



28 January 2021

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

Dear Sir/Madam,

RE: 2021-22 PRE-BUDGET SUBMISSION

We refer to the Treasury's invitation to file a Pre-Budget Submission for 2021-22. Restaurant & Catering Australia ("R&CA") is pleased to provide a submission in this matter.

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 2021-22 Federal Budget.

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 and to assist with the ending of the Commercial Landlord/Tenant Code of Practice across many states and territories.

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.

13. The continuation of wage subsidies – the HospoKeeper Program

- a. HospoKeeper would be available to businesses within the Accommodation and Food Services Sector, which would seek to continue to provide support for these businesses whilst they are subject to measures or policies that substantially affect their ability to trade.

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 the next 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 2020 R&CA Benchmarking Report reporting approximately 23.8% of survey respondents reporting "extreme difficulty" and a further 31.9% 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, 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, especially where business have extensive backdated debts relating to rents that have been deferred as a result of the Pandemic

For many Restaurant, Café & Catering businesses, responding to changes in conditions as a result of the pandemic has become second nature, with many now adept at scaling up and down in operations based on need. However, for many, the spectre of backdated rent is the single largest issue that will stop businesses being able to survive past the end of JobKeeper.

(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.

Increase in the Superannuation Guarantee

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 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 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.

HospoKeeper

The Accommodation and Food Services Industry has irrefutably been one of the hardest hit sectors during the COVID-19 Pandemic. Restaurants, cafes and caterers have continued to suffer due to business shutdowns and ongoing restrictions, interstate border closures and the ban on international tourism.

Whilst all of these actions are taken through following the best health advice available to governments across the country, they unfortunately leave thousands of businesses facing sustained losses and with the threat of eventual closure when JobKeeper ends.

As Australia's vaccination program is unlikely to approach completion until the end of 2021, it should be expected that these restrictions and distribution will continue until at least the end of the year.

This spectre of continual disruption, which will likely persist past the expected end of the JobKeeper Scheme in March 2021, is a source of grave concern and anxiety for the wider accommodation and food services sector.

Whilst R&CA understands and respects the desires of the Federal Government to persevere with the end of the JobKeeper Scheme in March, it is our strong view that further sector specific support is required to ensure businesses, including their supply chains, stay open and continue providing jobs and economic activity for our nation.

R&CA has proposed a new scheme, called HospoKeeper, available to businesses within the Accommodation and Food Services Sector, which would seek to continue to provide support for these businesses whilst they are subject to measures or policies that substantially affect their ability to trade.

HospoKeeper aims to support business in the wider hospitality sector who continue to suffer sustained periodic losses whilst restrictions, often but in place with little or no warnings, continue to disrupt business activity. This scheme also addresses key weaknesses currently experienced within the wider industry including lack of staff and the relative transient nature of staff as seasons change.

The proposed HospoKeeper Scheme would be a periodic, short-term, targeted payment, available to all businesses within the Accommodation & Food Services Sector based on two key criteria:

1. If restrictions in place on that business (including but not limited to, density limits on hospitality venues, government direction regarding working from home for CBD offices, caps on event numbers for catered events such as weddings or corporate events and interstate and international travel bans) that materially affects that particular sub-group of businesses.

For example, the existence of 1 per 4 sqm rule and event restrictions in NSW would qualify food services businesses, but if full interstate travel was available then accommodation businesses would not be eligible. However, if a state had no interstate travel allowed but had no restrictions on food services businesses, that sub-group would apply. And, if that business could prove, at the end of each month via Business Activity Statements (BAS) that revenue levels were down 15-30% based on pre-pandemic levels (2019 levels). It is important that Year-over-Year is no longer used due to the pandemic period operating for 12 months from 15 March 2020.

The payment would operate the following way:

1. Businesses would be eligible, assuming they qualified as above, for a weekly payment in the subsequent month that would be calculated based on:
 - a. \$1000 per fortnight for each employee that the business employed during that month for more than 20 hours per week on average, or on a pro-rata basis if that employee was only employed for a portion of that month.
 - b. Employees who worked less than 20 per week on average would be entitled to \$650 per fortnight.

2. This payment would be available to all employees who were working in that business during the qualifying month, provided they continued to be employed during the subsequent month when payments were made.

By reducing the cycle of support from 3 months (which was the qualifying period for JobKeeper) to 1 month (the proposed period for HospoKeeper), it ensures businesses continue to get targeted support when they need it.

This also reflects the shorter cycle of restrictions that are utilised in various states, where rather than extended lockdowns and border closures, shorter, sharper periods of business restrictions are eased quickly, with much of the sector rebounding just as quickly.

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 2021-22 Federal Budget. R&CA argues that the budgetary positions for 2021-22 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 our Head of Policy, Government & Public Affairs, Tom Green at tom@rca.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