



Australian Government
Department of Resources,
Energy and Tourism

**ENHANCING AUSTRALIA'S
ECONOMIC PROSPERITY**

Second Generation Biofuels Research and Development Grant Program (Gen 2 Grant Program)

Program Guidelines October 2008

The Australian Government Department of Resources, Energy and Tourism reserves the right to amend the funding information and guidelines at any time. Please ensure you are using the latest information, guidelines and forms by visiting our website www.ret.gov.au or by calling program staff on (02) 6276 1266 or by emailing alternativefuels@ret.gov.au.



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Part A

SECOND GENERATION BIOFUELS RESEARCH AND DEVELOPMENT PROGRAM (GEN 2)

1. PROGRAM OVERVIEW

The objective of the Second Generation Biofuels Research and Development Program (Gen 2 Grant Program) is to provide support to the research, development and demonstration of new biofuel technologies which address the sustainable development of the biofuels industry in Australia.

The development of second generation biofuels has the potential to reduce Australia's reliance on fossil fuels and reduce greenhouse gas emissions in the transport sector.

Current biofuel production methods (first generation biofuels) may derive fuel from agricultural crops that compete with food for their feedstock, water and/or fertile land. As a result, these biofuels are limited in their ability to sustainably supplement fossil fuel supplies.

It is widely recognised that second generation biofuel technologies provide unique opportunities to supplement existing fuel supplies in a truly sustainable manner by deriving biofuel from low cost, non-food materials.

Commonwealth funding under the Program will be primarily focused on capital items, salaries for researchers and support staff and other direct costs that support the Program's objective. Before applying for assistance under the Gen 2 Grant Program, applicants will need to determine their eligibility against the program's eligibility requirements. Eligible applicants will then be assessed on how well they meet the Gen 2 Grant Program Assessment Criteria (see section 5).

The Gen 2 Grant Program is a competitive program. Applications must rate highly against the program's assessment criteria and against other applications to receive a grant offer, within the overall funding envelope of the Program.

The Program provides grants ranging from a minimum of \$1 million to a maximum of \$5 million and will fund up to 50 per cent of eligible expenditure on approved projects. The \$15 million Program will be delivered over four years, from 2008-09 to 2011-12. Funding for the Program will be delivered over three years, from 2009-10 to 2011-12, with funds available from 2009-10. Funds will be drawn down from the \$500 million Renewable Energy Fund.



The Gen 2 Grant Program is administered by the Alternative Fuels Section of the Department of Resources, Energy and Tourism. Applicants are encouraged to discuss their eligibility for the Gen 2 Grant Program with a member of the Alternative Fuels Section before proceeding with their application.

For further information on the Gen 2 Grant Program and assistance with completing the Gen 2 Application Package, please refer to the contact details below:

Gen 2 Contact Officer
Alternative Fuels Section
Department of Resources, Energy and Tourism
GPO Box 1564
Canberra ACT 2601
Phone: (02) 6276 1266
Email: alternativefuels@ret.gov.au

Please note: Applications for the Gen 2 Grant Program close at **5pm** (Australian Eastern Daylight Saving Time) **Friday, 30 January 2009**.

To lodge your Gen 2 Application Package you must submit your application electronically and by hard copy to the contact details above prior to the application closing date.



2. Eligibility Criteria

2.1 Eligible Applicants

To be an eligible applicant for the Gen 2 Grant Program, applicants must be:

- able to demonstrate they are a research institution, university and/or business which has the capability to undertake leading edge research, development and/or demonstration of second generation biofuels;
- able to demonstrate that they can fund the costs of the project not met by the Gen 2 Grant as they fall due;
- able and willing to provide to the Commonwealth, for promotional purposes only, the name and a brief description of the project;
- able to demonstrate ownership of, or access to, or the beneficial use of any, intellectual property necessary to carry out the project; and
- able to commence the project in the 2009-10 financial year and complete the project by March 2012.

2.2 Access to intellectual property

An eligible applicant must be able to demonstrate that it owns, or has beneficial use of any existing intellectual property (IP) needed to carry out and/or commercialise the project. It is also normally expected that, the applicant will own any IP resulting from the project if it succeeds. Arrangements regarding the exploitation of project IP which differ from this must be explained comprehensively in the grant application. Documentary evidence of relevant IP arrangements must be provided with the application.

Successful applicants will be required to formalise any IP arrangements before a Gen 2 Commonwealth Deed Agreement can be executed.

For applicants that are intending to undertake a collaborative project, please refer to Section 8 Collaborative Projects, for IP ownership requirements.

2.3 Compliance with legislation

To apply, applicants must comply with obligations under the Equal Opportunity for Women in the Workplace Act 1999. Applicants will be ineligible to apply if they are identified in the list of organisations that have not complied, available at www.eowa.gov.au. Under the Gen 2 Commonwealth Deed Agreement, applicants will be required to comply with the requirements of this Act, and all other relevant Commonwealth, State, Territory and local authority laws, when conducting their project and otherwise performing their obligations under the agreement.



3. Eligible Activities and Definitions

3.1 Introduction

In addressing the Assessment Criteria, applicants will be required to articulate how the project promotes second generation biofuels and how the project will do so in a sustainable manner.

To be eligible the project must aim to produce, commercialise or establish the commercial or technical viability of a clearly identified second generation biofuel feedstock, and/or production process and/or technology. The Program will provide funding for three years. However, the Program is looking for projects that will support the successful commercialisation of second generation biofuels within a 10 year time frame.

3.2 Activities

Activities must be carried out in Australia and have strong early-stage commercialisation and emissions-reduction potential. The types of project activities which the Program will fund involve:

- (a) Research and development activities.
- (b) Demonstration and early-stage commercialisation activities.

Applicants will be required to demonstrate how the above activities will meet the Program's objective. That is, applicants will be required to articulate how their project activities will contribute to the research, development and demonstration of new biofuel technologies which address the sustainable development of the biofuels industry in Australia.

3.3 What is meant by Second Generation?

For the purposes of the Gen 2 Grant Program, second generation biofuel activities can encompass activities related to the entire production cycle, that is, they involve activities which can be:

1. Feedstock related

Second generation biofuels are produced from biogenic feedstocks which:

- Do not impact negatively on food supplies and/or
- Utilise feedstocks that are not fit for human or animal consumption.

Examples include: algae, waste from biological sources, cellulose, crop residues, forestry surplus and residues etc.

2. Production related

Technologies and processes related to the production, harvesting and processing of these feedstocks. The process employed to produce the biofuel must be novel and sustainable.



3.4 Consideration of 'Sustainability'

Eligible activities for the purposes of the Gen 2 Grant Program should be considered in terms of whether they are sustainable when scaled up to commercial levels.

When considering the sustainability of the project, the applicant should address:

Greenhouse gas balance and air quality issues

Will the project reduce greenhouse gas emissions from the point of feedstock production to the use of the product in comparison to the fossil fuels it replaces? What impact will the second generation biofuel, process or technology have on air quality?

Economic feasibility

Is the project capable of being commercialised? Will the project deliver commercial volumes of biofuel produced from lower cost feedstocks? Will the project be more cost effective than first generation biofuels? Will the fuel produced be fit for purpose?

Biodiversity and biosecurity

What biodiversity impacts will the project have? Will the project require land use changes? Will the project utilise marginal land? Will the project pose a risk to native flora and fauna? Is there a risk that the potential feedstock could become an invasive weed or pest?

Land/water/social impact

Will the project compete with food crops for arable land and/or water resources? Will the project negatively impact upon existing markets involving human food or animal feedstocks?

Energy efficiency

Will the project improve the energy efficiency of second generation processes? Will the project improve the efficiency of energy transfer from the biomass to the fuel product/ or products?

3.5 What activities qualify as 'research and development activities'?

The Gen 2 Grant Program is looking for research and development activities comprising of systematic, investigative and experimental activities in second generation biofuel technologies that involve innovation.

Innovation is the process by which ideas are transformed into sustainable value-creating outcomes.



It can generate change in output such as new products or processes, increased productivity or reduced costs. Innovation generally involves a degree of novelty, such as:

- Seeking previously undiscovered phenomena, structures or relationships.
- Attempting to apply existing knowledge, technologies or techniques in a new way.
- Patentable results.

3.6 What activities qualify as 'demonstration and early-stage commercialisation' activities?

Demonstration activities comprise the systematic work necessary for installing and establishing processes or systems that enable a new second generation biofuel to be produced to the stage where it can be commercially produced and marketed.

These activities may include:

- Product or process design to translate a working product into a commercially viable configuration.
- Trial production runs and tooling-up costs.
- Trials and demonstrations.
- Pilot plants.
- Commercial scale up from the pilot plant stage.



4. Project Funding

4.1 Available Funding

The Gen 2 Grant will fund up to 50 per cent of eligible expenditure on an approved project, ranging from a minimum of \$1 million up to a maximum of \$5 million. An applicant must be able to demonstrate that it can match the grant funding dollar for dollar. However some of the matching funds can be in the form of eligible 'in-kind' contributions.

4.2 Eligible Expenditure Guidelines

Applicants must refer to the Gen 2 Eligible Expenditure Guidelines (Part B) for details on what constitutes:

- Eligible expenditure activities
- Eligible matching funds
- Eligible 'in-kind' contributions.

4.3 Evidence of Ability to Fund

Evidence of an applicant's ability or plan to match the grant funding must be provided with the application.

Evidence may include:

- Internal matching funding sources.
- External matching funding sources such as equity investments, loans or Joint Ventures, documentary evidence of commitment and capacity from the investor or finance provider.

4.4 In-Eligible Activities

There may be activities conducted as part of a project which are ineligible for funding under the Gen 2 Grant Program. Details on these activities are outlined in the Gen 2 Eligible Expenditure Guidelines (see Part B). Applicants will need to provide evidence in their application that they have adequate funds to meet the cost of any ineligible expenses associated with the project.



5. Gen 2 Grant Program Assessment Criteria

As well as meeting the Gen 2 Program's eligibility requirements, applicants will be assessed on how well the project addresses each of the assessment criteria listed below. Successful projects will be required to meet all the criteria in order to qualify for funding. It is therefore essential that all of these criteria are addressed in the application.

Criterion 1: Contribution to Second Generation Biofuels Development

The ability of the project to contribute to the development of second generation biofuels in Australia, as defined by the Program Guidelines.

Criterion 2: Sustainability and Environmental Benefits

The ability of the project to develop second generation biofuel feedstocks, technologies and processes that will lead to significantly greater sustainability and emissions benefits compared with fossil fuel technologies.

Criterion 3: Commercial Potential

The long term cost competitiveness and commercial viability and potential of the project.

Criterion 4: Stakeholder Support

The level of stakeholder support for the project, including the amount and nature of matching funds including eligible 'in-kind' contributions.

Criterion 5: Project Management Skills

The ability of the applicant to manage the project and willingness to disseminate the outcomes of the project.



6. Application and Assessment Process

- To assist in determining suitability for the program, potential applicants are encouraged to contact a Gen 2 contact officer, to discuss their proposed project.
- After this discussion the applicant would submit a Gen 2 Grant Application Package which addresses the Program's assessment criteria, prior to the closing date for applications.
- The Department will check that all the necessary documentation has been provided. Only complete applications will be accepted. This includes any additional information and mandatory attachments required as part of the application.
- The Department may seek to clarify matters in the application with the applicant; however no substantial changes will be permitted after the closing date.
- The Department will conduct an initial assessment of the applications in terms of whether the proposal is eligible. This initial assessment will then be referred to a Technical Panel which may consist of biofuels industry representatives, finance and business experts, academics, technical experts and Government officials. In order to avoid potential conflicts of interest and to ensure suitably qualified independent experts are represented on the Panel, the composition of the Panel will be finalised once the application period has closed.
- The Technical Panel will assess and rank applications against the assessment criteria and make recommendations for funding to the Program Delegate (Head of the Resources Division from the Department of Resources, Energy and Tourism).
- The Program Delegate makes the final decision as to which applicants receive funding.
- Applicants will be notified if they are successful or unsuccessful by the Program Delegate.
- Successful applicants will be required to enter into a Gen 2 Commonwealth Deed Agreement.



7. Agreement Process for Successful Applicants

Successful applicants will be contacted and will be required to execute a Gen 2 Commonwealth Deed Agreement with the Commonwealth in order to receive **grant funding**. Successful applicants are advised not make any commitments in anticipation of receiving **grant funding** until a funding agreement has been executed by all parties. The Commonwealth makes no commitment to provide any applicant with **funds** until such time as a formal funding agreement has been entered into.

7.1 Gen 2 Commonwealth Deed Agreement and legal framework

The Gen 2 Commonwealth Deed Agreement (Deed) is a legally binding document between the grantee and the Commonwealth. This Deed sets out the grantee's rights and responsibilities with respect to payment of the grant and performance of the project.

Funding will be provided following the achievement of agreed milestones. Grantees will be required to provide regular written reports and financial statements based around the project milestones for the life of the project.

Applications for projects that are to be undertaken by more than one legal entity (collaborative projects) will be considered by the Department. To facilitate the conduct of collaborative projects the Commonwealth may require that a single lead applicant enter into the Commonwealth Deed Agreement and take legal responsibility for the performance of all obligations under the agreement, including, without limitation, the performance of all the activities that comprise a project, and the provision of all applicant financial contributions that are required to be provided for the project from project partners.

Prior to paying any **Funds**, the Commonwealth may require the provision of adequate written evidence that financial contributions from project partners will be provided, and must be satisfied with the terms on which those financial contributions are to be provided, including being satisfied that the lead applicant will have access to, and will only deal with, intellectual property rights the subject of the project, in a manner which does not interfere with their capacity to meet their obligations under the Deed.

7.2 Standard obligations in the Gen 2 Commonwealth Deed Agreement

The body of the Deed will be standard for all Gen 2 Projects, with schedules covering the project's specific activities, milestones and funding.

The Deed will provide for other obligations, including:

- Provision of participant contributions
- Reporting obligations
- Confidentiality
- Privacy
- Insurance and indemnity
- Intellectual property.



The Deed includes provision for deferral, variation and termination of ***funding*** in certain circumstances, including failure by a grantee to comply with the Deed. The grantee may be required to repay Gen 2 ***funds*** if ***funds*** have been expended contrary to the terms of the Deed.

The Deed also outlines the process by which the Gen 2 Project will deal with any conflict of interest that may arise.

The Commonwealth reserves the right to change the Deed before finalisation with successful applicants.

7.3 Changes to the Gen 2 Commonwealth Deed Agreement

The Department recognises that unexpected circumstances may impact on a project. Therefore, it is essential that any changed circumstances are discussed with the Program Manager or the applicant will be at risk of breaching their Deed. The Program Manager will advise whether the changes in circumstances justify a formal variation to the Deed.

The Deed may be varied during the funding period to reflect changes to the participants involved in the project or a variation to the activities involved in the project but only with the Commonwealth's express written consent which may be withheld at its absolute discretion. This provides scope for projects to respond to new opportunities and the dynamics of their research program.

Changes (such as to contributions, budget and activities) require the prior approval of the Program Delegate as specified in the Deed. Any variation to the Deed must be approved by the Program Delegate and signed by both parties in the manner specified in the Deed.

Finalising the Deed requires careful consideration especially when attributing project costs across the financial years of the project. Once the Deed is signed, approval of any changes to project expenditure (including movement of funds across financial years) is at the discretion of the Commonwealth and cannot be guaranteed.

7.4 Tax matters

Gen 2 grants attract the goods and services tax. The Commonwealth increases grant payments to compensate for the level of the tax.

Gen 2 grants are assessable income, unless specifically exempted by a taxation law. Applicants should seek independent advice on taxation matters.

7.5 Confidentiality

The use and disclosure of information provided by applicants for the Gen 2 Grant Program are regulated by the relevant provisions and penalties of the Public Service Act 1999, the Public Service Regulations, the Privacy Act 1988, the Crimes Act 1914, the Criminal Code and general law.



As part of the assessment of an application the Department may need to consult with and provide material from the application to other government agencies or bodies, other organisations and/or relevant individuals. The Department will require that the parties who are consulted observe appropriate confidentiality.

Detailed confidential information contained in applications may be disclosed for audit purposes to contractors engaged by the Department and to other Commonwealth agencies for audit, reporting and law enforcement purposes. The Department may release confidential information if it obtains the applicant's consent or is required or permitted by law to do so. This could happen, for example, if the Department is required to respond to a resolution of the Parliament or an order of a court.

Following approval of an application, the broad details of an application (for example, the identity of the successful applicant, the amount of payment and a brief description of the project) may be disclosed by the Department for purposes such as reporting on its operation and policy development and for promotional purposes. This information may also be used in answering questions from the Parliament and its Committees.



8. Collaborative Projects

8.1 Collaborative Arrangements under the Program

The Gen 2 Grant Program aims to foster collaboration and cooperation between businesses and/or researchers through collaborative projects. Collaborative projects may involve any number of entities participating in the project.

8.2 Issues to Consider

In developing your application, applicants should consider the following aspects with regard to the successful management of your project:

- Ownership of intellectual property.
- Commercialisation and licensing of research results.
- Appointments of key staff.
- Any other matters relevant to an equitable sharing of the costs and benefits of the work of the project among participants.

Applicants must make sure they have fully considered the legal and taxation implications of the structure proposed in their application and that it deals effectively with the ownership and management of intellectual property. Where a collaborative arrangement is proposed, applicants should seek independent legal advice on such matters.



Part B

Gen 2 Eligible Expenditure Guidelines



Gen 2 Eligible Expenditure Guidelines

1. Introduction

These guidelines apply to applications for funding support under the Gen 2 Grant Program. The Program Delegate has the final decision in determining eligible expenditure and may issue additional guidance on eligible expenditure on a case-by-case basis.

These guidelines describe eligible and ineligible expenditure for Gen 2 funded projects. These guidelines should be used by applicants to complete their Gen 2 Project Budget Spreadsheet, which forms part of the application package (see Gen 2 Application Form Attachment 2). Eligible expenditure relates to those project expenses which are eligible under the Gen 2 Grant Program and for which the applicant will be claiming payment of the Gen 2 grant, capped at 50 per cent of the total eligible project expenditure.

Grant payments may be made over the life of the project. For project expenditure to qualify as eligible expenditure, it must be incurred on or after the project execution date and must be paid within three months of the specified completion date of the applicant's project. Until a grant agreement is executed, there is no guarantee that grant funding will be provided.

2. Use of Gen 2 Grant Funds

Eligible expenditure under the project covers grant funds, matching contributions and in kind funds. This primarily involves:

- Capital equipment excluding land and buildings.
- Salary costs for research and development, demonstration and proof of concept activities.
- Administrative on costs associated with salary costs.
- Contract costs associated with the payment of specialists or the provision of specialist reports.



3. Matching Funds- General Principles

3.1 Introduction

The Program can fund up to 50 per cent of the eligible costs of a project. Applicants must be able to demonstrate that they can match that funding from non-Commonwealth Government and other sources approved by the Program Delegate, dollar for dollar, over the life of the grant-funded project period.

Applicants must make firm commitments to provide the cash contributions proposed in their application. Firm commitments by individual applicants may be for some or all of the years of the funding period. There are no restrictions on cash provided by an applicant as to whether the funds are 'tied' or 'untied' to a specific part of the project, this is left to the discretion of the project participants. Successful applicants will be required to provide auditable evidence that matching funds are available for the project.

While 50 per cent in matching funds is required, higher amounts, which illustrate a strong commitment to the project, will be looked on favourably.

The matching funding contribution from the Commonwealth must only be spent on activities directly related to the Gen 2 Project and must be spent during the period specified in the Gen 2 Commonwealth Deed Agreement.

Applicants do not need to have all of the matching funding at the time of their application. However, applicants will need to provide auditable evidence that they will be able to match their grant progressively at the rate they incur eligible expenditure on the project.

Applicants must also be able to demonstrate that they can fund the cost of the project that is not covered by the Gen 2 grant, including ineligible activities and ineligible expenditure.

3.2 Evidence of Matching Funds Required

In order for applicants to demonstrate their capacity to provide matching funding, applicants must provide letters of guarantee or evidence of investment capital arrangements to further substantiate their claims concerning their capacity to provide suitable matching funds.

See Section 5 for further detail.



4. In-kind Contributions- General Principles

In kind funding can include the following:

- Access to and use of capital equipment.
- Indirect support costs such as general infrastructure costs.
- Imputed rent on buildings and equipment made available for use by the project.
- Access and use of land for the period of time in which the Gen 2 project will take place.
- Fully funded staff from participating organisations, for the time they are engaged in the project.
- Non-salary project-specific direct costs, for example, the cost of providing consumables.

If an applicant is one of a number of related organisations, then eligible contributions from these organisations towards the project may be considered as part of the applicant's contribution. Should these organisations charge an additional fee to the applicant for sourcing contributions then this charge will not be considered as part of the applicant's contribution.

For staff 'in-kind' contributions, standard dollar amounts will be applied to the total FTE numbers, to estimate the total value to be taken into account under this category of matching funds.

Applicants should note that projects, where significant funding is matched by the applicant through cash contributions, may be regarded more favourably in terms of the project's commercial potential.

See Section 6 for further detail.



5. Eligible Expenditure Definitions

The following definitions are provided to assist applicants in determining what the Gen 2 Grant funds can be used for.

5.1 Capital Equipment Expenditure

Capital expenditure includes plant and equipment but excludes buildings and land.

a) Pre-existing Capital Equipment

Running costs can be claimed for purchased or pre-existing capital equipment but must be readily verifiable and may include items such as rent, light, power, repairs and maintenance.

b) Hired/leased capital equipment

Allowance for hired, rented or leased capital equipment is the number of payment periods dedicated to the agreed project use multiplied by the period hiring fee.

Running costs can be claimed for hired or leased capital equipment but must be readily verifiable and may include items such as rent, light and power, and repairs and maintenance.

c) Newly purchased plant

The costs of newly purchased capital equipment acquired for the approved project qualifies as eligible expenditure.

Running costs can be claimed for newly purchased capital equipment but must be readily verifiable and may include items such as rent, light and power, and repairs and maintenance.

d) Constructed capital equipment

The cost of capital equipment constructed on the applicant's premises typically comprises of materials, labour and factory overheads. Factory overheads are considered to cover rent, light and power, depreciation of existing plant and equipment, repairs and maintenance and technical information. Claims for material and labour costs associated with construction must be readily verifiable.

e) Prototype expenditure

Prototype expenditure will only be eligible where the construction and use of the prototype contributes directly to proving the concept for which the research and development was originally undertaken.



5.2 Salary and Staffing

a) Labour expenditure

Personnel considered under this category will be people directly employed on the agreed project.

This does not include personnel performing an administrative function within the organisation as these costs are covered separately through an administrative overhead detailed below.

Eligible Gen 2 labour expenditure is the gross amount paid or payable to an employee of the applicant's company. An employee is a person who is paid a regular salary or wage out of which regular tax instalment deductions are made.

b) Eligible Salary

Eligible salary includes any components of the employee's total remuneration package which are itemised on their Pay As You Go (PAYG) Annual Payment Summaries submitted to the Australian Taxation Office. Salary sacrificed superannuation contributions can be considered part of an employee's salary package where this amount is in excess of that required under the Superannuation Guarantee. Payroll reports can be used as evidence of salary sacrifice.

Labour on-costs include an allowance for the employer's contributions under the Superannuation Guarantee. The maximum claimable salary, including packaged components, is \$150,000 per employee per annum. Applicants may apply for eligibility of higher salaries to be paid to employees where these are warranted to attract an employee to the agreed project. Reasons supporting the request must be supplied. Directors and shareholders eligible salaries are limited to \$120,000 per person per annum.

For in kind contributions, applicants cannot claim Gen 2 labour expenditure on an estimation of the employee's worth to their entity where no cash has actually changed hands and no amount has been credited to a loan account or current account on the applicant's books.

Amounts credited by journal entry to the loan accounts or current accounts of principals and/or their relatives will not be assessed as eligible Gen 2 labour expenditure until the individual income tax returns have been sighted and the tax payable on the salary has been assessed by the Australian Taxation Office, or applicants provide similar satisfactory evidence that income tax has been paid.

c) Calculation of eligible salary expenditure

The preference for the Program is to only fund salary costs for people who are working full time on the project. However, in recognition of the need that some applicants may have to draw on key expertise there is a facility to claim for salary costs for employees who may be committing some of their time to the project.



However, the applicant may only claim salary costs to the extent that an employee is working on the agreed project. Where employees spend less than 100 per cent of their time working on the agreed project applicants will need to apportion the salary costs. This is to be done by using the formula provided below:

Eligible salary costs =

$$\frac{\text{Total salary incurred in period} \times \text{Actual time spent on agreed project in period}}{\text{Total time at work in period}}$$

Please note that allowance for leave is made under labour on-costs, therefore public holidays and leave such as annual and sick leave time is to be included only under ‘total time at work’.

The ‘total salary incurred in period’ amount should include salary amounts that have been incurred by the applicant during the period in respect of the employee, but not yet paid. Accruals of incurred, but unpaid, salary amounts in the applicants books of account should not reduce the salary amount used in this calculation.

It is expected that the applicant will be able to demonstrate, by reference to appropriate records such as timesheets, job cards or diaries, the amount of time spent on approved activities by each employee.

This covers all employees working directly on the agreed project on approved activities.

d) Labour on-costs

Labour on-costs include workers compensation insurance (Workcare), employer contributions to superannuation, long service leave accrual, payroll tax, etc. A set rate of 30 per cent to cover all labour on-costs is applied directly to the employee’s eligible salary costs as calculated above.

e) Ineligible salary expenditure

You cannot claim project labour on costs based on an estimation of the employee’s worth to your company, where no cash has changed hands and no amount has been credited to a loan account or current account in your company’s accounts.

5.3 Administrative on costs associated with salary costs

This recognises the cost of administrative support for those employees engaged on the agreed project. Eligible administrative expenses include general project management, a proportion of communications, accommodation, computing facilities, travel, recruitment, printing and stationery, postage, office salaries, legal, accounting and auditing fees and bank charges.



The administrative support rate is calculated as follows:

- A set rate of 30 per cent of the employees' eligible salary costs as calculated above.
- For contractors identified under 'contract expenditure' (see 6.4) who work a minimum of 35 hours per week on the premises (but not necessarily on project eligible activities), a set rate of 20 per cent of the contractor's hourly fee.

5.4 Contract expenditure

Eligible contract expenditure is the cost of any agreed project activities performed for the applicant by another organisation or person. All project work to be performed must be the subject of a prior written contract (for example, a letter or purchase order) which specifies the nature of the work to be performed for the applicant and the applicable fees, charges and other costs payable.

Where contractors are engaged in building plant or prototypes, the contractors' costs should be apportioned between design (contract cost) and building costs (which are apportioned either to plant or prototype costs).

Where the contractor and the company are not at 'arm's length', the amount assessed for work performed will be an amount considered to be a reasonable charge for that work and contain no unacceptable overheads and no element of 'in group profit'. Organisations considered not at 'arm's length' include related companies and companies with common directors and/or shareholders.

Invoices from contractors must be detailed to properly indicate the nature of the work, the hours and hourly rates involved and any specific plant or prototype expenses incurred. This will enable the Program Delegate to be satisfied that the proposed expenditure relates to the agreed project activity and is reasonable.

5.5 New and leading-edge technology acquisition

Expenditure on activities to acquire and adapt new leading-edge technologies may be claimed as eligible expenditure under the Gen 2 program, where those activities are likely to directly contribute to the successful completion of the project and the expenditure is approved by the Program Delegate.



5.6 Other Expenditure

This relates to most miscellaneous charges that are not covered by any of the above categories. These may constitute eligible expenditure to the extent that they are a direct cost to the agreed project. The most common charges include expenses such as:

- Substantial travel on the agreed project. This would involve conduct of agreed project activities (limited to accommodation and transport).
- Training costs where the skills acquired are specific to the requirements of the agreed project and approved in the application and Grant Agreement and are not covered under other items of expenditure.
- Reasonable cost preparation of an annual audit certificate.
- Regulations and standards compliance and product documentation where these costs are not covered under labour expenditure yet still relate to the approved project.
- Specialist reports for the project can be included, where the cost of that report is shown to be directly related to the project and its outcomes and consistent with the aims and definitions of the Gen 2 Program.



6. Determining the value of 'in kind' expenditure

The following definitions are provided to assist applicants in determining the value of their 'in-kind' contribution.

6.1 Capital Equipment

See definitions at 5.1.

6.2 Indirect support costs

Include the 'in kind' value of indirect support costs such as general infrastructure costs, electricity and water costs related to the project. This is to be calculated using the commercial rates of the day.

6.3 Imputed rent on buildings, equipment and access to land

These are costs paid by the organisation which are specifically related to the project and are not typical operational activities. As an 'in kind' contribution this could include the cost of:

- renting building space to undertake the project,
- accessing land for crop trials or technology demonstration purposes;
- or leasing specialised equipment at no cost to the applicant.

The value for calculating this type of 'in kind' contribution should be based on the commercial rates of the day. However, this does not include covering the renting of buildings/equipment/land, which are used in the day to day operations of the organisation. Should this be the case then the proportional value of the cost for the project is only considered.

For example, if the building/equipment/land is only used for the Gen 2 Project three days a week and the remainder of the time it is utilised by the organisation, the value of the 'in kind' contribution would be in proportion to the amount of time the building/equipment/land is used for the purposes of the Gen 2 Project.

6.4 Fully funded staff

'In kind' contributions from fully funded staff include staff from participating organisations in the project which are assigned to complete the project due to their expertise. The value of this 'in kind' contribution cannot be determined by an estimation of the employees worth to the organisation but the value of the person's regular salary or wage out of which regular tax instalment deductions are made. An estimation of the employee's worth is to be based on commercial rates of pay. Documentation of these costs must be made available and include how the employee specifically contributes to the project (See 5.2.C for detail on calculating the value of an 'in kind' staff contribution).



6.5 Non-salary project-specific direct costs

Includes the 'in kind' value of project specific consumables such as specific equipment and consumables. Documentation of these costs must be made available and include how they specifically contribute to the project. 'In kind' project specific equipment and consumables should be valued at or equal to commercial values.

7. Ineligible Expenditure

Ineligible activities include, but are not limited to:

- Management studies or efficiency surveys.
- The making of donations.
- The costs of obtaining resources used on the project, including interest on loans and leases, job advertising and recruiting, and contract negotiations.
- Routine collection of information, except as part of the research and development process.
- Any activity related to the reproduction of a commercial product or process by a physical examination of an existing system or from plans, blueprints, detailed specifications or publicly available information.
- Opportunity costs relating to forgone production and downtime arising from the allocation of resources to the grant project.
- An activity that a local, State, Territory or Australian Government agency has the responsibility to undertake.
- Any activity that the grantee could reasonably be expected to undertake in the normal course of their business.
- Any activity that is supported by another Australian Government program which would lead to the Australian Government funding the same activity more than once.
- Any activity that the proponent must perform to comply with legislation.
- Interest on loans for new and pre-existing capital items utilised for the project.

This list is not exhaustive. Other specific expenditure may be ineligible because it is deemed by the Program Delegate to not directly support the achievement of the planned outcomes of the project or to be contrary to the Gen 2 Grant Program's spirit and or intention.

The cost of some activities conducted as part of an agreed project may not be eligible expenditure. An applicant must ensure it has adequate funds to meet the cost of any ineligible expenditure associated with its project.

