remotely. It is much more difficult, however, to operate and manage businesses that require direct personal interactions with customers and fellow workers. This is particularly when policy responses can have an immediate and adverse impact on employment and business prospects.

This was reflected, as shown in Figure 8, in 93 per cent of respondents reporting they believed the lockdown had adversely affected employee's willingness to remain in the hospitality industry. Over 55 per cent of respondents reported the attitudes of management and peers had been similarly affected.

Conclusion

The authors have indicated that the industry case study was undertaken to make a contribution to policy considerations with respect to Covid-19, the lockdowns and health responses designed to stem the tide of the pandemic and what we have learnt to date. The accommodation and hotel sector acknowledges the pre-eminence of health policy in response to the pandemic, and its success to date in South Australia, while also arguing that industry has a positive and supportive role to play.

We draw some general conclusions from the experience of the recent lockdown and suggestions for future consideration.

- a) Prior to the announcement of any future lockdown or pandemic measures that are likely to affect the hotel and hospitality industries consultation with the AHA (SA) in a timely manner would provide superior outcomes for all. The consultation should include:
 1. Reasons for the proposed measures;
 2. Type and coverage by industry and geography (see b below) ;
 3. Timing of implementation and duration (see c below);
 4. What options/alternatives may be available for discussion;
 5. Conditions that may result in faster rollback or extension of the measures;
 6. Communication processes; and
 7. What, if any, compensation is being considered.

In addition, other industries would presumably support this type of approach.
- b) We consider a more nuanced approach to sector and geographical measures, coverage and timing is feasible to minimise the adverse impacts while ensuring that the proposed health benefits are still met. For example, there would appear to have been no justification to close country pubs and venues on 19 November 2020 and ban weddings and funerals when there were no indications of country community infections and no country medi-hotels. Other States seem to be able to handle a more regional approach.
- c) Timely, albeit limited but advanced warning is critical to minimise disruption and wastage that also allows food stocks to be sent elsewhere to the benefit of the community.
- d) It would be helpful to host discussions with the AHA (SA) to investigate and agree what state-wide measures can be adopted that would prepare the sector to operate in the event of another outbreak while meeting the health objectives e.g. the deployment and monitoring of attendance utilising the QR app now and potential for hoteliers in future to restrict entry by unvaccinated clients and not have to employ unvaccinated staff. Such an approach would presumably allow hotels to admit a "quarantined" set of people in. This might assist the smaller bars and hotels compared with a blanket restriction via space per person. There may also be consideration of the operation of gaming facilities in the event of a lockdown as this activity currently must provide for social distancing and staff time to clean machines (that rely on hand activation with the potential to readily transmit the virus).

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Economic impacts of stimulus for the Accommodation and Food Services Sector

Summary report to the
Australian Hotels
Association

29 January 2021

NOTICE

Ernst & Young was engaged on the instructions of the Australian Hotels Association ("Client", "AHA") to provide a summary of previous analysis of the potential economic impacts of selected stimulus measures on the Accommodation and Food Services sector in Australia during the incidence of the COVID-19 downturn ("Project"), including two additional scenarios based on pre-existing data and assumptions, in accordance with the engagement agreement dated 20 January 2021.

The results of Ernst & Young's work, including the assumptions and qualifications made in preparing the report, are set out in Ernst & Young's report dated 29 January ("Report"), which provides a summary of our previous report dated 20 June 2020. The Report should be read in its entirety including the transmittal letter, the applicable scope of the work and any limitations. A reference to the Report includes any part of the Report.

Ernst & Young prepared the Report for the benefit of the Client and considered only the interests of the Client. Ernst & Young was not engaged to act, and has not acted, as advisor to any other party. Accordingly, Ernst & Young makes no representations as to the appropriateness, accuracy or completeness of the Report for any other party's purposes.

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1. Introduction

In June 2020, Ernst & Young (EY) was engaged by the Australian Hotels Association (AHA) to provide an assessment of the potential economic impacts of select stimulus measures on the Accommodation and Food Services sector in Australia during the COVID-19 global pandemic. The results of EY's work, including the assumptions and qualifications made in preparing the report, are set out in EY's report dated 20 July 2020. The work commenced on 10 June 2020 and was completed on 20 July 2020.

Initially, the Australian Hotels Association engaged EY to assess the potential economic impacts of selected stimulus measures aimed at supporting the Accommodation and Food Services (AFS) sector during the COVID-19 economic downturn.

Two potential options to support the sector through the crisis were proposed by AHA:

- ▶ Suspending fringe benefits tax (FBT) on meal and beverage entertainment and accommodation expenses for three years.
- ▶ Extending the JobKeeper support program for a period of six-months, from October 2020 to March 2021.

In January 2020, Ernst & Young was reengaged by AHA to provide a summary of the June 2020 report, providing an updated summary of the first option specifically **excluding alcohol** from the exception, including the costs and benefits in the AFS sector and wider economy resulting from a suspension of the fringe benefits tax on meal and beverage entertainment.

2. A brief profile of Australia’s accommodation and food services sector

Australia’s AFS sector comprises a wide range of businesses, including accommodation services such as hotels, motels and serviced apartments, as well as restaurants, cafés, takeaways, pubs, bars and clubs. The sector is large and has a strong impact on the Australian economy – in the year ending June 2019, the AFS industry contributed around \$43 billion of gross value added.¹

With almost 100,000 establishments and 79,000 enterprises (Table 1), the industry acts as a key source of employment for thousands of people in Australia. In fact, over 900,000 people were directly employed by the sector as at 30 June 2020. This included about 800,000 people working in food and beverage services and a further 100,000 people within the accommodation industry.²

Notable occupations include restaurant and hotel managers, bar attendants, baristas, casual waiters, sales assistants and receptionists. As seen in Table 1, many of Australia’s AFS businesses are takeaway services, cafes and coffee shops. This is also reflected in the high proportion of workers in fast food establishments and restaurants. Many people working in takeaway stores and restaurants are younger workers, who are often casual employees. This story also rings true for the rest of the industry, with a high proportion of the AFS workforce consisting of casual staff³.

Table 1: AFS Businesses in Australia

| | Hotels and resorts | Pubs, bars and nightclubs | Social clubs | Restaurants | Cafes and coffee Shops | Fast food and takeaway food | Total |
|----------------|--------------------|---------------------------|--------------|-------------|------------------------|-----------------------------|--------|
| Establishments | 1,673 | 8,578 | 5,753 | 22,198 | 23,689 | 36,666 | 98,557 |
| Enterprises | 618 | 6,182 | 4,846 | 20,906 | 21,262 | 25,527 | 79,341 |

Source: IBISWorld, 2020

The AHA is made up of over 5,000 members⁴ and the majority of these members are located in New South Wales and Victoria. Much of the food and beverages industry is highly fragmented and consists of smaller owner-operated businesses.

The industry was particularly affected by the restrictions implemented due to COVID-19. The shutdowns in the economy, border closures and social distancing restrictions prompted a number of AFS businesses to temporarily close, both in response to trading conditions and as a mandated requirement.

¹ Source: Australian Bureau of Statistics, 5204.0 - Australian System of National Accounts 2018-19, 'Table 5: Gross Value Added (GVA) by Industry', <https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5249.0Main+Features12018-19?OpenDocument>. Accessed 30/06/20

² Source: Australian Industry and Skills Committee, 2020, 'Hospitality', <https://nationalindustryinsights.aisc.net.au/industries/tourism-travel-and-hospitality/hospitality>. Accessed 30/06/20

³ TableBuilder query. 2016 Census - Employment, Income and Education dataset. Source: <https://www.abs.gov.au/websitedbs/D3310114.nsf/Home/Census?OpenDocument&ref=topBar>

⁴ Source: <https://aha.org.au/>

ABS data⁵ from June 2020 highlights the stark impact of the crisis on the AFS sector:

- ▶ 84% of businesses reported decreased revenue, with 53% reporting revenue decreases of 50% or greater. This was the highest proportion of any industry to report revenue decreases in this range.
- ▶ 73% of businesses changed their operating hours. This was the highest of any industry and over double the economy wide average of 31%.
- ▶ 54% of businesses changed the types and range of products and services offered, again this was the highest of any industry and over double the economy wide average of 22%.
- ▶ 15% of businesses reported that their operations could be supported by less than a month through currently available cash at hand, once again the highest of any industry.

2.1 Fringe Benefits and the AFS sector

AHA identified a potential government measure to manage the economic downturn and reignite economic activity in the AFS sector. This measure involved a temporary suspension of Fringe Benefit Tax (FBT) on accommodation and meal entertainment.

A fringe benefit is defined by the Australian Taxation Office as the provision of a benefit to an employee in a form other than salary or wages,⁶ such as businesses paying for meals and accommodation etc. which are classed as entertainment.

This form of meal entertainment comprises approximately 4.4% of the total taxable value of fringe benefits each year based on data from 2009-2018 and replicated in Table 2. Table 2 shows the taxable value of meal entertainment and total fringe benefits over this period, representing \$397 million in 2017/18 out of a total fringe benefits taxable amount of \$8,356 million.

Although meal entertainment forms a small portion of the total fringe benefits taxable value, expenditure on business meal entertainment for their employees contributes a significant amount to the sector's revenue as shown in Table 2. The taxation treatment of meal entertainment is therefore an important consideration for the industry.

Appendix B provides an additional overview of 2016-17 gross taxable meal entertainment value for each industry.

| | Total fringe benefits taxable amount | Meal entertainment - Gross taxable value |
|---------|--------------------------------------|--|
| 2009/10 | \$7,625 | \$339 |
| 2010/11 | \$7,951 | \$386 |
| 2011/12 | \$8,050 | \$398 |
| 2012/13 | \$8,677 | \$371 |
| 2013/14 | \$9,117 | \$359 |
| 2014/15 | \$9,155 | \$368 |
| 2015/16 | \$9,146 | \$375 |
| 2016/17 | \$8,767 | \$394 |
| 2017/18 | \$8,356 | \$397 |

⁵ Source: Australian Bureau of Statistics, 5676.0.55.003 - Business Indicators, Business Impacts of COVID-19, June 2020 - <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5676.0.55.003June%202020?OpenDocument>. Accessed 25/6/2020

⁶ Australian Taxation Office, [https://www.ato.gov.au/General/fringe-benefits-tax-\(fbt\)/](https://www.ato.gov.au/General/fringe-benefits-tax-(fbt)/). Accessed 19/06/2020.

⁷ Taxation statistics, 2009-2018, <https://data.gov.au/data/dataset/taxation-statistics-2016-17/resource/ddf6b851-1a59-4b4f-a2f1-802d26b26db2>. Accessed 19/06/2020.

3. Analysis of the FBT suspension

AHA proposed one primary option which could be implemented by the Commonwealth Government to provide support for the sector – a temporary suspension of FBT for meal, beverage and accommodation expenses. This option aimed to provide short to medium term stimulus as both the domestic economy and international tourism rebounds.

Two scenarios were considered for the suspension of FBT, detailed below. In each instance, **alcohol is excluded** from the FBT exemptions:

- ▶ **Scenario 1:** examines a three-year suspension of FBT expenses prescribed for all businesses in the sector over the period 2020/21 to 2022/23, with alcohol excluded from the FBT exemption.
- ▶ **Scenario 2:** examines a three-year suspension of FBT expenses prescribed for small to medium enterprises in the sector over the period 2020/21 to 2022/23, again with alcohol excluded from the FBT exemption.

What impacts are examined?

The support option identified involved direct costs to government, occurring through reduced FBT revenues. We assumed that the direct costs of the sector support option would be met through the raising of debt, consistent with announcements by the Government on how existing stimulus measures were being financed. Under these financing arrangements, there is no equivalent reduction in government expenditure elsewhere in the economy or increase in aggregate tax takings factored in the analysis.

For each scenario we estimated the direct cost to government of the program, the direct impact on sector, and the economy wide impacts. These costs are summarised in Table 3.

An industry specific model was developed for this exercise, and calibrated to industry information provided by AHA, data from the Australian Taxation Office and the Australian Bureau of Statistics. A detailed description of the methodology to assess the impacts is provided in Appendix A.

Table 3: Summary of potential direct costs to Government by scenario, \$m

| Year | Scenario 1 | Scenario 2 |
|---------|------------|------------|
| 2020/21 | \$167 | \$113 |
| 2021/22 | \$152 | \$99 |
| 2022/23 | \$154 | \$100 |

Source: EY estimates

3.1 Estimated impacts of support options

Each scenario shows economic returns which are greater than the overall cost to Government.

- ▶ Each of the scenarios presented have key timing impacts. The economic returns are higher in the first year of commencement (FY21), before decreasing in the remaining two years (FY22 and FY23). This reflects a likely moderated response by businesses due to social distancing concerns and a general cautiousness on cost control.

- ▶ For Scenario 2, limiting the exemption to small and medium enterprises has a higher economic return for the costs incurred by government, reflecting the lower rate of company tax paid by Small and Medium Enterprises (SMEs).⁸

Table 4 summarises the results of each of the two scenarios in terms of the potential increase in AFS activity, the increase in GDP, the increase in employment and the increase in GDP per dollar of cost to government. As demonstrated in Table 4, the increase in GDP per dollar of cost to government is as high as \$3.26 for Scenario 1, and \$3.81 for Scenario 2.

| Table 4: Scenario summary potential results by financial year | | | |
|---|---------|------------|------------|
| | | Scenario 1 | Scenario 2 |
| Impact on sector output, \$m | 2020/21 | \$125 | \$95 |
| | 2021/22 | \$307 | \$232 |
| | 2022/23 | \$310 | \$235 |
| Impact on GDP, \$m | 2020/21 | \$315 | \$239 |
| | 2021/22 | \$497 | \$377 |
| | 2022/23 | \$500 | \$379 |
| Impact on employment, FTE | 2020/21 | 2,249 | 1,703 |
| | 2021/22 | 2,462 | 1,865 |
| | 2022/23 | 2,474 | 1,874 |
| GDP per dollar of cost to government | 2020/21 | \$1.89 | \$2.11 |
| | 2021/22 | \$3.26 | \$3.81 |
| | 2022/23 | \$3.25 | \$3.79 |

Source: EY estimates

⁸ Small and Medium Enterprise (SME) is defined as businesses with under \$50 million annual turnover as per the Prosperity Advisers report "FBT on Meal Entertainment Hospitality Reignition Study for the AHA".

Appendix A Approach to scenario design

The first step in estimating the economy wide impacts was determining the direct impact of each of the measures. A range of data sources and models were drawn upon to develop first round estimates of the potential increase in output for the AFS sector as a result of FBT exemptions. While each scenario drew on similar input data, the specifics of each scenario called for tailored estimation approaches. Each of the estimation methodologies are outlined below.

Once the direct impacts of each scenario were estimated, the second step was to develop economy wide estimates of the impacts using EY's in-house computable general equilibrium (CGE) model, the EYGEM model. EYGEM is a large scale, dynamic, multi-region, multi-commodity CGE model of the Australian and world economy. CGE models are used extensively by (for example) the Australian Government to assess the economy-wide impacts of major policy changes and economic developments. A detailed description of the EYGEM model is presented in Appendix C.

The direct outputs of each of the estimation exercises described below were used to calibrate a series of economic 'shocks' that are applied to the EYGEM model. The results of these shocks are described in Section 1.4.

Each of the scenarios called for a three-year suspension of fringe benefits tax on meal and beverage entertainment and accommodation expenses from financial year 2020/21 to financial year 2022/23. Differentiating the scenarios is the scope of the suspension, with Scenario 1 calling for the suspension to be applied to all businesses regardless of size, while Scenario 2 called for the suspension to be restricted to SME only. In this analysis alcohol is excluded from the temporary exemption.

Limited publicly available data exists on the proportion of alcohol in total meal and beverage entertainment fringe benefit tax payable. Three estimates were considered, using three different sources:

1. Industry estimates suggest approximately 50% of meal and beverage entertainment FBT payable is alcohol purchases.
2. Historical ABS data⁹ suggests approximately 25.4% of café and restaurant income originates from the sale of alcohol.
3. ABS Australian National Accounts Input-Output tables¹⁰ indicate approximately 41.5% of industry consumption of food and beverage services is derived from alcohol.

Given the uncertainty associated with the composition of meal expenditure for FBT, the central estimate of 41.5% is adopted.

Estimation of the direct industry response, the cost to Government, and the economy wide impact followed a three step process where we first estimated the existing and forward level of FBT collection, second we estimated the direct behavioural response to the effective tax reduction, and third we applied the increased industry output to the EYGEM model. The detailed approach is as follows:

⁹ Source: 8655.0 Cafes, Restaurants and Catering Services, Australia, Table 4, Australia Bureau of Statistics, 2006-07. Available at <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8655.02006-07?OpenDocument>, accessed 28/01/2021.

¹⁰ Source: 5215.0 Australian National Accounts: Input-Output Tables (Product Details), Australian Bureau of Statistics, 2017-18. Available at: <https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-input-output-tables-product-details/latest-release>, accessed 29/01/2021.

1. The most recent taxation statistics available from the Australian Taxation Office¹¹ provided the fringe benefits tax paid on meal entertainment, at \$387,185,184 for the financial year 2017/18.
2. The most recent national accounts from the Australian Bureau of Statistics¹² provided data on total fringe benefits tax collections on a quarterly basis to March 2020. EY calculations based on this data indicated an increase in total FBT collections of 2.54% from 2017/18 to 2019/20. This increase in FBT takings was used to estimate meal entertainment and accommodation FBT in 2019/20 of \$397,058,203.
3. Weekly revenue data provided by AHA for AusVenueCo¹³ shows the level of revenue decline experienced to June 2020. This data was used to calibrate a projection of meal entertainment and accommodation FBT takings to 2022/23, suggesting reductions in these FBT takings from 2018/19 of 23% in 2019/20, 26% in 2020/21, 11% in 2021/22, and 0% in 2022/23. This FBT profile was used as the base for calculations in Scenario 1 in combination with the non-alcohol percentage described above.
4. The report 'FBT on Meal Entertainment Hospitality Reignition Study for the AHA' dated 29 May 2020 by Prosperity Advisers QLD indicated that 75.74% of meal entertainment and accommodation FBT is collected from SMEs. This proportion was used to reduce the base of FBT takings calculated previously and provides the FBT base for Scenario 2.
5. Own price elasticities for the categories "Food Away from Home and Alcohol" and "Full Service Restaurant" were drawn from Okrent and Alston¹⁴, at 0.71 and 1.96 respectively. Noting the wide range in these two elasticities and that the nature of the FBT expenses under investigation is likely to include a combination of these categories we chose a midpoint of 1.335.
6. The own price elasticity is applied to reduction in the effective tax collection calculated above. We made the assumption that over the short-term business is likely to be less responsive to pure price signals than usual, and to have a stronger focus on the real and perceived safety risks of staff gatherings, and so for financial year 2020/21 we halved the own price elasticities estimated above.
7. The resulting profile of industry output increase was then used as an output shock for the accommodation and food services sector in the EYGEM model.
8. The Prosperity Advisers QLD report (refer 4. above) provided estimates of the total direct (that is, before behavioural changes) loss of revenue to government as a result of suspension of FBT, with a total loss of \$1.12 for every \$1 of FBT suspension in Scenario 1, and a total loss of \$1.02 for every \$1 of FBT suspension in Scenario 2, reflecting differences in the rate of corporate tax applied for each entity. Additionally, the report indicated that each additional dollar of expenditure spent on meal entertainment results in an increase in tax revenue of \$0.34. These ratios were applied to the reduced FBT base and the estimated increase in AFS output respectively to calculate the total cost to government.

¹¹ Source - Taxation statistics 2016-17 Fringe benefits tax: Selected items by industry and taxable status, 2017-18 FBT return year. Available at https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2016-17/?page=18#Fringe_benefits_tax, last accessed 26/6/2020. Note that while this publication is primarily for financial year 2016/17, selected data including on Fringe Benefits Tax is provided for financial year 2017/18.

¹² Source - 5206.0 Australian National Accounts: National Income, Expenditure and Product, Table 22. Available at <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5206.0Mar%202020?OpenDocument>, last accessed 26/6/2020.

¹³ AusVenueCo operate 170 pubs, bars and taverns across Australia in all states and territories with the exception of Tasmania.

¹⁴ Okrent, Abigail M., and Julian M. Alston. The Demand for Disaggregated Food-Away-From-Home and Food-at-Home Products in the United States, ERR-139, U.S. Department of Agriculture, Economic Research Service, August 2012. Available at https://www.ers.usda.gov/webdocs/publications/45003/30438_err139.pdf?v=5049.9, last accessed 26/6/2020

On the basis of the process above, we estimated a direct potential increase in output in the AFS sector as described in Table 5 below.

| Table 5: Potential increase in AFS activity, \$m | | | |
|--|------------|--|------------|
| | Scenario 1 | | Scenario 2 |
| 2020/21 | \$125 | | \$95 |
| 2021/22 | \$307 | | \$232 |
| 2022/23 | \$310 | | \$235 |

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Appendix B Meal entertainment gross taxable value by industry

Table 6 below shows the gross taxable value of fringe benefits tax - meal entertainment by 1-digit ANZSIC industry¹⁵. This is a representation of the value of fringe benefits provided to employees in each industry, in the form of meal entertainment.

Table 6: Meal entertainment gross taxable value by industry, \$

| Industry | Meal entertainment - Gross taxable value (\$) |
|--|---|
| Australian Government Departments | 5,314,375 |
| All Industries | 10,312,648 |
| A. Agriculture, Forestry and Fishing | 2,421,318 |
| B. Mining | 6,581,805 |
| C. Manufacturing | 31,755,096 |
| D. Electricity, Gas, Water and Waste Services | 5,881,107 |
| E. Construction | 25,476,347 |
| F. Wholesale Trade | 44,430,878 |
| G. Retail Trade | 11,450,099 |
| H. Accommodation and Food Services | 3,302,380 |
| I. Transport, Postal and Warehousing | 9,546,945 |
| J. Information Media and Telecommunications | 16,729,807 |
| K. Financial and Insurance Services | 44,156,187 |
| L. Rental, Hiring and Real Estate Services | 15,780,632 |
| M. Professional, Scientific and Technical Services | 101,467,326 |
| N. Administrative and Support Services | 17,594,412 |
| O. Public Administration and Safety | 5,504,813 |
| P. Education and Training | 12,013,397 |
| Q. Health Care and Social Assistance | 14,229,104 |
| R. Arts and Recreation Services | 3,759,024 |
| S. Other Services | 9,099,341 |
| U. Other | 690,791 |

¹⁵ Source: Taxation statistics, Fringe Benefits Tax, 2016-2017, Snapshot Table 2 - <https://data.gov.au/data/dataset/taxation-statistics-2016-17/resource/3c11cbfa-5a11-4d1e-8979-8fce1ff2c4d3>. Accessed 19/06/2020.

Appendix C EYGEM Model

Economic impact analysis measures the net impact of changes on an economy. It is used to measure the net change in response to a given event (e.g. such as the loss of an activity, or increased expenditure in a particular sector). The key economic metrics are expressed in terms of changes to gross domestic product, employment and other macro-economic indicators.

The EYGEM model is a large scale, dynamic, multi-region, multi-commodity CGE model of the world economy. The EYGEM model enjoys significant flexibility both at the regional and sectoral level, including the capability to individually identify subregions of Australia, including (but not limited to) at the SA4 or the LGA level as separate economic regions. This capability to identify subnational regions is also readily extended to other international regions.

EYGEM draws on the global CGE modelling framework developed by the Global Trade Analysis Project (GTAP) based at Purdue University in the United States. Their model is described in Hertel (1997), with its antecedent being the Industry Commission's Salter model (Jomini et al 1991). The GTAP model was greatly enhanced by the Australian Bureau of Agriculture and Resource Economics (ABARE) to incorporate dynamic capabilities. The MEGABARE model (ABARE 1996) and its successor, the Global Trade and Environment Model (Pant 2002), were the fruits of ABARE's efforts.

Our model is implemented in modern data science frameworks, including Python and Pandas, and has a user-friendly Excel interface. Our frameworks are specifically designed to improve auditing a paper trail in modelling exercises, reduce the risk of modelling error, and allow for (for example) systematic sensitivity analysis.

Overview of the modelling framework

EYGEM is based on a substantial body of accepted microeconomic theory. Key assumptions underpinning the model are:

- ▶ The model contains a 'regional consumer' that receives all income from factor payments (labour, capital, land and natural resources), taxes and net foreign income from borrowing (lending).
- ▶ Income is allocated across household consumption, government consumption and savings so as to maximise a Cobb-Douglas utility function.
- ▶ Household consumption for composite goods is determined by minimising expenditure via a CDE (Constant Differences of Elasticities) expenditure function. For most regions, households can source consumption goods only from domestic and imported sources. In the Australian regions, households can also source goods from interstate. In all cases, the choice of commodities by source is determined by a CRESH (Constant Ratios of Elasticities Substitution, Homothetic) utility function.
- ▶ Government consumption for composite goods, and goods from different sources (domestic, imported and interstate), is determined by maximising utility via a Cobb-Douglas utility function.
- ▶ All savings generated in each region are used to purchase bonds whose price movements reflect movements in the price of creating capital.
- ▶ Producers supply goods by combining aggregate intermediate inputs and primary factors in fixed proportions (the Leontief assumption). Composite intermediate inputs are also combined in fixed proportions, whereas individual primary factors are combined using a CES production function.

- ▶ Producers are cost minimisers, and in doing so choose between domestic, imported and interstate intermediate inputs via a CRESH production function.
- ▶ The supply of labour is positively influenced by movements in the real wage rate governed by an elasticity of supply. This is most often assumed to be 0.15 for central case scenarios, and 0.3 for high side scenarios, depending on the employment market conditions for the region under consideration.
- ▶ Investment takes place in a global market and allows for different regions to have different rates of return that reflect different risk profiles and policy impediments to investment. A global investor ranks countries as investment destinations based on two factors: global investment and rates of return in a given region compared with global rates of return.
- ▶ Once aggregate investment is determined in each region, the regional investor constructs capital goods by combining composite investment goods in fixed proportions, and minimises costs by choosing between domestic, imported and interstate sources for these goods via a CRESH production function.
- ▶ Prices are determined via market-clearing conditions that require sectoral output (supply) to equal the amount sold (demand) to final users (households and government), intermediate users (firms and investors), foreigners (international exports), and other Australian regions (interstate exports).
- ▶ For internationally-traded goods (imports and exports), the Armington assumption is applied whereby the same goods produced in different countries are treated as imperfect substitutes. But in relative terms imported goods from different regions are treated as closer substitutes than domestically-produced goods and imported composites. Goods traded interstate within the Australian regions are assumed to be closer substitutes again.
- ▶ The model accounts for greenhouse gas emissions from fossil fuel combustion. Taxes can be applied to emissions, which are converted to good-specific sales taxes that impact on demand. Emission quotas can be set by region and these can be traded, at a value equal to the carbon tax avoided, where a region's emissions fall below or exceed their quota.

Dynamics of EYGEM

EYGEM is a recursive dynamic model that solves year-on-year over a specified timeframe. This has two main advantages. First, dynamics allows a richer specification of the model in that issues such as debt accumulation (which facilitates the ability to model international capital flows) and labour market dynamics are able to be modelled in a more sophisticated manner. Second, scenario analysis using a model such as EYGEM can be greatly enhanced by the ability to alter the baseline, or reference case, to account for key developments or uncertainties.

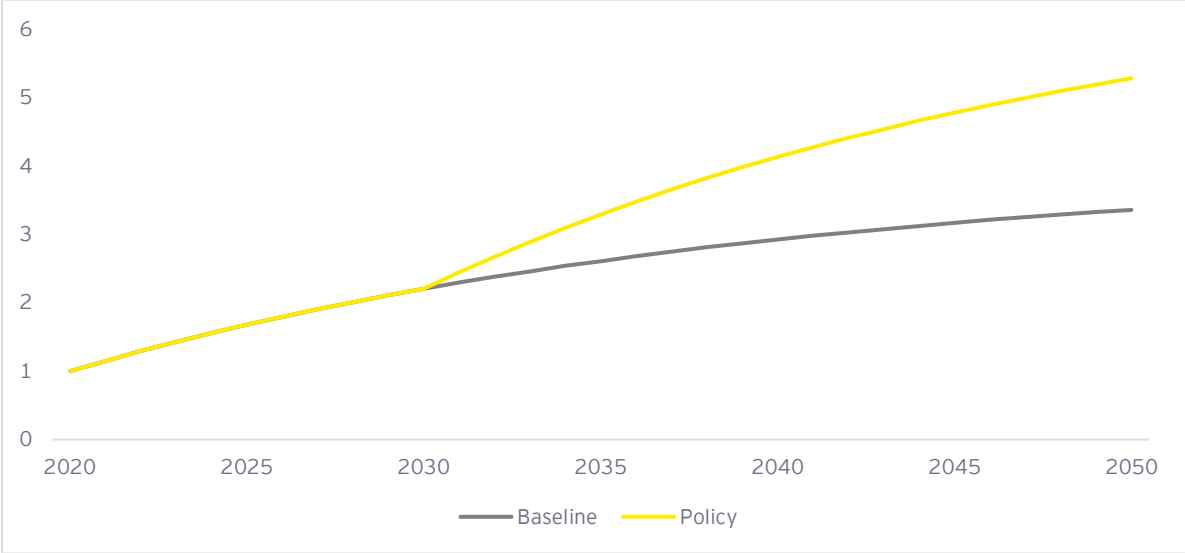
The model is then used to project the relationship between variables under different scenarios, or states, over a pre-defined period. This is illustrated in Figure 1, where a reference case or 'baseline' forms the basis of the analysis undertaken using EYGEM. The model is solved year-by-year from time 0 which reflects the base year of the model (2020) to a predetermined end year (in this case 2050).

The 'Variable' represented in the figure could be one of the hundreds or thousands represented in the model ranging from macroeconomic indicators such as real GDP to sectoral variables such as the exports of iron and steel from Australia. In the figure, the percentage changed in the variables have been converted to an index (= 1.0 in 2020) and is projected to increase by 2050.

Set against this baseline is, in Figure 1, a 'Policy' scenario. This scenario represents the impacts of a policy change or different assumptions about economic development that results in a new projection of the path of the variable over the simulation time period. The impacts of the policy/assumption change are reflected in the differences in the variable at time T. It is important to

note that the differences between the baseline and policy scenario are tracked over the entire timeframe of the simulation.

Figure 1: Dynamic simulation using EYGEM



Detailed interdependencies

The model is underpinned by a detailed, global database. The model’s database is ‘benchmarked’ or ‘calibrated’ so that initial equilibrium solution exists that replicates actual sectoral production, consumption, trade and factor usage. It contains 141 regions and 64 sectors for a base year of 2007, and is the benchmark dataset for applied, global general equilibrium modelling. This database produced by the Global Trade Analysis Project (GTAP) at Purdue University is the most detailed and comprehensive database of its type in the world. Used by some 700 researchers globally, the database is a truly international, collaborative research effort that is fully documented and transparent.

The EYGEM model is primarily based on input-output or social accounting matrices, as a means of describing how economies are linked through production, consumption, trade and investment flows. For example, the model considers:

- ▶ direct linkages between industries and countries through purchases and sales of each other’s goods and services; and
- ▶ indirect linkages through mechanisms such as the collective competition for available resources, such as labour, that operates in an economy-wide or global context.

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