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Eligible Expenditure Guidelines

Automotive Diversification Programme – Round 3

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Purpose of this Guide

This guide aims to assist successful Automotive Diversification Programme (ADP) grant Recipients to understand the eligible expenditure parameters for the programme.

Eligibility Test

The Programme Delegate has the final decision in determining eligible expenditure and may issue additional guidance regarding eligible expenditure on a case-by-case basis as required.

Eligible expenditure for ADP is currently limited to:

1. **capital equipment,** which means:
   - new equipment, including devices, machines and tools; or
   - state-of-the-art second-hand manufacturing plant and equipment, including devices, machines and tools, purchased through an arm's-length transaction with a remaining economic life of not less than 70 per cent

   recorded as a fixed asset in the applicant's accounts, for use in the operation of the business and directly related to the project to which the application relates; and
2. **reconfiguration costs**, which are limited to the remodelling or restructuring of a manufacturing production line.

Other expenditure incurred by the Recipient, directly attributable to the project, during the project period, and consistent with the ADP Ministerial Guidelines 2015 and the ADP Funding Agreement may be treated as eligible expenditure for the purposes of a grant. Any items already claimed under other government grant programs are deemed to be ineligible.

Expenditure on capital equipment may include equipment purchased using a finance lease, as well as capitalising the commissioning or installation of new plant and equipment.

In general, to be considered eligible, **new or state-of-the-art second hand capital item** claims for reimbursed payment are limited to **fixed assets**, which has the meaning given by the Australian Accounting Standards (*Australian Accounting Standards Board item 116, title Property, Plant and Equipment*). As such, they should satisfy all of the following requirements:

1. The expenditure is for an item capitalised in the Recipient's accounting system (i.e. it appears on the balance sheet); and
2. The item is listed on the Recipient's asset register; and
3. The item is directly linked to the project (i.e. directly involved in the production of the output) and specific milestones;
4. The item is purchased through an arm's-length transaction by the Recipient; and
5. The item has a valuation of a remaining economic life of not less than 70 per cent* (for second-hand items only).

**Grantees may be required to provide a formal valuation attesting to the remaining economic life of second hand items of not less than 70 per cent.*

In general, to be considered eligible, **reconfiguration** claims for reimbursed payment are limited to costs where the expenditure is directly attributable to the agreed remodelling or restructuring of a manufacturing production line.

Unlike new or state-of-the-art second hand capital item claims, reconfiguration costs are <u>not</u> limited to fixed assets, nor do they need to be refelected as assets within the Recipient's balance sheet.

Eligible Period

The eligible period for expenditure to be incurred is on, or after the date the funding agreement is executed, or the agreed project start date in the executed funding agreement if earlier. Eligible expenditure must also be incurred on or before the project end date, while an agreed project end date cannot be longer than 24 months from the project start date

The date of expenditure being 'incurred' is defined to be the earlier of either delivery date, or the date when the liability is recognised i.e. invoice date or order date. Any expenditure incurred after the project end date is ineligible. For any plant and equipment items that are not considered to be eligible expenditure, any related commissioning and installation costs also cannot be considered eligible expenditure.

Capital Equipment Items

Capital equipment items means new equipment and state-of-the-art second-hand manufacturing plant and equipment purchased through an arm's-length transaction with a remaining economic life of not less than 70 per cent (including devices, machines and tools) that are recorded in the applicant's accounts as a fixed asset, for use in the operation of the business and directly related to the project to which the application relates.

Costs such as commissioning, freight or special associated software which are solely related to the purchase of the fixed assets are eligible only if they are capitalised.

Expenditure is normally deemed to be incurred when a purchase contract for capital items has been signed and a deposit paid. However, if the capital item is purchased under a hire purchase agreement or finance lease, expenditure is taken to be incurred when the first instalment under the agreement or lease is paid, and the plant and equipment commissioned. The Recipient must provide, on request, appropriate evidence of a valid hire purchase agreement or finance lease.

Where items are purchased under a chattel mortgage, or a hire purchase agreement, or a lease is used to finance the purchase, the cost of the item excluding interest must be capitalised to be classified as eligible project expenditure.

Therefore operating leases are <u>not</u> eligible (as these are expensed and recorded off the balance sheet) while finance leases that are recorded on the balance sheet and meet the parameters listed in the Eligibility Test section are eligible. Grant payments will be made upon the provision of the chattel mortgage/lease/hire purchase agreement as well as satisfactory evidence of repayments.

Reconfiguration

Eligible expenditure for reconfiguration costs are limited to costs where the expenditure is directly attributable to the agreed remodelling or restructuring of a manufacturing production line.

In this instance costs do not necessarily have to be capitalised and may either be incurred as an expense to the the business or via an arm's-length contract with a third-party. Note that general infrastructure costs are ineligible under the program.

Project management and direct labour costs are eligible only where expenditure is incurred on directly implementing and/or commissioning the agreed project and where the expenditure is directly attributable to the project. Salaries of other people specifically employed for the purpose of managing the project are also considered to be eligible.

Salaries of the current management team and administrative staff (such as CEOs, CFOs, accountants, marketing staff and lawyers) for time related to undertaking project management tasks are not considered to be eligible expenditure. Salary costs based on an estimation of the

employee's worth to the Recipient where no cash changes hands and no amount is credited to a loan account or current account in the Recipient's accounts are not eligible.

Activities Undertaken by Related Body Corporates

Grant funding is provided strictly to support the project and its core activities. It is not provided for the benefit or profit of related body corporates of the Recipient. Related body corporates has the same meaning as in Section 50 of the Corporations Act 2001 (Cth).

Where project activities are conducted through contracting related body corporates of the grantee or other non-arm's length persons or entities, these costs may qualify as eligible expenditure only if a reliable, measurable cost is incurred by the related body or associated entity and a verifiable process is used to transfer that cost to the grantee with no profit margin attached i.e. 'at cost'.

Where there is a mutual benefit arising from project activities, either to another company or for another project, the Recipient should reasonably apportion such costs so as to claim only for those activities which directly apply to the funded project.

Ineligible Expenditure

Expenditure on the following is not eligible for grant funding.

Even if it is related to eligible activities the following listing is not considered eligible expenditure (this listing is not exhaustive):

- capital equipment used in 'business as usual' activities, including, but not limited to:
    - general infrastructure;
    - financial management systems;
    - quality control;
    - collection of information;
    - vehicles and office fixtures, including general office equipment such as computers, printers and software, and furniture;
- capital equipment acquired by the Recipient using an operational lease;
- capital equipment acquired by the Recipient using non-cash consideration; and
- second hand capital equipment that has a remaining economic life less than 70%.

In addition to the above, the following items are also not eligible:

- the costs of activities undertaken before the project commencement date;
- the costs of preparing the original grant application, preparing any project variation requests, and preparing any project reports required under the ADP Funding Agreement including the provision of audit reports;
- the cost of obtaining resources, contractors or permits for the project, including building permits, tendering costs, interest on loans, job advertising and recruiting, and contract negotiations;
- opportunity costs relating to foregone rent or lease revenue as a result of the project;
- general business management, marketing, administration, and other costs not directly related to the eligible project such as insurance, warranties, communications,

accommodation, office computing facilities, printing and stationery, postage, legal and accounting fees, and bank charges;

- travel expenditure; and
- business acquisition and merger activities.

This list is indicative and not exhaustive. Other activities or specific expenditure may be ineligible because the Programme Delegate decides it does not directly support the achievement of the project outcomes or it is contrary to the spirit and intention of the ADP.

Activities paid for by non-cash consideration

Activities paid for by the Recipient using a non-cash consideration is not considered to be eligible expenditure.

Non-cash considerations are contributions to a project that have the following common characteristics:

- no impact on entity cash flow; and
- no record in the entity's statement of financial performance; and
- no impact on the entity's bank accounts.

Examples include:

- the use of resources – whether internally or externally sourced – for no cost to the project; or
- issuing shares, bonds, or the use of barter and other instruments in the payment for products and services rendered.

These arrangements are sometimes referred to as 'in-kind' contributions.

Contact

For further information about the ADP visit business.gov.au/ADP, call 13 28 46 or email ADP@industry.gov.au.