ARCA

FY27 Q1

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 FY27.

About ARCA

The Australian Restaurant and Cafe Association (ARCA) is the national peak body representing Australia's restaurant and cafe sector, a significant contributor to the national economy and to local communities.

ARCA works directly with government to ensure policy decisions reflect the operational realities of restaurants and cafes, supporting a more sustainable and resilient hospitality industry.

ARCA's Top Priorities for FY27

PRIORITY	ASK	HOW
WORKFORCE & MIGRATION (The Growth Constraint)	**Improve Skilled Migration for Hospitality**	Remove WHM visa pause Re-work recent 407 and skilled visa constaints based on real shortages Reduce cost to small operators i.e. SAF Levy Speed Up Visa Processing Retain key occupations Fund Pathways
COST OF DOING BUSINESS & PRODUCTIVITY	**Focus on Capability Building**	AI adoption incentives Regulatory simplification (remove red tape) National Standards
PRODUCTIVITY THROUGH INVESTMENT	**Help small businesses invest rather than survive**	Improve the Trust Tax reforms Increased asset write-offs Introduce an AI & Productivity Investment Incentive

Segment Snapshot

56,305

Restaurants & cafes in the Accommodation & Foodservice Industry

700k

People employed in Restaurants, cafes & Takeaway: Ranking 6th of all industries & largest under 25's-employing industry in Australia

1 in 10

Venues predicted to close in 2026, worse than 2025 closures according to Creditors Watch

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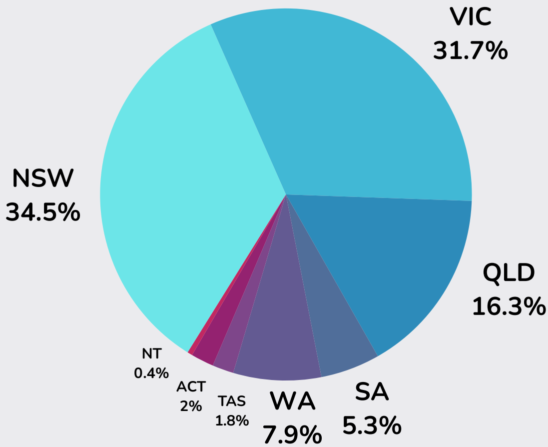
Hospitality in numbers: 2026

56,305

Restaurants & Cafes

(up 1.1% from last FY)



Restaurants & Cafes represent

49.85%

of the Accommodation & Foodservice Industry

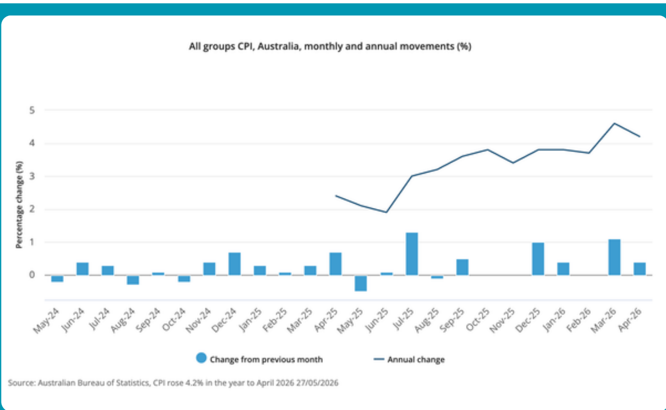
Takeaway	24.27% (up 4.4%)
Accommodation	12.22% (down 2.1%)
Pubs/Hotels/Bars	6.09% (down 1.2%)
Catering	4.4% (down 1.4%)
Clubs	3.17% (up 1.5%)

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

Hospitality in numbers: 2026

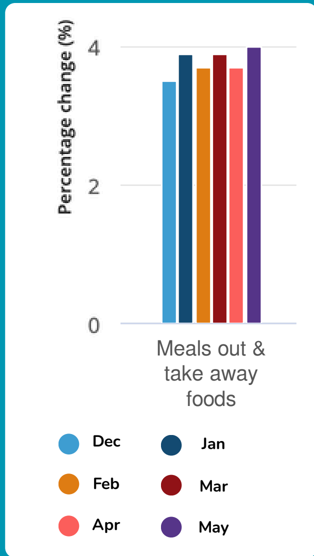
Segment generates $72 billion per year in revenue, up 8.2% (Restaurants), up 5.4% (Cafes), and up 2.6% (Takeaway) 2021-2026. However, profit margins have fallen to 2.8% (Restaurants) and 2.6% (Cafes).

Source: IBIS World



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

Meals out and take away foods annual movement (%)



Monthly CPI Trends

The Consumer Price Index (CPI) rose 3.8%, down from 4.0% in the 12 months to May 2026.

Trimmed mean inflation was 3.6%, unchanged from 3.6% in the 12 months to May 2026.

Annual inflation for Food and non-alcoholic beverages was 3.3% in the 12 months to June 2026, unchanged from May 2026.

Meals out and takeaway food prices were the main contributor, rising 4.0% in the 12 months to June 2026, driven by rises in ingredient, wages and operating costs.

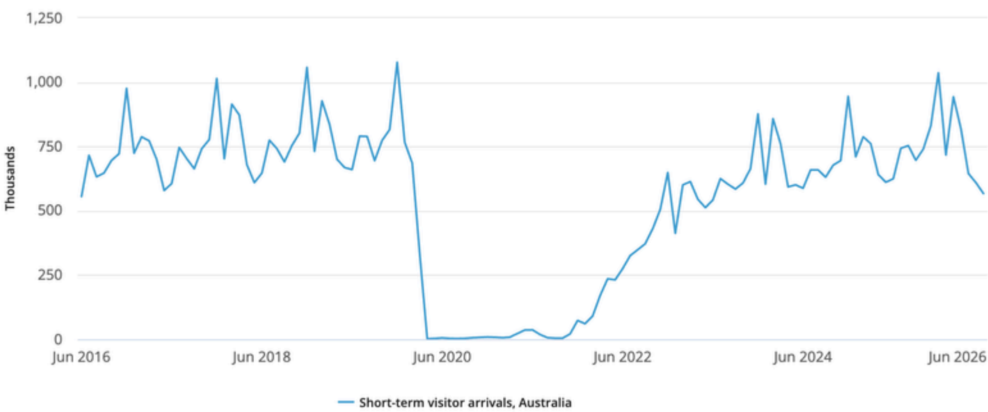
Monthly Menu Price Inflation

	2025			2026					
%	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Services - total	3.9	3.6	4.1	3.9	3.9	3.6	3.5	3.7	4.0
Meals & Dining out	3.6	3.5	3.5	3.9	3.7	3.9	3.7	4.0	4.0

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

Demand Challenges

Short-term visitor arrivals



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

It's now **OFFICIAL;** the International Tourism Downturn is **REAL**. Short Term Visitor Arrivals in June were down over 9% from 2025, and down over 14% from 2019. Despite recent news headlines of record travellers, the truth is that cuts to Tourism bodies budgets have a **REAL NEGATIVE EFFECT** on the numbers.

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.

-487k

Fewer visitors in 2025

→

-20m

Fewer meals out in restaurants & cafes

→

-$1b

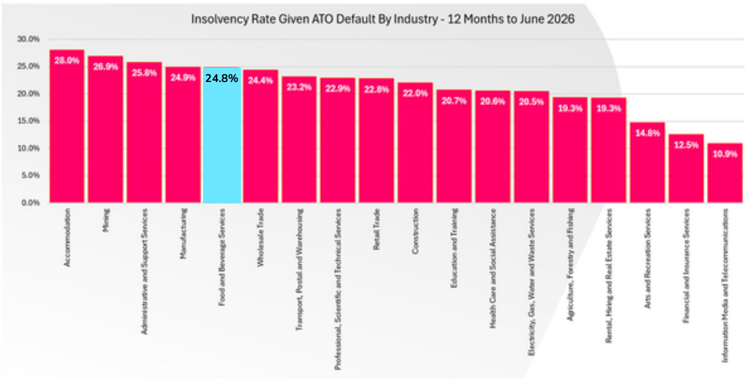
Missed revenue for restaurants & cafes, an unaffordable loss

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

ATO Tax Debt and Insolvency Risk

July 2026 CreditorWatch Business Risk Index



Key findings:

- FY26 insolvency review: improvement, but uneven
- ASIC data for 2025–26 shows a decline in overall insolvency numbers compared to the previous financial year, with insolvencies totalling around 0.5% of all operating businesses as at 30 June. This improvement reflects the lagged benefits of earlier policy support, including income tax cuts and a period of interest rate stabilisation, which provided some relief to business cash flow and balance sheets.

Implications for restaurants and cafes:

However, this headline improvement masks a more uneven underlying picture. While insolvencies declined across most sectors, Accommodation & Food Services (-15%) and Construction (-4%) continue to carry structurally higher levels of risk.

In Hospitality in particular, insolvency rates remain around **three times the national average**, reflecting the sector's ongoing exposure to **thin margins**, **high labour costs** and **sensitivity to changes in consumer spending**. Even with improved conditions, many businesses in this sector are still operating with limited buffers.

ATO tax debt signals elevated insolvency risk

- The number of businesses with ATO tax debts exceeding $100,000 has increased in recent months, with the past four months among the highest readings since the resumption of ATO collections activity following the COVID pandemic. Businesses with ATO tax debts over $100k average 22% insolvency rate – 31x the average
- At the same time, more businesses are being removed from the tax default register, likely reflecting repayment arrangements with the ATO, which partially moderates the forward risk signal. However, the underlying relationship remains clear: **Businesses with tax debts over $100,000 experienced insolvency rates above 20% over the past 12 months in most industries.**

Outlook

While insolvencies declined in FY26, forward indicators suggest conditions are becoming more challenging. Key signals include: Elevated trade payment defaults, Rising ATO tax debts, Continued pressure from interest rates and fuel costs. Together, these factors point to increasing financial stress across parts of the Australian business landscape throughout FY27.

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, July 2026

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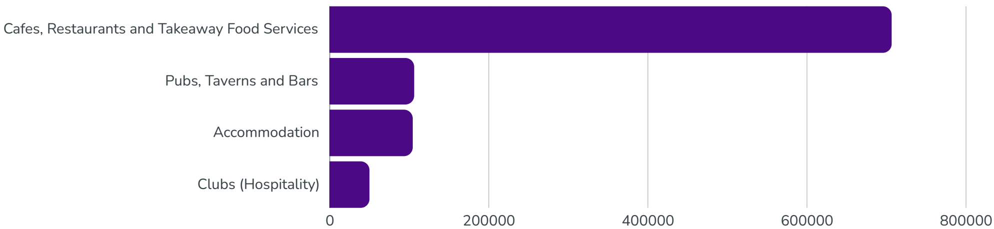
Workforce

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	7,050	**4,285 (-39.3%)**
In training	12,810	**9,970 (-22.1%)**
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	August 2026	
Chef	7172	
Sous Chef	2407	
Chef de Partie	2771	
Commis Chef	2115	
Cook	5241	
Kitchen Hand	4995	
Pastry Chef	733	**NEED**
Restaurant Manager	4024	
Restaurant Asst Manager	3190	**10,581**
Café Manager	3367	
Waitstaff	4451	
Barista	2994	
Bartender	3630	
Sommelier	212	
Host/Hostess	474	
Total	**47,776**	
www.seek.com.au	165,365	
Percentage of all Seek Jobs	28.9%	

Workforce Policy Priorities

Challenge	Ask	Benefit
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 (i.e. 82% of all Trade Apprentices and Trainees in Construction Trades as of 31 December 2025)	-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.	Provides job-ready candidates, boosts workforce participation, reduces dropouts, and strengthens hospitality employment outcomes.
CSOL List: Cafe & Restaurant Managers removed from CSOL list in 2024 - now in 2026 Manager job listings are up hundreds of %	-Add Cafe & Restaurant Managers back onto the CSOL list permanently	More certainty / clarity around sponsoring workers
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.	-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.	-Reforming the SAF Levy would reduce unfair costs, support hospitality employers who sponsor skilled workers, and reinvest funds where workforce shortages are most acute.
International Student Hours: Current cap of 48 hours per fortnight	-Remove or increase cap on hours that an international student can work	Reduce staff shortages

Tax Policy Priorities

Challenge	Ask	Benefit
Trust Tax Changes: A significant proportion of restaurants and cafés **operate through family trust structures** for **legitimate** commercial, succession, financing and risk management reasons. Proposed trust taxation changes risk creating excessive effective tax rates, double taxation outcomes, major restructuring costs, and substantial compliance burdens for small hospitality businesses already operating on margins often below 3%.	**Delay implementation of trust tax changes and undertake urgent redesign to avoid unintended over-taxation of active trading small businesses**, including carve-outs for genuine family-run hospitality businesses and active trading entities.	Prevents major unintended tax shocks, avoids forced restructures, preserves cashflow and employment, reduces compliance costs, and ensures hospitality businesses are not unfairly captured by reforms aimed at non-operating wealth structures.
Hospitality Productivity & AI Capability Gap: Restaurants, cafés and accommodation businesses are among Australia's most labour-intensive and lowest-margin sectors, yet many small operators lack the capital to invest in productivity-enhancing technology, automation and AI tools. Without targeted support, small hospitality businesses risk being left behind in the AI productivity transition, widening the productivity gap, increasing operating costs, and reducing long-term competitiveness.	**Introduce a $120 million, four-year Hospitality Productivity & AI Modernisation Fund,** including grants or streamlined digital vouchers of up to **$10,000 per venue** to support implementation of approved AI-enabled tools such as workforce management, rostering, scheduling, automated reporting, inventory optimisation, forecasting and operational analytics.	Accelerates productivity growth, reduces labour and compliance costs, improves business resilience, supports digital capability uplift, encourages AI adoption among SMEs, and helps hospitality businesses remain competitive while preserving jobs and service standards.

Challenge	Ask	Benefit
Unfair Tax Treatment of Working Holiday Makers & International Students: Current taxation settings create disproportionate costs and complexity for hospitality businesses that rely heavily on short-tenure migrant and student workers. The current superannuation framework effectively creates a double-tax regime, with a 15% contributions tax at entry and up to 65% tax on withdrawal, resulting in effective tax rates approaching 80% with no corresponding productivity, retention or labour-market benefit. This acts as a hidden payroll tax on low-margin hospitality employers.	**Create a transparent and fair taxation framework for Working Holiday Makers and international students,** including urgent review of superannuation contribution taxation, departure superannuation tax ("exit tax"), and associated payroll/tax settings to reduce distortions and disproportionate cost burdens on hospitality SMEs.	Reduces hidden employment costs, improves workforce participation, enhances transparency and fairness, supports labour supply in critical hospitality roles, improves employer confidence, and removes inefficient tax settings that currently penalise both workers and small businesses.

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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)

continued

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 had 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	Payment Methods The GREY zone	Key RISKS
The Reserve Bank of Australia (RBA) has indicated this includes: • **Eftpos, Visa & Mastercard** Debit cards, Credit cards, Prepaid cards and **American Express (AMEX).** • Network, not card origin: **Includes both domestic and foreign-issued cards** • Digital wallets such as Apple Pay and Google Pay when routed through these networks • Domestic and foreign-issued cards operating on these networks	The RBA decision **does not** automatically capture: • BNPL platforms such as Afterpay, Zip and Klarna • PayPal, Alipay and WeChat Pay • PayTo and other account-to-account payments • QR, closed-loop and app-based payment systems • Diners Club, Discover and UnionPay when separately routed Will vary depending on the provider, network and transaction routing - creating confusion for operators, employees and customers.	• Higher menu prices and lower margins • Customers subsidising higher-cost payment methods • Less ability to encourage lower-cost payments • Point-of-sale confusion and disputes • Inconsistent implementation by payment providers

🌊 **SURCHARGE TSUNAMI: THE COST DOESN'T DISAPPEAR. IT MOVES.**
One deadline. Multiple payment rails. A wave of cost and confusion.

No regulator-Both ACCC and RBA have "passed the buck" to Payment Service Providers. The card networks or payment service providers will be responsible for enforcing these rules, not the ACCC. Merchants typically deal with their acquirer or payments service provider. Card schemes set rules for these participants. The RBA does not directly regulate merchants.

When surcharging ends across the card networks, payment acceptance costs will remain - forcing restaurants and cafés to absorb them or increase prices for every customer. At a 2% acceptance cost, a $100 card payment costs the operator $2. For restaurants and cafés operating on margins of only 2–3%, that can consume most or all -of the profit from the sale.

Operators must either absorb the cost or increase menu prices - including for customers paying with cash or lower-cost methods. The surcharge change starts on 1 October 2026, yet foreign-card interchange caps do not commence until 1 April 2027 - creating a six-month exposure.

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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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