



**2020-21
PRE-BUDGET
SUBMISSION**

AUGUST 2020



28 August 2020

By E-mail: prebudgetsubs@treasury.gov.au

Dear Sir/Madam,

RE: 2020-21 PRE-BUDGET SUBMISSION

We refer to the Treasury's invitation to file a Pre-Budget Submission for 2020-21. Restaurant & Catering Australia ("**R&CA**") is pleased to provide a submission in this matter. Please note that this submission should be read as an addendum to our previous 2020-21 submission that was provided in December of 2019.

R&CA is the national industry association representing the interests of more than 47,000 restaurants, cafés and catering businesses across Australia. The café, restaurant and catering sector is vitally important to the national economy, generating over \$37 billion in retail turnover each year as well as employing 450,000 people. Over 92 per cent of businesses in the café, restaurant and catering sector are small businesses, employing 19 people or less.

R&CA delivers tangible outcomes to small businesses within the hospitality industry by influencing the policy decisions and regulations that impact the sector's operating environment. R&CA is committed to ensuring the industry is

recognised as one of excellence, professionalism, profitability and sustainability. This includes advocating the broader social and economic contribution of the sector to industry and government stakeholders, as well as highlighting the value of the restaurant experience to the public.

Introduction

R&CA's position is clear. Due to the dramatic impact of COVID-19, industry operators continue to face ongoing challenges to their operating conditions. Given overwhelming majority of businesses in our sector are small business, these challenges associated COVID-19 pandemic are extensive and risk the very survival of thousands of businesses across the county.

The restaurant industry also has a low capital intensity. While it is anticipated that the hospitality industry would face a substantial increase in employment over the next three (3) year period, it is now the case that COVID-19 pandemic will undoubtedly have significant adverse effects on the potential growth of an already struggling industry.

Further, in the current economic climate, and with the hospitality industry being one of the most significantly affected industries as a result of the pandemic, it is important that business operators, in particular, small business operators, receive maximum Government assistance and support to meet the current challenges and demands and thereafter.

R&CA welcomes the opportunity to provide its Pre-Budget Submission to the Australian Treasury outlining its policy recommendations for its consideration in relation to the forthcoming 2020-21 Federal Budget.

Status Quo Across Restaurant, Café and Catering Sector

As at 30 June 2019, there were, according to the most recent ABS count, 43,587 cafes and restaurants and 3,869 catering companies in Australia, contributing more than \$37 billion annually to Australian GDP and employing more than

450,000 people nationally.

Preliminary evidence has indicated that as many as 10% of those business have already closed their doors permanently, with more expected once government support schemes cease.

The restaurant, cafes and catering sector was forecasted to be a primary driver of employment growth pre-COVID, with the Department of Jobs and Small Business stating that the cafe, restaurant and takeaway food subsector was expected to generate an additional 74,700 workers by May 2023. When expressed in terms of percentage growth, the sector is expected to experience employment growth of 11.9 per cent. Most significantly, the projected growth for the café, restaurant and takeaway food sector is larger than any other industry subsector and represented across employment classes and levels including chefs, cooks, managers and wait staff.

However, these promising forecasts were crushed by the economic impact of COVID-19. As at May 2020, the hospitality sector saw a total of 441,000 jobs affected. Looking ahead, R&CA believes that given the right economic conditions and support, the restaurant, café and catering Sector has the potential to create tens of thousands of jobs for Australians in a post-COVID economy.

Recommendations

1. Apprenticeships

- a. Monetary incentives should be continued for businesses who engage apprentices to continue and complete apprenticeships;
- b. Monetary incentives for small businesses retaining apprentices to be expanded to business operators of all sizes and to apply to existing apprentices and trainees beyond March 2021;
- c. The Government's incentive for a 50% wage subsidy for apprenticeships to extend beyond March 2021.

2. VET programs

- a. Continued commitment into education and training for school students before their transition into practical pathways, traineeships and apprenticeships, with a key focus on micro-credentialing courses;
- b. Introduction of a VET Students Loan Scheme to alleviate the existing financial barrier in the current scheme structure.

3. Visa Application Charges

- a. A reasonable reduction in the current pricing arrangements for TSS visa applications to encourage Australia's competitiveness, promote skilled migrant work and the viability of the hospitality industry following the easing on international travel restrictions.

4. Working Holiday Maker Visa

- a. A reduction in the costs associated with applications for Working Holiday Maker Visa's from \$450.00 to \$390.00 or less, consistent with the Government's previous commitment.

5. Recovery Loans

- a. Recovery loans offered and provided to affected businesses to assist with the transition off JobKeeper 1.0 and the subsequent JobKeeper 2.0 Scheme in September 2020 and March 2021 respectively.

6. Industrial Relations Accreditation to Reduce Compliance Costs

- a. Funding should be provided to employer associations and specialist training bodies for the development and implementation of training programs relating to industrial relations compliance to reduce long term costs.

7. Increase in the Superannuation Guarantee

- a. An increase in the Superannuation Guarantee to \$750.00 per month in line with the current national minimum wage and CPI.

8. Fringe Benefits Tax

- a. Removing the FBT impact on food and beverages for a minimum of two years.

9. Deductibility for Business Meals

- a. Businesses to deduct the cost of meals to encourage patronage and support economic activity in the current economic climate.

10. Review of ANZSCO Codes

- a. A review of the ANZSCO Codes to ensure they are reflective of current trends.

11. ATO Small Business Benchmarking

- a. A review of the benchmarking data to be undertaken to ensure that they are reflective of the current economic climate and trends.

12. Removal of CGT and GST on Sold Businesses and Assets Due to COVID-19

- a. The removal of the CGT and GST to allow pandemic affected businesses to be sold more efficiently and at less while reducing the purchaser costs.

Skills Shortages & Implications

As a result of the COVID-19 pandemic, a large number of migrant workers, having been excluded from most government assistance packages, were forced to return home. As a result, the Government predicted a 30% reduction in the number of migrants this financial year, with an anticipated 85% reduction in the 2020-21 financial year. The return of many migrant workers, together with the currently existing international travel bans, have created significant skills shortages in the hospitality industry, particularly in 'front of house' roles where working holiday visa workers are prevalent. Further, the nature of the current skills shortage affecting the hospitality industry is especially problematic for business operators, as the shortages are most acute amongst the highly skilled occupations of cooks, chefs and café and restaurant managers. This concern has largely been exacerbated by the fact that such roles are generally difficult to fill, with the 2019 R&CA Benchmarking Report reporting approximately 30.6% of survey respondents reporting "extreme difficulty" and a further 19.58% reporting "some difficulty" filling front of house labor vacancies.

With these implications in mind, R&CA proposes that Government assistance and support be provided to young Australians, particularly school students, by way of funding for traineeships, apprenticeships and micro-credentialing courses as both a temporary and a long term measure to support and revive the hospitality industry and the economy as a whole.

(a) Apprenticeships

While R&CA supports the Government's commitment to continue the funding of apprenticeships, in particular the 50% wage subsidy for small business operators who engage apprentices, R&CA expresses particular concern for business operators following the expiration of the JobKeeper subsidy in March 2021. As such, R&CA expresses support in the following terms:

1. Monetary incentives to be continued for businesses who engage, continue and complete apprenticeships;
2. Incentives for small businesses retaining apprentices to be expanded to business operators of all sizes and to apply to existing apprentices and trainees beyond March 2021; and
3. The Government's incentive for a 50% wage subsidy for apprenticeships to extend beyond March 2021.

(b) VET Students Loan Scheme and Micro-Credentialing Courses

In light of the skills shortage identified above, together with the limited Skills Levy Fund in the current climate, R&CA proposes that further federal leadership is provided to states by way of investment to vocational education and training. To further this, R&CA recommends significant investment for school students in the hospitality industry by way of education and training, the facilitation of programs to improve opportunities for practical development before transitioning into practical pathways, traineeships and apprenticeships.

Additionally, R&CA recommends that the Government amend the current structure of the VET Students Loans Scheme to increase the accessibility of courses which, in turn, would correct the existing barriers of the current system. For instance, students wishing to enroll into a VET course must pay upfront the total costs of the program before they enroll. While NSW and Victoria have implemented free, government supported places for VET courses, R&CA proposes that leadership at a federal level would provide significant value in this regard. R&CA submits that implementing the same, or substantially the same incentives, at a national level, together with introducing a VET Students Loan Scheme would de-establish current barriers in the existing system and drive

future enrolments, particularly when it is much needed for the hospitality industry in the current economic climate.

Micro-credentialing is one key tool which serves an opportunity for high school students to gain entry-level training, often serving as a pathway to an apprenticeship. In the hospitality industry, these courses include responsible service of alcohol, barista courses, cocktail-making and knife-skilling courses. Micro-credentialing courses allow students to specialise in a particular course and develop a particular skill set, while creating a lower barrier for entry into the workforce. The short duration of such courses allow students to complete the course well before finalising an apprenticeship (which is generally for up to 4 years) while, at the same time, committing to secondary school studies. For these reasons, R&CA submits that the Government should continue to emphasise the importance by providing support for such courses, which would serve as a practical pathway for entry-level workforce entrants, particularly to address areas of skills shortages.

Visa Application Charges

R&CA notes that the current pricing arrangements for a TSS visa (Subclass 482) stands at \$1,175.00 for a short-term skilled occupation and \$2,455.00 for a medium or long term skilled occupation. The current pricing arrangements are significantly high and do not reflect the current COVID-19 affected market. R&CA submits that the current arrangements serve only as a disincentive and proposes that the current pricing arrangements be reasonably reduced to encourage Australia's competitiveness, promote skilled migrant work and the viability of the hospitality industry once the restrictions on international travel are eased.

Working Holiday Maker Visa

Noting the areas of skill shortage above, R&CA notes that applications fees associated with Working Holiday Makers (WHMs) are significantly high, currently standing at \$450.00. This is problematic as it serves as a disincentive for migrant workers who wish to choose Australia as a suitable destination for work, especially when the restrictions on international borders are eventually lifted.

This is further aggravated by the fact that hospitality business operators are heavily reliant on migrant workers applying by way of WHMs and the Government's previous commitment to reduce WHMs from \$450.00 to \$390.00 has to date not been met.

Unemployment, its Implications, and the Recovery Pathway

The COVID-19 pandemic has predictably adversely affected the job market. As a result, at the time of writing, the unemployment rate in Australia rose to approximately 7.5% (the highest figure since November 1998) despite seasonally adjusted employment increasing by approximately 114,700 people between June and July 2020. It is anticipated that the Australian unemployment rate will continue to rise in the 2020-21 forecast, particularly as a result of the Stage 4 restrictions imposed by the Andrews Government in Victoria and the economic uncertainty caused by the pandemic.

In light of the above, R&CA proposes and supports wage subsidies which reflect the current depressed job market. As such, the Association recognises and supports the recent changes to JobKeeper and JobSeeker subsidies, both of which, as noted, have been extended to March 2021. Notwithstanding this extension, the Association recognises that many businesses, particularly small business operators who are substantially reliant on the JobKeeper subsidy, will be forced to cease operations entirely, resulting in a further spike in unemployment figures. As such, the Association advocates for additional financial support for those industries which have been directly affected by the pandemic to assist with their transition into the recovery phase. This has been observed by the deferred commencement date of the national minimum wage increase for affected industries as well as recovery loans. The Association has identified two forms of recovery, which include:

1. Recovery loans; and
2. Industrial relations accreditation with the view to reduce compliance costs.

(a) Recovery Loans

R&CA notes that most state governments provide for a disaster relief loan for small businesses. Small businesses in NSW, for example, may apply for a low interest loan of up to \$130,000 if they have been significantly affected by a natural disaster and meet other eligibility requirements.

These loans should also be repaid under a similar arrangement that exists for HECS debt, whereby the business is not required to repay the loan unless revenue is equal to their year on year revenue.

Noting that the management and disbursement of recovery loans are largely performed by states and territories, R&CA submits that further support provided by way of federal leadership be provided to affected businesses to assist with the transition off JobKeeper 1.0 subsidies and the JobKeeper 2.0 subsidy in September 2020 and March 2021 respectively.

(b) Industrial Relations Accreditation to Reduce Compliance Costs

It is R&CA's view that upskilling business operators is equally as important as upskilling employees. So much is true in the light of the recent underpayment claims, which R&CA understands that nearly 22% of Australians were reportedly underpaid in the last financial year. More recently, the Fair Work Ombudsman, in its Priorities and Approach Report for 2020-21, identified fast food, restaurants and cafes as a "priority sector" and emphasised education, advice and various dispute resolution tools as a reform agenda to address issues of potential non-compliance. According to the Fair Work Ombudsman and the Registered Organisations Commission 2019-20 Portfolio Budget Statements, the Ombudsman reported increasing costs related to compliance as \$120,959 and \$129,168 for the years 2018-19 and 2019-20 respectively. The Ombudsman further estimated these expenditures to increase for 2020-21, 2021-22 and 2022-23 as \$134,169, \$136,195 and \$139,670 respectively.

Based on the continuing increasing costs for regulatory bodies, R&CA proposes that funding be re-distributed and re-invested to employer associations and specialist training bodies for the purposes of developing, implementing, and conducting training programs on compliance. Employer associations would be better placed to provide industry specific tools to educate its members to remain

compliant with workplace laws and instruments. Business operators which then successfully complete the training program would then receive an appropriate accreditation to reflect the attainment of knowledge and compliance and ultimately reducing costs relating to non-compliance and prosecution.

Increasing the Superannuation Guarantee Threshold

The Superannuation Guarantee threshold was established in 1996 at \$450.00 per month when the minimum wage, at that time, was \$9.19 per hour. However, under the *Restaurant Industry Award 2020*, the current threshold is, and has, remained at \$350.00 per month. With the 1.75% increase in the minimum wage announced by the Fair Work Commission this year, bringing the national minimum wage to \$19.84 per hour (before tax), the Superannuation Guarantee threshold has remained at \$350.00 per month (i.e., more than double from at the time it was introduced). Given this, R&CA proposes that the Superannuation Guarantee threshold be increased to \$750.00 per month to reflect the current minimum wage.

Fringe Benefit Tax

The federal Fringe Benefits Tax (FBT) was introduced on 1 July 1986. FBT was payable on restaurant meals, which were considered a fringe benefit for employees rather than a legitimate cost of doing business and had an immediate and dramatic effect on business entertaining, particularly the business lunch. This effected all ends of the food spectrum, from high end CBD restaurants to neighborhood BYOs. Since the FBT didn't apply to in-house dining, boardroom lunches replaced restaurant entertaining for many companies.

Removal of FBT on restaurant meals would strongly encourage the revitalisation of CBD venues, who have been hit hardest by COVID-19 restrictions and work-from-home arrangements and who will continue to struggle until domestic and international tourism restrictions are lifted.

This initiative would benefit businesses and employees, e.g. tradies, builders, hairdressers. For example, it would allow an employer to shout a good staff

member a meal or a weekend away. This is about jobs and stopping more businesses going to the wall. This initiative will also encourage businesses to reward their staff in the hospitality, accommodation and tourism sector, which needs it most.

Arguments against the removal of FBT, have often been based on the “equity principle”. Unfortunately, the equity principle of FBT has been circumvented largely by those who it was intended to capture. Many large-scale firms provide in house benefits that would otherwise attract FBT, e.g. childcare, gymnasiums, and board room lunches. This circumvention gives those firms with the scale to avoid FBT an unfair advantage over smaller to medium enterprises. This proposal would put small to medium businesses on the same FBT footing that these larger businesses have successfully enjoyed.

This would be a win for employers and employees - at relatively little cost to the Government.

Introduce Deductibility for Business Meals

Similar to the removal of the Fringe Benefits Tax, R&CA recommends that businesses should be permitted to deduct the cost of meals, which would encourage patronage at a wide range of hospitality and food service businesses.

Given its wide reaching impact across the hospitality sector, these changes would be particularly beneficial in the current economic climate to encourage consumer spending while providing meaningful support to small businesses. This should occur for a limited period of time in conjunction with changes to FBT.

Review of ANZSCO Codes

R&CA notes that since the introduction of the Australian and New Zealand Standard Classification of Occupations Codes (the “**Codes**”), the Codes have only been reviewed twice, with the next review expected to occur in 2026 following the results of the national Census. In light of the continually evolving nature of the workforce, together with the importance of the Codes in the

determination of visa applicants' eligibility for various skilled migration programs, R&CA proposes that the current codes be reviewed as a matter of priority.

ATO Small Business Benchmarking

Small business benchmarks are an effective tool which assists small business operators to cross-check the performance of their business against other similar businesses in the same industry, including the hospitality sector. The benchmarks are based on the largest set of data available extrapolating data from over 1.5 million small businesses revealing trends in turnover taking into account variations, such as business location and individual business circumstances. In the current climate, R&CA advocates for the current data to be updated in order to provide an accurate representation of data in the current climate.

Removal of CGT and GST on Sold Businesses and Assets Due to COVID-19

In some circumstances, pre-CGT shares in a company and/or trust may become subject to CGT. Businesses which sells, transfers or otherwise disposes of a capital asset may also be subject to GST implications. Generally, business operators are required to declare these payments in their activity statements for the relevant taxation period.

It is R&CA's view that nearly 25% of all businesses in the hospitality sector may not re-open having being impacted by the COVID-19 pandemic. As such, the removal of the CGT and GST would allow those affected businesses to be sold more efficiently and at less cost to themselves while reducing the upfront cost for the new purchaser.

Conclusion

R&CA greatly appreciates the opportunity to provide its Pre-Budget Submission to the Australian Treasury outlining its major policy recommendations in relation to the forthcoming 2020-21 Federal Budget. R&CA argues that the budgetary positions for 2020-21 should be considered and designed with a view to improve

the current business operating conditions, particularly when considering the current and post pandemic economic climate, equally with considerations for improving economic performance.

If you wish to discuss R&CA's views further, do not hesitate to contact Victor Song (Senior Adviser – Industrial Relations and Policy) by email on victors@restaurantcater.asn.au

We thank you again for the opportunity to make this submission.

Regards,

A handwritten signature in black ink, appearing to be 'Wes Lambert', written in a cursive style.

Wes Lambert CPA FGIA MAICD
Chief Executive Officer
Restaurant and Catering Australia