tcf services
DELIVERING THE FUTURE

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SIP now ready for a five-year workout

Creating new ways and means to help clients advance critical investments in plant & equipment has always been a high priority for TCF Services. In the past, we have been able to provide valuable support through the pre-payment of a limited number of key clients' Strategic Investment Program grants.

Through a new strategic partnership with WEALTHcheck Finance, I am pleased to announce that TCF Services is now able to facilitate the provision of competitive financial solutions for both Equipment purchases, as well as improved Cashflow management.

Industry Minister Macfarlane says TCF firms should use every opportunity to actively invest in securing their future competitiveness, and take early advantage of assistance provided through the post-2005 Strategic Investment Program.

By aggregating the forecast investments of over 200 clients now registered for post-2005 SIP, TCF Services has been able to attract some of Australia's leading financial institutions to offer equipment and cash flow finance at very competitive rates, and targeted towards the needs of our textiles, clothing and footwear clients.

This is an exciting development for our company, and we hope will be of considerable value to clients in boosting their profits, and underpinning long-term competitiveness within each enterprise. Please don't hesitate to call me if you have any questions in regard to the subjects addressed by this 'Advisor' edition.

Gerry Frittmann
Managing Director
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All key legislative elements of the post-2005 TCF Strategic Investment Program (SIP) are now in place, and clients are well positioned in a stable interest rate environment to advance the program of investments outlined in their SIP registration forms and Statements of Business Intent. Keep in mind that after 30 June 2006, clients will have only eight months to compile and lodge claims (ie: required by end-February 2007).

Funding arrangements for the post-2005 SIP have been changed from the original 2000-2005 Scheme, with the pool having been shrunk from $125 million each year, to a fixed $97.5m each year through to 2010. Any shortfalls in aggregate claims will see surplus funds transferred into the next claim year, while any oversubscription will see reduced individual grant payments as modulation is applied.

Getting your fair share of SIP

Clearly, the optimum years for making strategic TCF investments fall between 2005 and 2009, and the earlier the better. There are two reasons for this. First, full grant funding in the last year of the Scheme is not assured if there is any creeping modulation of grant payments through to 2009. Second, SIP funding will fall to $20m a year after 2010 as a result of the Government's decision to focus assistance on the clothing sector.

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TCF Strategic Investment Program (SIP)
Automotive Competitiveness Investment Scheme (ACIS)
Expanded Overseas Assembly Provisions (EOAP)
Import/Export Compliance Management
Customs Accredited Client Program

Securing sufficient cash flow to underpin investments is a problem for many firms - even more so for those in the TCF industries - which find themselves under continual pressure from low-cost Chinese imports, whilst the competitiveness of exports is often undermined by substantial exchange rate fluctuations.

The recent imposition of safeguard measures by the United States and European governments has also thrown global TCF supply arrangements into disarray - meaning large volumes of TCF product unable to enter these countries will be looking for other export destinations with fewer import barriers, including quota-free Australia.

Guide to funding SIP investments

In these more challenging times, and tight resource constraints within many local enterprises, how can TCF firms make the most of SIP assistance to advance critical investment programs in the early years of the post-2005 Scheme?

One useful strategy is to increase the base of funds upon which each SIP participant can draw to support both planned investments, and/or any acceleration of such investments now required in response to rapidly changing global supply arrangements.

By accessing a bigger pool of available funds, each enterprise CEO can create opportunities to achieve a greater return for their business. In most cases, this will involve an increased focus upon technically-based production activities set to remain in Australia in the years past 2010.

The post-2005 SIP Scheme provides grants of 40% (called 'Type 1') for new and capitalised investments in: TCF plant & equipment; the acquisition or construction of new (or alterations to existing) buildings or structures to house new plant & equipment; new computer hardware/software used for manufacturing, design, warehousing and distribution; and upgrades to plant & equipment required by environmental regulations.

One major change from the old SIP means clothing and finished textile firms from 1 July 2005 can receive grants against 'non-production' IT acquisitions up to $2m a year.

Where did they get the money for that?

Finance solutions facilitated through TCF Services and WEALTHcheck Finance are assessed against the actual equipment being procured. We bring value to the transaction in terms of our understanding of client investment requirements and long-term knowledge of the SIP, as reflected in the optimum structuring of any subsequent grant claim against such investments.

With the above in mind, building an equipment finance solution into the total pool of funds to support new investments has many advantages for clients, particularly those looking to maximise SIP grants on a year-by-year basis. Importantly, use of a financing tool can free up valuable cash for accelerating SIP-related outlays, or for expenditures in other priority areas of your business.

Equipment finance does not require the re-negotiation of existing bank facilities or lending lines. Additional securities would not normally be required against TCF-related investments, and in the event they became necessary, would be matched against other unencumbered equipment rather than the traditional 'bricks and mortar' approach.

Further, and from the global cash flow perspective, equipment finance solutions bring forward tax benefits when compared to the traditional 'depreciation schedule' approach due to the immediate tax deductability of lease payments, and interest charges.

Achieving competitive sustainability is not just about investment and R&D. Better cashflow management and more accurate budgeting through fixed payments provide clear benefits in terms of helping clients to control internal costs, and thus improve their competitive position within the global TCF industries. But there's more!

Non-TCF SIP purchases also covered

The TCF Services partnership with WEALTHcheck Finance has also secured funding for most types of standard equipment required to operate a business, and beyond the limited categories of investments eligible for SIP grants. Examples include: trucks, buses, general industrial & manufacturing equipment, medical equipment, new motor vehicle fleets and forklifts.

In addition, there is scope to link equipment finance with a cash flow finance solution for equipment being imported from overseas. The flexibility to structure payments to harmonise with each client's business activities, income flows and SIP grant payments is a further value-added benefit arising from firms choosing TCF Services and WEALTHcheck Finance as their equipment finance partner.

Cash flow financing benefits

In our May newsletter, we reviewed the key elements of the post-2005 TCF Strategic Investment Program, along with implications for clients from major changes to the Scheme and the global trading environment.

As previously mentioned, TCF Services has undertaken an initial consolidation of forecast client SIP investments across both Type 1 and Type 2 activities. This data was then used to build bargaining power with financial institutions, and has since been complemented by a partnering with WEALTHcheck Finance to develop finance solutions tailored to meet client needs.

On top of equipment finance requirements, clients also need to consider appropriate funding sources for investments outside of TCF plant & equipment and IT. This is because the post-2005 SIP Scheme has shifted expenditure on 'brand support' activites from Type 2 into the Type 1 category, and delinked it from the previous innovation test.

As such, the new Scheme now supports marketing efforts associated with all eligible goods made in Australia. Improved awareness of a concession such as this will automatically prompt clients to consider fine tuning and/or expanding their efforts in regard to trade showings and in-store promotions.

An increase in promotional effort is likely to lead to more sales, which correspondingly need to be financed. Recognising these accumulating needs, TCF Services has similarly moved to create for its clients a new cash flow financing product that is secured against their debtors and/or inventory holdings.

Turning debtors into free cash

By turning debtors or inventory assets into cash via a formal cashflow financing solution, clients can gain clear benefits from having up to 90% of their invoices, or 60% of their inventory, paid in cash within 24 hours.

The real plus from adopting such a solution is that clients regain command over the timing of their receipts. More timely receipts enable follow-on savings to be garnered from the negotiation of larger discounts with suppliers, given the financing arrangement generates funds to pay creditors much more quickly.

The other great thing about cash flow finance is that no property is required as security. WEALTHcheck Finance simply works out the level of the facility based on each particular client's log of debtors and levels of inventory. They also employ a range of sophisticated invoice management arrangements which very effectively reduce a bad debt risk.

Another major benefit from the cash flow financing approach is that the credit facility can be tailored to expand in line with sales growth outcomes and related working capital needs, thus adding an entirely new level of financial support to each client's pursuit of their strategic business plans. Now that is what TCF Services calls leverage.

Remember, cash flow finance solutions are flexible - they aren't just limited to SIP-related investments and activities, but can also be negotiated across the breadth of each individual clients' business. These solutions are available for use whether your company just manufactures locally, exports, imports or is a new (start-up) business.

TCF Services & WEALTHcheck solutions

Over the next few weeks, TCF Services Customer Service Managers (CSMs) will be contacting their clients to update the data originally supplied with their post-2005 SIP registration form. CSMs will be seeking to identify what each client is actually investing in - in terms of both Type 1 and Type 2 activities - and discuss whether there are opportunities to advance or increase investment levels as a result of changed global market circumstances.

At this time, an opportunity will also be taken to discuss the benefits of using either of the two new TCF Services Euipment finance or Cashflow financing products. If you are reading this newsletter, but are not a current TCF Services client - yet would like to find out how these new services can benefit your company - please don't hesitate to call one of our offices (*refer page 1*) for an obligation free discussion. This way you will have an opportunity to join over 200 other companies who regularly benefit from 'The TCF Way' of delivering high value services to business.

By taking early action to consolidate the buying power of its client base following analysis of post-2005 SIP Scheme dynamics, TCF Services is honouring its commitment to strive for better value client solutions - not just through the application of its accumulated SIP Scheme knowledge to maximise grant returns - but also to help reduce day-to-day operational costs for clients.

This all helps free up resources to enable clients to expedite their Type 1 investment commitments, achieve their strategic business development goals much more quickly, and get their fair share of SIP benefits in the critical period of opportunity - from now through to 2009.

Export scheme back under the microscope

Another way of boosting cash flow availability, particularly if you are entering into the export trade, is to consider applying for an Export Market Development Grant (EMDG). Through a long-standing strategic relationship with Rod Campbell & Associates, TCF Services has been able to provide its clients with first class advice on how to access EMDG benefits.

The Scheme encourages small and medium-sized (SME) businesses to promote their products overseas and to become sustainable exporters. It provides up to seven taxable grants of up to $150,000 each per year. Grants partially reimburse money (up to 50% above a $15,000 threshold) spent during a financial year on specific export promotion activities to any overseas market, except New Zealand - the subject of a free trade agreement that bans export subsidies.

The Scheme supports a wide range of industry sectors and products - including textiles, clothing & footwear - along with the export of intellectual property and know-how. In 2003/04, the EMDG Scheme assisted 3277 Australian businesses to export. Seventy-seven per cent of these were small businesses with annual incomes of $5m or less.

Daily expense rate to go to $300 per day?

The future of the EMDG Scheme post-2005 is currently before the Government, which is now considering the recommendations of an internal Austrade study which found the Scheme should continue for a minimum of five years - through to the end of 2010/11. It further suggested another review be undertaken before the end of that period, to determine if the Scheme should yet again be further extended.

The Austrade review considered a number of enhancements to prospective post-2005 EMDG Scheme arrangements, many of which reflected industry requests to restore to the Scheme benefits which had been previously eliminated on the basis of recommendations from early reviews.

Most of these requests were not endorsed by the review team. As such, it is unlikely any of them will be picked up by the Government. There is, however, more positive news in the area of daily visit expense allowances.

Currently, exporters travelling overseas to promote their products are limited to claiming their transport expenses, plus a set amount - described as the 'overseas visit allowance' - to cover general expenses. A strong message in review input was that the daily overseas visit allowance (ie: $200/day) is too low, and therefore, does not provide sufficient incentive and assistance for the important step of actually visiting overseas markets.

Unlike most other suggestions, the review team considered the overseas visit allowance had not in fact kept up with the costs of overseas visits, and endorsed an increase to $300/day.

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