

Next Generation Manufacturing Investment Programme: Round 2 – Eligible Expenditure Guide

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This document provides guidance on expenditure that is eligible to be considered under the *Next Generation Manufacturing Investment Programme*. You should read this guide before completing an application form.

Introduction

The Next Generation Manufacturing Investment Programme: Round 2 Program Guidelines specify that funding under the programme will only be provided to meet eligible expenditure that is incurred by a Grantee and directly attributable to approved eligible activities.

The Programme Guidelines set out minimum requirements as to what may be considered eligible expenditure (or not). They also provide for the senior departmental employee undertaking the role of Programme Delegate to issue further guidance on eligible and ineligible expenditure.

Timing of eligible expenditure

Eligible expenditure must be incurred after the date AusIndustry notifies you that your application is eligible and complete, and between the agreed project commencement and completion dates in an approved funding agreement.

Plant and equipment expenditure

Costs of acquiring and construction of plant and equipment, as well as any related commissioning costs can be considered eligible expenditure. Any expenditure incurred before the agreed project start date cannot be considered eligible expenditure. 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.

Plant and equipment may be purchased, leased (finance lease or operating lease under certain conditions) or built. You can only claim the purchase price of capital items, taking out any costs associated with financing, including interest. You can also claim related freight and installation costs where they are considered capital expenditure.

Costs for plant and equipment will normally need to be on your balance sheet in order to be considered eligible.

Where the costs for plant and equipment are not on your balance sheet, but is a cost of the project with an operating lease, they will only be considered an eligible expenditure if all of these conditions are met:

- the plant or equipment will be integrated into your manufacturing process
- the plant or equipment cannot be transferred and the lease period is at least 4 years
- the expenditure is approved during the time your application is being considered for funding.

If plant and equipment is financed through an operating lease, a draft lease agreement identifying the capital cost of the items and the lease period must be provided with your application.

Where staged payments are required to purchase capital items (for example deposits, payment on installation, or payment on commissioning), the grant amount for the items can be claimed progressively in multiple milestone payments up to the end of the project period. Alternatively, you can choose to claim the full amount in a single milestone payment, once the capital item has been paid for.

For leased items, you will need to show an executed copy of the lease which identifies the capital cost of the item and the lease period. You can receive a single payment of the full grant entitlement when:

- the capital item has been received
- you have entered into a formal lease agreement, and
- the initial payment has been made.

Expenditure on plant and equipment may be shown by providing evidence of:

- purchase price
- payments (e.g. tax invoices and receipts from suppliers confirming payment)
- commitment to pay for the capital item (e.g. supplier contract, purchase order or executed lease agreement)
- receipt of capital items (e.g. supplier or freight documents)
- associated costs such as freight and installation (e.g. supplier documents)
- the capital item on your premises (e.g. date stamped photographic evidence).

If you claim expenditure for the construction of plant and equipment, it is limited to:

- the costs of materials
- direct construction labour salary costs
- contractor costs
- freight and establishment costs.

Evidence for construction expenditure may include:

- purchase orders
- invoices
- payment documentation
- photographic evidence (date stamped) of the capital item in your premises
- details of labour costs.

There may be particular tax implications associated with grant payments for capital items. It is recommended that you consult independent professional advice on tax related matters.

Labour expenditure

Eligible labour expenditure for the grant covers the direct labour costs of employees who are directly employed on the core elements of the agreed project. A person is considered an employee when they are paid a regular salary or wage, out of which regular tax instalment deductions are made.

Costs for technical, but not administrative, project management activities can also be considered as eligible labour expenditure. However, these costs are limited to 10 per cent of the total amount of eligible labour expenditure claimed.

Labour expenditure for leadership or administrative staff (such as CEOs, CFOs, accountants and lawyers) are not considered eligible expenditure, even if they are undertaking project management tasks.

Eligible salary expenditure includes an employee's total remuneration package as stated on their Pay As You Go (PAYG) Annual Payment Summary submitted to the Australian Taxation Office (ATO). Salary-sacrificed superannuation contributions are considered part of an employee's salary package if the amount is more than what is required by the Superannuation Guarantee.

The maximum salary for an employee, director or shareholder, including packaged components, that you can claim through the grant, is \$150,000 a year. This is counted as each full financial year (July-June) of the project period.

For periods of the project that do not make a full financial year, the maximum salary amount you can claim will be reduced in proportion to the amount of time in the part financial year the project was taking place.

Eligible salary costs are incurred only when an employee is working directly on agreed project activities during the agreed project period.

Labour on-costs and administrative overhead

Eligible salary costs can be increased by an additional 30% allowance to cover on-costs such as employer paid superannuation, payroll tax and workers compensation insurance, and overheads such as office rent and the provision of computers.

Eligible salary costs must be calculated using the formula below:

$$\text{Eligible salary costs} = \text{Annual salary package} \times \frac{\text{Weeks spent on project}}{52 \text{ weeks}} \times \text{percentage of time spent on project}$$

Example

Tim, an engineer, is paid a total annual salary package of \$130,000. Tim will spend 14 weeks commissioning a new gas fired furnace. During commissioning Tim will work on eligible project activities 60 per cent of the time. The remaining 40 per cent of Tim's time will be spent on other non-project activities. Therefore eligible salary expenditure for Tim is calculated as follows:

$$130,000 \times 14/52 \times 0.60 = \$ 21,000$$

Plus 30 per cent allowance for on costs and overhead

$$\$21,000 + (21,000 \times 0.30) = \$27,300$$

Therefore, total eligible salary expenditure that may be claimed for Tim is \$27,300

Evidence you will need to provide can include:

- details of all personnel working on the project, including name, title, function, time spent on the project and salary
- ATO payment summaries, pay slips and employment contracts.

Contract expenditure

Eligible contract expenditure is the cost of any agreed project activities that you contract others to do. These can include contracting:

- another organisation
- an individual (who is not an employee, but engaged under a separate contract).

All contractor project work must have a written contract prior to the work being started—for example, a formal agreement, letter or purchase order which specifies:

- the nature of the work to be performed
- the applicable fees, charges and other costs payable.

Invoices from contractors must contain:

- a detailed description of the nature of the work
- the hours and hourly rates involved
- any specific plant expenses paid.

Invoices must directly relate to the agreed project, and the work must qualify as an eligible expense as if you had claimed it directly (without engaging a contractor). The costs must also be reasonable and appropriate for the activities performed.

Evidence to be provided by applicants may include:

- an exchange of letters (including email) setting out the terms and conditions of the proposed contract work
- purchase order
- supply agreements
- invoices and payment documents.

As stated in the funding agreement, you are required to ensure all project contractors keep a record of the costs of their work on the project. You may be required to obtain and provide a contractor's records of its costs of doing project work. If such records are not provided, the relevant contract expense may not qualify as eligible expenditure.

Other eligible expenditure

Other eligible expenditures for the project may include:

- commissioning
- building modifications - note that modifications to leased buildings can be considered eligible if you own the asset being modified, for example the new production equipment. The leased building must be used for activities related to your manufacturing process.
- staff training that directly supports the achievement of project outcomes
- financial auditing of project expenditure
- costs you incur in order to obtain planning, environmental or other regulatory approvals during the project period. However, associated fees paid to the Commonwealth, State, Territory and Local governments are not eligible.
- contingency costs up to a maximum of 10% of the eligible project costs may be included in the estimated project budget. Note that payments are made based on actual costs incurred.

Other specific expenditures may be eligible as determined by the Programme Delegate.

Evidence you need to supply can include supplier contracts, purchase orders, invoices and supplier confirmation of payments.

Examples of ineligible expenditure

Examples of ineligible expenditure include:

- costs of finance, including interest
- depreciation of plant and equipment
- costs of purchasing, leasing, depreciation of, or development of land
- cost of construction of new buildings
- infrastructure development costs, including development of road, rail, port or fuel delivery networks beyond the manufacturing site
- site preparation activities which are not directly related to, or for, the main purpose of transitioning to higher value and/or niche manufacturing
- opportunity costs, including those relating to any production losses as a result of allocating resources to the agreed grant project
- costs of manufacturing production inputs

- costs related to obtaining resources used on the project, including interest on loans, job advertising and recruiting, and contract negotiations
- routine operational costs
- maintenance costs
- routine administration expenses, including communications, accommodation, office computing facilities, printing and stationery, postage, legal and accounting fees and back charges
- costs related to preparing the grant application, preparing any project reports (except costs of independent audit reports) and preparing any project variation requests
- activities you paid for using non-cash considerations.

Other specific expenditure may be ineligible as determined by the Programme Delegate.

How eligible expenditure is verified

If your application is successful, you will be asked to verify the project budget that you provided in your application when negotiating your funding agreement. You will need to provide evidence for major cost items such as labour, plant and equipment and commissioning. Evidence can include:

- quotes
- purchase orders
- supply agreements
- sales catalogues
- details of all employees working on the project, including name, title, function, time spent on the project and salary.

The funding agreement will also include details of the evidence you will need to provide once certain milestones have been achieved in your project. This may include evidence related to eligible expenditure, including:

- supply agreements
- leasing or purchasing arrangements
- invoices
- associated payments.

If requested, you will need to provide the agreed evidence along with your milestone achievement reports.

You must also keep records of all eligible expenditure that has been paid for, and must be able to explain how the costs relate to agreed project milestones and activities. At any time, you may be asked to provide records of your paid expenditure. If these records are not provided, the expense may not qualify as eligible expenditure.

At the end of the project, you will be required to provide an independent financial audit of all eligible expenditure from the project.