



ARCA

FY26 Q4
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 red-tape, workforce shortages, and demand issues.

ARCA's mission is 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

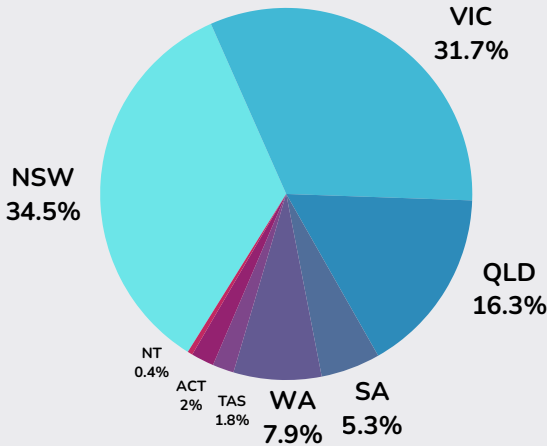


Hospitality in numbers: 2026

56,305

Restaurants & Cafes

(up 1.1% from last FY)



Restaurants & Cafes represent

49.85%

of the Accommodation & Foodservice Industry

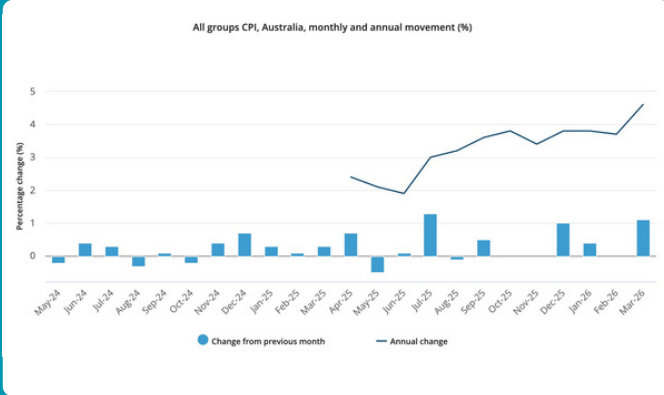
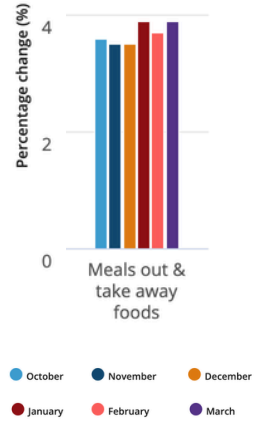
| | |
|------------------|--------------------|
| Takeaway | 24.27% (up 4.4%) |
| Accommodation | 12.22% (down 2.1%) |
| Pubs/Hotels/Bars | 6.09% (down 1.2%) |
| Catering | 4.4% (down 1.4%) |
| Clubs | 3.17% (up 1.5%) |

Source: ABS Entry Exit FY26 (abs.gov.au)

Hospitality in numbers: 2026

Segment generates **\$72 billion** per year in revenue, 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

Meals out and take away foods annual movement (%)



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

Monthly Household Spending Trends

The Consumer Price Index (CPI) **rose 4.6%**, up from 3.7% in the 12 months to February 2026. Trimmed mean inflation was 3.3%, unchanged from 3.3% in the 12 months to February 2026. In the month of March, the CPI rose 1.1% in original terms and rose 1.1% in seasonally adjusted terms. The **largest contributors** to annual inflation were Housing (+6.5%), Transport (+8.9%) and Food and non-alcoholic beverages (+3.1%).

Annual inflation for Food and non-alcoholic beverages was 3.1% in the 12 months to March 2026, unchanged from February 2026.

Monthly Menu Price Inflation

| % | 2025 | | | 2026 | | |
|--------------------|------|-----|-----|------|-----|-----|
| | Oct | Nov | Dec | Jan | Feb | Mar |
| Services - total | 3.9 | 3.6 | 4.1 | 3.9 | 3.9 | 3.6 |
| Meals & Dining out | 3.6 | 3.5 | 3.5 | 3.9 | 3.7 | 3.9 |

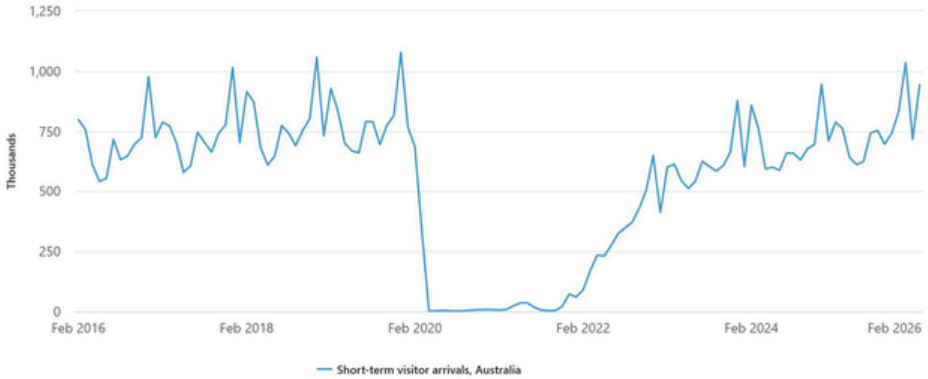
Source: March 2026 CPI Indicators | ABS (abs.gov.au)

Across the states and territories, Hobart recorded the fastest inflation rate at 5.1% in the year to January, followed by Adelaide at 4.9%. The softest annual outcomes were in Darwin and Canberra at 4.2%, which notably are still well above the RBA's target range.

Meals out and takeaway food prices rose 3.9% in the 12 months to March 2026, driven by elevated costs for wages and ingredients.

Demand Challenges

2.1 Short-term visitor arrivals



Source: Australian Bureau of Statistics, Overseas Arrivals and Departures, Australia February 2026

International tourism remains unstable. Inbound visitor numbers in 2026 remain stubbornly flat (+.09%) vs. 2019 levels. Despite recent YoY increases, the long-term stagnation compared to 2019 continues to affect hospitality businesses that rely on international tourism, particularly cafes and restaurants in major tourist regions. **No immediate recovery is in sight** as fallout from global instability persists and fuels uncertainty.

Short term visitor arrivals in 2025 were down 5.6% from Pre- COVID levels and 2026 was expected to be the recovery year.

-487k

Fewer visitors
in 2025



-20m

Fewer meals out
in restaurants &
cafes



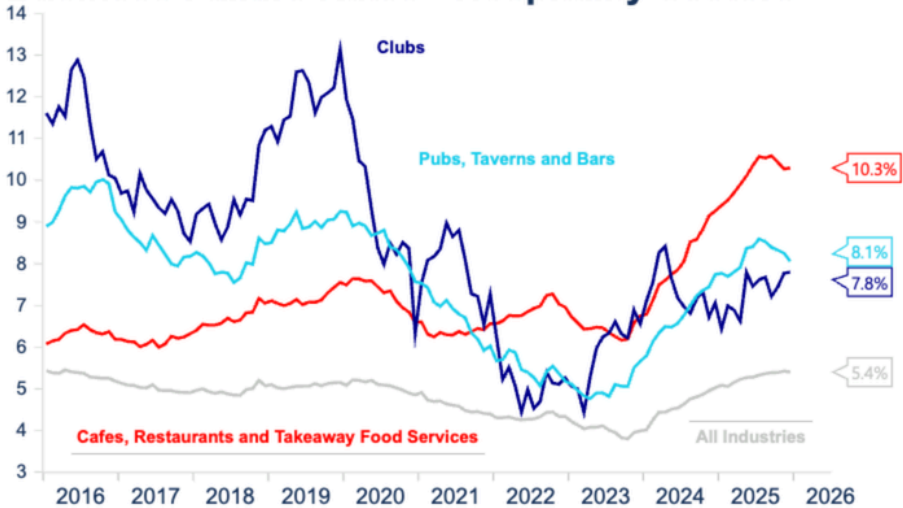
-\$1b

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

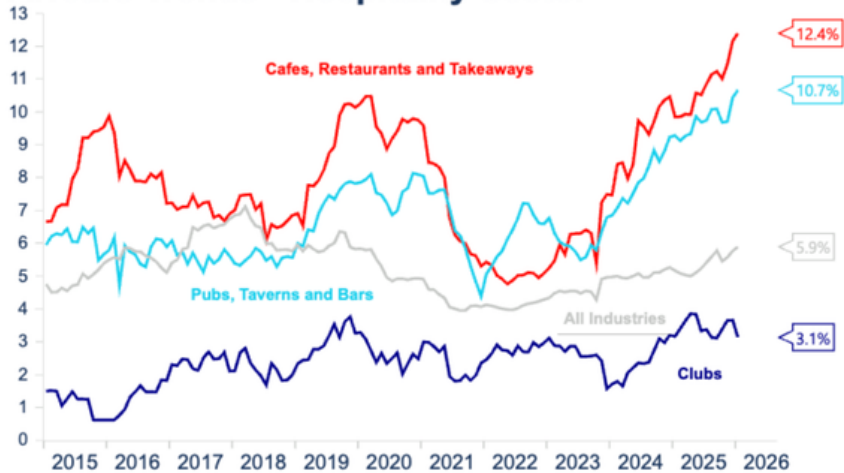


Data source: Creditor Watch, ASIC, February 2025

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

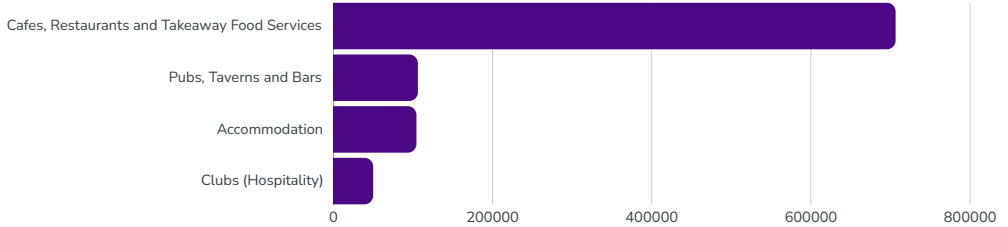
Source: ABS Counts of Australian Businesses, December 2025

Source: CreditorWatch Business Risk Monitor, February 2025

Workforce

Accommodation & Foodservice Industry employs **967,200**, and is the 6th largest employing industry in Australia. Cafes, Restaurants and Takeaway Food Services are the largest sector in the Accommodation and Food Services industry, employing **696,600** 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 **40,000**.

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

| Staff Shortages | April 2026 | |
|-----------------------------|---------------|---------------|
| Chef | 4512 | |
| Sous Chef | 2042 | |
| Chef de Partie | 2400 | |
| Commis Chef | 2331 | |
| Cook | 3849 | |
| Kitchen Hand | 2992 | |
| Pastry Chef | 453 | Up YOY |
| Restaurant Manager | 5182 | 97% |
| Restaurant Asst Manager | 5758 | 1407% |
| Café Manager | 2944 | |
| Waitstaff | 2770 | |
| Barista | 867 | |
| Bartender | 1487 | |
| Sommelier | 184 | |
| Host/Hostess | 882 | |
| Total | 38,653 | |
| www.seek.com.au | 157,584 | |
| Percentage of all Seek Jobs | 24.5% | |

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: Expected to rise to \$79,500 at 30 June 2026, well above the Award.</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 -Appreciate the \$20k permanent scheme, and need to increase the threshold to \$100,000 -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

Removal of Junior Rates from Restaurant Award - FWC decision in affect from Dec 2026 for Retail Award(s)

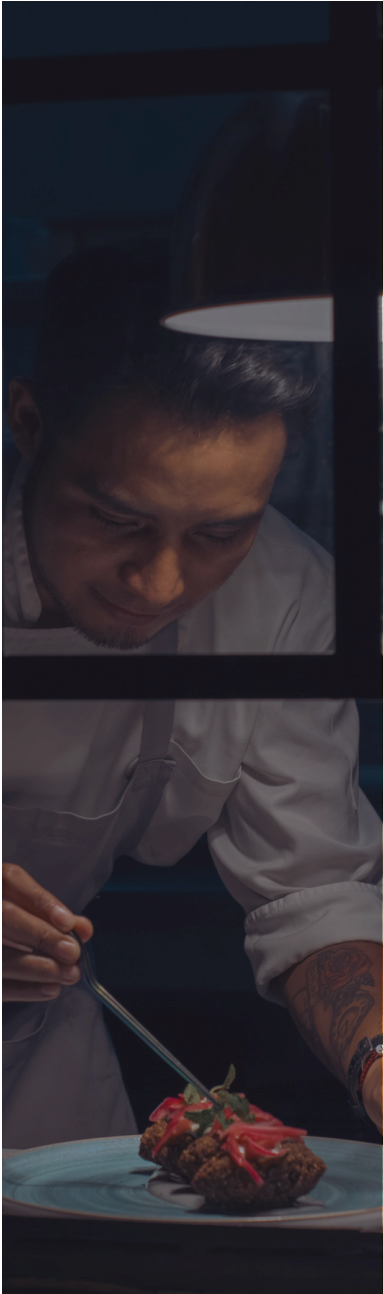
Removing junior pay rates from the Restaurant Award would significantly increase staffing costs for entry level roles, making it harder for venues to offer young people who predominantly live at home, their first job in hospitality and ultimately increasing menu prices.

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 annualisation definition or to set guardrails and introduce a time-limited safe-harbour for self disclosure with staged remediation and waived penalties.

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)



Challenge: Industrial Relations

Unintended Consequences (cont)

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.



Inflation Outcomes

The three consecutive interest rate increases in 2026 will have a compounding negative effect on restaurants & cafés across Australia:

Higher Cost of Borrowing - For hospitality businesses carrying loans, equipment finance, or overdrafts, this isn't marginal anymore – it's cumulative. Repayments rise, refinancing becomes more expensive, and working capital tightens.

Pressure on Margins - Hospitality margins are already razor thin (often <3%). A single rate rise hurts – three in succession **compress margins significantly**. Financing costs are no longer incidental; they become a meaningful line item that erodes profitability and reduces buffer for shocks.

Reduced Consumer Spending - Successive rate rises hit households harder than one-off moves. As mortgage repayments reset higher and credit becomes more expensive, discretionary spending contracts more sharply. Dining out – one of the first areas to be cut – **sees a noticeable decline in frequency and spend per visit**.

Cost Push through Suppliers - The impact flows through the entire supply chain. Suppliers – from producers to distributors – are also facing higher borrowing costs across multiple rate rises. This compounds into **sustained upward pressure on input costs**, particularly for imported goods and capital-intensive products.

Hiring, Investment & Expansion Decisions - Three rate rises in a row significantly lift the “hurdle rate” for investment. Operators become far more cautious: New venue openings are delayed, Refurbishments are reconsidered or scaled back, Hiring slows, particularly for salaried roles & Wage growth tightens or freezes. What might have proceeded after one rise is often **paused entirely after three**.

Psychological & Confidence Effects - This impacts sentiment as much as economics. Confidence drops across both operators and consumers, leading to: Delayed decision-making, Reduced risk appetite & More conservative business strategies. Even strong businesses shift into **defensive mode**.

Bottom Line - Three consecutive interest rate rises are no longer “modest” in effect — **they are structural for hospitality businesses** already dealing with low margins and high fixed costs:

- ✔ Significantly higher financing costs
- ✔ Sustained pressure on cashflow and profitability
- ✔ Sharper reduction in consumer dining spend
- ✔ Ongoing upward pressure on supplier costs
- ✔ Slowed or halted investment and hiring
- ✔ Noticeably weaker business confidence

Key Challenge:

Surcharge Confusion & Cost

Payment Methods Proposed to be Banned from Surcharging from 1 October 2026

The Reserve Bank of Australia (RBA) has indicated surcharging will be removed across **all designated card networks**

This includes:

- **Eftpos, Visa & Mastercard** Debit cards, Credit cards, Prepaid cards and **we recently learned American Express (AMEX)**.
- Applies based on network, not card origin: **Includes both domestic and foreign-issued cards**
- Captures the majority of everyday transactions: in-store payments, Domestic Online card payments, Digital wallets sitting on these rails (e.g. Apple Pay, Google Pay)

Payment Methods NOT Currently Captured (and Driving Confusion)

Three-party card schemes, Buy Now Pay Later (BNPL) platforms & Digital wallets & platform-based payments:

- **Diners Club / Discover / Union Pay (where separately routed)**
- Afterpay, Zip, Klarna, Other installment-based payment providers
- PayPal, Alipay, WeChat Pay, Other stored-value or account-based wallets

Plus Emerging / alternative payment systems:

- Account-to-account (A2A) payments (e.g. PayTo)
- QR-based payment platforms
- Closed-loop or app-based payment ecosystems
- Prepaid / stored value systems not running on Visa/Mastercard rails

▼ **Impact on Restaurants, Cafés and Consumers.** Removal of surcharging eliminates a direct cost-recovery mechanism.

Currently up to ~2% per transaction. Costs will be embedded into menu pricing: All consumers pay more, including cash payments regardless of payment method.

Disproportionate impact on hospitality: Margins typically 2–3%, High transaction volumes, Limited ability to absorb additional costs. **This is not just a payments reform – it is a pricing, margin and viability issue for restaurants & cafés.**

Reduces:

Price transparency

Consumer choice

Ability to steer to lower-cost payment methods

Risks:

Increased use of higher-cost payment types

Reduced competitive pressure on payment providers



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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