



Restaurant  
& Catering

# Federal Budget 2019-20

## R&CA Submission to the Australian Treasury

### JANUARY 2019

## RESTAURANT & CATERING AUSTRALIA

Restaurant & Catering Australia (R&CA) is the national industry association representing the interests of over 45,000 restaurants, cafes and catering businesses across Australia. 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.



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## INTRODUCTION

As the only national industry association representing the interests of over 45,000 cafés, restaurants and catering businesses in Australia, R&CA is well-placed to provide feedback regarding the policy settings required at a Commonwealth Government level to ensure the continued viability and success of the sector. The café, restaurant and catering sector is vitally important to the national economy, generating over \$26.7 billion in retail turnover each year<sup>1</sup> as well as employing 630,100 people.<sup>2</sup> Critically, over 92 per cent of businesses in the café, restaurant and catering sector are small businesses, employing 19 people or less.<sup>3</sup>

Given the importance of the café, restaurant and catering sector to the national tourism industry and to the Australian economy more generally, R&CA argues that the overarching policy settings at a Commonwealth Government level must be structured in such a way which supports rather than inhibits the growth of the sector. In doing so, the Commonwealth Government would ensure that the broad spectrum of benefits associated with this growth will be maximised for the benefit of the thousands of business-owners and employees across the sector.

R&CA's biggest priorities in relation to the 2019-2020 Commonwealth Budget remain the areas of skilled migration, taxation, vocational education and training (VET), as well as the small business operating environment more broadly. The forecast employment growth for the sector, generating an additional 74,700 jobs by May 2023<sup>4</sup>, presents several unique challenges including the intensifying crisis generated by skills shortages across vital hospitality positions such as cook, chef and café and restaurant manager. In light of this problem, many of R&CA's recommendations for the 2019-2020 Commonwealth Budget are aimed at ameliorating the ongoing skills shortages problem inhibiting the future growth of the sector.

Whilst the skills shortage problem is particularly acute, this is not the only focus of the Association in articulating its priorities for the 2019-2020 Commonwealth Budget. The policy settings affecting the small business operating environment, including the structure of the fringe benefits tax program,

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<sup>1</sup> ABS (2018) 8501.0 - Retail Trade, Australia, Oct 2018.

<sup>2</sup> Department of Jobs and Small Business (2018) *Employment projections for the five years to May 2023*.

<sup>3</sup> ABS (2018) 8165.0 - Counts of Australian Businesses, including Entries and Exits, Jun 2013 to Jun 2017.

<sup>4</sup> Department of Jobs and Small Business (2018) *Employment projections for the five years to May 2023*.

the reduction of electricity and gas prices and the continued operation of the instant asset write-off program, are also of significant interest to the Association.

# RECOMMENDATIONS

<b>1. TREASURY</b>
<b>a. INSTANT ASSET WRITE OFF PROGRAM</b>
<ul style="list-style-type: none"><li>▪ Funding an extension of the instant asset write-off program until at least 30 June 2019 with a view towards making this program permanent and possibility expanding the eligibility requirements.</li></ul>
<b>b. SUPERANNUATION GUARANTEE</b>
<ul style="list-style-type: none"><li>▪ Raise the Superannuation Guarantee Threshold to \$750 per month (\$2,250 per quarter) and index to CPI.</li></ul>
<b>c. FRINGE BENEFIT TAX</b>
<ul style="list-style-type: none"><li>▪ Small businesses with an annual turnover less than \$2 million should be exempt from paying FBT entirely under the Small Business Entity concessions.</li></ul>
<b>2. FOREIGN AFFAIRS &amp; TRADE</b>
<b>a. TOURISM AUSTRALIA</b>
<ul style="list-style-type: none"><li>▪ Commit to increased funding for Tourism Australia in real terms over the forward estimates.</li></ul>
<b>3. IMMIGRATION</b>
<b>a. VISA FEES AND CHARGES</b>
<ul style="list-style-type: none"><li>▪ Commit to a meaningful reduction in the cost of the TSS visa applications for both the short-term and medium-term streams.</li></ul>
<b>b. WORKING HOLIDAY MAKER REFORM PACKAGE</b>
<ul style="list-style-type: none"><li>▪ Reinstate the Commonwealth Government's previous commitment to reduce the Working Holiday Maker visa fee to \$390.</li></ul>
<b>c. SKILLING AUSTRALIANS FUND LEVY</b>
<ul style="list-style-type: none"><li>▪ Halve the quantum of the existing SAF levy charged to sponsoring businesses for each visa application.</li><li>▪ Guarantee \$1.5 billion investment in Skilling Australians Fund regardless of the amount generated through the levy.</li></ul>

- Expand refund provisions associated with TSS-visa applications so that businesses are refunded the SAF levy in the event of any unsuccessful applications, regardless of the reasons involved.
- Non-upfront payment options for the SAF levy should be made available to employers when processing applications.

#### **d. REVIEW OF ANZSCO CODES**

- Commission the Australian Bureau of Statistics (ABS) to conduct a comprehensive and wide-ranging review of the existing Australian and New Zealand Standard Classification of Occupations (ANZSCO) codes list with immediate effect.

### **4. ENVIRONMENT AND ENERGY**

#### **a. COST OF ELECTRICITY AND GAS**

- The 2019-20 Commonwealth Budget include specific measures designed to reduce the cost of electricity and gas prices.
- That no new taxes, levies or charges that increase the cost of electricity or gas are included in the 2019-20 Budget.

### **5. EDUCATION & TRAINING**

#### **a. NATIONAL VET MARKETING CAMPAIGN**

- A sophisticated and wide-reaching national marketing campaign targeting increased enrolments and completions of VET sector courses should be funded by the Commonwealth Government, with a minimum investment of \$10 million.

#### **b. VET STUDENT LOAN SCHEME**

- Reinstate the Diploma and Advanced Diploma of Hospitality on the approved course list at band \$10,000 or \$15,000 as part of the VET Student Loan scheme.

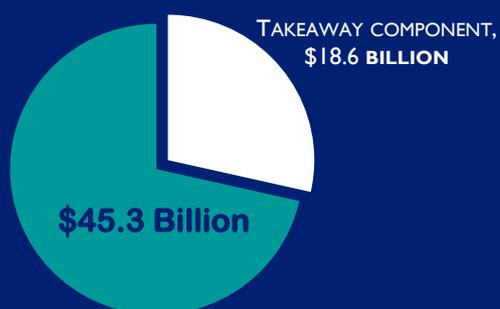
#### **c. INDUSTRY SPECIALIST MENTORING FOR AUSTRALIAN APPRENTICES**

- Funding for the Industry Specialist Mentoring for Australian Apprentices program for industry specific mentoring should be extended for an additional two years as part of the 2019-20 Commonwealth Budget.

INDUSTRY SNAPSHOT: CAFÉ, RESTAURANT AND CATERING SECTOR

**THE SECTOR CONTRIBUTES**

**\$45.3 BILLION** TO THE NATIONAL ECONOMY



**EXPENDITURE ON RESTAURANT AND TAKEAWAY MEALS IN 2016-17 ACCOUNTED FOR 16 CENTS OUT OF EVERY TOURIST DOLLAR**



**THE SECTOR**

**EMPLOYS 630,100 PEOPLE**

**EXPECTED TO REACH 704,800 BY MAY 2023.**



**45,092**

**CAFÉS, RESTAURANTS & CATERING BUSINESSES IN AUSTRALIA**

**92.1% ARE SMALL BUSINESSES**



**EMPLOYMENT GROWTH IS PROJECTED AT 11.9% OR 74,700 JOBS BY MAY 2023**

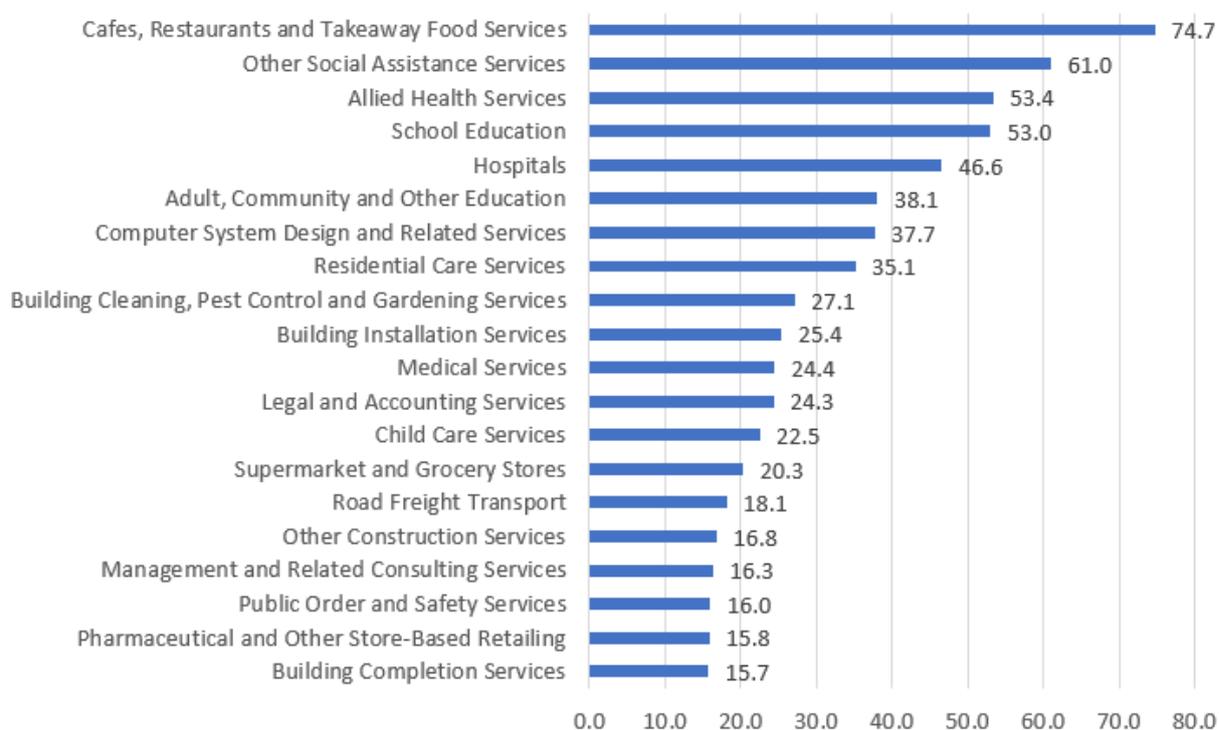
**THIS RATE OF GROWTH IS HIGHER THAN ANY OTHER INDUSTRY SUBSECTOR IN THE AUSTRALIAN ECONOMY.**

## OVERVIEW OF KEY HOSPITALITY SECTOR TRENDS

### PROJECTED EMPLOYMENT GROWTH

Based on the current projections, the hospitality sector is expected to account for an increasing proportion of jobs growth in the Australian workforce over the coming five years. According to the most recently published employment projections from the Department of Jobs and Small Business, the cafe, restaurant and takeaway food subsector is expected to generate an additional 74,700 workers by May 2023<sup>5</sup>. When expressed in terms of percentage growth, the sector is expected to experience employment growth of 11.9 per cent.<sup>6</sup> Most significantly, the projected growth for the café, restaurant and takeaway food sector is larger than any other industry subsector. The projected employment growth associated with the café, restaurant and takeaway food sector vis-à-vis other industry subsectors is demonstrated in Figure 1 below.

**Figure 1: Top 20 industry sectors ranked by projected growth to May 2023 ('000s)**

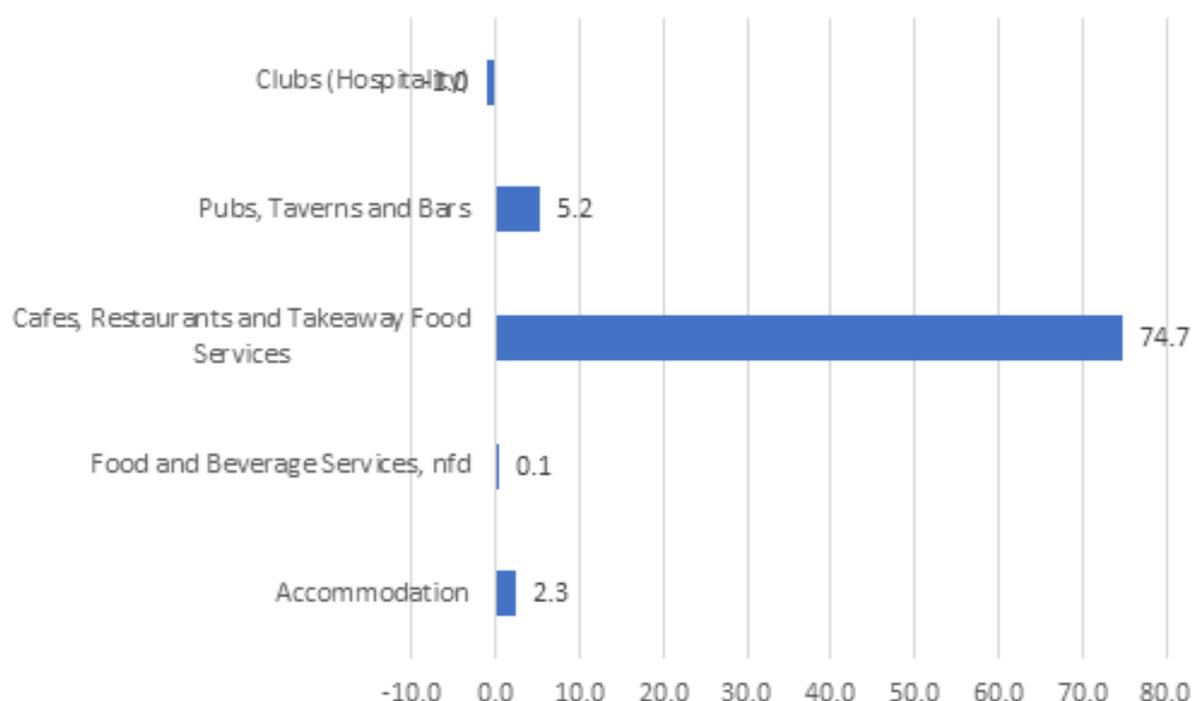


Source: Department of Jobs and Small Business (2018) *Employment projections for the five years to May 2023*.

<sup>5</sup> Department of Jobs and Small Business (2018) *Employment projections for the five years to May 2023*.

<sup>6</sup> Ibid.

**Figure 2: Employment growth projections to May 2023 – Accommodation and Food Services Industry**



Source: Department of Jobs and Small Business (2018) Occupation Projections to May 2023.

### DEMAND AMONGST KEY HOSPITALITY SECTOR OCCUPATIONS

When analysing the projected jobs growth across the café, restaurant and catering sector, it is apparent that several key occupations will account for a significant proportion of overall positions. Figures published by the Department of Jobs and Small Business included in Figure 2 below show that projected growth in the number of cooks, chefs and café and restaurant managers is expected to collectively generate an estimated 28,500 new positions in the next five years.<sup>7</sup> Significantly, all three positions are projected to experience double-digit percentage growth over the five year period to May 2023, with 16.7 per cent growth in the number of chefs, 13.9 per cent growth in the number of café and restaurant managers and 13.6 per cent growth in the number of cooks.<sup>8</sup> When represented as a percentage of the total jobs growth in the café, restaurant and takeaway food sector over the same period, these three occupations account for 38.2 per cent of all positions.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

**Figure 3: Employment growth projections by hospitality occupation to May 2023**

Unit Group Code	Occupation	Employment level May 2018 ('000)	Department of Employment Projections		
			Projected employment level May 2023 ('000)	Projected employment growth five years to May 2023	
				('000)	(%)
3514	Cooks	45.5	51.8	6.2	13.6
3513	Chefs	100.8	117.5	16.8	16.7
1411	Cafe and Restaurant Managers	69.4	79.0	9.7	13.9

Source: Department of Jobs and Small Business (2018) Occupation Projections to May 2023.

## CURRENT SKILL SHORTAGES

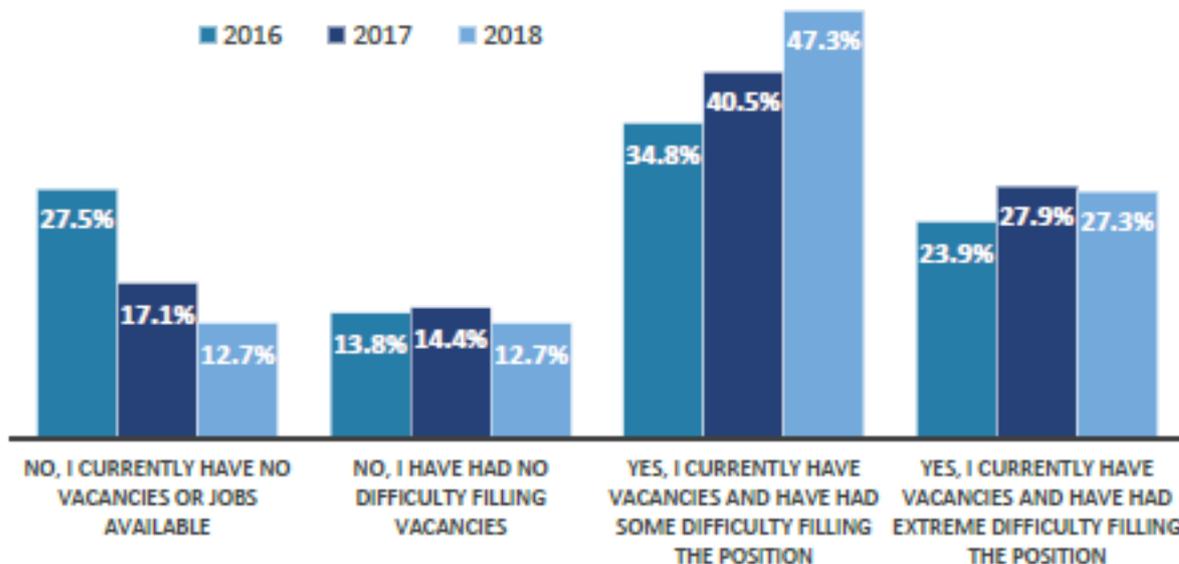
The significant jobs growth associated with the hospitality sector over the next five years and growing demand amongst employers in filling vacancies amongst key positions has magnified the effect of existing skills shortages. In the absence of significant government intervention, R&CA anticipates that skills shortages amongst key hospitality occupations will continue to deteriorate, putting the full spectrum of economic benefits associated with the sector's persistent growth at risk. R&CA therefore urges the Commonwealth Government to implement a set of favourable policy settings aimed at reversing this worrying trend.

Evidence collected from R&CA's member businesses has shown a steadily increasing level of difficulty in recruiting for job vacancies within their businesses over the past 3 years. According to data from R&CA's 2018 Industry Benchmarking Report, 47.3 per cent of business-owners reported experiencing 'some' difficulties in filling positions, compared to 34.8 per cent in 2016 and 40.5 per cent in 2017.<sup>9</sup> An additional 27.3 per cent of respondents also reported experiencing 'extreme' difficulties in filling staff vacancies.<sup>10</sup> In total, almost three-quarters (74.6 per cent) of business-owners experienced either some or extreme difficulty in filling job vacancies. R&CA would anticipate this number to increase in the 2019 survey as skills shortages affecting the sector continues to intensify. A breakdown of the data collected in R&CA's 2018 Industry Benchmarking Report overviewing employers' recruitment difficulties is contained in Figure 4 overleaf.

<sup>9</sup> Restaurant & Catering Australia (2018) 2018 Industry Benchmarking Report, p.21.

<sup>10</sup> Ibid.

Figure 4: Hospitality Businesses' Difficulty in Filling Job Vacancies Compared to Last Financial Year



Source: Restaurant & Catering Australia 2018 Industry Benchmarking Report, p.22.

## DIFFICULTY IN FILLING KEY POSITIONS

The nature of the current skills shortage crisis affecting the hospitality industry is especially problematic for business-owners, as the shortages are most acute amongst the highly skilled occupations of cooks, chefs and café and restaurant managers. As is the case amongst all vacancies in the hospitality sector, the difficulty associated with recruiting for each of these skilled positions has increased dramatically in recent years.

R&CA's 2018 Industry Benchmarking Report indicated that the most difficult position to fill over the 2016-17 financial year was chef with almost half of all operators (48.2 per cent) reporting that filling chef vacancies in their businesses was 'very difficult'.<sup>11</sup> A further 21.3 per cent of operators stated that they had experienced some difficulty in recruiting for chefs.<sup>12</sup> Café or restaurant manager vacancies were also amongst the most significantly difficult vacancies to fill with 41.1 per cent of survey respondents reporting extreme difficulty and a further 15 per cent reporting some difficulty.<sup>13</sup> Finally, the position of cook also saw 23.3 per cent of operators experience extreme difficulties in filling vacancies with 35.2 per cent reporting some difficulty.<sup>14</sup> A complete breakdown of all

<sup>11</sup> Ibid.

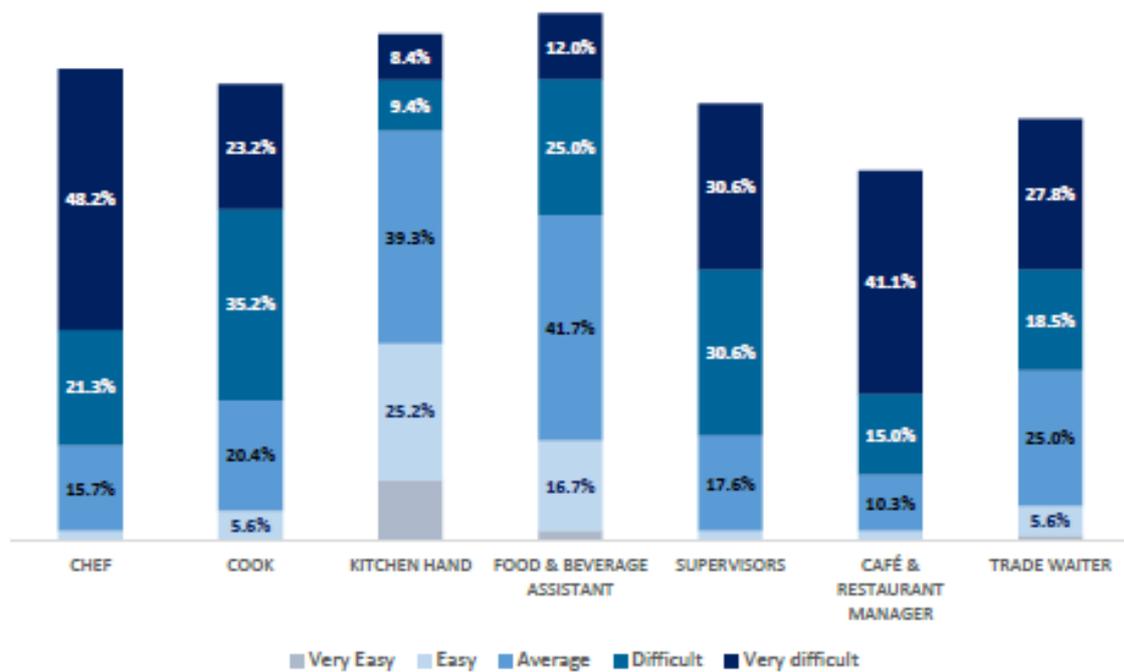
<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

hospitality positions and the corresponding level of difficulty in filling vacancies amongst those positions is represented in Figure 5 below. Given the importance of these positions in filling vacancies, R&CA strongly urges the Commonwealth Government to address these difficulties through targeted investment in skills, training and immigration programs as part of the 2019-20 Budget.

**Figure 5: Hospitality Businesses' Difficulty in Filling Key Occupations Over Past 12 Months**



Source: R&CA 2018 Benchmarking Report, p.23.

## I. TREASURY

### A. EXTENSION OF INSTANT ASSET WRITE-OFF PROGRAM

Since its inception as part of the 2015-2016 Commonwealth Budget, the Instant Asset Write-Off Program has enjoying significant popularity amongst small-business owners, particularly amongst the café, restaurant and catering sector. In each of the subsequent Commonwealth Budgets delivered since the program was first announced, it has been extended by an additional 12 months with the current program set to expire as of 30 June 2018. R&CA argues that this program allowing small businesses with an annual turnover of up to \$10 million to immediately deduct eligible assets each costing less than \$20,000 should be extended for an additional 12 months until 30 June 2019 as part of the provisions contained in the 2019-2020 Budget.

Whilst a 12-month extension of the program would be a welcome measure, R&CA believes that a sufficient amount of time has elapsed to warrant closer inspection of the program. Given that the program has been extended for several financial years, R&CA believes that it would be an appropriate step to convert this program to a permanent measure to give small business-owners certainty each financial year, rather than having to wait until confirmation is provided from the Commonwealth Government at a Budget time. In addition, R&CA also believes that the eligibility requirements for this program could also be relaxed by expanding the turnover threshold from \$10 million to \$20 million so that more businesses are able to access it.

#### **Recommendation**

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- Funding an extension of the instant asset write-off program until at least 30 June 2019 with a view towards making this program permanent and possibility expanding the eligibility requirements.

### B. SUPERANNUATION GUARANTEE

The Superannuation Guarantee (SG) threshold was established in 1996 at \$450 per month at a time when the minimum wage was \$9.19 per hour. However, under the *Restaurant Industry Award 2010*, the current SG threshold is \$350 per month. Today the minimum wage under this Award is \$18.29 per hour (at an introductory level) which is nearly double what it was 1996.<sup>15</sup> Despite this growth,

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<sup>15</sup> Fair Work Ombudsman (2017) *Pay Guide - Restaurant Industry Award 2010 [MA000119]*, 2 August.

the SG threshold has remained the same. Based on the growth in the minimum wage over the last two decades, the SG threshold should be set at approximately \$750 per month or \$2,250 per quarter.

The failure of the SG threshold to keep up with the persistent increases to the minimum wage over the last two decades represents a significant imposition on both small and large businesses alike. For hospitality operators, this represents an increase in the costs associated with employing staff without any corresponding increase in productivity to offset this increase. The rising costs involved in employing staff are reflected in R&CA's 2018 *Industry Benchmarking Report* which found that, on average, 48.1 per cent of a typical hospitality business' total expenditure was related to employing staff including staff training and on-costs, an increase from the previous financial year.<sup>16</sup> Given these significant pressures, R&CA recommends that the SG threshold be raised to \$750 per month or \$2,250 per quarter and that it be indexed to CPI.

## Recommendation

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- Raise the Superannuation Guarantee Threshold to \$750 per month or \$2,250 per quarter and index to CPI.

### C. FRINGE BENEFIT TAX (FBT)

R&CA has long advocated for changes to the Fringe Benefits Tax (FBT) system, recognising the compliance cost to small businesses is proportionately higher than for large corporations. This argument has centred on the inequity that exists in the ability of small businesses to employ strategies to avoid FBT compared to big business. For instance, large, well-resourced corporations can employ FBT-avoidance strategies such as having boardroom catering or "in-house" meals rather than ordering meals from a café or restaurant. Small businesses simply do not have the resources to adopt the same kind of FBT-avoidance strategies of larger businesses, contributing to the inherent unfairness of this system.

The hospitality sector is further affected by the FBT system due to the treatment of restaurant meals as employee fringe benefits, as opposed to a legitimate form of doing business. R&CA argues that having meals which are genuinely for business purposes attract FBT unfairly penalises hospitality

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<sup>16</sup> Restaurant & Catering Australia (2018) *Industry Benchmarking Report*.

operators and small café and restaurant businesses. Classifying meals purchased from cafés and restaurants as a legitimate form of business would also have the effect of stimulating increased economic activity at restaurants and cafés and further contribute to the jobs growth associated with this sector.

Based on the compliance cost and lack of access to strategies to minimise the burden of FBT, R&CA argues that small businesses should be exempt entirely from FBT under the *Small Business Entity* concessions. Small businesses with a turnover of less than \$2 million currently receive concessions on FBT for car parking.<sup>17</sup> R&CA contends that these concessions should be extended to include all FBT.

## Recommendation

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- Small businesses with an annual turnover less than \$2 million should be exempt from paying FBT entirely under the *Small Business Entity* concessions.

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<sup>17</sup> Australian Taxation Office (ATO) (2017) *FBT concessions*, 22 May.

## 2. FOREIGN AFFAIRS & TRADE

### A. TOURISM AUSTRALIA FUNDING

R&CA has long been an advocate of the important role played by Tourism Australia in promoting Australia as a highly desirable destination for international tourists from critical overseas markets such as China, India, the United States and United Kingdom. Past campaigns from Tourism Australia including the *Restaurant Australia* campaign, which contributed to a 12.6 per cent increase in food and wine spend by international visitors (\$4.7 billion in total expenditure)<sup>18</sup>, have resulted in considerable success in terms of boosting Australia's international reputation. In order to ensure that Tourism Australia is in a viable position to continue its successful tourism marketing efforts, access to funding from Commonwealth Government channels is vital.

The inherent value of Australia's international tourism sector is evidenced by the latest statistics published in January 2019 from Tourism Research Australia's International Visitor Survey (IVS). This data showed that Australia attracted a total of 8.4 million international visitors with expenditure of \$43.2 billion across all categories for the YE September 2018, representing visitor growth of 6 per cent and expenditure growth of 5 per cent.<sup>19</sup> The IVS data also indicated that international tourists spent almost \$13 billion (\$12.9 billion) on food, drink and accommodation costs in the 12 months to September 2018.<sup>20</sup> Compared to the previous 12-month period, this represented an increase from \$12.5 billion dollars or 3.2 per cent when represented in percentage terms. Food, drink and accommodation also represented the biggest expenditure category overall followed by pre-paid international airfares.<sup>21</sup>

R&CA attributes much of the success of Australia's international tourism market to promotional campaigns from Tourism Australia such as those seen recently with *Undiscover Australia* and *Dundee*.<sup>22</sup> Given the strong performance of the tourism sector and its contribution to the Australian economy, R&CA urges the Commonwealth Government to commit to increased funding for Tourism Australia in real terms over the forward estimates. R&CA urges that the tourism portfolio should not

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<sup>18</sup> Tourism Australia (2015) *Restaurant Australia Results*.

<sup>19</sup> Ibid.

<sup>20</sup> Tourism Research Australia (2019) *Latest International Visitor Survey (IVS) Results – Year Ending September 2018*, 9 January 2019.

<sup>21</sup> Ibid.

<sup>22</sup> Australian Government (2019) Minister for Trade, Tourism and Investment, *Tourism spending soaring as travellers head to the regions*, Media Release, 9 January.

be short-changed in terms of funding as part of the 2019-2020 Budget as was the case in the 2017-18 Budget. In R&CA's view, the tourism marketing functions of Tourism Australia are a critical aspect of ensuring the ongoing economic vitality and prosperity of one of Australia's most important industries and should therefore be a priority of the 2019-2020 Budget.

### **Recommendation**

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- Commit to increased funding for Tourism Australia in real terms over the forward estimates.

### 3. IMMIGRATION AND BORDER PROTECTION

R&CA is greatly concerned at recent evidence showing a significant decline in the number of skilled visas both in terms of those lodged as well as those granted. This decline has been particularly acute since the implementation of the Temporary Skills Shortage (TSS) which was first announced in April 2017 and commenced in March 2018. According to the most recently available statistics published by the Department of Home Affairs, as of 30 June 2018, the size of the overall TSS (and residual subclass 457 visa) program has substantially decreased when compared to previous period in 2016-17.<sup>23</sup> When comparing the lodgement of primary visa applications over the two-year period, there has been a total decline of 28.4 per cent, with 54,820 applications received in 2016-17 compared to 39,230 in 2017-18.<sup>24</sup> The number of applications granted also declined from 46,480 in 2016-17 to 34,450 in 2017-18.<sup>25</sup> These trends illustrating the decline in skilled visa applications, both lodged and processed, can be seen in Figure 6 below.

**Figure 6: Summary of Primary Visa Applications Lodged and Granted in 2016-17 and 2017-18**

	2016-17 at 30/06/17	2017-18 at 30/06/18	% difference
<b>Primary applications lodged</b>	54,820	39,230	-28.4%
<b>Primary applications granted</b>	46,480	34,450	-25.9%
<b>Number of primary visa holders in Australia</b>	90,590	83,470	- 7.9 %

*Source: Department of Home Affairs (2018) Temporary resident (skilled) report 30 June 2018 - summary of key statistics and trends.*

R&CA is also concerned that a significant proportion of this decline in visa applications and subsequently those approved has occurred amongst key hospitality sector occupations. For instance, amongst the occupation of cook, there has been a 37.9 per cent reduction in the number of primary visas granted in 2017-18 compared to those in 2016-17.<sup>26</sup> R&CA believes that this decline is attributable to the failure to include cook as an occupation on the MLTSSL, with visa applicants instead applying for the occupation of chef which has been included in the MLTSSL, thus providing a pathway to permanent residency. R&CA also argues that the significant increases in the costs

<sup>23</sup> Department of Home Affairs (2018) *Temporary resident (skilled) report 30 June 2018 - summary of key statistics and trends.*

<sup>24</sup> Ibid.

<sup>25</sup> Ibid.

<sup>26</sup> Ibid.

associated with the current skilled visa system, particularly those associated with the Skilling Australians Fund levy have created a powerful disincentive for visa-seekers and sponsoring employers for these hospitality positions. The significant reduction in overseas skilled migrants in positions such as chefs has further compounded the skills shortage problem affecting the hospitality industry.

**Figure 7: Primary visas granted – top four occupations**

Nominated Occupation	2016-17 to 30/06/2017	2017-18 to 30/06/2018	% Difference from last program year as at 30/06/2017	2017-18 as % of total program
Developer Programmer	2,120	1,640	-22.4%	4.8%
ICT Business Analyst	1,640	1,390	-15.0%	4.0%
University Lecturer	1,330	1,360	2.2%	3.9%
Cook	2,170	1,350	-37.9%	3.9%

Source: Department of Home Affairs (2018) *Temporary resident (skilled) report 30 June 2018 - summary of key statistics and trends*.

## A. VISA APPLICATION CHARGES

As R&CA has previously mentioned in this submission, the hospitality sector is heavily reliant on the skilled migration system to source the skilled labour required to operate businesses successfully, particularly in comparison to other industry sectors. R&CA has strongly advocated that the structure of Australia’s skilled migration system should be designed in such a way that supports those industries expected to contribute the most to future employment outcomes. To achieve this, it is imperative for the Commonwealth Government to ensure that the cost of the skilled visas, including the Temporary Skills Shortage (TSS) visa, are international competitive. R&CA explicitly made this recommendation as part of the Department of Home Affairs’ (then known as the Department of Immigration and Border Protection) Review into visa simplification in September 2017.

Under the current pricing arrangements, the cost of a TSS visa (Subclass 482) is \$1,175.00 AUD for occupations listed on the *Short-term Skilled Occupation List (STSOL)* and \$2,455.00 AUD per visa for occupations listed on the Medium and Long-term Strategic Skills List (MLTSSL).<sup>27</sup> The current costs of the TSS-visas under the short-term and medium to long term streams represent significant increases compared to the previous 457-visa system. R&CA believes that the current pricing of the

<sup>27</sup> Department of Home Affairs (2018) *Visa Pricing Estimator*, <https://immi.homeaffairs.gov.au/visas/visa-pricing-estimator>

TSS visa acts as a disincentive for potential skilled migrants and should be subject to a meaningful reduction to ensure Australia's continued standing as a competitive and attractive destination for overseas skilled migrants. A reduction in the number of skilled overseas migrants received due to excessive visa fees will ultimately negatively affect the ability of cafés and restaurants to source the skilled labour they need to maintain the viability of their businesses, especially in the absence of sufficient numbers of skilled and willing domestic employees.

### **Recommendation**

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- Commit to a meaningful reduction in the cost of the TSS visa applications for both the short-term and medium-term streams.

### **B. SKILLING AUSTRALIANS FUND (SAF) LEVY**

R&CA has expressed significant concerns regarding the training levy imposed on sponsoring employers as part of the Commonwealth Government's \$1.5 billion Skilling Australians Fund (SAF). R&CA believes that the continued existence of the training levy in its current form will exacerbate the impact of acute skills shortages and act as a handbrake on the economic growth and development of the tourism and hospitality sectors. R&CA believes that the implementation of the SAF levy has already had a material impact since its commencement on 12 August 2018 and that there will be further deleterious effects on the hospitality industry unless significant changes to the levy are made.

R&CA argues that it is unreasonable to expect businesses of any size to absorb the heavy financial burden of this training levy, let alone small businesses operating on very low margins and will lead to the closure of businesses. In the café, restaurant and catering sector, over 92 per cent of businesses are small businesses employing 19 people or less.<sup>28</sup> Whilst the structure of the training levy distinguishes between small and large businesses, the upfront and ongoing costs of employing foreign workers will make it almost impossible for small businesses to access the skilled labour they need and will exacerbate existing skills shortages across the tourism and hospitality industry.

The SAF levy, as it stands, has created a strong disincentive for businesses to invest in their own training programs as they are having to pay for it already through the mandatory SAF levy. The SAF

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<sup>28</sup> Australian Bureau of Statistics (ABS) (2018) *8165.0 Counts of Australian Businesses, including Entries and Exits, Jun 2012 to Jun 2017*.

levy is a cause of significant frustration to business-owners given that they are having to pay the levy to source the skilled labour they require to run their businesses yet are not seeing any concomitant increase in the availability of locally skilled candidates. The skills shortages are in fact worsening, despite the presence of the SAF levy, meaning that employers are having to pay twice to then train the staff themselves.

Whilst R&CA is not opposed to the Skilling Australians Fund itself, it is the Association's strong view that the \$1.5 billion should not be funded almost exclusively through the levy. Given that there is no guarantee that the levy will achieve that \$1.5 billion funding amount, R&CA argues that the Commonwealth Government should itself guarantee the SAF's funding investment at its current levels, regardless of the eventual amount ultimately generated through the levy. It is R&CA's view that the Commonwealth Government should commit to funding any possible shortfall in funding for the SAF, whilst halving the current levy on sponsoring businesses.

Whilst R&CA strongly welcomed the refund provisions announced as part of the previous year's Commonwealth Budget, there is still a necessity to expand these provisions to cover all unsuccessful applications. As it stands, employers are ineligible for refunds on the training levy if their application is unsuccessful, unless the visa is refused based on health or character grounds. The financial and time resources required as part of submitting a TSS-visa application represents a significant impost for small businesses which is compounded by having to submit multiple applications if their initial application is unsuccessful.

### **Recommendation**

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- Halve the quantum of the existing SAF levy charged to sponsoring businesses for each visa application.
- Guarantee \$1.5 billion investment in Skilling Australians Fund regardless of the amount generated through the SAF levy.
- Expand refund provisions associated with TSS-visa applications so that businesses are refunded the SAF levy in the event of any unsuccessful applications, regardless of the reasons involved.
- Non-upfront payment options for the SAF levy should be made available to employers when processing applications.

### C. WORKING HOLIDAY MAKER VISA

Despite the present restrictions limiting the amount of time they are permitted to work at the one employer, Working Holiday Makers (WHMs) still represent an important labour source for small businesses in the café, restaurant and catering industry. The industry's reliance on WHMs, in addition to categories of overseas migrants, has increased due to the persistent shortages in locally-trained skilled workers across a variety of key occupations. As such, R&CA is committed to ensuring that Australia remains an attraction destination for WHMs with visa fees that are internationally competitive. R&CA argues that a meaningful reduction in the cost of all visa categories, including the WHM visa, is urgently needed measure to reverse significant declines in the number of overall application received.

Even though the Commonwealth Government outlined a commitment to reduce the cost of the WHM visa to \$390 in its 2016 *Working Holiday Maker Reform Package*, the cost of the WHM visa (subclass 417 and subclass 462) currently stands at \$450.00.<sup>29</sup> R&CA is disappointed that the Commonwealth Government has thus far failed to honour this commitment, arguing that the increased cost of the WHM visa has significantly contributed to the overall decline in the total number of applications. For instance, 155,162 first-year WHM visa applications were received in the 2017-18 financial year compared to 159,444 for the preceding financial year, according to a report from the Department of Home Affairs most recently published working holiday-maker report.

R&CA highlights the fact that a reduction in WHM applications has a negative effect on hospitality businesses, both in terms of WHMs as a labour source, as well as their typically high average spend whilst in the country, much of which is also at hospitality businesses. R&CA strongly urges the Commonwealth Government to reinstate its policy original commitment to reduce the WHM visa fee from the current \$450.00 to \$390.00. R&CA believes that a meaningful reduction in price for the WHM visa would translate to an increased number of visa applications being received.

#### Recommendation

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- Reinstating the Commonwealth Government's previous commitment to reduce the WHM visa fee from the current \$450 to \$390.

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<sup>29</sup> Department of Home Affairs (2018) *Visa Pricing Estimator*, <https://immi.homeaffairs.gov.au/visas/visa-pricing-estimator>

## D. REVIEW OF ANZSCO CODES

R&CA argues that a comprehensive and wide-ranging review of the ANZSCO codes list must be urgently completed and should be one of the key policy recommendations arising out of this inquiry. Since the introduction of this system in 2006, the ANZSCO codes have only been reviewed twice. Given the rapidly changing nature of jobs and the Australian workforce and the importance of the ANZSCO codes in determining visa applicants' eligibility for various skilled migration programs, R&CA argues that this Review is of the utmost necessity.

In a particularly frustrating outcome, the Australian Bureau of Statistics (ABS) recently decided against conducting a review of the ANZSCO codes list in August 2018, a decision which was heavily criticised by significant employer and business groups across the country.<sup>30</sup> The ABS has failed to even commit to a review of the ANZSCO codes list in the future, only committing to considering a review at some point following the next Census schedule to be conducted in 2021. It remains highly unlikely therefore that a Review of the codes will be conducted until after the results of the 2026 Census, meaning that a period of 15 years will have elapsed since the last major review of jobs in the economy will have been conducted.

In R&CA's view, the decision not to conduct a review of the ANZSCO codes must be overturned and that the ABS should be allocated sufficient funding resources in order to conduct a proper review with immediate effect.

### **Recommendation**

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- Commission the Australian Bureau of Statistics (ABS) to conduct a comprehensive and wide-ranging review of the existing Australian and New Zealand Standard Classification of Occupations (ANZSCO) codes list with immediate effect.

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<sup>30</sup> Australian Chamber of Commerce and Industry (ACCI) (2018) *Bureau of Statistics out of touch with workforce change*, Media Release, 14 August.

## 4. ENVIRONMENT AND ENERGY

### A. COST OF ELECTRICITY AND GAS

It has been extremely well-documented that the past twelve months has seen a dramatic escalation in the cost of utilities such as electricity and gas amongst businesses and households. R&CA views this as highly problematic for the sector, given café, restaurants and catering businesses' reliance on large, energy-intensive equipment to operate their businesses successfully. This is not limited to commercial grade fridges, freezers, ovens, dishwashers, fryers, coffee machines, air-conditioning units and various pieces of cleaning equipment.

Drastically higher electricity and gas prices are especially problematic for the hospitality sector in that business-owners are subject to a “double-whammy”; the business-owners themselves are forced to absorb increases in their operating costs, whilst consumers are less likely to patronise their businesses due to the impact on household spending and discretionary income levels. Whilst consumers can adjust their levels of discretionary spending, cafés and restaurants do not possess this ability so they are effectively locked in to this increased expense regardless of how many customers they serve. Business-owners are also generally reluctant to pass on increased operating costs in the form of higher prices due to a fear of customer backlash and the hypercompetitive nature of the industry.

R&CA urges the Commonwealth Government to ensure that energy security, reliability, affordability and sustainability considerations are balanced. The pernicious incentive to ‘gold plate’ the system that we have seen at a State level, for example, is part of the cause of the current imbalance in these factors. For instance, a Federal Government analysis of the energy markets across all individual Australian jurisdictions found wholesale prices were 30 per cent higher in Queensland than in other states and territories.

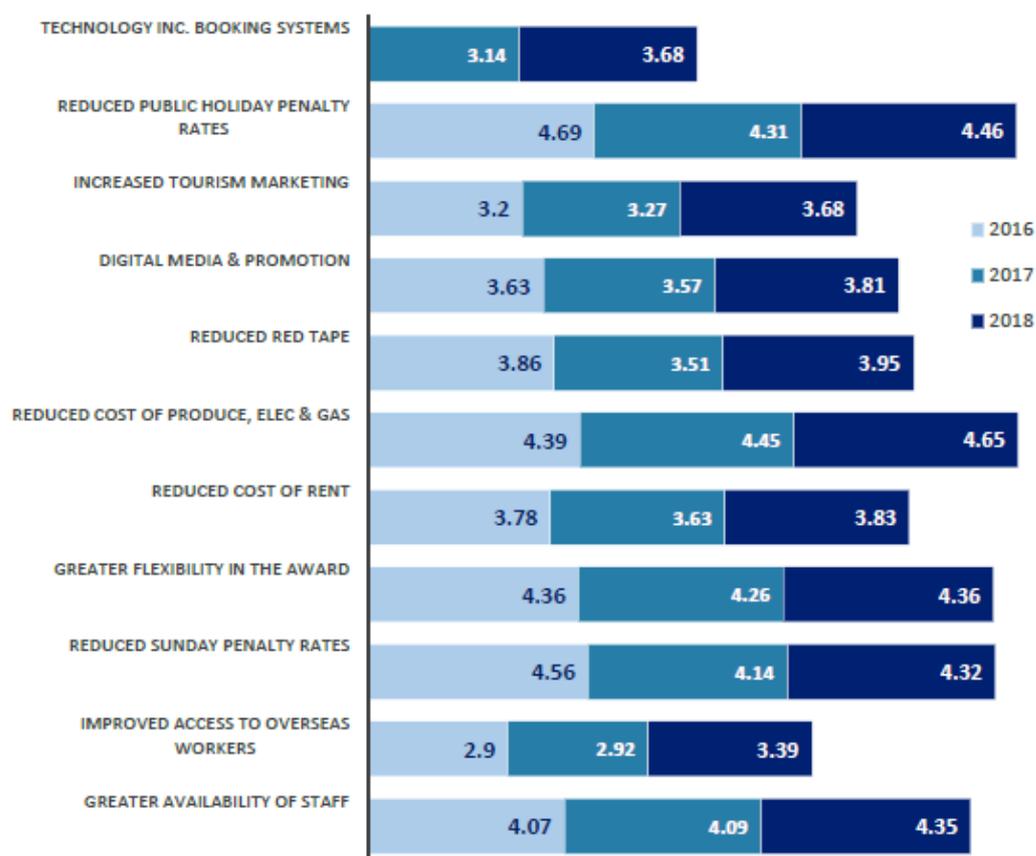
Given that the average profit margin of a café or restaurant is 4.2 per cent<sup>31</sup>, even a modest overall increase in electricity prices can have a crippling effect on the profitability of these businesses. As such, R&CA would urge that the 2018-19 Commonwealth Budget contain specific measures designed to reduce the cost of electricity for both households and small businesses. In particular, R&CA is strongly opposed to any new taxes, levies or charges that increase the cost of electricity or gas.

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<sup>31</sup> Australian Bureau of Statistics (ABS) 2008, *8655.0 - Cafes, Restaurants and Catering Services, Australia, 2006-07*.

According to R&CA's 2018 Industry Benchmarking Report, business-owners identified a reduction in the cost of produce, electricity and gas was as the factor making the biggest difference in running their businesses more successfully.<sup>32</sup> This marked the second consecutive year in which this was the case, however the 2018 report found a greater proportion of hospitality business-owners ranking reduced costs of produce, electricity and gas as the most significant factor in operating their business more successfully. Figure 8 below lists all factors identified and the degree to which owners rated them as a factor in operating their businesses more successfully. Given the importance of ensuring sustainable prices for as electricity and gas amongst businesses and households, R&CA argues that the Commonwealth Government should ensure that the 2019-20 Budget contains specific measures designed to reduce the cost of these utilities.

**Figure 8: Factors Making the Most Difference in Running a Business Successfully**



Source: R&CA 2018 Benchmarking Report, p.20.

## Recommendation

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- That the 2019-20 Commonwealth Budget contain specific initiatives designed to reduce the cost of electricity and gas for small businesses and households.
- That the Commonwealth Government introduces no new taxes, levies or charges that increase the cost of electricity or gas.

## 5. EDUCATION

### A. NATIONAL VET MARKETING CAMPAIGN

R&CA believes that the current levels of proper marketing devoted to increasing enrolments and completions of VET courses, including those relevant to the hospitality sector are woefully insufficient. To reverse the significant recent declines associated with enrolments and completions in the VET sector, R&CA argues that a comprehensive, nation-wide marketing campaign promoting the career pathways associated with the VET sector is necessary. Such a campaign should attract significant investment from the Commonwealth Government at no less than \$10 million to maximise its potential success. Whilst a \$10 million investment would be a welcome step in terms of funding a highly sophisticated national VET campaign, R&CA believes that further funding in addition to this would also help ensure the continued robustness and viability of the nation's VET sector.

R&CA would add that this campaign should be targeted at courses connected to economic sectors with significant projected employment growth, including tourism and hospitality. In R&CA's view, one of the biggest inhibiting factors discouraging potential candidates from pursuing VET courses is a lack of accurate information which could be in part rectified by such a campaign. R&CA would also advise the Commonwealth Government to design, structure and execute this campaign in close collaboration with industry stakeholders, such as associations, as well as their counterparts at a State and Territory Government level to ensure that positive outcomes stemming from this campaign are achieved. Furthermore, such a campaign must be targeted at all levels of society and not just towards students to address negative and misinformed societal perceptions associated with VET-sector related career pathways.

R&CA has recently advised State Governments in both Queensland and South Australia in reviews of their respective VET systems of the need to incorporate high-profile hospitality industry figures as part of a marketing push to encourage students to pursue a long-term career in the hospitality sector. R&CA strongly believes that influential and successful hospitality figures can be incorporated as part of a national marketing campaign to correct negative perceptions of the industry amongst young people and their peer groups and families.

Whilst R&CA believes that a strong marketing campaign funded through Commonwealth Government channels is necessary, it also stresses that such a campaign should not be conducted in isolation and must also be accompanied by significant structural changes in the VET system. R&CA

warns that the efficacy of such a campaign will be significantly undermined in the absence of any meaningful structural reforms associated with the VET sector.

## **Recommendation**

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- A sophisticated and wide-reaching national marketing campaign targeting increased enrolments and completions of VET sector courses should be funded by the Commonwealth Government, with a minimum investment of \$10 million.

### **B. VET STUDENT LOANS SCHEME**

In addition to negative societal perceptions affecting the VET sector, R&CA contends that another barrier preventing the VET sector from achieving its status as a viable alternative to higher education pathways is the flawed structure of the current VET Student Loans system. The financial barriers associated with the VET sector, including the upfront cost of completing courses, acts as a significant disincentive to students from enrolling in and completing these courses. State Governments in both NSW and Victoria have recognised the importance of reducing the financial barriers associated with completing VET courses by implementing free, government-funded, places for VET courses at no cost to students. R&CA believes that action is also required at a Commonwealth-level to address the issue of financial barriers preventing students from participating in the VET sector.

A practical way for the Commonwealth Government to rectify shortcomings associated with the existing VET sector is to alter the VET Student Loans Scheme to increase accessibility of courses such as the Diploma of Hospitality Management (SIT50416) and Advanced Diploma of Hospitality Management (SIT60316). R&CA has previously recommended that both courses should be earmarked for inclusion at either the \$10,000 or \$15,000 band on the approved courses list. At present, both courses are listed at the \$5,000 band which R&CA believes is insufficient to attract enrolments from students, especially those without the ability to pay the upfront costs associated with completing these courses. R&CA argues that action concerning the structure of the approved courses list is urgently required, particularly since a review of the VET Student Loans system conducted over 12 months ago disappointingly yielded zero recommendations or outcomes.

R&CA advises that in the absence of structural changes to the VET Students Loans scheme, including the upgrading of the Diploma and Advanced Diploma of Hospitality Management to the \$10,000 or

\$15,000 band, will exacerbate existing skills shortages amongst the hospitality sector. Subsequently, this will also severely curtail the ability of hospitality sector businesses to source the skilled labour they need to run their businesses sustainably and effectively.

### **Recommendation**

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- The Diploma of Hospitality Management (SIT50416) and Advanced Diploma of Hospitality Management (SIT60316) should both be re-instated at either band \$10,000 or \$15,000 on the approved courses list as a matter of urgent priority from the current \$5,000.

## **C. INDUSTRY SPECIALIST MENTORING FOR AUSTRALIAN APPRENTICES**

Following the announcement of the Commonwealth Government's Industry Specialist Mentoring for Australian Apprentices (ISMAA) program in the 2017-18 Budget, R&CA has acted on behalf of the hospitality industry as one of 24 successful tenderers for the project. Since the commencement of this project in check, R&CA has appointed 11 industry-specific mentors across several states and territories resulting in the recruitment of over 1,200 apprentices and trainees in hospitality-related courses. R&CA argues that the strong success of the ISMAA program in recruiting additional apprentices and trainees to the hospitality sector warrants its continued funding from the Commonwealth Government. Therefore, R&CA strongly recommends that funding for this program be guaranteed beyond the current period, elapsing as of the end of 2019. As a minimum, R&CA argues that this program should be extended for an additional 2 year period.

### **Recommendation**

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- Funding for the Industry Specialist Mentoring for Australian Apprentices program for industry specific mentoring should be extended for an additional two years as part of the 2019-20 Commonwealth Budget.

## 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 2019-2020 Commonwealth Budget. The drafting of R&CA's major budget policy priorities has been directly influenced by the current small business operating environment for the café, restaurant and catering sector which has been significantly affected by issues including an intensification of the skills shortage crisis and costs increasing amongst almost all major business expense categories such as those associated with electricity and gas. R&CA argues that the budgetary positions contained in the 2019-2020 should be designed to improve the current business operating conditions across the Australian economy, with particular respect to sectors projected to account for significant economic growth over the coming years such as the café, restaurant and catering sector.

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