



An Australian Government Initiative



**COMMERCIALISATION  
AUSTRALIA**

**CUSTOMER INFORMATION GUIDE**

## About this *Customer Information Guide*

The *Commercialisation Australia Customer Information Guide* helps applicants to:

- find out about the program
- determine whether they may be eligible to apply
- understand the application process
- be aware of the obligations associated with funding support (a sample *funding agreement* is available at [www.commercialisationaustralia.gov.au](http://www.commercialisationaustralia.gov.au))

For further information about *Commercialisation Australia* visit the website at [www.commercialisationaustralia.gov.au](http://www.commercialisationaustralia.gov.au) or contact the *Commercialisation Australia* hotline on 13 22 56.

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# Commercialisation Australia Summary

## Commercialisation Australia Assistance

*Commercialisation Australia* provides assistance under four key components. All successful applicants are assigned a *Case Manager* and have access to *Volunteer Business Mentors*.

- ❑ *Skills and Knowledge* - grants up to \$50,000 to access expert advice and services.
- ❑ *Experienced Executives* - grants up to \$350,000 over two years (up to \$175,000 per year) to engage an experienced Chief Executive Officer or other executive.
- ❑ *Proof of Concept* - grants from \$50,000 up to \$250,000 to assist with establishing the commercial viability of a new product, process or service.
- ❑ *Early Stage Commercialisation* - grants from \$50,000 up to \$2 million to assist with bringing a new product, process or service to market.

## Eligibility Criteria

**At the time of application you must be one of the following:**

- ❑ A non tax-exempt company incorporated under the *Corporations Act 2001*;
- ❑ A researcher applying through the commercialisation office of an *Australian University* or *Publicly Funded Research Agency (PFRA)*;
- ❑ An individual or researcher applying through an *eligible partner entity*; or
- ❑ An individual or researcher who agrees to form a non tax-exempt company incorporated under the *Corporations Act 2001* if your application to *Commercialisation Australia* is successful.

**And you are able to satisfy the following:**

- ❑ You meet the *turnover* limits specified in Section 2 of this guide.
- ❑ You comply with the *Equal Opportunity for Women in the Workplace Act 1999*.
- ❑ You are able to demonstrate that you are able to fund your share of the project costs.
- ❑ You have ownership or beneficial use of the *IP* for your commercialisation project.
- ❑ Your proposed expenditure is on *eligible activities*.

## Merit Criteria

*Commercialisation Australia* is a competitive, merit based program. Only the *applicants* that can best satisfy the following criteria will be successful:

- ❑ You are able to show that you have a need for funding (ie. you cannot fully fund the commercialisation activity yourself and there is no other funding assistance available).
- ❑ There is a significant market opportunity for the outcomes of your project.
- ❑ There is a compelling *value proposition* for your new product, process or service.
- ❑ You have a sound execution plan.
- ❑ You have appropriate management capability.
- ❑ There are significant national benefits resulting from the project.

# 1. Overview

These Guidelines replace the existing Customer Information Guidelines dated 29 March 2011, with effect on and from 7 December 2011 (**Commencement Date**).

## 1.1 About *Commercialisation Australia*

*Commercialisation Australia* was announced as part of the 2009-10 Federal Budget and is an important component of the Australian Government's 10 year vision - *Powering Ideas: an innovation agenda for the 21<sup>st</sup> century*. It will receive \$278 million over the five years to June 2014, with ongoing funding of \$82 million per year thereafter. *Commercialisation Australia* opened to applications in January 2010.

*Commercialisation Australia* aims to build the capacity of, and opportunities for, Australia's talented researchers, entrepreneurs and innovative firms to convert *intellectual property (IP)* into commercial ventures, creating high skill jobs and increasing our global competitiveness. It achieves this by offering a range of tailored assistance measures.

## 1.2 What makes *Commercialisation Australia* different?

*Commercialisation Australia* aims to help researchers, entrepreneurs and innovative firms take their *IP* to market. *Participants* are expected to be in the program for one to three years - this will vary according to their project and how many components of *Commercialisation Australia* they access. Assistance is tailored to the needs of each *participant* and *applicants* can apply for the component that suits them when they need it. *Commercialisation Australia participants* work with a *Case Manager* and have access to *Volunteer Business Mentors*.

- **Case Managers:** *Case Managers* guide *Commercialisation Australia participants* through the commercialisation process. *Case Managers* have extensive experience in commercialisation, many having taken their own products and services to market, and have good networks within industry. They assist *participants* by:
  - assisting them identify the skills and knowledge they need;
  - helping them access specialist advice and services;
  - providing strategic and operational advice;
  - monitoring their progress; and
  - linking them to volunteer mentors.

The level of assistance provided by *Case Managers* depends on the needs of each *participant*. For example, it is likely that *participants* in the *Early Stage Commercialisation* component will require less assistance than other *Commercialisation Australia participants*.

Profiles of the *Case Managers* can be found on the *Commercialisation Australia* web site [www.commercialisationaustralia.gov.au](http://www.commercialisationaustralia.gov.au).

- **Customer Service Managers:** *Customer Service Managers* are Departmental employees of *AusIndustry* who advise on eligibility and manage the funding agreements. *Customer Service Managers* work closely with the *Case Managers*.
- **Volunteer Business Mentors:** Young companies and people new to business often lack knowledge about who to talk to and how to make important business connections. *Volunteer*

*Business Mentors* build on the support provided by *Case Managers*, providing *participants* with someone to bounce ideas off and suggest options. *Commercialisation Australia Volunteer Business Mentors* have extensive experience in management and commercialisation, many having commercialised their own products, and offer knowledge, skills and insights on how to turn *IP* into a commercial reality. Some Mentors may be able to offer specialist advice in specific areas of business and commercialisation, for example, regarding particular markets, industries and processes.

Potential *applicants* should be aware of what is expected of them while they are working with *Commercialisation Australia*. *Participants* are required to financially contribute to their commercialisation project and to achieve results.

- **Participant Contribution:** All *participants* in *Commercialisation Australia* are required to financially contribute to the costs of their commercialisation project. The ability to financially contribute is part of the eligibility criteria and *applicants* need to show they have access to the necessary funds. For all components, except *Skills and Knowledge*, *participants* are required to contribute on a 50:50 basis - that is, for every dollar of *Commercialisation Australia* assistance they apply for, they need to show that they are able to contribute at least the same amount. The rate of contribution for the *Skills and Knowledge* component is set at a much lower rate of 80:20, with *participants* contributing at a rate of 20%.
- **Fast Failure:** A feature of *Commercialisation Australia* is the concept of “fast failure”. *Participants* are monitored closely and on-going *Commercialisation Australia* support depends on them successfully achieving agreed performance criteria as detailed in the *funding agreement*. *Participants* who exit the program under “fast failure” may be eligible to reapply for *Commercialisation Australia* assistance with a new commercialisation project.

### 1.3 What financial assistance does *Commercialisation Australia* offer?

*Commercialisation Australia* provides assistance under four key components. Successful *applicants* to any of these components are assigned a *Case Manager* and have access to *Volunteer Business Mentors*.

- **Skills and Knowledge** offers grants of up to \$50,000 to purchase expert advice and services. This component is most suited to people new to commercialisation - researchers, individuals and small companies - who know their *IP* has commercial potential, but who don't know what to do next. *Case Managers* and *Volunteer Business Mentors* help *participants* identify what specialist advice they most need and where to access it. *Participants* in the *Skills and Knowledge* component can apply for other components of the program at any time. *Applicants* need to match the grant funding on an 80:20 basis, where the *applicant* contributes 20%. *Participants* are expected to complete this component within 12 months.
- **Experienced Executives** provides grants of up to \$350,000 over two years (up to \$175,000 per year) to engage an experienced Chief Executive Officer or other executive. This component is designed to give small innovative firms and people new to business the experienced management skills they need. *Participants* in the *Experienced Executives* component can apply for other components of the program at any time. *Applicants* need to match the grant funding on a 50:50 basis.

- ***Proof of Concept*** grants from \$50,000 up to \$250,000 to assist with establishing the commercial viability of a new product, process or service. *Applicants* need to match the grant funding on a 50:50 basis and complete this component within 12 months.
- ***Early Stage Commercialisation*** provides grants from \$50,000 up to \$2 million to undertake activities focused on bringing a new product, process or service to market. *Applicants* need to match the grant funding on a 50:50 basis and complete this component within two years.

### **Type of commercialisation project**

*Commercialisation Australia* is designed to assist *applicants* intending to commercialise (take to market and sell) a new, clearly identified product, process or service. The program is not designed to assist with the development of new internal processes to enhance overall productivity, or minor incremental improvements and derivatives of established products, processes or services in the marketplace.

**Section 2 provides more details about eligibility.**

## **1.4 Making an application**

*Commercialisation Australia* is a flexible program designed to suit the needs of each *participant*. The program allows eligible *applicants* to apply for funding under any of the four components of funding at the appropriate time and allows the *applicant* to choose between making a single application (for up to two components), or multiple applications, for a single eligible project. For example, an eligible *applicant* may choose to apply for funding under the *Skills and Knowledge* and/or *Experienced Executives* components. At a future date, the *applicant* may wish to apply for a grant under the *Proof of Concept* or *Early Stage Commercialisation* components. Further information on multi-component applications is in section 1.5.

*Applicants* may apply more than once for funding under any one of the four components for one and the same project, but the combined funding received under the one component cannot exceed the maximum grant for that component. For example, an *applicant* could apply twice for *Early Stage Commercialisation* funding for one and the same project, but the combined *Early Stage Commercialisation* funding for that project cannot exceed \$2 million.

*Applicants* must first complete and submit the *Stage 1 Application Form*. The *applicant* must indicate which components of *Commercialisation Australia* they wish to apply for and address the merit based criteria. The *applicant* will be contacted by a *Customer Service Manager* or a *Case Manager* to discuss their proposal. If considered suitable for *Commercialisation Australia* assistance, the *applicant* will be provided with the *Commercialisation Australia Stage 2 Application Form* to complete.

*Commercialisation Australia* is a highly competitive merit based program and only the strongest applications are successful. *Applicants* are strongly encouraged to explore all other possible avenues of assistance before submitting an application under *Commercialisation Australia*. The *Commercialisation Australia* Board assesses and prioritises applications against the merit criteria and provides advice to the *Program Delegate*, a *Departmental* employee authorised by the *Minister* to administer the program, for decision. Applications can be submitted at any time as the Board meets regularly to consider the applications received.

**See Sections 3 and 4 for more details about the application and assessment process.**

## 1.5 Multi-component applications

*Applicants* may apply for up to two components at the same time, with the exception of:

- *Skills & Knowledge* and *Early Stage Commercialisation*, and
- *Proof of Concept* and *Early Stage Commercialisation*.

Only the following multi-component applications are allowed:

- *Skills & Knowledge* and *Proof of Concept*
- *Skills & Knowledge* and *Experienced Executives*
- *Proof of Concept* and *Experienced Executives*
- *Early Stage Commercialisation* and *Experienced Executives*

*Applicants* should note the risk associated with submitting multi-component applications. Where the *Commercialisation Australia* Board considers one component to be uncompetitive the remaining component will be **re-assessed** against the Need for Funding merit criterion. See section 3.2 for more details about the Need for Funding merit criterion.

## 1.6 Governance

*Commercialisation Australia* has a Chief Executive Officer (CEO) who is responsible for the overall design and functioning of the program. The *CEO* is also ultimately responsible for determining the eligibility of applications. The *Program Delegate* is responsible for approving applications, funding amounts and payments to *Commercialisation Australia participants*. The *Commercialisation Australia* Board provides advice to the *CEO* on strategic matters in regards to the program and the commercialisation of innovation in general. The Board also provides advice to the *Program Delegate* in relation to technical assessments, and in particular the merit ranking of applications for funding and support under the program. The *CEO* holds an ex-officio position on the Board.

Profiles of the Board members and the *CEO* can be found on the *Commercialisation Australia* web site ([www.commercialisationaustralia.gov.au](http://www.commercialisationaustralia.gov.au)). Board members are appointed by the *Minister*.

The framework for *Commercialisation Australia* is set out in the Ministerial Program Guidelines, including program objectives, roles and responsibilities, types of assistance and basic eligibility and merit rules. The Ministerial Program Guidelines are available on the *Commercialisation Australia* web site. The Customer Information Guide is consistent with the Ministerial Program Guidelines and provides applicants with all the information they need to prepare an application for assistance under the program.

*Commercialisation Australia* is delivered with the assistance of *AusIndustry*, the principle business program delivery division within the Department of Innovation, Industry, Science and Research (DIISR).

## 2. Eligibility Criteria

Applications for *Commercialisation Australia* assistance must meet the following eligibility criteria to be referred to the *Commercialisation Australia* Board for merit assessment:

- the *applicant* must be an eligible *applicant*;
- the *applicant* must have the ability to fund their share of the project costs;
- the project must aim to produce, establish the commercial viability of, or commercialise a new, clearly identified product, process or service; and it must involve *eligible activities*;
- the application must be complete and contain sufficient information to undertake a merit assessment; and
- the application must be in the form required.

### 2.1 Eligible *applicants*

Eligible *applicants* include companies, individuals or researchers who agree to form a company if their application is successful, researchers applying through a commercialisation office or an *eligible partner entity*, and individuals or researchers applying through an *eligible partner entity*.

#### **Australian Companies**

A company is eligible to apply for all *Commercialisation Australia* components if:

- (a) it is a *non tax-exempt company* incorporated under the *Corporations Act 2001* at the time of signing an agreement;
- (b) the combined annual *turnover* of the *applicant*, and of each *related body corporate* (if any) for the three years preceding application is:
  - less than \$50 million per year if applying for the *Early Stage Commercialisation* component; and
  - less than \$10 million per year if applying for any other component of *Commercialisation Australia*.

If the *applicant* is a company controlled by an *Australian University* or *PFRA* then the annual *turnover* of the company in isolation must be less than \$50 million for the *Early Stage Commercialisation* component grant and \$10 million for all other components;

- (c) it has ownership, access to, or the beneficial use of, any *IP* necessary to carry out and/or commercialise the project; and
- (d) it complies with its obligations under the *Equal Opportunity for Women in the Workplace Act 1999*. Companies on the current list of non-compliant organisations, available at [www.eowa.gov.au](http://www.eowa.gov.au), are not eligible to apply.

#### **Individuals or researchers who agree to form a company**

Individuals or researchers may apply for any component of funding under *Commercialisation Australia* as long as they agree to form a non tax-exempt company incorporated under the *Corporations Act 2001* prior to signing the *funding agreement*.

The individual or researcher must have ownership, access to, or the beneficial use of, any *IP* necessary to carry out and/or commercialise the project. The necessary rights will need to be assigned to the newly formed company before a *funding agreement* can be executed.

## **Researchers and individuals applying through a commercialisation office or eligible partner entity**

In some cases it may be appropriate that *Commercialisation Australia* assistance is provided to an individual or a researcher prior to a company being formed. Projects are likely to be relatively small and geared towards initial proof of commercial viability or investment readiness of *IP*. Assistance is available through the *Skills and Knowledge* and *Proof of Concept* components only. Researchers and individuals applying through a commercialisation office or *eligible partner entity* are not eligible for the *Experienced Executives* or *Early Stage Commercialisation* components. If an application is successful the *funding agreement* will be between the Commonwealth and the commercialisation office or *eligible partner entity* through which the researcher or individual has made the application. The researcher or individual will be included in the *funding agreement* as Key Personnel for the project.

A commercialisation office is an entity within an *Australian University* or a *PFRA* that assists researchers in commercialising their research. It assesses research outcomes for their commercial potential and assists in commercialising the best research by providing advice in areas such as *IP* rights and protection, commercialisation strategy, partnering with industry and raising capital.

Where a research organisation does not meet the definition of a *PFRA* it may apply to *Commercialisation Australia* to have its commercialisation office registered as an *eligible partner entity*. An *eligible partner entity* is a body corporate or an entity within a body corporate whose primary purpose it is to assist individuals or companies in commercialising their *IP*.

Organisations outside the research space that assist individuals in commercialising their *IP* could also apply to be registered as eligible partner entities. For example, a business incubator could qualify as an *eligible partner entity* if it accepts individuals as tenants as well as companies.

It is important to note that an individual or researcher who has successfully applied for the *Skills and Knowledge* component through an *eligible partner entity* or a commercialisation office cannot use the grant to purchase expert advice or services from that *eligible partner entity* or commercialisation office.

To qualify as an *eligible partner entity* an organisation needs to be approved by the *CEO*. The application form can be requested from the *CEO* by emailing [CEOofCA@innovation.gov.au](mailto:CEOofCA@innovation.gov.au). The *CEO* or a staff member will discuss with you the requirements and the process for becoming an *eligible partner entity* prior to completing an application form. Once approved, eligible partner entities will be listed on the *Commercialisation Australia* website: [www.commercialisationaustralia.gov.au](http://www.commercialisationaustralia.gov.au).

Commercialisation offices and eligible partner entities are strongly encouraged to explore all internal avenues of financing commercialisation projects (where appropriate) before submitting an application under *Commercialisation Australia*.

The *applicant* (and/or the researcher or individual) must have ownership, access to, or the beneficial use of, any *IP* necessary to carry out and/or commercialise the project.

## 2.2 Ability to fund *applicant's* share of project costs

*Applicants* for *Commercialisation Australia* are required to contribute to the funding of their commercialisation project:

- *Applicants* for the *Skills and Knowledge* component are required to contribute on a 80:20 basis (80% by *Commercialisation Australia* and 20% by the *applicant*);
- *Applicants* for all other components are expected to match *Commercialisation Australia* funding on at least a 50:50 basis.

The *applicant's* share of project costs is the total of its share of eligible expenditure and all ineligible project expenditure necessary to complete the project.

An *applicant* does not need to have its share of funding fully available at the time of application. However, the *applicant* must demonstrate it can fund its share of project costs at the rate it will incur *eligible expenditure* on the project. It cannot use in-kind (non-financial) contributions or other government grant funding. An *applicant* will need to provide documentary evidence of its ability to fund its share of project costs in the application.

### **SKILLS AND KNOWLEDGE, EXPERIENCED EXECUTIVES AND PROOF OF CONCEPT**

For *Skills and Knowledge*, *Experienced Executives* and *Proof of Concept* *applicants*, sufficient evidence is an accountant's written opinion that the *applicant* meets the condition—the format this written opinion must take and minimum professional qualifications for the accountant are set out in the *Commercialisation Australia* application form.

### **EARLY STAGE COMMERCIALISATION**

For *Early Stage Commercialisation* *applicants*, in addition to the accountant's letter, documentary evidence includes:

- financial statements for the previous three financial years and interim (year-to-date) financial statements for the current financial year (including consolidated financial statements if part of a group)
- projected financial statements for the duration of the project (cash flow statement is mandatory, profit and loss and balance sheet are optional);
- sales pipeline and/or sales contracts (where funding comes from sales); or
- commitment and capacity from an investor or finance provider (where funding comes from the sale of equity or through a loan).

### **What is government grant funding?**

For the purposes of these guidelines *government grant funding*, in general, means any grant, loan or investment sourced directly from a Commonwealth, State, Territory, local or international government, or indirectly through a fully government funded organisation.

A grant, loan or investment from an entity that is partly government funded, such as a university or a Cooperative Research Centre, is not considered *government grant funding*.

Equity investments from joint private and public sector management funds, such as the Innovation Investment Fund, the Pre Seed Fund or University Investment Funds are not considered *government grant funding*. However, equity investments from the Innovation Investment Follow-on Fund are considered *government grant funding*.

Monies received from the R&D Tax Concession and the R&D Tax Incentive programs are not considered *government grant funding*.

The *Program Delegate*, after consulting the *CEO*, has the final decision in determining what is *government grant funding* and may issue additional guidance on a case-by-case basis as required.

## 2.3 Access to intellectual property (IP)

An *applicant* for *Commercialisation Australia* must be able to demonstrate that it owns, or has access to or beneficial use of, any existing *IP* needed to carry out and/or commercialise the project. *Applicants* are not eligible for *Commercialisation Australia* assistance if the *IP* is in dispute or there is unsatisfactory evidence of ownership, access to, or the beneficial use of the *IP*.

- In the case of a researcher applying through a commercialisation office or *eligible partner entity*, there must be evidence that the researcher and/or the relevant university, *PFRA* or other research organisation has the necessary rights to the *IP*. Any *IP* rights issues between the researcher and the university, *PFRA* or other research organisation must be clarified before applying for assistance under *Commercialisation Australia*.
- In the case of an individual applying through an *eligible partner entity*, the individual must be able to demonstrate they have the necessary rights to the *IP*.
- In the case of an individual who has agreed to form a company if their application to *Commercialisation Australia* is successful, they must assign all necessary *IP* rights to the new company that will be party to the *funding agreement*.

It is also normally expected that, if the project succeeds, the *participant* will own any *IP* resulting from the project. Arrangements regarding the exploitation of project *IP* which differs from this must be explained comprehensively in the *Commercialisation Australia Stage 2 Application Form*.

The *funding agreement* requires a *participant* to seek prior approval from the Commonwealth for dealings with the project *IP* in certain circumstances. This includes the licensing or sale of *IP* or the transfer of ownership of the project *IP* when company control changes, including through changes in the majority shareholding of the *participant*.

## 2.4 Eligible Projects

A project is eligible if it aims to produce, establish the commercial viability of, or commercialise a new, clearly identified product, process or service.

Examples of eligible projects are projects that aim to:

- Complete development of a new product, process or service
- Prove commercial viability of a new product, process or service to a customer or strategic partner
- Make the first sales of the new product, process or service in Australia or overseas

A project that aims to make first sales or other *commercial transactions* in an overseas market is unlikely to be competitive unless:

- The overseas market is the key market for the new product, process or service
- The need for funding is clearly established, especially where the applicant has already sold the new product, process or service in Australia

Examples of ineligible projects are projects that aim to:

- Prove to the *applicant* that a certain technological problem can be overcome (R&D projects)
- Scale production and/or marketing activities in markets where the applicant has already made its first sales of the new product, process or service

*Commercialisation Australia* does not fund R&D projects. A project is considered an R&D project if its focus is on basic research or technical experiments.

However, a project may include R&D activities and still be eligible if these R&D activities are essential to undertake in order to achieve a *commercial transaction* after the successful completion of the project. The likelihood of a *commercial transaction* must be high and will be assessed through the merit criteria (see section 3.1).

### **What is the meaning of ‘first sales’?**

*Commercialisation Australia* recognises that commercial sales is the last stage of bridging the ‘valley of death’ between research and development and commercial viability. Once a company and a new product, process or service have proven that they can generate commercial sales in a key market, financing is more readily available. *Commercialisation Australia* therefore supports projects up to the point of ‘first sales’, meaning a company is able to demonstrate, consistent with its *value proposition*, market acceptance of its new product, process or service in its key market in the form of early adopter revenue.

## **2.5 Eligible Activities and Expenditure**

### **SKILLS AND KNOWLEDGE**

Under the *Skills and Knowledge* component of *Commercialisation Australia*, funding is provided for obtaining expert advice and services to assist in the commercialisation process.

### **Examples of expert advice and services include (but are not limited to):**

- Business planning
  - developing or reviewing a business plan
  - determining suitable corporate structures
  - undertaking a risk analysis
- Commercialisation
  - undertaking market research
  - developing a market strategy
  - developing an export strategy
- *IP* management
  - commissioning an *IP* landscape report
  - developing an *IP* protection strategy
  - preparing a patent application (but fees to a patent office such as registration and maintenance fees are ineligible)
  - developing or reviewing *IP* licensing agreements
- Capital raising
  - developing an investment proposal and pitch
  - developing a capital plan to identify funding requirements

- Linkages
  - developing a partnership or collaboration agreement with another business or organisation.

### **EXPERIENCED EXECUTIVES**

The employment of an experienced chief executive officer or other executive is supported under the *Experienced Executives* component. The executive is expected to bring complementary skills and experience that assist existing management to drive the business towards a successful launch of its new product, process or service in the marketplace.

The maximum grant is \$350,000 over two years (up to \$175,000 per 12 month period).

Where the experienced executive to be employed by the *applicant* is not known at the time of application the *applicant* must select a person and seek the consent of the *CEO* of *Commercialisation Australia* within three months of notification that the application for an *Experienced Executives* grant was successful.

### **PROOF OF CONCEPT**

Funding for activities associated with the steps necessary to establish the commercial viability of a new product, process or service is provided under the *Proof of Concept* component.

Projects should be geared toward proving the *value proposition*, or a critical component of the *value proposition*, that is described by the *applicant* in Part C of the *Stage 2 Application Form* under Merit Criterion 3. This will be used particularly where a project includes R&D activities to determine the likelihood of a *commercial transaction*. The application should demonstrate a high probability of a *commercial transaction* following the successful completion of their project. The higher the likelihood the more competitive the application is likely to be.

Expenditure must be incurred on eligible project activities, and after an application has been accepted, to be considered *eligible expenditure*. However, grant funding is only guaranteed when a *funding agreement* is executed, and, therefore, the *applicant* bears the risk of any expenditure incurred before then.

### **EARLY STAGE COMMERCIALISATION**

*Commercialisation Australia* provides funding for the steps necessary to bring a new product, process or service to market under the *Early Stage Commercialisation* component. Projects should be geared toward selling the new product, process or service to the first customers in Australia or overseas. The application should demonstrate a high probability of *commercial transactions* during or after the completion of their project. The higher the likelihood the more competitive the application is likely to be.

Only expenditure that is directly related to eligible project activities, and has been incurred on activities that occur after an application has been accepted, can be deemed to be *eligible expenditure*. However, grant funding is only guaranteed when a *funding agreement* is executed, and, therefore, the *applicant* bears the risk of any expenditure incurred before then.

For detailed information on eligible expenditure please refer to the Eligible Expenditure Guidelines in **Appendix 2**.

## 3. Assessment of the project

*Commercialisation Australia* is a highly competitive, merit based program, and only the strongest applications are successful. The *Commercialisation Australia* Board assesses and prioritises applications against the merit criteria and provides a merit ranking to the *Program Delegate* for decision.

### 3.1 Merit criteria

Eligible *Commercialisation Australia* applications are assessed against the program merit criteria as outlined below. The *Commercialisation Australia* Board assesses applications first against the 'Need for funding' criterion. Only applications that demonstrate a need for funding will be assessed against the remaining merit criteria and receive a merit ranking.

#### Need for Funding

- The *applicant* has insufficient financing to fund the entire project.
- It would be unreasonable to expect that the *applicant* should obtain financing from alternative sources.

For further information on the Need for Funding merit criterion please refer to section 3.2.

#### Market Opportunity

- The need for the new product, process or service is clearly defined.
- The type of customer is clearly defined.
- The size of the target market.
- The strength of the *IP* and how it will address the market opportunity.

#### Value Proposition

- A clear, concise and compelling *value proposition*, i.e. why the customer wants the product, process or service.

#### Execution Plan

- A sound execution plan to capture the opportunity and manage the risks, for example
  - a clear set of objectives
  - a clearly defined path to market
  - an understanding of the key structural or market challenges to be resolved
  - a sound *IP* strategy

#### Management Capability

- The *applicant* demonstrates an appropriate level of expertise in:
  - commercialisation management
  - project management
  - business management
  - the relevant sector/technology domain

#### National Benefits

- The project will improve Australia's participation and competitiveness in the global economy.
- Significant spill-over benefits will accrue to Australia through the conduct of the project and/or commercialisation of its results, including:
  - diffusion of knowledge and skills;
  - diffusion of new products, processes or services; and/or
  - increased collaboration between businesses and/or businesses and research institutions.

## Relative importance of merit criteria in relation to different components

The *Commercialisation Australia* Board takes into account the stage of development and the type of funding that an *applicant* is seeking when assessing the merit of an application. In general, management capability is more important in relation to applications for the *Early Stage Commercialisation* component than for other types of support. Further, the level of detail about markets and competitors is expected to be higher in applications for the *Early Stage Commercialisation* component than in other applications.

### 3.2 Need for funding

*Commercialisation Australia* supports only those applications that demonstrate a need for funding. This is consistent with general government policy that business support programs should focus on activities that would not take place (or might be significantly delayed) without public support. In other words, the public support (in this case *Commercialisation Australia* funding), should not crowd out investment (or other funding) that would have occurred anyway.

In the case of *Commercialisation Australia* the relevant considerations in determining ‘*Need for funding*’ are the *applicant’s* current and future funding capacity and the *applicant’s* potential to raise funds from alternative sources, such as directors, shareholders, related entities, professional investors or financial institutions. Specifically, in order to satisfy ‘*Need for funding*’ an *applicant* needs to demonstrate that:

- the *applicant* has insufficient financing to fund the entire project; and
- it would be unreasonable to expect that the *applicant* should obtain financing from alternative sources.

The level of evidence required to substantiate claims made in relation to ‘*Need for funding*’ depends on the size of the project and/or the stage of development of the applicant. For example, it may be evident that a particular project would be too early in its stage of development to be of sufficient interest to professional investors. The applicant therefore may not be expected to approach venture capital funds before seeking *Commercialisation Australia* assistance, whereas an applicant with a large, later stage project that has already attracted external funding would be expected to do so. Case Managers will be able to provide further guidance to applicants in relation to evidence required in relation to their specific application.

The Case Managers will endeavour to provide *applicants* with guidance and feedback in relation to the ‘*Need for funding*’ criterion as early as possible in the application process. However, as ‘*Need for funding*’ is a merit criterion, it is the *Commercialisation Australia* Board that ultimately assesses whether an application has sufficiently demonstrated a need for public support.

### 3.3 Merit assessment process

The *Commercialisation Australia* Board meets regularly to undertake merit assessment of eligible *Commercialisation Australia* applications against the program merit criteria. Applications can be submitted at any time and will be considered at the next possible Board meeting.

Note that it is the *CEO* who undertakes the merit assessment of single-component *Skills and Knowledge* applications.

Applications must rate highly against each merit criterion and against other applications to be considered for grant support. After receiving a merit ranking from the *Commercialisation Australia* Board (or the *CEO* in relation to *Skills and Knowledge* applications), the *Program Delegate* may approve an application for support and funding for a project to which the application relates and enter into a *funding agreement* with the *applicant*, on behalf of the Commonwealth.

The *Program Delegate* has the final decision in determining the quantum, terms and conditions of support and funding under the *Commercialisation Australia* program. The *Program Delegate's* decision is final in all matters.

## 4. Applying for *Commercialisation Australia* assistance

Applications can be submitted at any time. Before applying for assistance, *applicants* should consider whether they are eligible and likely to be competitive against the program merit criteria.

### Confidentiality agreements

*Case Managers* and *Customer Service Managers* will not sign confidentiality agreements with *applicants*. The use and disclosure of information provided by *applicants* for the *Commercialisation Australia* program is regulated. Please refer to section 6.2 for further information on confidentiality.

### 4.1 Submitting a stage 1 application

To help determine the eligibility and merit of an application, *applicants* are required to complete and submit a *Commercialisation Australia Stage 1 Application Form*. The form is available from:

- the *Commercialisation Australia* website: [www.commercialisationaustralia.gov.au](http://www.commercialisationaustralia.gov.au); or
- the *Commercialisation Australia* hotline 13 22 56.

*Applicants* are encouraged to submit their *Stage 1 Application Form* electronically. The form includes details about how to submit it to *Commercialisation Australia*.

The *Stage 1 Application Form* helps *applicants* determine whether their commercialisation project is suitable for *Commercialisation Australia*. It also provides *Commercialisation Australia* with a first impression of the *applicant* and the project. Once submitted, *applicants* will be contacted and provided with feedback on eligibility and advice on their project proposal. *Commercialisation Australia* may at this stage ask the *applicant* for further validation of claims made in the *Stage 1 Application Form*. Where an *applicant* is considered suitable and ready to proceed they will be provided with the *Commercialisation Australia Stage 2 Application Form*.

If unsuitable for *Commercialisation Australia*, *applicants* will be contacted, and where possible, referred to other assistance programs that may meet their business needs.

A sample *Commercialisation Australia Stage 2 Application Form* is available on the *Commercialisation Australia* website at [www.commercialisationaustralia.gov.au](http://www.commercialisationaustralia.gov.au).

## 4.2 Submitting a stage 2 application

Applicants are encouraged to first submit a Stage 2 application as a draft on which they are entitled to receive one round of feedback. Feedback will only be provided where the application is complete and all mandatory attachments are included, in at least draft form. Additional documentation may be requested at this stage.

Details on how to submit the application are outlined in the *Commercialisation Australia Stage 2 Application Form*.

Acceptance of all final applications will be acknowledged in writing by *Commercialisation Australia* where it is satisfied that the application is complete and eligible. If an application is incomplete or ineligible, *Commercialisation Australia* will discuss this with the contact person identified on the application form.

After your final application has been accepted, but prior to the day the *Commercialisation Australia* Board meets to assess your application, you may be contacted about possible changes to the “Project description for publication purposes” you provided in response to question B4 in the *Stage 2 Application* form. This project description is published on the *Commercialisation Australia* website if your application is successful. Whether or not you will be contacted depends entirely on your response to question B4 and does not in any way reflect the merit of your application and its likelihood of success. For more information about public disclosure of information contained in your application please refer to sections 5.6 and 6.2 of this guide.

## 4.3 Resubmission of application

In cases where an application is not successful for funding assistance, the *applicant* may submit, at a future date, a new application for the same or similar project. Only one such new application is permitted, and it must address the weaknesses of the first application. The new information provided must substantially strengthen claims against the merit criteria. The Executive Summary section of the application must include a summary of the key changes made in response to the reasons why the first application was unsuccessful. Options for submitting a new application can be discussed with the *Case Manager*.

*Commercialisation Australia* may refuse to accept a new application if it is substantially the same as a previous ineligible or unsuccessful application.

## 4.4 Final decision

The *Program Delegate*, a *Departmental* employee authorised by the *Minister* to administer the program, makes grant offers taking into account the *Commercialisation Australia* Board's merit assessment and the availability of program funds.

*Commercialisation Australia's* customer service standard to provide *applicants* with a decision on their application is **75 calendar days** from the date of the acceptance of a final application. *Applicants* are advised of the application acceptance date by letter.

If the application succeeds, the *applicant* will receive a written offer of assistance, and will have **30 calendar days** from the date of the offer to execute a *funding agreement* with the Commonwealth. The offer of the *funding agreement* may be withdrawn if not executed within this time.

The earliest possible start date for *Proof of Concept* and *Early Stage Commercialisation* projects is the date the application for that component is accepted for assessment. This is generally not the same date an *applicant* submits a final application. An application will only be accepted after it has been confirmed that the application is complete in all respects and that the *applicant* is eligible to apply. The start date for a *Skills and Knowledge* or *Experienced Executive* component cannot be earlier than the execution date for the *funding agreement*.

If the application is not successful, the *applicant* will be notified in writing and provided the opportunity to discuss the outcome with *Commercialisation Australia*.

The *Program Delegate's* decision is final with regard to the offer of a grant, including the size and terms and conditions for which assistance is offered under *Commercialisation Australia*.

## 5. *Funding agreement* process for successful *applicants*

The *funding agreement* is a legal contract between the program *participant(s)* and the Commonwealth. Where a researcher applies through a commercialisation office or *eligible partner entity* it is the commercialisation office or *eligible partner entity* that signs the *funding agreement*, with the researcher participating as key personnel. Where an individual applies through an *eligible partner entity* it is the *eligible partner entity* that signs the *funding agreement*, with the individual participating as key personnel. The *funding agreement* also sets out the project milestones and the *participant's* compliance and reporting obligations. The schedules to the *funding agreement* will reflect other information included in the application. A sample copy of the *funding agreement* is available at [www.commercialisationaustralia.gov.au](http://www.commercialisationaustralia.gov.au).

An executed *funding agreement* provides funding over the life of a project. For project expenditure to qualify as *eligible expenditure*, the *participant* must incur it on or after the project commencement date—which cannot be before the date *Commercialisation Australia* accepts a final application for assessment. Until a *funding agreement* is executed, there is no guarantee that *Commercialisation Australia* will provide grant funding and, therefore, an *applicant* offered a grant bears the risk of any expenditure it incurs before then. Note that under the *Skills and Knowledge* component and the *Experienced Executives* component *eligible expenditure* cannot be incurred until a *funding agreement* is executed.

If the *applicant* is successful in its application for funding, *Commercialisation Australia* will send a written offer of assistance. The *applicant* will have **30 calendar days** from the date of the offer to execute a *funding agreement* with the Commonwealth. *Commercialisation Australia* may withdraw the offer if the *funding agreement* is not executed within this time.

An offer of *Commercialisation Australia* funding may be subject to special conditions and may be withdrawn in certain circumstances.

### 5.1 Duration of support

*Commercialisation Australia participants* are entitled to the support of a *Case Manager* for a particular period that will be defined in the *funding agreement*. In general, the following periods apply:

- Where the *participant* is receiving assistance under the *Skills and Knowledge* and/or the *Proof of Concept* components, the period starts on the day the *funding agreement* is executed and ends six months after the component completion date.
- Where the *participant* is receiving assistance under the *Experienced Executives* component, and/or the *Early Stage Commercialisation* component, the period starts on the day the *funding agreement* is executed and ends on the component completion date.

*Participants* with a current agreement who successfully apply for additional assistance under *Commercialisation Australia* will have the period of support extended in line with the above.

## 5.2 Agreement obligations

### Changing the commercialisation strategy

The *funding agreement* will contain certain obligations about exploiting or commercialising the project or its outcomes in accordance with the project commercialisation strategy in the *Commercialisation Australia* application. If a *participant* subsequently intends to change its commercialisation strategy it must receive the prior written consent of the Commonwealth. Failing to do so will place the *participant* in breach of the *funding agreement*.

### Dealing with Project IP

Prior written consent from the Commonwealth is required in circumstances where a company change of control takes place or the *participant* undertakes to 'deal' with the *IP*. This includes the licensing or sale of *IP* or the transfer of ownership of the project *IP* when company control changes, including through changes in the majority shareholding of the *participant*. For *participants* with *Commercialisation Australia* financial assistance of \$500,000 or less this obligation applies only while receiving support under the program. For all other *participants* this obligation applies until five years after exiting the program.

### Other obligations

It is important to closely consider the details of the project when finalising the agreement, in particular, understanding the key compliance and reporting obligations. In addition, it is important to take particular care when apportioning project costs across the financial years of the project. Once the *funding agreement* is signed, the Commonwealth cannot guarantee changes to project expenditure, including movement of funds across financial years. Unspent funds in any year may be lost from the project.

## 5.3 Reporting requirements

Under the terms of the *funding agreement*, *participants* will be required to report on their project using a prescribed template. These reports identify project progress and expenditure for a given reporting period. The frequency of progress reports varies depending on the funding assistance component.

*Participants* are required to provide the following progress reports:

- Quarterly progress reports. Grant payments are based on these reports, taking into account achievement of project milestones. *Commercialisation Australia* may pay *participants* up to one reporting period in advance; and
- End of project/component audited financial report.

*Commercialisation Australia* also collects program policy data to evaluate the program and shape its strategic direction. In general, *participants* are required to provide the following policy data reports:

- Baseline report at the time of signing the *funding agreement*;
- Interim report after 12 months (if applicable);
- Completion report after the project is completed and no longer receives *Commercialisation Australia* funding assistance; and
- Annual post project reports for 5 years after project completion.

Please be advised that additional reports may be required for participants who have successfully applied for an additional component.

For further information on reporting requirements, refer to the *Commercialisation Australia 'Guide to Managing Your Grant'*, at [www.commercialisationaustralia.gov.au](http://www.commercialisationaustralia.gov.au).

## 5.4 Varying the agreement

*Commercialisation Australia* recognises that unexpected circumstances may impact on a project. A *participant* must discuss any changed circumstances with *Commercialisation Australia*. Otherwise it may be at risk of breaching the *funding agreement*. The *participant* will then be advised whether the changes in circumstances require a formal variation to the *funding agreement*.

The *Commercialisation Australia Guide to Managing Your Grant* has a detailed description of the responsibilities involved in conducting a *Commercialisation Australia* project. A copy of this guide can be found at [www.commercialisationaustralia.gov.au](http://www.commercialisationaustralia.gov.au).

## 5.5 Exiting the program

*Commercialisation Australia* acknowledges the high risk nature of projects supported by the program and recognises that some projects will fail. *Participants* will have to prove their project's ongoing progress against performance milestones as set out in the *funding agreement*. *Participants* may be required to exit the program where their project fails to meet agreed milestones or moves beyond the scope of the *Commercialisation Australia* program.

Whether or not a project is progressing successfully is determined by the *Program Delegate*, who may seek the advice of the *Commercialisation Australia* Board. The *Program Delegate* will take into account whether project targets were achieved and the views of the *Case Manager*.

Alternatively, *participants* may voluntarily terminate their project. *Commercialisation Australia* expects that some *participants* will realise during the term of their *funding agreement* that their project will not achieve its objectives. This could be because the project failed to produce an expected outcome, or the commercial prospects for the new product, process or service have substantially changed such that persevering with the project no longer makes commercial sense. *Commercialisation Australia* encourages such voluntary terminations and will view it as a positive indicator of the management team's capability in any future application for funding under the program.

## 5.6 Promotion

*Commercialisation Australia* may use information on *participants* who have received assistance as part of its promotional activities. This may involve press advertising, promotional material on the *Commercialisation Australia* website and case studies. *Participants* will be consulted before their projects are used for case study purposes. Under the *Commercialisation Australia* grant agreement, customers are required to acknowledge any Commonwealth contribution in publicity material.

*Commercialisation Australia* will publish on its 'Participants' web page the 'Project description for publication purposes' provided by successful *applicants* in section B4 of the *Stage 2 Application Form*. The same project description may also be used in any press release regarding recently approved applications. Note that *applicants* give their consent for *Commercialisation Australia* to use the 'Project description for publication purposes' in promotional material when signing and submitting their Stage 2 application for assessment. No further consent from successful *applicants* will be sought by *Commercialisation Australia* prior to publishing this information, unless *Commercialisation Australia* proposes a significantly different project description.

# 6. Further Information

## 6.1 Taxation issues

*Commercialisation Australia* grants attract the goods and services tax (GST). Grant payments are increased to compensate for the level of this tax.

While *Commercialisation Australia* grants typically are assessable income, their treatment will depend on the recipient's particular circumstances. It is therefore recommended that independent professional advice is sought as to the income tax implications in your particular circumstances. Further information is available from the Australian Taxation Office on its website (e.g. [ATO TR 2006/3](#)).

The R&D Tax Incentive clawback provisions apply to all *Commercialisation Australia* grants. Information on the R&D Tax Incentive is available on the AusIndustry web site ([www.ausindustry.gov.au](http://www.ausindustry.gov.au)) and the ATO web site ([www.ato.gov.au](http://www.ato.gov.au)).

## 6.2 Confidentiality

The use and disclosure of information provided by *applicants* for the *Commercialisation Australia* program are regulated by the relevant provisions and penalties of the *Industry Research and Development Act 1986*, the *Public Service Act 1999*, the *Public Service Regulations*, the *Privacy Act 1988*, the *Crimes Act 1914*, the *Criminal Code Act 1995* and general law.

As part of the assessment of an application, *Commercialisation Australia* may need to consult with, and provide material from the application to, other government agencies or bodies, other organisations and/or relevant individuals, in order to substantiate any claims or statements made in the application form, or to otherwise assist in the assessment of the application. If this occurs, *Commercialisation Australia* will endeavour to ensure that the parties who are consulted observe appropriate confidentiality provisions.

Detailed confidential information contained in applications may be disclosed for audit purposes to contractors engaged by *Commercialisation Australia* and to other Commonwealth agencies for audit, reporting and law enforcement purposes. Further, *Commercialisation Australia* 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 *Commercialisation Australia* 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 grant amount and a brief description of the project) may be disclosed by *Commercialisation Australia* for purposes such as promoting the program and reporting on its operation and policy development. This information may also be used in answering questions from Parliament and its committees.

### 6.3 Conflicts of interest

The *Commercialisation Australia* Board, *Case Managers* and *Customer Service Managers* are required to follow formal procedures for handling matters involving actual or potential conflicts of interest in dealing with *applicants* and *participants*. In particular, for Board members this is a requirement of section 16 of the *Industry Research and Development Act 1986* (the Act). Disclosure of interest procedures are available on the *Commercialisation Australia* web site [www.commercialisationaustralia.gov.au](http://www.commercialisationaustralia.gov.au).

Before applications are referred to a *Case Manager* a disclosure of interest (DOI) process is undertaken to determine whether a *Case Manager* has a conflict of interest. Where the *Case Manager* discloses a conflict of interest, that application will be referred to another non-conflicted *Case Manager*.

### 6.4 Feedback and complaints handling procedure

We value your feedback. *Commercialisation Australia* conducts client satisfaction and stakeholder satisfaction surveys on policy development and service delivery. If you are pleased with our service or otherwise, let us know. To provide us with feedback, you can contact the *Case Manager* or *Customer Service Manager* you have been dealing with.

Complaints can be directed to the *Program Delegate*, via the *Commercialisation Australia* hotline, in the first instance. Contact the *Commercialisation Australia* hotline on **13 22 56** or by email at [hotline@ausindustry.gov.au](mailto:hotline@ausindustry.gov.au).

If an *applicant* or *participant* is not satisfied with the complaint resolution procedure, they may escalate the complaint to the *CEO* of *Commercialisation Australia*. The *CEO* can be contacted by email to [CEOofCA@innovation.gov.au](mailto:CEOofCA@innovation.gov.au).

Another option for complaints is to contact the Commonwealth Ombudsman. There is no fee for making a complaint, and the Ombudsman will conduct an independent investigation of concerns. Note that the Ombudsman usually prefers complainants to first work through relevant internal processes before complaining about a decision.

The Ombudsman has offices in all states and territories. Contact the Ombudsman by telephoning **1300 362 072** or by writing to the relevant contact address specified on the Ombudsman's website at [www.ombudsman.gov.au](http://www.ombudsman.gov.au).

## 6.5 How recent program changes apply to existing *applicants* and *participants*

The impact of program changes introduced on 7 December 2011 on *participants* and on current *applicants* whose *Stage 2 Application* was accepted prior to the *Commencement Date* of these Guidelines is summarised in the table below.

<b>Program change</b>	<b>Impact on <i>applicants</i> whose <i>Stage 2 application</i> was accepted for assessment prior to 7 December 2011 and who have not yet signed a <i>funding agreement</i>.</b>	<b>Impact on <i>participants</i></b>
Removing the requirement for repayment of <i>Early Stage Commercialisation</i> grants	The <i>Early Stage Commercialisation</i> component is no longer a repayable grant. Successful <i>applicants</i> will be able to sign the latest <i>funding agreement</i> which has been updated to remove the repayment provisions.	The repayment obligations no longer apply to <i>participants</i> who have not reached the <i>Sales Target</i> before 6 October 2011. These <i>participants</i> will be asked to enter into an amending deed to reflect this. The impact on other <i>participants</i> who have reached the <i>Sales Target</i> will be considered on a case by case basis.
Increasing the maximum grant size for <i>Experienced Executives</i> grants from \$200,000 to \$350,000.	Successful <i>applicants</i> may apply for the new maximum grant limit of \$350,000 (but limited to \$175,000 per 12 month period). The new maximum grant limit of \$350,000 (and \$175,000 per 12 month period) applies.	<i>Participants</i> may apply for the new maximum grant limit of \$350,000 (but limited to \$175,000 for any unexpired 12 month period for which that component has been awarded). If applicable, <i>participants</i> will be asked to enter into an amending deed to reflect this.
The maximum duration of <i>Skills and Knowledge</i> projects is now one year for all applicants (previously two years for companies).	Companies may still sign a <i>funding agreement</i> for a <i>Skills and Knowledge</i> grant for a project with a duration of up to two years.	No impact on current <i>Skills and Knowledge</i> projects.  The one year maximum duration will apply to any new <i>Skills and Knowledge</i> projects applied for on or after 7 December 2011.
Registering a trademark or design is now eligible expenditure under the <i>Proof of Concept</i> and <i>Early Stage Commercialisation</i> components.	Registering a trademark or design remains ineligible expenditure as the Eligible Expenditure Guidelines that apply are those that were current at the time the application was accepted for assessment.	Registering a trademark or design remains ineligible expenditure as the Eligible Expenditure Guidelines that apply are those that were current at the time the application was accepted for assessment.

	<p>Registering a trademark or design will be eligible expenditure for any new <i>Proof of Concept</i> and <i>Early Stage Commercialisation</i> components applied for on or after 7 December 2011.</p>	<p>Registering a trademark or design will be eligible expenditure for any new <i>Proof of Concept</i> and <i>Early Stage Commercialisation</i> components applied for on or after 7 December 2011.</p>
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All other changes made to the *Commercialisation Australia* program by these Guidelines only apply to applications for new grants or new components lodged on or after the *Commencement Date* of these Guidelines.

## Appendix 1: How to contact AusIndustry offices

<p><b>New South Wales</b>  <b>State Office (Sydney CBD)</b>            Level 5, 341 George Street            Postal Address            GPO Box 9839            SYDNEY NSW 2001            Phone (02) 9226 6000            Fax (02) 9226 6002 or (02) 9226 6001            Email: <a href="mailto:ainsw@innovation.gov.au">mailto:ainsw@innovation.gov.au</a></p> <p><b>Wagga Wagga – South West NSW</b>            48 Fitzmaurice Street            Postal Address            PO Box 5761            WAGGA WAGGA NSW 2650            Phone (02) 6921 1828            Fax (02) 6921 6415</p> <p><b>Wollongong – Illawarra &amp; Central West Region</b>            Suite 1 Crown Tower            Level T, 200 Crown Street            Postal Address            PO Box 5427            WOLLONGONG NSW 2520            Phone (02) 4254 5534            Fax (02) 4225 2607</p> <p><b>Newcastle – Hunter Region</b>            IDC – Hunter University Drive            CALLAGHAN NSW 2308            Postal Address            PO Box 189            HUNTER REGION MC NSW 2310            Phone (02) 4960 3823            Fax (02) 4960 3847</p> <p><b>Tamworth – Northern &amp; Central NSW</b>            Level 1, 307 Peel Street            Postal Address            PO Box 920            TAMWORTH NSW 2340            Phone (02) 6761 3624            Fax (02) 6761 3571</p> <p><b>Victoria</b>  <b>State Office (Melbourne CBD)</b>            5th Floor,            111 Bourke Street            Postal Address            GPO Box 85            MELBOURNE VIC 3001            Phone (03) 9268 7555            Fax (03) 9268 7599            Email: <a href="mailto:aivic@innovation.gov.au">mailto:aivic@innovation.gov.au</a></p> <p><b>Ballarat – Western Victoria</b>            48 Sturt Street            Postal Address            PO Box 511            BALLARAT VIC 3353            Phone (03) 5320 5960            Fax (03) 5331 7973</p> <p><b>Bendigo – Northern Victoria</b>            Level 1, 56-60 King Street            Postal Address            PO Box 1332            BENDIGO VIC 3552            Phone (03) 5442 4199            Fax (03) 5441 8941</p>	<p><b>Trafalgar – Gippsland</b>            107 Princes Highway            TRAFALGAR VIC 3824            Postal Address            PO Box 247            TRAFALGAR VIC 3439            Phone (03) 5633 3436            Fax (03) 5633 3439</p> <p><b>Queensland</b>  <b>State Office (Brisbane CBD)</b>            Level 12            100 Creek Street            Postal Address            GPO Box 9839            BRISBANE QLD 4001            Phone (07) 3227 4700            Fax (07) 3227 4730            Email: <a href="mailto:aiqlid@innovation.gov.au">mailto:aiqlid@innovation.gov.au</a></p> <p><b>Gold Coast – Southern Queensland and Northern Coastal NSW</b>            Level 1, 26 Marine Parade            Postal Address            PO Box 1448            SOUTHPORT B.C QLD 4215            Phone (07) 5503 1476            Fax (07) 5503 1628</p> <p><b>Bundaberg – Central Queensland</b>            205 Bourbong Street            Postal Address            PO Box 1386            BUNDABERG QLD 4670            Phone (07) 4151 0660            Fax: (07) 4151 0708            Email: <a href="mailto:aiqlid@innovation.gov.au">mailto:aiqlid@innovation.gov.au</a></p> <p><b>Townsville – Northern Queensland</b>            Level 1, Enterprise House            Cnr The Strand &amp; Sir Leslie            Thiess Drive            Postal Address            PO Box 326            TOWNSVILLE QLD 4810            Phone (07) 4721 6649            Fax (07) 4721 0753</p> <p><b>Western Australia</b>  <b>State Office (Perth CBD)</b>            Level 25, St Martins Tower            44 St Georges Terrace            Postal Address            GPO Box 9839            PERTH WA 6848            Phone (08) 9287 3500            Fax (08) 9287 3511            Email: <a href="mailto:aiwa@innovation.gov.au">mailto:aiwa@innovation.gov.au</a></p> <p><b>Bunbury – South Western Australia</b>            Podium Level, Bunbury Tower            61 Victoria Street            Postal Address            PO Box 2488            BUNBURY WA 6231            Phone (08) 9721 8216            Fax (08) 9721 7584</p>	<p><b>South Australia &amp; Northern Territory</b>  <b>State Office (Adelaide CBD)</b>            11th Floor, Terrace Towers            178 North Terrace            Postal address            GPO Box 9839            ADELAIDE SA 5001            Phone (08) 8406 4700            Fax (08) 8406 4717            Email: <a href="mailto:aisa@innovation.gov.au">mailto:aisa@innovation.gov.au</a></p> <p><b>Port Augusta – Northern South Australia</b>            Port Augusta Business Centre            500 Stirling Road            Postal Address            PO Box 421            PORT AUGUSTA SA 5700            Phone (08) 8641 2563            Fax (08) 8641 1823</p> <p><b>Mount Gambier – Southern South Australia</b>            Old Town Hall, Commercial            Street East            Postal Address            PO Box 1537            MT GAMBIER SA 5290            Phone (08) 8723 1057            Fax (08) 8725 8949</p> <p><b>Darwin – Northern Territory</b>            Ground Floor, Development House,            76 The Esplanade            Postal Address            PO Box 4816            DARWIN NT 0801            Phone (08) 8941 9250            Fax (08) 8941 5603</p> <p><b>Australian Capital Territory</b>  <b>National &amp; Territory Offices (Canberra City)</b>            7th Floor, Industry House            10 Binara Street            Postal Address            GPO Box 9839            CANBERRA ACT 2601            Phone 13 28 46            Fax (02) 6213 7644            Email: <a href="mailto:aiact@innovation.gov.au">mailto:aiact@innovation.gov.au</a></p> <p><b>Tasmania</b>  <b>State Office (Hobart CBD)</b>            4th Floor, AMP Building            86 Collins Street            Postal Address            GPO Box 9839            HOBART TAS 7001            Phone (03) 6230 9900            Fax (03) 6230 9901            Email: <a href="mailto:aitas@innovation.gov.au">mailto:aitas@innovation.gov.au</a></p> <p><b>Launceston – Northern Tasmania</b>            Level 1 Cornwell Square            12-16 St John Street            Postal Address            GPO Box 823            LAUNCESTON TAS 7250            Phone (03) 6331 4183            Fax (03) 6331 3452</p>
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## Appendix 2: Commercialisation Australia Eligible Expenditure Guidelines

These guidelines operate on and from 7 December 2011. The *CEO* may revise these guidelines from time to time. The guidelines that apply to a project are those that apply on the date that the *CEO* accepts for assessment the *Stage 2 Application* seeking funding for that project.

### Introduction

These guidelines set out the principles governing what is eligible expenditure. *Applicants* for *Commercialisation Australia* must use these guidelines in completing an application.

*Participants* must use these guidelines when conducting their project and completing project progress reports. The *Program Delegate* (and his or her authorised officers) will use these guidelines to determine eligibility of budgeted project costs and the grant amount, and to determine a *participant's* entitlement to grant progress payments during the period of a *funding agreement*. The *Program Delegate*, after consulting the *CEO*, has the final decision in determining eligible expenditure and may issue additional guidance on eligible expenditure on a case-by-case basis as required.

### 1. Eligible expenditure governing principles

*Commercialisation Australia* is designed to increase the level of commercialisation skills and knowledge, as well as proof of concept and early stage commercialisation activities. *Commercialisation Australia* will only support projects up to the point where a new product, process or service has been sold to the first customers in Australia or overseas.

This statement of governing principles conveys in a broad sense, the spirit and intention behind the eligible expenditure guidelines. They should not be solely relied on to determine eligible expenditure, but referred to so as to provide direction and support on decisions regarding the eligibility of expenditure detailed in the guidelines.

#### 1.1 Eligible expenditure is restricted to expenditure incurred directly on the agreed project as detailed in the funding agreement

- Eligible expenditure is any expense (inclusive of GST but less related input tax credits), that qualifies as eligible expenditure under these guidelines.
- Eligible expenditure is limited to the performance of the activities of the agreed commercialisation project under each component of *Commercialisation Australia*.
- Only expenditure incurred on *eligible activities* within the agreed component duration (as highlighted in the *funding agreement*) is eligible expenditure, unless otherwise noted in the eligible expenditure guidelines.
- To be eligible, the *participant* must incur expenditure on or after the component commencement date, which cannot be before the date *Commercialisation Australia* accepts the application for assessment, and on or before the component completion date, with the exception of final audit costs which can be incurred within three months of the component completion date. Note that under the *Skills and Knowledge* component and the *Experienced Executives* component of *Commercialisation Australia* eligible expenditure cannot be incurred until a *funding agreement* is executed.
- The *participant* must pay expenditure within the earlier of three months after the financial year in which it is incurred or within three months after the component completion date (including final audit costs).

- Eligible expenditure can include depreciation of assets due to performing project activities but excludes any costs, direct or otherwise, of obtaining such assets for their use on project activities and also excludes any opportunity costs from using assets on the agreed project rather than other uses.

## **1.2 Grant funding is provided strictly to support the project and its core activities; it is not provided for the benefit or profit of related bodies corporate of the *participant***

- Related body corporate has the same meaning as in section 50 of the *Corporations Act 2001* (Cth).
- Where project activities are conducted through contracting related bodies corporate of the *participant*, these costs (known as ‘intra-group payments’) may qualify as eligible expenditure only if a reliable, measurable cost is incurred by the related body, and a verifiable process is used to transfer that cost to the *participant* with no profit margin attached, ‘at cost’.
- The *participant* should only claim that proportion of costs which directly relates to activities performed on the funded project. Where there is a mutual benefit arising from project activities, either to another company or for another project, the *participant* should reasonably apportion such costs so as to claim only for those activities which directly apply to the funded project.

## **1.3 The *participant* must retain sufficient documentation to support all expenditure claims made on the project**

- Failure to do so may result in a claim being disallowed, or in certain circumstances, the repayment of grant funding resulting from a shortfall in project expenditure.
- The *participant* must maintain an adequate audit trail that clearly demonstrates to the satisfaction of *Commercialisation Australia*, how claims were determined including a reconciliation of expenditure claims to underlying documentation
- Claims for salary, contract and asset depreciation must be verified by project timesheets, job cards or activity diaries that record actual use of those employees, contractors and assets against specific project milestones as the activities take place.
- While such records do not need to be submitted with regular progress reports, *Commercialisation Australia* may require such records to verify any or all eligible expenditure claims. Failure to provide such records when required may see *Commercialisation Australia* disallow the expenditure claims.

## **1.4 Non-cash considerations are not eligible expenditure**

For *Commercialisation Australia* purposes, 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.

Examples include:

- the use of resources—whether internally or externally sourced—for no cost to the project, and
- issuing shares in payment for services rendered.

These arrangements are sometimes referred to as ‘in-kind’ contributions. Non-cash considerations do not include using resources, at a cost, to conduct *eligible activities* for the agreed project. The latter costs of conducting *eligible activities* are generally allowed as eligible expenditure.

## 2. Treatment of certain activities

### 2.1 Eligible projects and activities

A project is eligible if it aims to produce, establish the commercial viability of, or commercialise a new, clearly identified product, process or service. Examples of eligible projects are projects that aim to:

- Complete development of a new product, process or service
- Prove commercial viability of a new product, process or service to a customer or strategic partner
- Make the first sales of the new product, process or service in Australia or overseas

Examples of ineligible projects are projects that aim to:

- Prove to the *applicant* that a certain technological problem can be overcome (R&D projects)
- Scale production and/or marketing activities in markets where the applicant has already made its first sales of the new product, process or service

*Commercialisation Australia* does not fund R&D projects. A project is considered an R&D project if its focus is on basic research or technical experiments.

An activity is eligible if it has demonstrable relevance to the commercial success of an eligible project and is compatible with the applicable *Commercialisation Australia* component. For more details on eligible activities in relation to each component please refer to sections 3, 4 and 5 of these Eligible Expenditure Guidelines.

#### What is the meaning of ‘first sales’?

*Commercialisation Australia* recognises that commercial sales is the last stage of bridging the ‘valley of death’ between research and development and commercial viability. Once a company and a new product, process or service have proven that they can generate commercial sales in a key market, financing is more readily available. *Commercialisation Australia* therefore supports projects up to the point of ‘first sales’, meaning a company is able to demonstrate, consistent with its *value proposition*, market acceptance of its new product, process or service in its key market in the form of early adopter revenue.

### 2.2 Business development and supporting activities

The cost of business development activities and other activities geared towards building the supporting elements for successful commercialisation is eligible expenditure if:

- the activity satisfies the eligibility requirements set out in section 2.1;
- the activity is not listed under section 2.3 as an ineligible activity, or the *Program Delegate* has otherwise determined that the activity is ineligible; and
- the costs are within the limits specified in section 2.5.

Examples of eligible expenditure (subject to relevant component) are:

- Salary costs for a sales person or a business development manager
- Salary costs in regards to setting up licensing, distribution or manufacturing agreements
- Legal costs in regards to setting up licensing, distribution or manufacturing agreements
- Salary and travel costs to attend a trade show
- Contractor’s fees for developing a capital plan and/or investment proposal in order to secure continuing funding for the project beyond the grant period
- Salary and other costs in relation to developing a partnership or collaboration with another business or organisation to increase the chances of commercial success for the project

- Salary and other costs in relation to obtaining regulation and standards compliance, such as certification or accreditation, in the market(s) relevant to the project

### 2.3 Activities not funded under *Commercialisation Australia*

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

Ineligible activities include but are not limited to:

- preparing the grant application, any project variation requests and any project reports (except costs of independent audit reports as set out in Section 2.4)
- full scale production and inventory costs
- all forms of advertising and the production of promotional material
- establishing general infrastructure or obtaining resources used on the project—such as interest on loans, job advertising and recruiting, and transporting goods to be used on the project (note: some or all of these costs are covered by fixed loadings on salaries and contractor fees for salary on-costs and administration overheads)
- general business management and administration not directly related to the eligible project (note: some or all of these costs are covered by fixed loadings on salaries and contractor fees for salary on-costs and administration overheads)
- web site development (unless the web site is part of the *value proposition* of the project)
- defending intellectual property rights
- prospecting, exploring or drilling for minerals, petroleum or natural gas for the purpose of discovering deposits, determining more precisely the location of deposits or determining the size or quality of deposits
- quality control activities and achieving quality control accreditation
- making donations
- opportunity costs relating to forgone production and production downtime arising from the allocation of resources to the agreed grant project
- 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.

This list is not exhaustive. Other specific expenditure may be ineligible because the *Program Delegate* decides it does not directly support the achievement of the planned outcomes of the project or to be contrary to the spirit and intention of *Commercialisation Australia*.

### 2.4 Audit certificate

The preparation of an audit certificate is eligible expenditure in relation to all components. It is restricted to a maximum of one per cent of total eligible expenditure on agreed project costs for all audit certificates, unless otherwise agreed to by the *Program Delegate*.

### 2.5 Eligible expenditure limits

The table below summarises the limits that apply for each component in relation to certain activities and types of expenditure.

Expenditure type/activity	S&K	EE	PoC	ESC
Audit certificate	1%	1%	1%	1%
Overseas expenditure	No limit	No limit	10%*	10%*

\* The *Program Delegate* may approve a higher limit – refer to section 5.2.1.

### **3. Eligible expenditure in relation to *Skills & Knowledge* grants only**

Under the *Skills and Knowledge* component of *Commercialisation Australia*, funding is provided for obtaining expert advice and services to assist in the commercialisation process.

#### **Examples of expert advice and services include (but are not limited to):**

- Business planning
  - developing or reviewing a business plan
  - determining suitable corporate structures
  - undertaking a risk analysis
- Commercialisation
  - undertaking market research
  - developing a market strategy
  - developing an export strategy
- *IP* management
  - commissioning an *IP* landscape report
  - developing an *IP* protection strategy
  - preparing a patent application (but fees to a patent office such as registration and maintenance fees are ineligible)
  - developing or reviewing *IP* licensing agreements
- Capital raising
  - developing an investment proposal and pitch
  - developing a capital plan to identify funding requirements
- Linkages
  - developing a partnership or collaboration agreement with another business or organisation.

#### **For expenditure on expert advice and services to be eligible it must be:**

- agreed to by the *Case Manager*
- for services supplied by third party service providers that are not associated with the *applicant* or the *Case Manager*;
- wholly related to an *eligible activity*; and
- incurred by the *applicant* in the period from the execution date of the *funding agreement* through to the completion date.

#### **Examples of ineligible expenses on expert advice and services:**

- in-house expenses (e.g. salaries, accounting fees, office expenses such as internet connection, attendance at conferences, workshops, seminars);
- Government charges (e.g. patent registration fees);
- Research, development and production expenses;
- travel costs;
- where applying through a commercialisation office or *eligible partner entity*, services purchased directly from that commercialisation office or *eligible partner entity*; and
- activities that an *applicant* has already carried out under another government program in the two years prior to applying for *Commercialisation Australia*.

## Overseas expenditure

While there is no limit on overseas expenditure under the *Skills and Knowledge* component, any such expenditure has to be agreed to by the *Case Manager*.

## 4. Eligible expenditure in relation to *Experienced Executive* grants only

The employment of an experienced chief executive officer or other executive is supported under the *Experienced Executives* component. The executive is expected to bring complementary skills and experience to the business and to drive it towards a successful launch of their new product, process or service in the marketplace. The executive may be engaged on a part-time basis but hours of work on the eligible project cannot be less than three days per week (or equivalent), unless otherwise approved by the *Program Delegate*.

The maximum grant is \$350,000 over two years (up to \$175,000 per 12 month period). The *participant* must contribute 50% to eligible expenditure which includes:

- either salary and packaged components plus 30% labour on-costs and 30% admin on-costs; or
- contractor fees plus 20% admin on-costs.

Eligible expenditure can only be incurred after the *funding agreement* is executed.

Where the experienced executive to be employed by the *applicant* is not known at the time of application the *applicant* must select a person and seek the consent of the *CEO* of *Commercialisation Australia* within three months of notification that the application for an *Experienced Executive* grant was successful. Similarly, consent of the *CEO* is required if a *participant* wishes to appoint a different experienced executive during the course of the project.

### Previous association of the experienced executive with the *applicant*

Previous association with the *applicant* does not necessarily preclude a person from being approved as the experienced executive. The application must demonstrate that the person:

- has the required skills critical to the success of the project and the company and would be the most appropriate person for the position;
- brings complementary skills and experience that assist existing management to drive the business towards a successful launch of its new product, process or service in the marketplace; and
- did not receive and will not receive any favourable treatment by virtue of their association with the company and any of its directors or major shareholders. This includes the selection process, the remuneration and terms of employment, and the management of potential underperformance once employed.

However, significant shareholders (controlling 20% or more of a company's shares at the time the *Stage 2 Application* is lodged) and founders are not eligible experienced executives.

## Overseas expenditure

It is possible for the experienced executive to be based overseas, however, the *applicant* would need to present a very strong case why this is necessary for it to be supported.

## 5. Eligible expenditure in relation to *Proof-of-Concept* and *Early Stage Commercialisation* grants only

These guidelines set out in detail the specific eligible expenditure types (Section 5.1) and the eligible expenditure treatment of certain activities in agreed *Proof of Concept* and *Early Stage Commercialisation* projects (Section 5.2).

Under the *Proof of Concept* component, funding is provided for the steps necessary to establish the commercial viability of a new product, process or service.

Under the *Early Stage Commercialisation* component, funding is provided for the steps necessary to bring a new product, process or service to market. Projects should be geared toward selling the new product, process or service to the first customers in Australia or overseas.

Only expenditure that is directly related to eligible project activities and has been incurred on activities that occur after an application has been accepted can be eligible expenditure.

### 5.1 Eligible expenditure types

This section sets out the *heads of expenditure* under which *Commercialisation Australia* applicants and participants must record project eligible expenditure in applications and project reports. The *heads of expenditure* are:

- Labour expenditure
- Contract expenditure
- Plant expenditure
- Prototype expenditure
- IP protection expenditure
- Other expenditure

These *heads of expenditure* are explained in more detail below.

#### 5.1.1 Labour expenditure

Eligible labour expenditure covers the cost to the *participant* of its employees directly employed on the core elements of the agreed project. An employee is a person who is paid a regular salary or wage out of which regular tax instalment deductions are made.

Labour expenditure for leadership or administrative staff (such as CEOs, CFOs, accountants and lawyers) is not eligible expenditure unless the *participant* substantiates to *Commercialisation Australia*'s satisfaction that these costs directly relate to performance of core elements of the agreed project. Please note:

- the costs to the *participant* of its employees performing an administrative function are included in the employee administrative overhead (see Section 5.1.1.4).
- the costs to the *participant* of its factory employees working solely on the installation or construction of plant or prototypes are included in the plant expenditure category (see Section 5.1.3) or prototype expenditure category (see Section 5.1.4).

##### 5.1.1.1 Eligible salary expenditure

Eligible salary expenditure includes any components of an employee's total remuneration package that are itemised 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 where this amount exceeds

that required by the *Superannuation Guarantee*. Employer contributions under the *Superannuation Guarantee* are included in the labour on-costs allowance (see Section 5.1.1.3).

For grant claim purposes, the maximum salary for an employee, including packaged components, is \$150,000 in each full financial year (July-June) of the project period. The maximum salary claim for an employee in a less-than-complete financial year that is part of the project period is reduced proportionately from the \$150,000 maximum.

Any salary claim above these caps will not qualify as eligible expenditure, except where the *participant* obtains the *Program Delegate*'s prior approval. The *Program Delegate* will assess all such requests on a case-by-case basis, and may take into account whether the additional salary is warranted to attract an employee to the agreed project, and whether the additional salary expenditure is likely to aid the project in meeting *Commercialisation Australia*'s policy objective.

#### **5.1.1.2 Calculation of eligible salary expenditure**

Eligible salary costs are incurred only when an employee works directly on the agreed project. Salary costs must be apportioned using the formula below:

$$\text{Eligible salary in period} = \text{incurred salary in period} \times \frac{\text{actual time spent on project in period}}{\text{actual time employed by participant in period}}$$

'*Incurred salary in period*' is limited to no more than the equivalent of \$150,000 per financial year, as set out in Section 5.1.1.1.

'*Actual time employed by participant in period*' includes:

- periods of leave such as annual and sick leave, and public holidays;
- overtime; and
- time spent on non-project activities.

#### **5.1.1.3 Labour on-costs**

The on-costs associated with employees engaged on the agreed project are recognised as eligible labour expenditure. Labour on-costs include but are not limited to workers compensation insurance (for example, WorkCover), employer contributions to superannuation under the *Superannuation Guarantee*, long service leave accrual, payroll tax, and so on. Eligible labour on-costs are a set rate of 30 per cent of an employee's eligible salary costs, as calculated using the formula in Section 5.1.1.2.

#### **5.1.1.4 Employee administrative overhead**

The cost of administrative overheads for those employees engaged on the agreed project is eligible labour expenditure. Eligible employee administrative overhead expenses include incidental travel, a proportion of communications, accommodation, computing facilities, recruitment, printing and stationery, postage, office salaries, legal, accounting and auditing fees, and bank charges. Eligible employee administrative overheads are a set rate of 30 per cent of an employee's eligible salary costs, as calculated using the formula in Section 5.1.1.2.

#### **5.1.1.5 Ineligible salary expenditure**

##### **Non-cash salary**

Labour costs based on an estimation of the employee's worth to the *participant* where no cash changes hands and no amount is credited to a loan account or current account in the *participant*'s accounts are not eligible labour expenditure.

## Related parties

Amounts credited by journal entry to the loan accounts or current accounts of principals and/or their relatives are not eligible labour expenditure until the individual income tax returns have been sighted by *Commercialisation Australia* and the tax payable on the salary has been assessed by the ATO, or similar satisfactory evidence has been provided that income tax has been paid.

### 5.1.2 Contract expenditure

Eligible contract expenditure is the cost of any agreed project activities performed for the *participant* by:

- another organisation, or
- an individual engaged under separate contract.

To be eligible, all contractor project work must be the subject of a prior written contract—for example, a formal agreement, letter or purchase order—which specifies the nature of the work to be performed for the *participant* and the applicable fees, charges and other costs payable.

Invoices from contractors must provide a detailed description of the nature of the work, the hours and hourly rates involved, and any specific plant or prototype expenses incurred. Invoices must enable the *Program Delegate* to determine whether the proposed expenditure directly relates to the agreed project, would qualify as eligible expenditure if it was claimed directly by the *participant* and is reasonable and commensurate for the activities performed.

Where a contractor is engaged in building plant or prototypes, the contractor's costs should be apportioned between:

- design costs, claimed as contract expenditure, and
- building costs, claimed as either plant expenditure (see Section 5.1.3) or prototype expenditure (see Section 5.1.4).

Contract costs for leadership and administrative contractors (such as contracted CEOs, CFOs, accountants and lawyers) are not eligible expenditure unless the *participant* substantiates to *Commercialisation Australia*'s satisfaction that these costs relate to performance of core elements of the agreed project.

#### 5.1.2.1 Contractors that are a related body corporate of the *participant*

Where the contractor is a related body corporate of the *participant*, eligible contract expenditure is limited to the measurable direct cost to the contractor of performing the contracted project work transferred to the *participant* with no profit margin attached, 'at cost'.

In accordance with the general conditions of the *funding agreement*, the *participant* is required to ensure all project contractors keep a record of the costs of their work on the project. For purposes of verifying that contract expenses are purely 'at cost' (refer governing principles) and contain no element of profit *Commercialisation Australia* may require the *participant* to obtain and provide a contractor's records of its costs of doing project work. If such records are not provided *Commercialisation Australia* may deem the relevant contract expense not to be eligible expenditure.

#### 5.1.2.2 Calculation of eligible fees

Fees must be apportioned by using the following formula:

$$\text{Eligible fees in period} = \text{incurred fees in period} \times \frac{\text{actual time spent on project in period}}{\text{actual time contracted by participant in period}}$$

### **5.1.2.3 Contractor administrative overhead**

The cost of administrative overheads for certain contractors engaged on the agreed project is recognised as a component of eligible contract expenditure. Administrative overhead may be claimed for each contractor who regularly works a minimum of 35 hours per week at the participant's premises, but not necessarily on agreed project activities. The contractor administrative overhead rate is a set rate of 20 per cent of the contractor's fee for work performed on project *eligible activities*, as calculated using the formula in Section 5.1.2.2.

### **5.1.3 Plant expenditure**

Plant is usually an input to the agreed project or the tools or infrastructure used to pursue the agreed project. Plant is likely to have a value or use outside of the agreed project and can be constructed or otherwise obtained with minimal technical risk or new learning.

#### **5.1.3.1 Newly purchased plant and pre-existing purchased plant**

Eligible expenditure on newly purchased and pre-existing purchased plant is the depreciation—that is, decline in asset value—of an item of plant allowed through the Commissioner of Taxation's effective life schedules, according to the proportion of time for which it is used on the agreed project. In extraordinary situations, for instance where the plant is subject to heavy usage, and where this is in accordance with Commissioner of Taxation's rules, a higher rate of depreciation may be applied than is otherwise provided for by the effective life schedules.

Total depreciation charges for each particular item of purchased plant, for the proportion and length of time it is used on the project, can be claimed in full at the time of its deployment.

Running costs for purchased or pre-existing plant are eligible expenditure but must be readily verifiable and may include items such as rent, light and power, and repairs and maintenance.

#### **5.1.3.2 Hired/leased plant**

Eligible expenditure for hired, rented, or leased plant is the number of payment periods dedicated to the agreed project use multiplied by the period hiring fee. Where plant is purchased under a hire purchase agreement, or a lease is used to finance the purchase of the plant, the cost of the item of plant, excluding interest, is capitalised, and then depreciated in the manner set out in Section 5.1.3.1.

Running costs for hired or leased plant are eligible expenditure but must be readily verifiable and may include items such as rent, light and power, and repairs and maintenance.

#### **5.1.3.3 Constructed plant**

Eligible expenditure on constructed plant is the depreciation—that is, decline in asset value—of the item of constructed plant allowed through the Commissioner of Taxation's effective life schedules, according to the proportion of time for which it is used on the agreed project. In extraordinary situations, for instance where the plant is subject to heavy usage, and where this is in accordance with Commissioner of Taxation's rules, a higher rate of depreciation may be applied than is otherwise provided for by the effective life schedules.

Leasehold improvements to a leased project facility may be claimed as constructed plant eligible expenditure if the improvement cost is capitalised in the *participant's* financial statements (balance sheet) and depreciated in the manner highlighted above.

The starting value for constructed plant depreciation calculations is the capitalised construction cost or capitalised leasehold improvement cost for the plant item in accordance

with Australian Taxation Office requirements. Total depreciation charges for each particular item of constructed plant, for the proportion and length of time it is used on the project, can be claimed in full at the time of its deployment.

Once fully completed, running costs for constructed plant are eligible expenditure but must be readily verifiable and may include items such as rent, light and power, and repairs and maintenance.

#### **5.1.4 Prototype expenditure**

Prototype expenditure is eligible expenditure only where the construction and use of the prototype in the agreed project contributes directly to proving the commercial viability of a new product, process or service. The *Program Delegate* may refuse to accept a prototype eligible expenditure claim where the number of prototypes and the scale of prototypes exceed the level needed to prove the concept(s) underpinning the agreed project and/or establish its commercial viability.

The total costs of constructing prototypes are included under this category, with the exceptions that:

- equipment or tools used in the construction of the prototype should be claimed as plant expenditure—see Section 5.1.3
- the *Program Delegate* may determine that part or all of the prototype should be claimed as plant expenditure, consistent with the following approach:
  - if the prototype includes significant items of machinery, equipment or tools and these items have a value beyond the project period, then these items should be claimed as depreciable plant items under the plant expenditure category—see Section 5.1.3. Such items will normally be stand-alone modules that are acquired off the shelf or are constructed with a low level of technical risk.

Costs incurred in the construction of a number of identical prototypes are eligible expenditure only where a strong reason for multiples exist, such as to enable testing under varied operating conditions. Prototype expenditure includes the cost of materials used in testing a process or prototype.

The cost of prototypes constructed by the *participant* will be assessed on the same basis as set out in plant expenditure in Section 5.1.3.3. Once fully completed, running costs for prototypes are eligible expenditure but must be readily verifiable and may include items such as rent, light and power, and repairs and maintenance.

#### **5.1.5 Intellectual property protection expenditure**

Reasonable costs that protect *IP* that is related to the agreed project and that the *participant* does or will directly own are eligible expenditure. These costs can include fees to a patent office for the cost of filing a patent application, patent search and examination fees, and annual patent maintenance fees.

The cost of defending *IP* rights is not eligible expenditure, with the exception of legal expenses insurance as it relates to *IP*.

### 5.1.6 Other expenditure

This eligible expenditure category captures most miscellaneous costs 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, and may include:

- substantial travel on the agreed project—limited to the reasonable cost of accommodation and transportation required to conduct agreed project activities in Australia and overseas and/or to conduct agreed collaboration activities
  - if specific travel costs are not identified in the application, this ‘other expenditure’ is not eligible during the project period unless the *Program Delegate* subsequently approves a request from the *participant*
  - ‘reasonable cost of transportation’ for air transportation is an economy class fare for each sector travelled; where non-economy class air transport is used only the equivalent of an economy fare for that sector is eligible expenditure. Where non-economy class air transport is used, the *participant* will require evidence showing what an economy air fare costs at the time of travel
- training costs—where the skills acquired are specific to the requirements of an agreed project, approved in the *funding agreement*, and are not covered under other *heads of expenditure*
- product liability insurance in relation to an agreed project—where this insurance is a normal and essential cost of undertaking the project. If the product liability insurance has a value or usage outside the project the cost of the insurance must be apportioned on the basis of the proportion of the insurance directed to covering the project.

## 5.2 Treatment of certain activities

This section sets out the eligible expenditure treatment of certain project activities.

*Commercialisation Australia* applicants and *participants* must record eligible costs of these project activities in applications and project reports under the relevant head(s) of expenditure.

### 5.2.1 Overseas activities

Eligible overseas activities expenditure is eligible expenditure on project activities that are not undertaken in Australia by a *participant*'s staff, contractors or subcontractors. This includes all types of expenditure directly related to such activities, including on-costs and depreciation of plant.

Plant and other goods that are purchased overseas are not necessarily treated as overseas expenditure. Where plant is used, not where it is purchased, is the basis of treating plant expenditure as overseas or domestic expenditure.

Eligible overseas activities expenditure generally is limited to 10 per cent of total eligible expenditure. All overseas activities expenditure above this cap will not qualify as eligible expenditure, except where the *applicant* or *participant* obtains the *Program Delegate*'s prior approval (before incurring the expenditure). The *Program Delegate* will assess all such requests on a case-by-case basis, taking into account factors such as:

- the availability of domestic resources and facilities
- the appropriateness of carrying out activities overseas rather than within Australia.
- cost implications
- how the additional overseas activities expenditure is likely to aid the project in meeting *Commercialisation Australia*'s policy objective.

The *Program Delegate* may seek advice from the *Commercialisation Australia* Board when making a decision on whether to allow a claim for more than 10 per cent of an agreed project's eligible expenditure on overseas activities.

### **5.2.2 Acquisition of new and leading-edge technology**

Acquisition of new and leading-edge technology is eligible expenditure where subsequent adaptation of that technology will contribute directly to completion of the agreed project.

Eligible expenditure on this activity includes, but is not limited to:

- technology audit fees
- network membership fees
- expert advice fees
- process or systems changes to take into account the new technology
- information dissemination relating to technology acquisition that is part of the project.

Where access to technology or *IP* is essential for the conduct of an agreed project, licence fees or purchase costs to access such technology or *IP* may qualify as eligible expenditure.

Independent valuations of purchased technology, including *IP*, are needed to substantiate the cost of any expenditure claimed. Where the *participant* licences technology or *IP* from a related body corporate, expenditure must be calculated 'at cost' (refer governing principles).

#### **5.2.2.1 Project-related use of acquired technology**

If acquired technology has a value or usage outside the agreed project then acquisition costs must be apportioned on the basis of agreed project-related usage of the purchased technology. In the event that the acquired technology is in the form of plant expenditure or purchased capital goods, this item of eligible expenditure will be subject to the same depreciation treatment as set out in Section 5.1.3.1.

### **5.2.3 Product/process design activities**

The costs of product/process design activities are eligible where they relate to turning the prototype of a working product or process into a commercially viable design. This includes using engineering expertise to determine prototype structure, function and materials. These costs may include, for example, development of new or improved:

- measurement and control systems
- operational approaches—for example, through process optimisation or increased prototype functionality
- materials handling techniques

The design costs of routine or periodic alterations to existing products, production lines, manufacturing processes, services, and other on-going operations are eligible expenditure only if they relate directly to the agreed project.

### **5.2.4 Trial production runs**

The cost of a number of trial production runs sufficient to demonstrate commercial viability is eligible expenditure. The total costs of the trial production runs are eligible expenditure. However, the cost of equipment or tools used in the construction of the run is to be claimed under 'plant expenditure' (Section 5.1.3).

Eligible expenditure under this category includes costs incurred in validation, establishing efficacy, demonstration of capability, scale-up, and development of evidence of the stability or reproducibility of processes.

## Appendix 3: Glossary of Terms

Applicant	An applicant is the person or persons wanting to receive a grant or other assistance, either as an individual or business, company or other entity. The definition of ‘applicant’ does not include the authorised employee, officer or agent who may be completing the application on the applicant’s behalf.
AusIndustry	The agency of the <i>Department</i> responsible for delivering government programs and services that support industry, research and innovation, including <i>Commercialisation Australia</i> .
Australian University	An entity that is listed as a Table A provider or a Table B provider under the <i>Higher Education Support Act 2003</i> .
Bodies Corporate/ Related Body Corporate	Has the same meaning as in section 50 of the <i>Corporations Act 2001 (Cth)</i> .
Case Manager	An external consultant with extensive experience in commercialisation engaged by <i>Commercialisation Australia</i> to guide <i>participants</i> through the commercialisation process.
Chief Executive Officer (CEO)	An employee of the <i>Department</i> who has been empowered by the Secretary of the <i>Department</i> to be responsible for the overall design and functioning of <i>Commercialisation Australia</i> .
Commercial transaction	Means entering into a contract with an independent third party for the exchange of economic value for counter value. Examples include, but are not limited to, the sale of a product to a customer, entering into a distribution agreement, equity investment.
Customer Service Managers	<i>Departmental</i> employees of AusIndustry who advise <i>applicants</i> on eligibility and suitability, and manage the <i>funding agreements</i> .
Commencement Date	The date of commencement of these Guidelines, as referred to in section 1.
Commercialisation Australia Board	A working committee of <i>Innovation Australia</i> appointed by the <i>Minister</i> . The Board provides advice to the <i>Program Delegate</i> in relation to the merit assessment of <i>Commercialisation Australia</i> applications.
Department	The Department of Innovation, Industry, Science and Research.
Eligible partner entity	An entity that assists individuals in commercialising their <i>IP</i> . To qualify as an eligible partner entity an organisation needs to be approved by the <i>CEO</i> . The application form can be requested by emailing <a href="mailto:CEOofCA@innovation.gov.au">CEOofCA@innovation.gov.au</a> . The <i>CEO</i> or a staff member will discuss with you the requirements and the process for becoming an eligible partner entity prior to completing an application form. A list of eligible partner entities is available on the CA website.
Eligible activity	Eligible activities in relation to a CA project are: <ul style="list-style-type: none"> <li>• <i>Skills and Knowledge</i>: obtaining expert advice and services to assist in the commercialisation process;</li> <li>• <i>Experienced Executives</i>: employing an experienced chief executive officer or other executive;</li> <li>• <i>Proof of Concept</i>: the steps necessary to establish the</li> </ul>

	<p>commercial viability of a product, process or service; and</p> <ul style="list-style-type: none"> <li>• <i>Early Stage Commercialisation</i>: the steps necessary to bring a new product, process or service to market.</li> </ul>
Eligible Expenditure	Expenditure defined in Appendix 2 of this guide.
Funding agreement	The contract between a <i>Commercialisation Australia</i> participant and the Commonwealth, represented by the <i>Department</i> .
Heads of Expenditure	Means Labour Expenditure, Contract Expenditure, Plant Expenditure, Prototype Expenditure, <i>IP</i> Expenditure and Other Expenditure.
Intellectual Property (IP)	Statutory and other proprietary rights and includes patents, trade marks, designs, confidential information/trade secrets, copyright, circuit layout rights, plant breeder's rights and so on.
Minister	The Minister for Innovation, Industry, Science and Research
Participant	A successful <i>applicant</i> for one or more components of <i>Commercialisation Australia</i> , which may include an individual or researcher who has applied through a commercialisation office or <i>eligible partner entity</i> .
Program Delegate	An employee of the <i>Department</i> who has been empowered by the <i>Minister</i> , or is otherwise duly authorised, to approve <i>Commercialisation Australia</i> applications, funding amounts and payments to <i>Commercialisation Australia</i> participants.
Publicly Funded Research Agency (PFRA)	<p>An organisation to which the following criteria apply:</p> <ul style="list-style-type: none"> <li>• it is at least 50 per cent owned or controlled by the Commonwealth, or an Australian state or territory government;</li> <li>• it is primarily carrying out research and development activities; and</li> <li>• it is: <ul style="list-style-type: none"> <li>- providing services, or making facilities available, in relation to science or technology;</li> <li>- training, or assisting in the training of, persons in the field of scientific or technological research; or</li> <li>- collecting, interpreting or publishing information relating to science or technology.</li> </ul> </li> </ul>
Sales Target	Has the same meaning as in the <i>participant's funding agreement</i> .
Turnover	<p>Means revenue from ordinary activities. Revenue means the gross inflow of economic benefits arising in the course of the company's ordinary activities. Ordinary activities means activities that are undertaken by the company as part of its normal business operations, and includes the sale or supply of goods, lease of premises, hire of equipment, giving of advice, export of goods, and supply of other things. Ordinary activities do not include:</p> <ul style="list-style-type: none"> <li>• economic contributions by the owners;</li> <li>• the principal component of a loan repayment;</li> <li>• payments received under an insurance recovery; or</li> <li>• revenue attributable to transactions or other events of a type that are outside the day-to-day activities of the entity and are</li> </ul>

	not of a recurring nature (for example, proceeds from the sale of a capital asset used in the business or investments held by the business which are not related to its day-to-day activities).
Value proposition	A value proposition comprehensively answers the question of why the target customer <u>wants</u> to purchase the product, process or service.
Volunteer Business Mentor	People with extensive experience in management and commercialisation who offer knowledge, skills and insights to <i>Commercialisation Australia</i> participants.