



South Australian Centre for Economic Studies

Impact of Omicron and Summer 2021/22 COVID-19 Restrictions: A Survey

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Executive Summary

Background

As an industry reliant on close social contact to facilitate economic activity, the hospitality industry has been hit harder than most by the social distancing, lockdowns and activity restrictions that have come to characterise the COVID-19 pandemic. In order to limit the spread of the omicron variant the South Australian Government introduced activity restrictions for the hospitality sector from midnight 26 December 2022. These measures comprised density limits of ¼ density for indoor seating, ½ density for outdoor seating, and seated food and beverage consumption only (i.e. no stand-up private functions).

In order to better understand the economic impact of the omicron wave and latest round of restrictions on the hotels sector, the South Australian branch of the Australian Hotels Association commissioned the SA Centre for Economic Studies to undertake a survey of hotels to ascertain their experiences to date. The latest survey follows two earlier surveys that sought to investigate the impacts and implications of previous lockdowns that occurred in November 2020 and July 2021.

Restrictions have depressed incomes

Almost all respondents (98 per cent) reported that their turnover over the first month of the reintroduced density limits was lower compared to what they expected under a business as usual scenario of no tightening of restrictions.

The impact of the latest restrictions was less severe compared to the full lockdown implemented in July 2021 since hotels were allowed to maintain some level of operations. Following last year's lockdown 77 per cent of respondents reported a decline in expected revenue of 40 per cent or more, whereas in the current survey 35 per cent reported a decline in revenue of this magnitude.

It appears that hotels located in the CBD and broader metropolitan area suffered relatively greater reductions in business as a consequence of the density limits and restrictions on private functions. This pattern may be explained, in part, by other government actions such as recommendations to work from home which contributed to a reduction in patronage in the central business district.

Employment levels have been significantly reduced

With reduced levels of patronage hotels have been forced to reduce their direct employment levels. Approximately 90 per cent of survey respondents reported that they decreased their direct employment levels during the first month working under the tighter operating environment, while the remainder reported no change.

Based on two approaches using alternative data provided by respondents it is estimated that actual average employment per day for the month from 27 December 2021 to 26 January 2022 was from 35 to 39 per cent below what had been anticipated prior to the announcement of new density limits and restrictions on private functions. These proportional reductions are estimated to be equivalent to a sector wide reduction in employment of between 9,500 to 10,400 people per day on average, which is equivalent to 1 per cent of total employment in South Australia.

Casual employees have been particularly affected by the reduction in employment, accounting for around 80 per cent of the positions that have been affected by reduced staffing levels.

Density limits were too low to enable financial sustainability for many venues

The density limits imposed by the South Australian Government were insufficient to enable the vast majority of respondent hotels to operate financially sustainable operations while maintaining normal operating hours. Only 6.1 per cent of respondents indicated that they could remain regularly open and break even with indoor seating density limits of below 50 per cent, while 6.3 per cent reported likewise for outdoor seating density limits of below 50 per cent.

In general, hotels require access to over 50 per cent of their available indoor and outdoor seating area in order to maintain normal and sustainable operations, and even then any limit below 75 per cent presents a major barrier to financial sustainability for a significant proportion of hotels. Approximately 45 per cent of respondents advised that they would need a minimum area of 75 per cent or more for indoor and outdoor seating respectively to maintain normal and sustainable operations.

An issue with the universal nature of the density limits is that they make no allowance for differences in the size of businesses. Smaller venues reported that they required access to a larger proportion of their available indoor and outdoor seating area in order to provide normal hours of operation in a financially sustainable

manner. However, a greater proportion of the largest-sized hotels needed higher minimum density limits compared to medium sized hotels, which may indicate that these hotels have greater overheads that require higher minimum volumes of traffic in order to break even.

Venues have reduced opening times in response to density limits and lower visitation

With density limits preventing venues from operating at the minimum economies of scale needed to break even, venues have responded by cutting back their opening times and reducing their service provision. A majority (57 per cent) advised that they had decreased their opening times in response to the reintroduction of density limits and restrictions on private functions. For those respondents that reported a decrease in opening times the decrease in average weekly opening times was a decline of 27 per cent or 24 hours per week, from an expected average weekly opening time of 88 hours to an actual opening time of 64 hours.

Omicron and isolation requirements have disrupted operations

The loss of staff due to infection or quarantine has also seriously disrupted venue operations. The vast majority of respondents (85 per cent) advised that they had experienced staff shortages due to COVID-19 infections, quarantine or isolation affecting staff. And of those who reported being affected, almost two-thirds (64 per cent) indicated that they had to reduce their operating hours or even close their venues, at least temporarily, in response to the unavailability of staff. One consequence of the lack of staff was that it was placing more pressure on owners, their families and other existing staff to cover shifts, leading to an increase in stress and exhaustion.

Perceived willingness to remain in the industry is being eroded

The perceived willingness of various stakeholders to remain in the industry has worsened dramatically with the arrival of omicron and another round of operating restrictions. In comparison with results from the previous survey conducted in August 2021, the current survey showed a large increase in the proportion of respondents who felt that the willingness of 'peers' to remain in the industry had been adversely affected (up 25 percentage points to 74 per cent), followed by the respondents themselves (up 19 percentage points to 73 per cent), and management (up 16 percentage points to 72 per cent). Almost all respondents (97 per cent) felt that the willingness of employees to stay in the hospitality industry had been adversely affected, which was marginally higher compared to the previous survey (94 per cent).

Dissatisfaction with South Australian Government's approach has increased significantly

An overwhelming majority of respondents (79 per cent) believed that the South Australian Government could have implemented the latest activity restrictions in a different manner to reduce the potential adverse impacts of the lockdown on the hospitality industry while still meeting its healthcare objectives. This result represents a significant increase in dissatisfaction compared to the previous survey conducted in the wake of the six-day lockdown in July 2021 when a small majority (52 per cent) felt that the government could have done things differently.

When invited to provide comments on the South Australian Government's approach and the general impact of the omicron wave, respondents often observed that the density limits were simply too low to enable venues to operate in a financially sustainable manner. As a consequence, venues have suffered considerable financial stress and were at an increased risk of business failure.

For some respondents the ban on stand-up consumption was also a significant issue. Being able to stand up was seen as necessary in front bar areas and venues that rely on live music or art, and there was no reason seen as to why this could not be allowed while adhering to density limits and social distancing requirements.

Restrictions were inequitable and inconsistent

The inequitable nature of the restrictions in terms of not applying consistently across others areas of society was another major point of contention for hotels. Respondents observed that such restrictions did not apply to other public spaces with similar risk profiles, especially shopping centres, supermarkets and large sporting venues. A number of respondents consequently felt the hospitality industry has been unfairly singled out. Meanwhile, others pointed to the apparent inconsistent approach to restrictions even within venues – several respondents noted that a 50 per cent density limit applied to gaming areas, which was felt to be inconsistent with the 25 per cent limit for indoor dining.

State's border should have remained closed

The other common thread in the open comments was dissatisfaction with the timing and management of the reopening of the state's border. A number of respondents stated that the state's border should have remained closed until after the holiday season, which would have enabled venues to operate at much higher density levels at one of the busiest times of the year.

Other notable observations included:

- Restrictions that have been adopted do not recognise differences in the settings between hotels located in rural and metropolitan areas. For example, country hotels would be smaller on average meaning that restrictions tend to hit these venues harder.
- Density limits and voluntary social distancing had pushed demand toward off-premises consumption such as take away food and bottle shop sales, which have lower gross profit margins. Thus, reductions in turnover do not capture the severity of declines in gross profit, and since government support measures for the industry are based on changes in turnover, some venues have missed out on receiving much needed support.
- People remain reluctant to engage in social consumption in public settings. The risk posed by the omicron variant, the need to impose restrictions, and SA Health's approach to messaging had generated fear and discouraged people from leaving their homes. There was consequently a need to restore people's confidence to engage in social consumption activities.
- Social isolation rules and the need for close contacts to isolate is a significant source of disruption. The extended quarantine requirement for close contacts has resulted in the closure of venues or the unavailability of staff for lengthy periods, and has discouraged patronage due to fears of being designated a close contact.
- Constantly changing policies and confusion over the rules, including apparent logical inconsistencies (e.g. need to wear masks while standing but not while sitting, large crowds allowed at sporting venues), were a factor in discouraging people from visiting venues, and created a source of friction between venues operators and customers.

1. Introduction

The highly infectious omicron variant of COVID-19 started to spread across Australia and South Australia in late 2021. In order to limit the spread of the virus the South Australian Government reintroduced activity restrictions for the hospitality sector that took effect from midnight 26 December 2022. These measures comprised density limits of ¼ density for indoor seating, ½ density for outdoor seating, and seated food and beverage consumption only (i.e. no stand-up private functions).

As an industry reliant on close social contact to facilitate economic activity, the hospitality industry has been hit harder than most by the social distancing, lockdowns and activity restrictions that have often characterised the pandemic. The summer restrictions came at peak season for many operators and at a time when the hospitality sector was returning to some semblance of normality. Moreover, it appears the severity of the restrictions effectively amounted to a proxy lockdown for many venues since they did not permit the minimum volume of patronage required to cover costs, leading some operators to reduce their hours or even close their venues.¹

In order to better understand the economic impact of the omicron wave and latest round of activity restrictions on the hotels sector, the South Australian branch of the Australian Hotels Association (AHA (SA)) commissioned the SA Centre for Economic Studies (SACES) to undertake a survey of hotels to ascertain their experiences to date. The latest survey builds on previous joint surveys that have been conducted by the AHA (SA) and SACES to investigate the impacts and implications of previous lockdowns. These include a survey in respect of the sudden “circuit breaker” lockdown of South Australia due to COVID-19 in November 2020 (SACES 2021), and the seven-day lockdown implemented in July due to a cluster linked to Modbury Hospital (SACES 2021a).

Among the key research questions the survey has sought to answer include:

- What has been the impact of the density restrictions in terms of changes in turnover and employment for hotels?
- To what extent have hotels curbed their operating hours due to density limits making it not financially viable for them to maintain normal opening times?
- What are the minimum density limits for indoor and outdoor dining that would enable hotels to break even and remain open for normal opening hours?

Since existing published indicators are produced with too much of a lag or insufficient detail to answer these questions in a timely and precise manner, a short custom survey was considered the best approach for providing insight into these questions.

Survey methodology

Australian Hotels Association (SA), in conjunction with SACES, in February 2022 conducted 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 enhanced activity restrictions that were introduced from midnight 26 December 2021.

SACES and the AHA (SA) designed the survey based on a subset of the questions used for the previous study which examined the economic impact of the seven-day COVID-19 lockdown in July 2021. Some appropriate modifications were made to the questions, such as improvements in prose, while new ones were added to capture items of interest for the current study, particularly in relation to the impacts of density limits on turnover and employment, opening times, and minimum density thresholds to remain viable. The survey was framed on the basis of asking hotels to provide feedback on impacts pertaining to the period spanning 27 December 2021 to 26 January 2022, which corresponds to the first month operating under the density restrictions.

The AHA (SA) 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 platform. A total of 90 survey responses were received, although the number of unique responses fell to 89 responses following identification of one duplicate response. The number of unique responses is equivalent to approximately 15 per cent of the estimated number of hotels in South Australia.

¹ For example, see The Advertiser (2021), ‘Pubs, clubs and cafes shutting their doors after reintroduction of density limits for hospitality venues’, December 28, <https://www.adelaidenow.com.au/coronavirus/cbd-pub-the-duke-of-brunswick-shuts-doors-until-further-notice-after-reintroduction-of-density-limits-for-hospitality-venues/news-story/151e6fc05c937ec477aaa31dabb3de3f>

2. Analysis of Survey Results

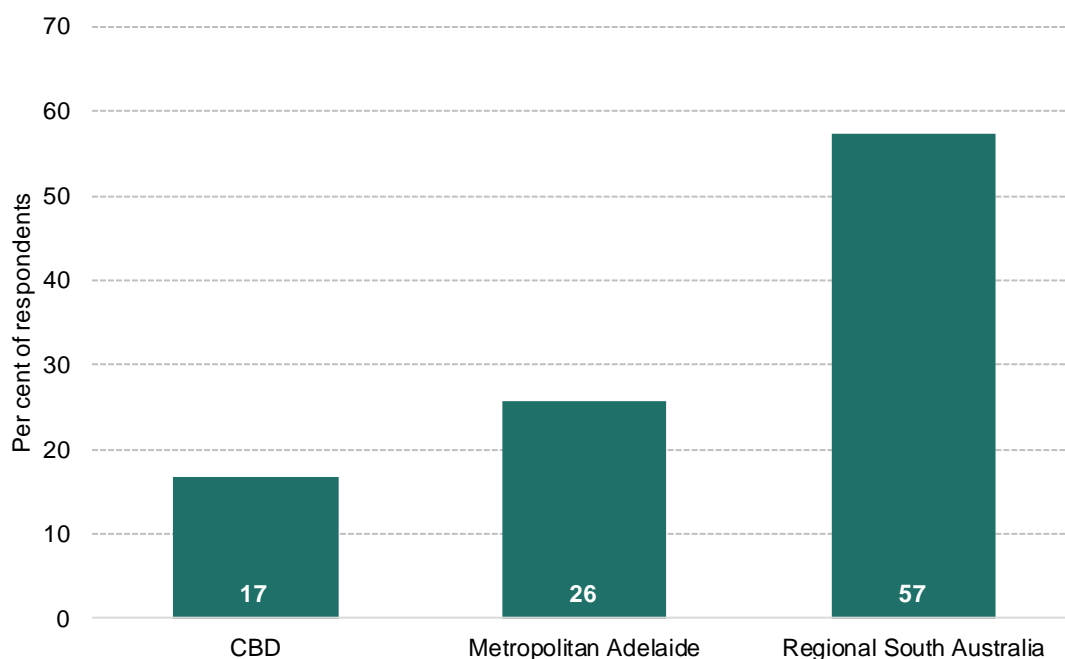
2.1 Location of respondents and venue features

Approximately 17 per cent of survey responses were from inner CBD hotels, 26 per cent from non-CBD metropolitan hotels, and 57 per cent from country and regional hotels – Figure 1. As with the previous survey conducted in respect of the July 2021 lockdown, there is an over representation of country and regional hotels in the survey respondents, although this over representation is not as severe as in the previous survey (where it was 61 per cent). The 57 per cent representation by hotels located in regional South Australia in the current survey compares with an estimated population share of 50 per cent based on estimates made during the 2015 assessment of the economic contribution of the hotel industry to South Australia (SACES 2016).

The over representation among regional hotels could reflect various factors, including differences in the profile of AHA (SA) membership compared to the broader hotel population, time availability, and experiences in respect of the severity of impacts which could influence the inclination to participate. However, in terms of the latter it does not appear that regional hotels have suffered more severely from the density restrictions compared to metropolitan hotels (see below). Nonetheless, since regional hotels are on average smaller businesses relative to metropolitan hotels, broad industry estimates derived from the current survey may lead to an understatement of impacts statewide.

For profiling purposes information was sought on other hotel characteristics. Approximately 70 per cent of respondents indicated that their hotel contained electronic gaming machines (EGMs), while 40 per cent advised that their venue offered accommodation services.

Figure 1 Location of hotel



Source: Survey of South Australian hotel industry, February 2022.

2.2 Impact on business turnover

Survey respondents were asked to estimate their change in turnover over the first month of the reintroduced density limits and restrictions on private functions (which corresponds to the period 27 December 2021 to 26 January 2022) compared to what they had planned or expected under a business as usual scenario of no further tightening of existing restrictions. Over three-quarters of the 88 respondents (77 per cent) reported an estimated decrease in turnover of up to \$200,000, while a further 15 per cent reported a decrease of between \$200,001 to \$400,000. Almost 6 per cent of respondents report a decline of between \$400,001 to \$800,000, while no respondents reported a loss in turnover greater than this amount. On the other hand, only 2.3 per cent of respondents reported an increase in turnover.

Table 1 Estimated change in turnover compared to planned or expected turnover

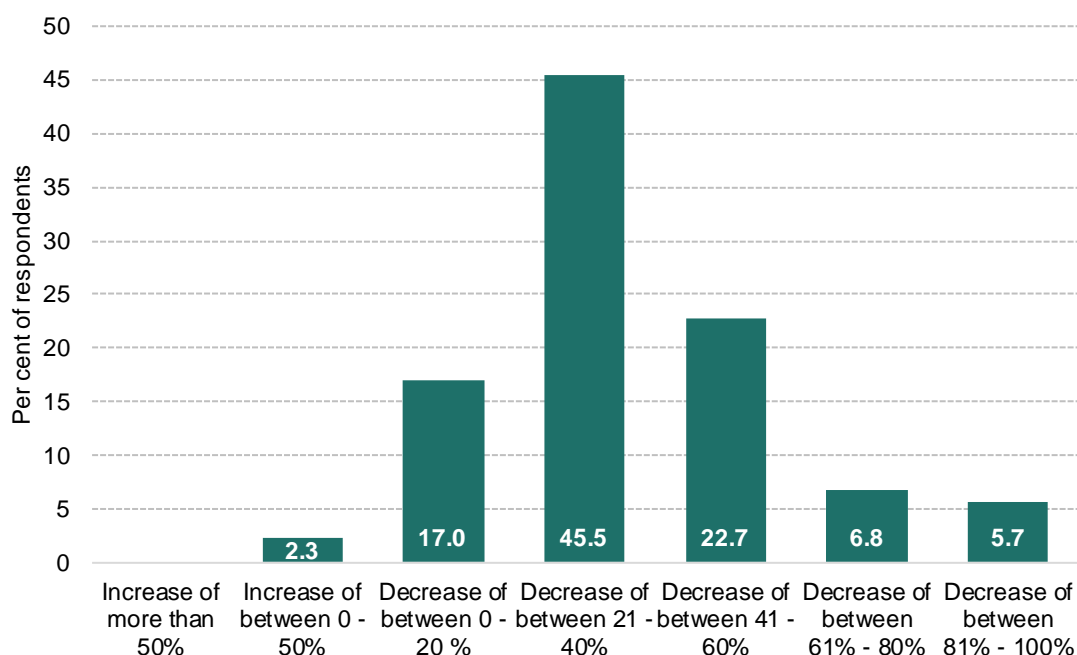
Turnover change (range)	Change in turnover	
	Number	Per cent
Increase of over \$400,000	0	0
Increase of \$0 to \$400,000	2	2.3
Decline of up to \$200,000	68	77.3
Decline of between \$200,001 to \$400,000	13	14.8
Decline of between \$400,001 to \$800,000	5	5.7
Decline of between \$800,001 to \$1,200,000	0	0.0
Decline of over \$1.2 million	0	0.0

Source: Survey of South Australian hotel industry, February 2022.

Survey respondents were asked to express the estimated change in turnover over the first month of the new restrictions as a proportion of their normal turnover. Of the 88 respondents, 63 per cent reported a decrease in turnover ranging from 0 to 40 per cent of their normal turnover, 30 per cent reported a decrease in the range of 41 to 80 per cent of their normal turnover, and 5.7 per cent reported a decrease in turnover of more than 80 per cent of their normal turnover – Figure 2.

It appears that hotels located in the CBD and broader metropolitan area suffered relatively greater reductions in business as a consequence of the density limits and restrictions on private functions. Approximately 42 per cent of respondents with hotels in metropolitan Adelaide (including CBD) reported a reduction in turnover of 40 per cent or more versus 30 per cent of respondents from country and regional South Australia.

The impact of the latest restrictions was less severe compared to the lockdown implemented in late July of 2021 since hotels were allowed to maintain some level of operations in the latest episode whereas they were forced to close during the 2021 lockdown. Following last year's lockdown 77 per cent of respondents reported a decline in expected revenue of 40 per cent or more, whereas in the current survey 35 per cent report a decline in revenue of this magnitude. Although the latest episode has been less severe, repeat cycles of operating restrictions will have an impact on the financial viability of hotels, while responses to the survey examined later in this report indicate that the density limits were set at a level that would not enable a large number of hotels to remain viable.

Figure 2 Estimated change in turnover due to lockdown as a percentage of normal turnover

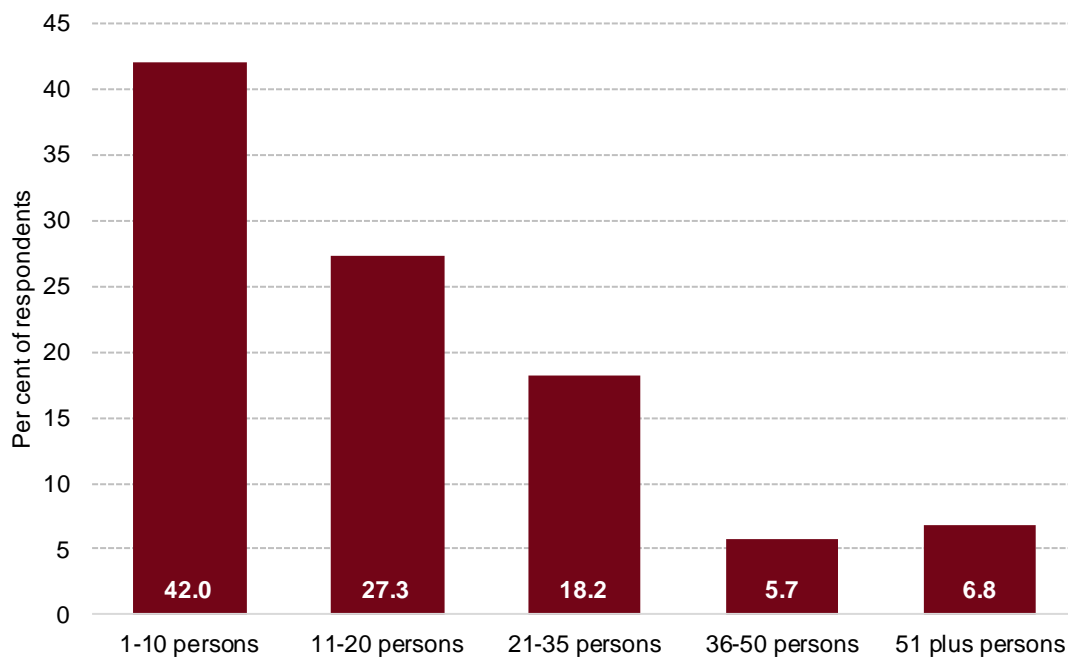
Source: Survey of South Australian hotel industry, February 2022.

2.3 Impact on employment

2.3.1 Expected employment prior to density restrictions

Respondents were asked to indicate the number of employees they would have expected to have employed at work per day on average over the month from 27 December 2021 to 26 January 2022. Just over two-fifths (42 per cent) of the 88 respondents expected to employ between 1-10 people per day while 27 per cent expected to employ between 11-20 people per day – see Figure 3. At the other end of the scale, 6.8 per cent expected to employ 51 or more per day.

Figure 3 Expected employment numbers, per day on average 27 December 2021 to 26 January 2022



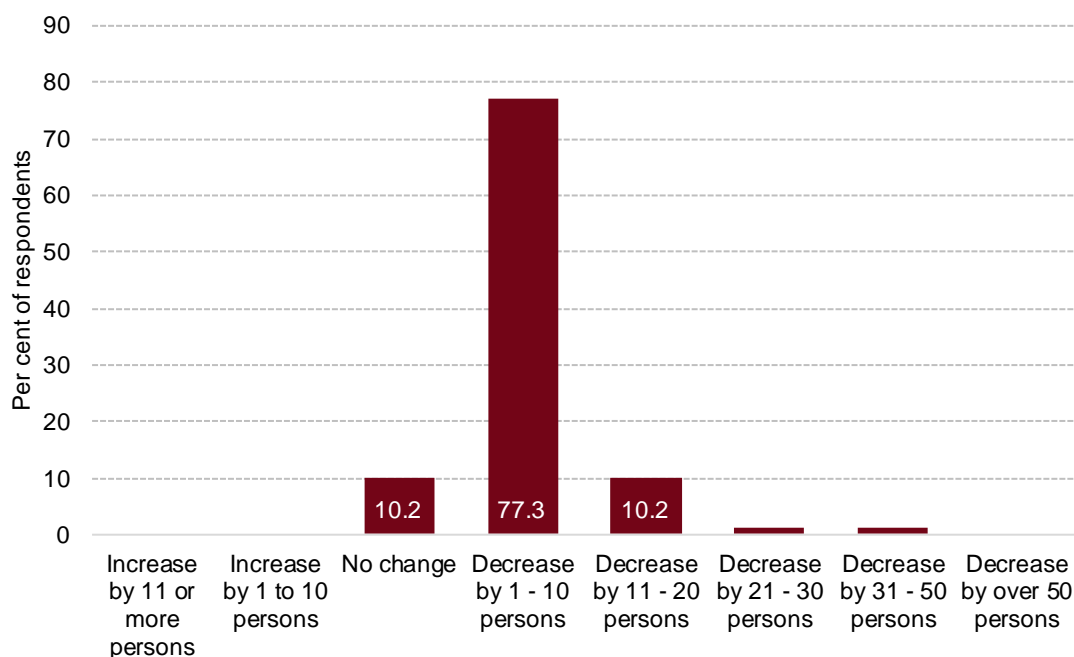
Source: Survey of South Australian hotel industry, February 2022.

2.3.2 Actual employment losses due to lockdown

With the implementation of density limits and restrictions on private functions curtailing normal levels of operation and therefore revenue, hotels were forced to reduce their direct employment levels. Approximately 90 per cent of survey respondents reported that they decreased their direct employment levels during the first month working under the tighter operating environment while the remaining 10 per cent advised no change in employment. Unsurprisingly, no respondents reported an increase in employment.

Looking more closely at the scale of employment reduction, of the total 88 respondents 77 per cent reported a decrease in average employment per day over the month of between 1 and 10 people; 10 per cent by between 11 to 20 people; and 2.2 per cent by over 20 people – see Figure 4.

Those respondents that reported a decline in the number of employees were asked to report the actual number of full-time, part-time or casual employees that were affected. Given the relatively high degree of casual employment within the hospitality sector and use of casual employees to manage ebbs and flows in demand, casual employees have been particularly affected by the re-introduction of density limits and restrictions on private functions. Of the 76 respondents that stated the specific number of people affected by scale downs in employment, almost 99 per cent reported having to reduce casual employees, 20 per cent reported reducing the number of part-time employees, and 30 per cent reported having to reduce the number of full-time employees – see Table 3. In fact, all of those respondents (11 responses) who reported a decrease in average daily employment of more than 10 employees reported cutting back casual positions.

Figure 4 Actual employment numbers, per day on average 27 December 2021 to 26 January 2022

Source: Survey of South Australian hotel industry, February 2022.

Table 3 Reported reduction by hotel and employee type

Reported change due to lockdown	Number of responses	Proportion of respondents reporting reduction in employees by type		
		Full-time	Part-time	Casual
Decrease 1 to 10 persons	65	30.8	13.8	98.5
Decrease 11 to 20 persons	9	22.2	44.4	100.0
Decrease by more than 20 persons	2	50.0	100.0	100.0
Total (respondents reporting a decrease)	76	30.3	19.7	98.7
Total change in employment (people)		-57	-69	-490

Source: Survey of South Australian hotel industry, February 2022.

The impact on casual employment is more acutely demonstrated by considering the aggregate reduction in employment. For the 76 respondents who indicated their actual reduction in employment, these respondents reported a total reduction in employment of 616 people. Of these, 80 per cent (490 people) were casual employees, 11 per cent (69 people) were part time employees, and 9.3 per cent (57 people) were full time employees.

2.3.3 Gauging overall employment impacts

The information provided by respondents regarding their employment outcomes was used to estimate the overall change in employment for the total sector resulting from the spread of omicron and implementation of density restrictions using two approaches. In the first approach reported employment ranges in respect of expected employment and the actual change in employment on average per day over the first month under enhanced restrictions were converted to point estimates and then aggregated to derive total employment estimates. In the second approach data on the specific number of full-time, part-time and casual employees that were expected to be employed on average over the month and in respect of subsequent reported reductions in employment were used to estimate the proportional change in employment.

Both approaches suffer some limitations. The approach based on range estimates will be inaccurate to the extent that the point estimates that are assumed to apply for each range category differs from the actual average value that applies for the range. For our approach we simply assumed that the point estimate would be equal to the mid-point for each response category (e.g. 5.5 persons for a decrease of 1 to 10 persons).² To the extent that actual average employment values differ from these mid-point estimates then the overall derived estimates may under or overestimate the actual employment changes. Meanwhile, the approach based on the

² Fortunately, no assumptions needed to be made for complex cases involving open ended ranges (e.g. decrease of more than 50 people) since no respondents advised of changes pertaining to these open-ended ranges.

specific number of full-time, part-time and casual employees affected suffers from a generally poor overall quality of response from survey participants. For example, a number of respondents provided specific employment estimates that differed from their reported expected total employment and change in employment ranges, provided estimates that were nonsensical (e.g. reductions in employment larger than their expected actual total employment, implying a shift to negative employment levels), or simply did not answer one or both of the questions on specific employment estimates that are required to estimate the change in employment.

The results derived from these two approaches are summarised on in Table 4. Based on reported employment ranges it is estimated that actual average employment per day for the month from 27 December 2021 to 26 January 2022 was 35 per cent below what had been anticipated prior to the announcement of new density limits and restrictions on private functions. The second approach based on specific employee estimates for full-time, part-time and casual employees leads to a similar scale though slightly larger reduction of 39 per cent. Hence, the survey results suggest that employment levels declined by over a third in response to the spread of omicron and implementation of compulsory operating constraints.

The proportional reductions estimated above are equivalent to a sector wide reduction in employment of between 9,500 to 10,400 people per day on average.³ A reduction in employment of this magnitude is equivalent to 1 per cent of total employment in South Australia.

Table 4 Overall estimated change in employment from expected employment levels prior to introduction of density limits and restrictions on private functions

	Number of respondents	Per cent
Estimated change in employment based on employment ranges	88	-35.3
Estimated change in employment based on specific employment numbers	78	-38.6

Source: Survey of South Australian hotel industry, February 2022.

2.4 Minimum density requirements for financial sustainability

To combat the fallout from the spread of the omicron variant of COVID-19 the South Australian Government introduced density limits of $\frac{1}{4}$ density for indoor seating, $\frac{1}{2}$ density for outdoor seating, and seated food and beverage consumption only (i.e. no stand-up private functions). While as a public health measure the restrictions were well intentioned, feedback and anecdotal evidence indicates that they were set at a level that would effectively result in defacto closures since they would not enable hotels to operate at the minimum economies of scale required to reach financial viability. As a consequence, a number of hospitality venues were forced to close or reduce their hours in response to the operating restrictions (see next section).

In order to ascertain the viability of the summer restrictions and inform future policy development, respondents were asked to nominate the minimum combination of density limits for indoor and outdoor seating that would enable their hotel to remain open regularly and break even.

The results show that the density limits imposed by the South Australian Government were insufficient to enable the vast majority of hotels to operate sustainable operations while maintaining normal operating hours. Only 6.1 per cent of respondents indicated that they could remain regularly open and break even with indoor seating density limits of below 50 per cent, while 6.3 per cent reported likewise for outdoor seating density limits of below 50 per cent – see Table 5.

In general, hotels require access to over 50 per cent of their available indoor and outdoor seating area in order to maintain normal and sustainable operations. Almost half of respondents (49 per cent) indicated that could operate their venue in a sustainable manner with minimum density levels of 50 to 74 per cent for indoor and outdoor seating respectively. However, a significant proportion of hotels would need access to even higher density levels to maintain sustainable operations. Approximately 45 per cent of respondents who answered the question advised that they would need a minimum area of 75 per cent or more for indoor and outdoor seating respectively. It therefore appears that any density limits set below 75 per cent of existing seating area will present a major barrier to a significant proportion of hotels from providing normal services in a financially sustainable manner.

A further issue with the universal nature of the density limits is that they make no allowance for differences in the size of businesses. For instance, it is possible that smaller hotels may require higher density limits in order to maintain sustainable operations. To gain insight into the existence of any relationship between minimum

³ Based on 26,250 persons employed in the South Australian hotel industry in 2015 as estimated by SACES (2016). This estimate was then modified to a current estimate of 26,910 persons employed in the industry based on the change in average total employment in the South Australian accommodation and food services sector between 2015 and 2021 as estimated by ABS (2022).

density requirements and venue size, respondents were asked to provide information on the actual size of their indoor and outdoor seating areas. The results are summarised in Table 6, presented by quartile based on the total seating area reported by respondents.

**Table 5 Minimum seating density requirements to enable hotel to remain open and break even
Per cent of respondents**

Minimum density requirement	Indoor	Outdoor
100 per cent	6.1	11.3
75 to 99 per cent	39.0	33.8
50 to 74 per cent	48.8	48.8
25 to 49 per cent	4.9	3.8
Less than 25 per cent	1.2	2.5
Total	100.0	100.0
No of respondents	82	80

Source: Survey of South Australian hotel industry, February 2022.

In general, it does appear that smaller venues require access to a larger proportion of their available indoor and outdoor seating area in order to provide normal hours of operation in a financially sustainable manner. For example, focusing only on indoor seating areas, 67 per cent of respondents in the first quartile (i.e. the 25 per cent smallest venues) advised that they required access to 75 per cent or more of their indoor seating area to maintain regular opening hours and break even, compared with 39 per cent in the second quartile, and 24 per cent in the third quartile. However, this relationship does not seem to be maintained through to the largest venues with 47 per cent of respondents in the fourth quartile advising that they needed access to 75 per cent or more of their seating area. That a greater proportion of the largest-sized hotels needed higher minimum density limits compared to medium sized hotels may indicate that these hotels offer additional features and services or have greater overheads that require higher minimum volumes of traffic in order to break even.

**Table 6 Minimum density requirements to enable hotel to remain open and break even by total seating area
Per cent of respondents, sorted by quartile based on total seating area**

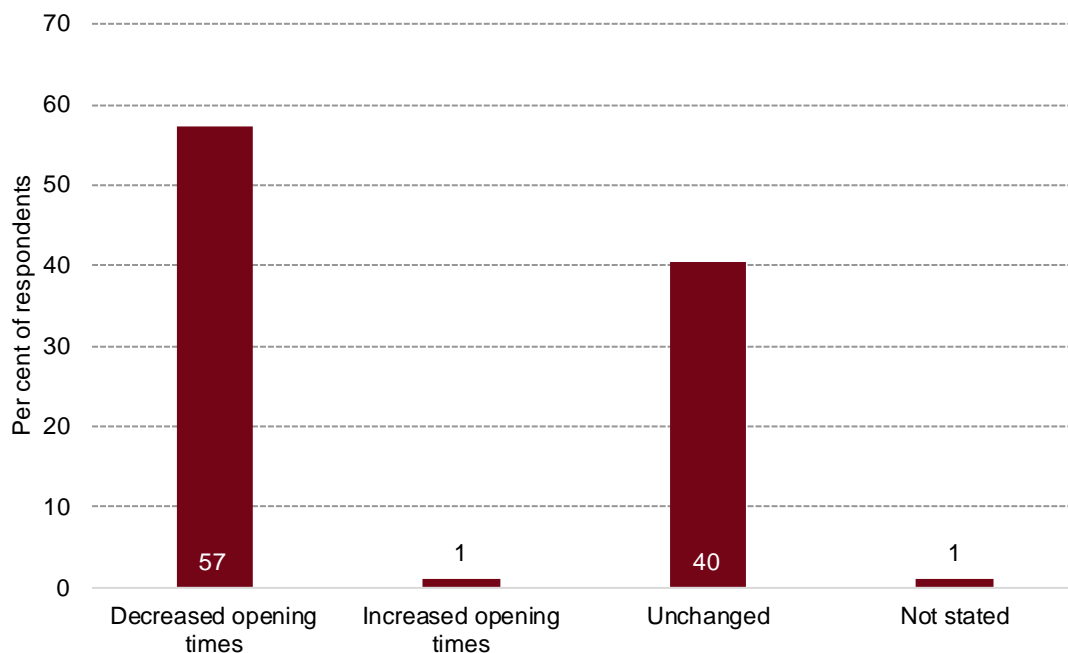
Minimum density requirement	First quartile (0 to 278 m ²)		Second quartile (279 to 408 m ²)		Third quartile (280 to 572 m ²)		Fourth quartile (573 m ² or more)	
	Indoor	Outdoor	Indoor	Outdoor	Indoor	Outdoor	Indoor	Outdoor
100 per cent	5.6	17.6	5.6	23.5	5.9	5.9	0.0	0.0
75 to 99 per cent	61.1	47.1	33.3	11.8	17.6	29.4	47.1	41.2
50 to 74 per cent	22.2	23.5	55.6	58.8	76.5	52.9	41.2	58.8
25 to 49 per cent	5.6	5.9	5.6	5.9	0.0	5.9	11.8	0.0
Less than 25 per cent	5.6	5.9	0.0	0.0	0.0	5.9	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Survey of South Australian hotel industry, February 2022.

2.5 Impact on opening hours and staff availability

2.5.1 Impact on venue opening times

As noted earlier, the restrictions introduced from 27 December 2021 made it uneconomic for a number of hospitality venues to maintain their normal operations. As a consequence, a large proportion of venues responded by reducing their opening times, choosing to reduce their opening hours or even closing on quiet days. Of the 89 respondents to the current survey, a modest majority (57 per cent) advised that they had decreased their opening times in response to the reintroduction of density limits and restrictions on private functions – see Figure 5. Approximately 40 per cent indicated that they had made no change to their operating hours, while one respondent advised that they increased their opening times.

Figure 5 Whether venue changed opening times, 27 December 2021 to 26 January 2022

Source: Survey of South Australian hotel industry, February 2022.

In order to gauge the extent of the reduction in opening times venues were asked to indicate the number of hours they expected to be open on average over the period from 27 December 2021 to 26 January 2022 prior to the omicron wave and introduction of restrictions, and the subsequent number of hours they were actually opened.

For those respondents that reported a decrease in opening times and provided specific estimates of expected and actual opening hours, the decrease in average weekly opening times was estimated to be a decline of 27 per cent or 24 hours per week, from an expected average weekly opening time of 88 hours to an actual opening time of 64 hours. Paradoxically, many of those respondents who stated that their opening times were unchanged also reported a reduction in actual opening times. Average weekly opening times for this group was down 10 per cent or 9.2 hours per week, from 91 to 81 hours per week. Beyond basic respondent error, this discrepancy might be explained by different views of official opening and actual operating times: it is possible that in these respondents' minds their official opening hours had remained unchanged but their actual operating times has been reduced by one off factors, such as staff being designated as close contacts, or an outbreak triggering a temporary closure. On this point some venues in response to other questions noted that they temporarily shut down their venues at the opening stage of the restrictions but had since reopened. A further complication here is that some venues may have maintained their overall venue opening times but reduced the duration of certain services, such as the duration over which they serve meals.

Considering responses from all those venues who provided estimates of their expected and actual opening times, the average reduction in weekly opening times was estimated to be 20 per cent or 18 hours, from 89 hours per week to 71 hours per week.

2.5.2 Impact on staff availability

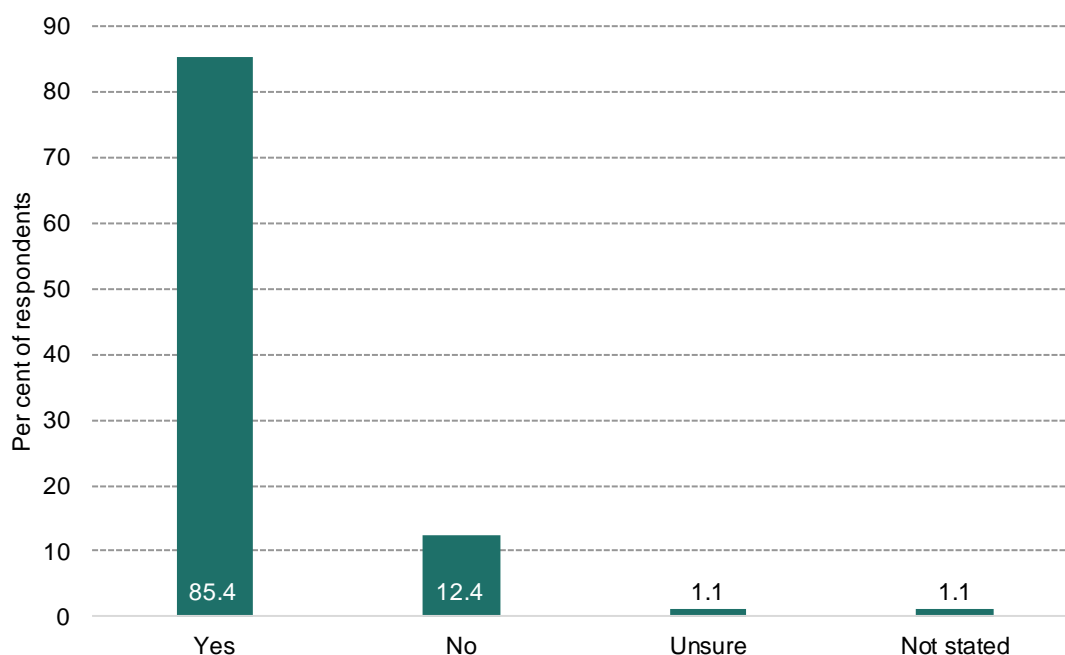
Operating restrictions and reductions in patronage due to concerns about becoming infected are not the only adverse impacts that COVID-19 has had on the hospitality industry; the loss of staff due to infection or social isolation has also seriously disrupted operations. The vast majority of respondents (85 per cent) advised that they had experienced staff shortages due to COVID-19 infections, quarantine or isolation affecting staff – see Figure 6.

The temporary loss of staff had a significant impact on operations. Of those respondents who reported staff shortages, two-thirds (64 per cent) indicated that they had to reduce their operating hours or even close their venues, at least temporarily, in response to the unavailability of staff. The median closure period for those who reported complete daily closures was 5.0 days, while the average closure period was 6.8 days. We would give less weight to the average figure reported here as this was influenced by outliers whose lengthy closure periods may have been driven by factors other than staff shortages, especially reductions in patronage and the impact of density limits on viability.

In some cases, venues had to shut down certain services (e.g. kitchen, restaurant, TAB) for a number of days due to shortages of skilled or approved personnel, or had to reduce the duration of service provision. The lack of staff combined with reduced demand would also manifest in terms of reduced scope of service provision, such as the provision of a more limited menu for diners.

Other respondents advised that staff shortages had led to closures of only a few hours, while some venues had to reduce their daily opening hours in order to cope with reduced staff availability, no doubt exacerbated by lower than normal traffic volumes. One consequence of the lack of staff was that it was placing more pressure on owners, their families and other existing staff to cover shifts, leading to an increase in stress and exhaustion.

Figure 6 Did venue experience staff shortage due to COVID-19 infections, quarantine or isolation of staff?



Source: Survey of South Australian hotel industry, February 2022.

2.6 Perceived willingness to stay in the industry is being eroded

Hospitality venues such as hotels that rely on close social contact to facilitate consumption have been severely impacted by the pandemic given their exposure to repeat instances of lockdowns and restrictions, and declines in patronage driven by voluntary social distancing. Less work and ongoing uncertainty would naturally lead many in the industry to question whether it still offered their best prospects for economic and career advancement. Previous surveys conducted for the AHA (SA) indicate that the overall experience of the pandemic and associated activity restrictions has indeed adversely affected the perceived willingness of different groups to remain in the industry. Results from the latest survey show that such willingness has only eroded further with the arrival of omicron and another round of operating restrictions.

In the previous survey of South Australian hotels conducted in August 2021, 94 per cent of respondents felt that the pandemic and associated activity restrictions had reduced the willingness of employees to stay in the hospitality industry. In the latest survey conducted in February 2022 this proportion was effectively unchanged, rising only slightly to 97 per cent – see Figure 7. However, while respondents generally felt that other groups had a greater desire to remain in the industry, there has been a sharp increase in the proportion of respondents reporting that the perceived willingness of these groups to stay in the industry has been adversely affected since the previous survey. This deterioration was greatest for ‘peers’ in the industry (up 25 percentage points to 74 per cent), followed by the respondents themselves (up 19 percentage points to 73 per cent), and management (up 16 percentage points to 72 per cent). There was also a reported deterioration for suppliers (up 7.9 percentage points to 37 per cent), although a large majority of respondents still believe that the willingness of suppliers has not been negatively impacted.

Figure 7 Willingness to remain in hospitality industry adversely affected by pandemic and activity restrictions

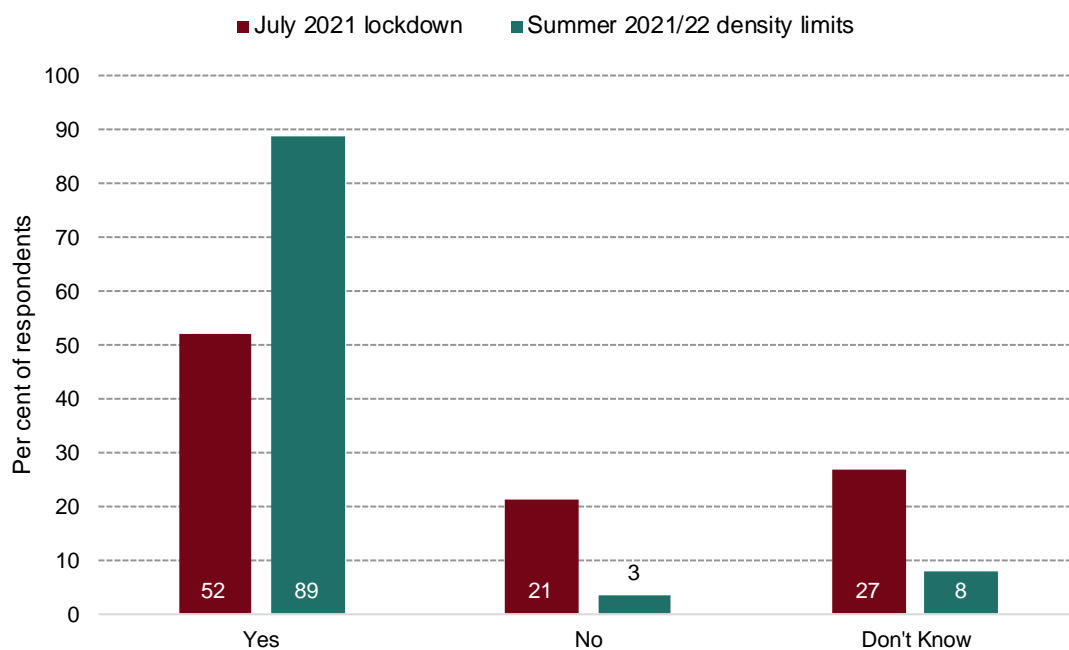


Source: Survey of South Australian hotel industry, February 2022.

2.7 Role of SA Government in lockdown implementation

Survey participants were asked whether they believed that the South Australian Government could have implemented the density limits imposed over summer 2021/22 in a different manner to reduce the potential adverse impacts of the lockdown on the hospitality industry while still meeting its healthcare objectives. Of the 89 respondents, an overwhelming majority (79 per cent) believed that the SA Government could have done things differently – see Figure 8. This result represents a significant increase in dissatisfaction compared to the previous survey conducted in the wake of the six-day lockdown in July 2021 when a small majority of respondents (52 per cent) felt that the government could have done things differently.

Figure 8 View that SA Government could have implemented measures differently to reduce adverse impacts July 2021 lockdown and summer 2021/22 density limits



Source: Survey of South Australian hotel industry, February 2022.

Respondents were invited to make open ended comments in relation to the state government’s health measures including reintroduced density limits, and restrictions on standing and private functions. Probably the most common response (more than 15 per cent of respondents) was that the density limits were simply

too low to enable venues to operate in a financially sustainable manner. These respondents generally felt that limits could have been set at a higher level, typically no lower than 50 per cent, which would provide venues with the opportunity to break even without risking a significant increase in infections. On this point several respondents noted that higher density limits were permitted in other states without any major apparent downfall. Another common observation here was inconsistency in terms of the density limits that applied across different areas of the venue. In particular, several respondents pointed out that 50 per cent density limits applied to gaming areas, which was felt to be inconsistent with the 25 per cent limit applying to indoor dining areas.

Apart from density limits being set too low, a number of respondents took issue with stand-up consumption not being allowed. Being able to stand up was seen as necessary in front bar areas and venues that rely on live music or art. There was no reason seen as to why standing up could not be allowed while adhering to density limits and social distancing requirements.

The inequitable nature of the restrictions in terms of not applying consistently across others areas of society was another major point of contention for hotels. Respondents often noted that similar levels of restrictions did not apply to other public spaces, especially shopping centres, supermarkets and large sporting venues. For some respondents it was felt that the hospitality industry had been unfairly singled out, with the combination of restrictions targeting the industry, general government communication and SA Health policy giving the impression of the “industry as a disproportionate spreader of COVID”. On this point a number of other respondents argued that activity had also been depressed by media “scaremongering” which had “impacted hugely on people’s attitude towards socialising and going out”.

The other common thread in the open comments was dissatisfaction with the timing and management of the reopening of the state’s border. A number of respondents stated that the state’s border should have remained closed until after the holiday season, which would have enabled venues to operate at much higher density levels at one of the busiest times of the year. For some it was felt that opening of the border had an immediate adverse impact on the willingness of people to socialise. As one respondent noted, “you cannot stop people mingling during festive season”, so opening the borders at that time was an unnecessary risk.

Other notable comments raised by multiple respondents or raised by single respondents included:

- restrictions that have been adopted do not recognise differences in the settings between hotels located in rural and metropolitan areas. For example, country hotels would be smaller on average meaning that restrictions tend to hit these venues harder.
- Policy measures lean too heavily toward excessive caution and do not recognise the capability of venues to look after their staff and customers in a safe manner.
- The existing decision making approach has not given sufficient consideration to business viability considerations.
- The approach to mandatory isolation and close contacts had a significant impact on a several venues. People would be “unwilling to dine indoors for fear of having to isolate if an active case is in the venue “, while another venue advised that they had to close their “hotel twice because of the close contact rules due to staff members being positive and both times no one else became infected”.
- Other government policies tend to reinforce the negatives impacts of hospitality specific activity restrictions. For example, venues within the CBD have also been negatively impacted by government advice to ‘work from home’ which has discouraged people from visiting the CBD.

2.7 Other comments

Respondents were invited to make open ended comments in regard to the impact of the current omicron wave and associated density limits on their business. In general, the comments mirrored those summarised in the previous section in respect of whether the state government’s health measures could have been implemented differently.

The most common responses focused on the financial stress and increased risk of business failure that the omicron wave and activity restrictions had placed on venues. Many respondents emphasised that the density limits were too “onerous” to maintain financial viability, and therefore effectively amounted to a “proxy lock down”. For some, the effects had been a “disaster”, having a “crippling” effect on the industry. Ongoing maintenance of activity restrictions at these levels would only increase the risk of business failure. Unsurprisingly, various other respondents called for the ending of all or most restrictions in order to enable venues to return to financial sustainability and preserve the livelihoods of their employees.

Several respondents observed that the omicron wave and activity restrictions came at a peak seasonal period – a time when some venues make the bulk of their yearly profit which is used to keep the business going during the quieter periods of the year. It would consequently take some time for venues to recoup their losses.

Multiple respondents drew attention to the hospitality industry being unfairly singled out in terms of the harshness of restrictions applying to the sector. These responses re-emphasised the inequitable nature of the restrictions discussed in the previous section in terms of the restrictions not applying equally to other activities that were considered to have a similar risk profile (e.g. retail, sporting events). And this inequitable treatment was continuing with QR check ins still being required for hospitality venues but not other industries.

Several respondents argued that the support measures put in place by the South Australian Government (e.g. COVID-19 Tourism, Hospitality and Gym Grant), which included an element based on changes in turnover, did not properly recognise the financial stress hospitality venues were being placed under due to the lack of a one-for-one relationship between changes in turnover and gross profits. They observed that density limits and voluntary social distancing had pushed demand toward off-premises consumption such as take away food and bottle shop sales, which were advised to have lower gross profit margins. Hence, reductions in turnover did not capture the severity of declines in gross profit margins, and some venues consequently missed out on receiving needed support.

Another common issue or challenge identified by respondents was an ongoing reluctance of people to engage in social consumption in public settings. The risk posed by the omicron variant, the need to impose restrictions, and SA Health's approach to messaging had generated fear and discouraged people from leaving their homes. There was consequently a need to restore people's confidence in engaging in social consumption to facilitate recovery within the hospitality sector. These views were encapsulated by one respondent who stated:

“The density limits are not the only root cause for the current challenges. A majority of the public does not want to go out and celebrate in the current environment. Most establishments do not run at capacity even under the current restrictions. We should focus on rebuilding confidence in the consumer and provide incentives to revitalise the industry – that's the bigger issue in my opinion. The media plays a big part in this role. They keep spreading anxiety and doom and gloom rather than encouragement and hope.”

Related to the need to rebuild confidence, another respondent observed that restrictions not only have an impact during their enforcement phase, they have a lagged effect whereby it takes time for people to regain confidence to re-engage in social consumption, “so even when you lift restrictions it takes weeks / months for patrons to return to a normal capacity”.

Other common or notable issues raised in the open-ended comments included:

- Social isolation rules and the need for close contacts to isolate for extended periods were a key issue for several respondents. The extended quarantine requirement for close contacts has resulted in the closure of venues or the unavailability of staff for lengthy periods, and has discouraged customer attendance due to fears of being designated a close contact.
- Constantly changing policies and confusion over the rules, including apparent logical inconsistencies (e.g. need to wear masks while standing but not while sitting, large crowds allowed at sporting venues), were a factor in discouraging people from visiting venues, and created a source of friction between venues operators and customers.
- Borders were opened too early and should have remained closed until after the holiday season.
- Impacts and restrictions were particularly significant for small business.
- A view from several respondents that the density limits did not have a material impact in terms of reducing the number of omicron cases.
- Regional and metropolitan venues should have different restrictions to recognise differences in their environmental settings.

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