



ARCA

FY26 H2

Policy Priorities:

Supporting Australia's Restaurant & Cafe Future

Prepared by the Australian Restaurant & Cafe Association (ARCA)
as part of our national industry advocacy agenda for FY26.



About ARCA

The Australian Restaurant and Cafe Association (ARCA) represents one of the most economically and culturally significant – yet increasingly vulnerable - sectors of the hospitality industry. Restaurants and cafes are critical to local communities and the broader economy, but they face mounting challenges, including rising costs, complex compliance, workforce shortages, and unsustainable rents.

ARCA was created to give this segment a strong, unified voice in national policy conversations. Our focus is on practical, collaborative advocacy that addresses the unique pressures on restaurants and cafes – from workforce and migration policy to tax to industrial relations and regulatory reform.

We work with industry and government to ensure this vital part of the economy is not left behind. ARCA is committed to ensuring restaurants and cafes have a seat at the table in shaping a more sustainable and resilient future for hospitality in Australia.

Segment Snapshot

56,305

Restaurants & cafes in the Accommodation & Foodservice Industry

700k

People employed in restaurants & cafes: largest under 25's-employing industry in Australia

1 in 9

Venues predicted to close in 2026, worse than 2025 closures

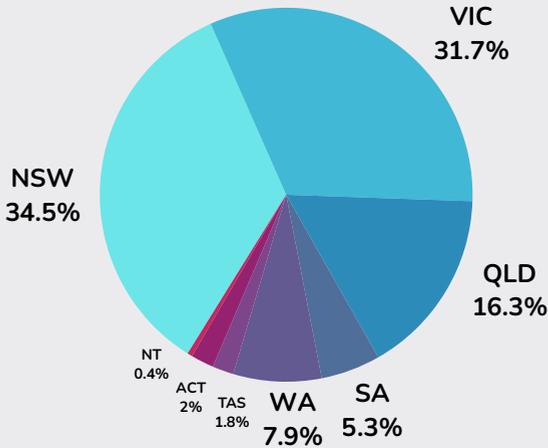


Hospitality in numbers: 2025

56,305

Restaurants & Cafes

(up 1.1% from last FY)



Restaurants & Cafes represent

49.85%

of the Accommodation & Foodservice Industry

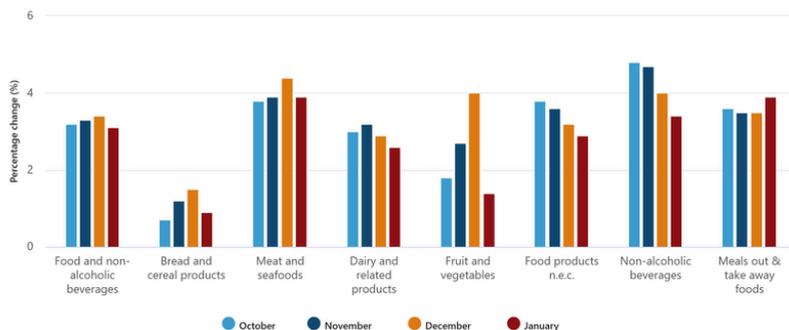
Takeaway	24.27% (up 4.4%)
Accommodation	12.22% (down 2.1%)
Pubs/Hotels/Bars	6.09% (down 1.2%)
Catering	4.4% (down 1.4%)
Clubs	3.17% (up 1.5%)

Source: ABS Entry Exit FY25 (abs.gov.au)

Hospitality in numbers: 2026

Segment generates **\$72 billion** per year in revenue, which is up 8.2% (Restaurants), up 5.4% (Cafes), and up 2.6% (Takeaway) 2021-2026. However profit margins have fallen to 2.8% (Restaurants) and 2.6% (Cafes), while Takeaway has grown to 8.1%.

Source: IBIS World



Monthly Household Spending Trends

The Consumer Price Index (CPI) rose 3.8%, unchanged from 3.8% in the 12 months to December 2025, steady from last month. Trimmed mean inflation was 3.4%, up from 3.3% in the 12 months to December 2025.

Annual inflation for Food and non-alcoholic beverages was 3.1% in the 12 months to January 2026, down from 3.4% to December 2025. Meals out and takeaway food prices rose **3.9%** in the 12 months to January 2026, with **elevated costs for wages and ingredients driving the rise.**

Monthly Menu Price Inflation

	Jun-24 (%)	Sep-24 (%)	Dec-24 (%)	Mar-25 (%)	Jun-25 (%)	Sep-25 (%)	Dec-25 (%)
Services - total	4.5	4.6	4.3	3.7	3.3	3.5	4.1
Restaurant meals	4.1	2.8	2.7	2.7	2.3	3.3	3.5

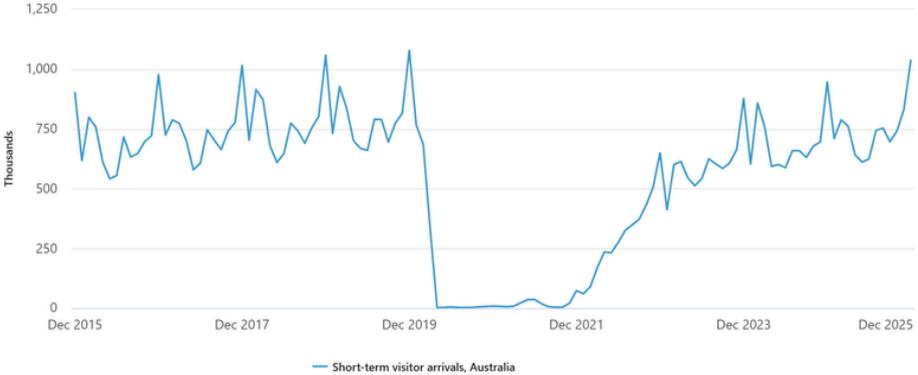
Restaurant Meals up **3.5%** YoY, one of the contributors to the **Services Inflation** that rose **4.1%** YoY.

Source: January 2026 CPI Indicators | ABS (abs.gov.au)

Source: December 2025 | ABS (abs.gov.au)

Demand Challenges

2.1 Short-term visitor arrivals



Source: Australian Bureau of Statistics, Overseas Arrivals and Departures, Australia December 2025

Inbound visitor numbers stubbornly remain below 2019 levels. Despite recent YoY increases, the long term drop compared to 2019 continues to affect hospitality businesses that rely on international tourism, particularly cafes and restaurants in major tourist regions.

Short term visitor arrivals in December 2025 YTD remains down 5.6% from Pre-COVID Levels, and December 2025 was down 3.8% from December 2019. NZ (#1) is flat (\$1700 spend) and China (#4) remains down 34.5% (\$10,000+ spend), noting NZ now accounts for 74% more arrivals than China.

-487k

Fewer visitors
in 2025



-20m

Fewer meals out
in restaurants &
cafes



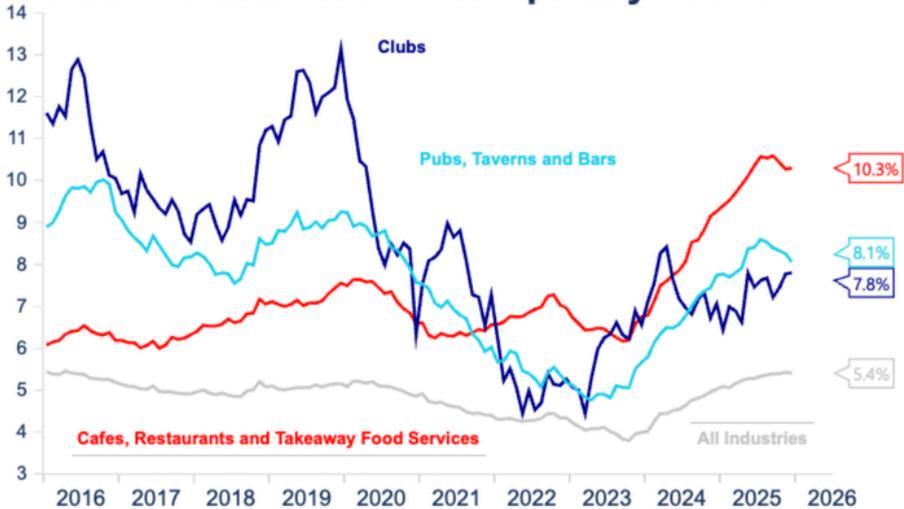
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Missed revenue
for restaurants
& cafes, an
unaffordable loss

Source: ABS Overseas Arrivals and Departures, Australia, February 2026
Estimates based upon 3 meals a day, 14 days, \$50 per meal

State of the industry

Business Failure Rates - Hospitality Sectors



Data source: Creditor Watch, ASIC, February 2025

Australia's cafes, restaurants and takeaway food services are facing a deepening financial crisis, with **failure rates reaching record highs** compared with other industries. According to the January 2026 Business Risk Index from CreditorWatch, **10.4 % of food service businesses closed** over the past year, nearly double the national average, making this the **worst-performing sector** in terms of closures and distress.

A major factor in this divergence is that the **hospitality sector has effectively split in two**. While pubs, clubs and bars have also experienced closures, their **annual failure rates are lower (around 8 %)**, and they have been more resilient thanks to stronger cash flows, higher margins on alcohol, and asset backing. In contrast, cafes and restaurants struggle on **very thin margins**, making them particularly vulnerable to economic shocks.

Arrears Trends - Hospitality Sector



Data source: Creditor Watch, ASIC, February 2025

The crisis is driven by several compounding pressures: **rising labour costs from successive minimum wage increases**, sharp rent increases in **premium locations**, significant **food price inflation (7.5 % over the last year)**, power and operating cost increases, and **limited access to credit**, especially for small independent operators. Many are also accumulating tax and trade debt.

Consumer demand is weakening as households feel cost-of-living pressures, leading to flat turnover in dining out and reduced discretionary spending. Without stronger pricing power, diversified revenue streams, or cash reserves, many smaller food service businesses face ongoing insolvency risk.

2.8%

Average Restaurant profit margin

2.6%

Average Cafe profit margin

91.4%

Businesses earn less than \$2m

Source: H4511A Restaurants in Australia - MyIBISWorld, November 2025

Source: ABS Counts of Australian Businesses, December 2025

Source: CreditorWatch Business Risk Monitor, February 2025

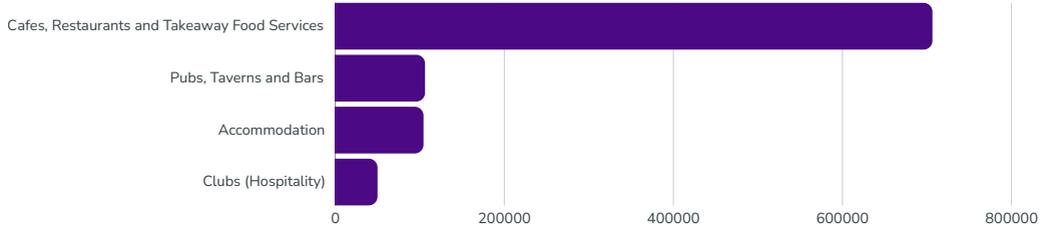


ARCA

Workforce

Accommodation & Foodservice Industry employs **981,100**, and is the 6th largest employing industry in Australia. Cafes, Restaurants and Takeaway Food Services is the largest sector in the Accommodation and Food Services industry, employing **706,500** workers, Nearly **500,000** working in Restaurants & Cafes (Jobs & Skills Australia). The median employee age is **25** and **52%** of employees are female.

Employment by industry sectors



Apprenticeships & Trainees: Food Trade Workers

	2021	2025
Commencements	7,330	4,060 (-44.6%)
In training	12,800	10,780 (-15.8)
Completions	2,410	2,575 (+6.9%)

Only **2575** people completed in 2025, while job vacancies in accommodation & foodservice remains near **50,000**.

Simply put, Australia is not producing enough food trade works to meet demand.

Staff Shortages	March 2026	
Chef	5422	
Sous Chef	2478	
Chef de Partie	2929	
Commis Chef	2811	
Cook	4216	
Kitchen Hand	3646	
Pastry Chef	593	Up YOY
Restaurant Manager	7209	159%
Restaurant Asst Manager	6872	1830%
Café Manager	3400	
Waitstaff	4338	
Barista	1386	
Bartender	2339	
Sommelier	211	
Host/Hostess	1811	
Total	49,661	
www.seek.com.au	159,276	
Percentage of all Seek Jobs	31.2%	

Workforce Policy Priorities

Challenge	Ask	Benefit
<p>SAF Levy: Hospitality businesses pay the SAF Levy upfront, even when visa applications fail—leaving employers out of pocket despite being major sponsors of skilled migrants.</p>	<p>-Reform the Skilling Australia Fund (SAF) Levy to support hospitality businesses who sponsored and employed 14.07% of the Temporary Skills Shortage and Skills in Demand visa recipients to 30 June 2025, including a mechanism to reimburse or credit SAF fees for unsuccessful visa applications.</p>	<p>-Reforming the SAF Levy would reduce unfair costs, support hospitality employers who sponsor skilled workers, and reinvest funds where workforce shortages are most acute.</p>
<p>TSMIT: Above the award rate at \$76k, a 4.6% increase YoY that businesses can't afford - and expected to hit \$80k in FY27</p>	<p>-Pin the TSMIT to the annual Minimum Wage Review Increase</p>	<p>Parity across wages - same job, same pay for Australian & foreign workers</p>
<p>International Student Hours: Current cap of 48 hours per fortnight</p>	<p>-Remove or increase cap on hours that an international student can work</p>	<p>Reduce staff shortages</p>
<p>Training: Current training funding prioritises are defunding Food Trade apprenticeships, which also have high dropout rates and don't suit fast-paced hospitality. There's little support for short, practical entry-level courses.</p>	<p>-Increase incentives for front-of-house Cert 3 & Diploma of Hospitality as a career path. Return apprenticeship subsidies to 2025 levels -Fund a nationally available, fully subsidized Hospitality Job-Ready Short Course Program.</p>	<p>Provides job-ready candidates, boosts workforce participation, reduces dropouts, and strengthens hospitality employment outcomes.</p>
<p>CSOL List: Cafe & Restaurant Managers removed from CSOL list in 2024 - now in 2026 Manager job listings are up hundreds of %</p>	<p>-Add Cafe & Restaurant Managers back onto the CSOL list permanently</p>	<p>More certainty / clarity around sponsoring workers</p>

Tax Policy Priorities

Challenge	Ask	Benefit
<p>Introduce a \$120 million, four-year Hospitality Productivity & AI Modernisation Fund to support education, adoption, and implementation of artificial intelligence in Accommodation & Foodservice to lift productivity and reduce operating costs and provide the funding that small hospitality businesses need to participate in the AI productivity revolution and build capability for the future.</p> <p>Up to \$10,000 per venue to support implementation of AI-enabled tools (e.g., workforce management, scheduling, automated reporting, inventory optimisation) with streamlined vouchers for small businesses to access approved digital solutions.</p>		
<p>Create a transparent taxation framework for Working Holiday Makers (WHMs) and international students including reviewing tax settings on superannuation contributions and “exit tax” arrangements to create more fairness and transparency, while reducing the disproportionate burdens on low-margin small businesses and short-tenure migrant, student and tourist workers.</p> <p>The combined effect is a double taxation system consisting of a 15% contributions tax at entry, and up to 65% tax at withdrawal-an up to 80% tax, this is effectively a payroll tax imposed on small hospitality businesses, with no productivity return, no labour-market benefit, and no retention impact.</p>		
<p>Tax on Tips / Gratuities: Very difficult to report on tipping</p>	<p>-Remove tax on gratuities / tipping</p>	<p>Transparency, increase to ABS average income for Accom & Foodservice, a real help to workers during the cost-of-living crisis</p>
<p>Payroll Tax: Thresholds have not been raised in line with wage increases + confusion over grouping</p>	<p>-Thresholds need to be raised at least in line with Minimum Rate increases. -Discuss grouping for 'like businesses' rather than 'barely related' entities</p>	<p>Payroll Tax is seen as a punishment tax on employment, and reduces funds that could be reinvested in the business to improve productivity</p>

Challenge	Ask	Benefit
Instant Asset Write-off:	<ul style="list-style-type: none"> -Increase the threshold to \$100,000 -Establish a permanent scheme -Increase scope for eligibility criteria 	Allows more funds to be reinvested into the business to improve productivity
GST Reform: Remove complexity	<ul style="list-style-type: none"> -Simplify GST Rules for Mixed-Supply Venues -Streamline GST compliance for venues offering both GST-free (e.g. bottled water, basic food) and GST-applicable items (e.g. prepared meals). -Reconsider the complexity and inconsistency of Australia's food GST laws (e.g. a muffin is GST-free until heated). 	Reduce bookkeeping complexity, avoids misclassification and audit risk, especially helpful for takeaway and multi-service venues



Challenge: Industrial Relations

Unintended Consequences

Woolworths and Coles Federal Court Decision-Awaiting Final Orders & Appeal (early 2026) — Impact on Restaurants & Cafés

The decision increases exposure to obviously unintentional underpayments IF the decision is upheld, which, depending on interpretations, may go back 6 years. This will lead to increased insolvencies in the industry, already at 1 in 9. Government must step in either to confirm annualization definition or to set guardrails and introduce a time-limited safe-harbour for self disclosure with staged remediation and waived penalties.

Potential Removal of Junior Rates - FWC decision expected early 2026

Removing junior pay rates would significantly increase staffing costs for entry-level roles, making it harder for venues to offer young people who predominantly live at home, their first job in hospitality and ultimately increasing menu prices.

Portable Long Service Leave

Early discussions of national rollout creating uncertainty and may increase expenses, levies and red tape for employers without improving retention. High proportions of student & foreign workers on temporary visas in hospitality means that many employers won't benefit from the scheme. (e.g. Leave ACT)

Annual Wage Review Volatility

Above-inflation wage increases with no productivity link create unpredictability for future wage costs. This impacts menu pricing, payroll forecasting, and long-term viability for small operators.

Ongoing Restaurant Award Complexity Reforms

Uncertainty around Modern Award simplification makes it difficult to plan staffing, ensure compliance, and manage classifications. This discourages hiring and adds risk for venues already navigating complex rostering obligations.

Migration and Skilled Worker IR Integration

Rising thresholds and changes to migration lists don't reflect real hospitality wage structures. This creates hiring delays and uncertainty for venues trying to sponsor essential skilled staff.

THE INDUSTRIAL RELATION PUZZLE FACING RESTAURANTS



Green Tick Pilot

Support ARCA to establish a Green Tick program to improve compliance with the Fair Work Act & Restaurant Award.

Key Challenge: Surcharge Ban



The Risk

The RBA's fast-tracked plan to ban card surcharges would force small hospitality venues to absorb rising merchant fees, removing a vital cost-recovery tool and shifting value to card issuers and premium cards at the expense of diners and small businesses.

Why it matters:

Costs shift to venues: Without surcharges, operators wear up to ~2% per sale in processing costs, even if merchant fees are reduced in the short term. 81% of restaurants & cafés currently pass through fees.

Prices will rise for everyone: With no way to steer or recover costs, menu prices increase across the board, even for those paying cash.

Choice and transparency disappear: Diners won't see the true cost of payment choices (cash/eftpos vs premium credit).

Less competition, higher fees: Surcharges encourage low-cost rails; a ban pushes usage to expensive cards, entrenching higher fees over time.

ARCA's Ask - Don't rush it, get this right:

1. Pause the blanket ban and conduct a full Regulatory Impact Assessment focused on hospitality.
2. Based on a review, potentially cut merchant fees first: cap interchange, ban anti-steering, and mandate least-cost routing (incl. wallets & tap-to-phone).
3. Preserve surcharge rights with transparency rules; if capped, limit to actual processing cost + minimal admin margin Or stick with debit only bans.
4. Publish quarterly fee data so businesses and consumers can see who benefits.

The outcome we want:

A balanced approach that **protects pricing flexibility**, keeps payment costs visible, and **supports small venues' viability**—so dining out remains **fair and affordable** for all.

Let's get this Right, not Rushed

Inflation Outcomes

The interest rate increase on 3 February 2026 will have a negative effect on restaurants & cafes around Australia:

Higher Cost of Borrowing - Even a seemingly small move like +0.25 % has a real impact on hospitality businesses that rely on debt.

Pressure on Margins - Hospitality margins are notoriously thin (now often < 3 %). Higher financing costs simply eat into that already narrow margin.

Reduced Consumer Spending - Interest rate rises tend to dampen household spending - even modest ones. As mortgage and credit card repayments increase, consumers have less discretionary income.

Cost Push through Suppliers - Interest rates don't just affect restaurants - they ripple through the supply chain. Higher financing costs for suppliers (food producers, beverage wholesalers, equipment vendors) can lead to higher input prices, especially for imported goods.

Hiring, Investment & Expansion Decisions - A modest rate rise increases the "hurdle rate" for investment. Owners become more cautious about taking on new leases, refurbishments or new venues. Hiring plans, especially for salaried roles, may be deferred. Operators often tighten wage growth or freeze positions when economic uncertainty rises (even slightly).

Psychological & Confidence Effects - *signal* from a rate rise matters as much as the number itself. Even a 0.25 % hike suggests monetary policy tightening - which can erode business confidence. Lower confidence often translates into delayed decisions, postponed investment, and a more conservative approach to growth.

Bottom Line - A 0.25 percentage point rate rise is small in macroeconomic terms, but for restaurants and cafés — already working with low margins and high fixed costs - it can have outsized effects:

- ✓ Higher financing costs
- ✓ Tighter cashflow and lower profitability
- ✓ Reduced consumer dining out spend
- ✓ Upward pressure on supplier costs
- ✓ Slower investment and hiring decisions
- ✓ Weaker business confidence



ARCA

Let's Build a Better Future for Hospitality

ARCA represents thousands of restaurants and cafes across Australia. We work with policymakers to secure practical, long-term solutions that support jobs, reduce cost pressures, and enable hospitality to thrive.

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