19 June 2020

Hon Josh Frydenberg MP
Treasurer
Parliament House
Canberra ACT 2600

Dear Treasurer,

Submission re JobKeeper Review

1 Key recommendations

A specific recovery and stimulus package should be provided for the hotel industry, including the broader hospitality and tourism sectors.

- The Government announced JobKeeper as a "wage subsidy"
- But for about the first 12 weeks of the scheme, the Government ordered all hotels to shut down - thus not enabling hotels to use JobKeeper as a wage subsidy (unlike other sectors that the Government allowed to remain open)
- Instead, on behalf of the Government, hotels operated as a "virtual Centrelink" for about 12 weeks
- Not only was there no real benefit for hotels, supporting the Government to keep people out of the queue at Centrelink caused hotels to accrue annual leave, sick leave obligations, with no work performed
- The AHA argues that it is this 12 week shut down period that should be added to the end of the scheme, so as hotels can have the full 6 months of JobKeeper as a wage subsidy that other sectors have enjoyed

Recommendation:
Extend JobKeeper for the hotel and broader hospitality, accommodation and tourism sector:
- To at least 31 December 2020 and beyond if adverse conditions remain, and
- Waive the eligibility thresholds (i.e. either 30% or 50% depending on Gross Revenue)

Benefits for government

- Keeps people out of Centrelink queues, thus ensuring better mental health outcomes
- Low marginal cost after tax ($304) between JobKeeper ($1,308) and JobSeeker ($1,004)
- Helps businesses stay afloat until restrictions are lifted and trade increase
- The AHA and TAA are having some data analysed by EY and will be able to provide a cost/benefit analysis in early July.

2 Why should hotels have JobKeeper extended?

Hotels and the broader hospitality, accommodation and tourism industries were shut down by Governments to save Australian lives. The sector understands and agrees with the reasons that needed to happen.

However, there is no doubt that the sector has borne the brunt of the financial and personal pain, which is still ongoing. We note that the "hospitality, accommodation and tourism" sector:

- Employs over 1,000,000 people
- Was shut down by law for at least 10-12 weeks to save lives
- Due to the restrictions still in place and expected to continue, the industry is not capable of "snapping back" to normal times before year end

Justification for waiving JobKeeper threshold levels

It is important to understand that the hotel industry has a different starting point to many other sectors on the "bridge to recovery". The hotel sector was completely shut down 100% (except takeaway) for 10-12 weeks to save lives. Other industries whilst suffering an "indirect" downturn, were able to keep trading and use JobKeeper to subsidise wages.

Hotels were under "direct" orders by 'Governments shut down, so have not had the benefit of using JobKeeper as a wage subsidy. Some hotel groups were unfairly excluded from JobKeeper due to the threshold levels.

Hotels were ordered to shut down (or operate on extreme capacity limits effectively near zero) for at least 25% of the calendar year. Whilst easing of restrictions has commenced, at different rates across the country, the fact is that 30% to 60% of hotel revenue is expected to be wiped out this calendar year. This loss of revenue is compounded by the fixed costs of leases, interest, utilities, and insurance, etc.

The additional three months of JobKeeper will help hotel businesses recoup some of this loss and place them on an equal footing with those businesses that Government did not order to shut down.

"Virtual Centrelink"

In comparison to other sectors, hotels have instead operated as a "virtual Centrelink" - taking the role of government in the social security system. It is only now since the restrictions have started to ease that hotels have been able to use JobKeeper as a wage subsidy. Given the slow nature of restrictions easing, the benefit of the wage subsidy is still only partial.

Annual and personal leave

Hotels have continued to accrue annual and personal leave financial obligations to employees that were stood down – with no work performed. Hotels also had to either borrow money or forgo interest to pay JobKeeper whilst their doors were shut. There is no compensation from the government for hotels to carry that burden.

$304 marginal cost between JobKeeper and JobSeeker

The marginal cost at present between JobKeeper and JobSeeker after tax is $304. If the Government abandons JobKeeper for hotels, we estimate on current trading at least 100,000 people being forced to Centrelink – along with all the mental health issues that goes with that. The beauty of keeping people on JobKeeper instead of JobSeeker is that:

- it keeps people out of the queue at Centrelink
- assists businesses that the Government shut down

Schemes already announced for other sectors

As yet, we are not aware of any hotel, hospitality, accommodation and tourism specific scheme having been announced by the Government. In contrast, grants, subsidies or stimulus packages have been specifically provided to "enable" the sectors below to recover:

- Airlines $1.2 billion
- Infrastructure $1.8 billion
- Construction $0.7 billion

Therefore, so as to protect over 1,000,000 jobs and save 1,000's of businesses, the request of the AHA to extend JobKeeper and waive the thresholds for our sector is reasonable in the circumstances.

A cost/benefit analysis will be provided by EY in early July.

3 Where are we at?

Pubs, bars and taverns

The table below represents the downturn in gross revenue on across a sample of 150 hotels nationwide. The 3rd week in June indicates a nationwide drop in gross revenue of 65%.

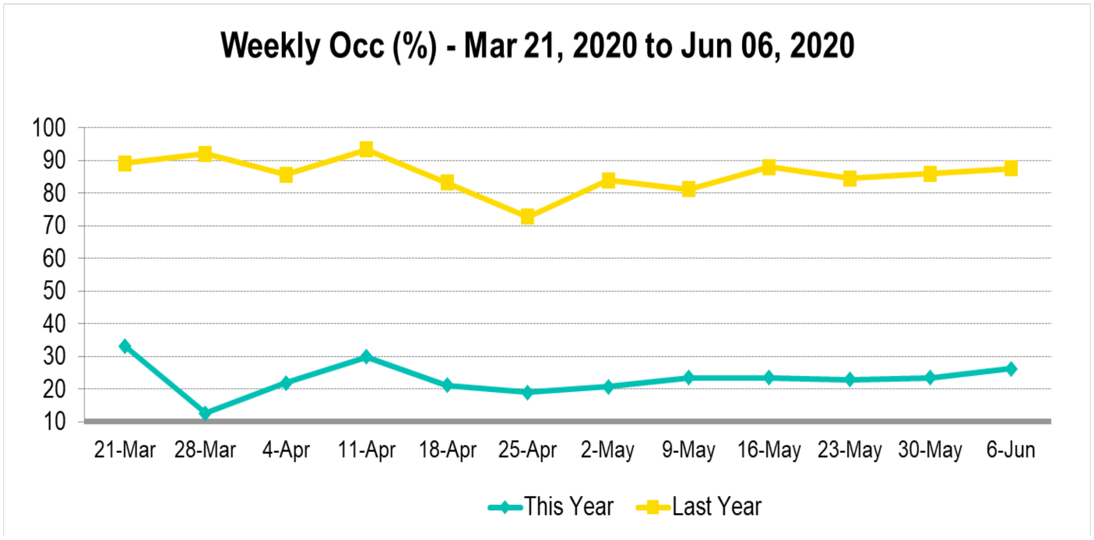
	REVENUE DECLINE % ON PRIOR YEAR						
	Total	VIC	NSW	QLD	SA	NT	WA
Mar W1	2%	-4%	11%	1%	5%	11%	3%
Mar W2	2%	-2%	-1%	2%	5%	7%	15%
Mar W3	-2%	-12%	8%	0%	5%	-14%	0%
Mar W4	-56%	-66%	-57%	-54%	-58%	-17%	-57%
Mar W5	-97%	-100%	-100%	-95%	-100%	-100%	-100%
Apr W1	-98%	-99%	-100%	-96%	-100%	-100%	-100%
Apr W2	-98%	-100%	-100%	-96%	-100%	-100%	-100%
Apr W3	-98%	-99%	-100%	-96%	-100%	-100%	-100%
Apr W4	-97%	-99%	-100%	-95%	-100%	-100%	-99%
May W1	-97%	-99%	-98%	-95%	-100%	-100%	-99%
May W2	-97%	-98%	-97%	-96%	-100%	-100%	-98%
May W3	-95%	-98%	-96%	-95%	-100%	-84%	-99%
May W4	-93%	-98%	-90%	-95%	-100%	-83%	-87%
Jun W1	-89%	-98%	-89%	-89%	-95%	-88%	-79%
Jun W2	-73%	-73%	-68%	-81%	-80%	-18%	-42%
Jun W3	-65%	-65%	-57%	-76%	-79%	-32%	-17%

Accommodation Hotels

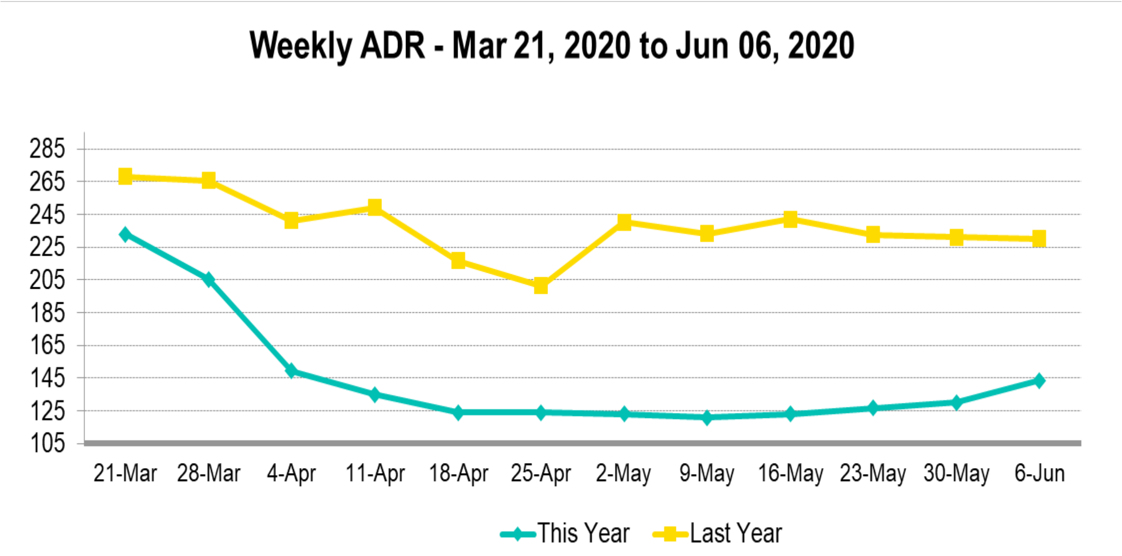
Accommodation hotels have suffered the double impact of:

- Decline in room occupancy, couple with
- Decline in average room rate

By way of example, the table below indicates that year on year indicates a decline of 59% in Sydney hotel room occupancy rates.



The table below indicates a 35% drop in the average daily rate of a Sydney hotel room.



4 What is the outlook?

Recent surveys of AHA and TAA members have found

- A recent NSW survey indicated that if JobKeeper was to finish under current trading conditions, 44% of staff would be laid off or have their hours reduced
- 77.4% of Qld hotels say they can't continue to operate without assistance from JobKeeper and;
- 54.7% of Qld hotels say they will be employing less people by 31 December than last year

The road back out for hotels is expected to be far greater than for many other sectors. This includes:

- The likelihood of continued hotel patron capacity restrictions
- Loss of demand drivers such as sporting events, theatre, business events, cultural events, live music
- Likely downturn in consumer discretionary spend
- Significant re-opening costs
- Continuing domestic and international border closures
- Loss of JobKeeper

For example, a recent survey by AHA NSW found:

- Pre-COVID, hotels in NSW employed more than 75,000 people. During the shutdown, only 4,854 retained their roles.
- Since the 1 June re-opening in NSW, 44,385 people have been re-employed for a total of 48,696 staff, leaving a current deficit of more than 26,000 staff who have not resumed employment.
- If the current trading restrictions and conditions were still in place when the JobKeeper scheme ended, hotels would on average lay off 44% of their staff
- That would increase the 26,000 not currently back at work to 47,500 unemployed

"Hibernation" is a myth

At the risk of repeating ourselves, this has not been a period of "hibernation". Hibernation paints a picture of businesses remaining stable for a period of time, then businesses reemerging (or "snapping back"). The fact is that the government orders to shut down hotels and then slowly ease them back have generated debt and put those businesses in a far worse position that pre-COVID. If the Government abandons JobKeeper, it sends a message that it considers Government debt to be more important than private debt.

5 Conclusion

Thank you for the opportunity to have made this submission. As stated above, the Government announced JobKeeper as a "wage subsidy". But for about the first 12 weeks of the scheme, the Government ordered all hotels to shut down - thus not enabling hotels to use JobKeeper as a wage subsidy (unlike other sectors that the Government allowed to remain open).

Instead, on behalf of the Government, hotels operated as a "virtual Centrelink" for about 12 weeks. Not only was there no real benefit for hotels, supporting the Government to keep people out of the queue at Centrelink caused hotels to accrue annual leave, sick leave obligations, with no work performed

The AHA argues that it is this 12 week shut down period that should be added to the end of the scheme, so as hotels can have the full 6 months of JobKeeper as a wage subsidy that other sectors have enjoyed

The AHA and TAA will provide further updates as data and information come to hand. In particular, a cost/benefit analysis provided by EY will be tabled in early July

Yours faithfully,

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