

Keeping a Grip on the TCF-SIP Scheme

The Textiles, Clothing and Footwear Strategic Investment Program Scheme (TCF-SIP) came into being in December 1999, as a result of the passing by Federal Parliament of legislation (an Act) of the same name. The Act first gave the responsible Minister - Senator the Hon Nick Minchin - the power to develop the fine detail of the SIP Scheme, and then to make changes to the Scheme by subsequent amendments notified in the Government Gazette, prior to referring them to the Parliament.

This month's *'Advisor'* reviews these Scheme amendments, as well as providing commentary on the reasons why they occurred and what impact they may present to future industry investment.

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Rolling three-year average and CMT houses included

Senator Minchin first amended the Scheme by the addition of a new **'three-year rolling average'** mechanism for the payment of grants in relation to capital investment, with the effect of maximising the benefits that could be paid on such expenditure. This change was directed at helping those in the industry who - on the basis of 'understandings' secured via sectoral consultations prior to December 1999 - had invested heavily in capital equipment in the two pre-Program years on the basis such undertakings would be honoured.

Senator Minchin's amendments also sought to secure the Government's position during the first round of grants, given that a number of grants were likely to be paid prior to the calling of a Federal election.

A further change approved by the Minister had the effect of bringing **'cut, make and trim'** operators into the scope of the Scheme. This was a logical and necessary change, as for all intents and purposes, they should never have been excluded from SIP coverage in the first place.

Transferring SIP benefits

New provisions now govern **the transferability of SIP benefits** in cases of bona fide takeovers or corporate buy-outs. Previously, such transfers were not allowed unless approved directly by the Secretary of the Department of Industry, Science and Resources. Because no criteria for the Secretary's consideration were provided in the original SIP Act or Scheme, the resulting amendments are worth close scrutiny.

New application forms and guidelines released by AusIndustry require applicants seeking the transferability of SIP benefits to provide a full 'business' case, as well as an outline of the resulting positives to be yielded from any corporate consolidation. This means, an amended Statement of Strategic Intent for the on-going business, incorporating details of the transferred-in business.

Government is anxious that transfers of entities are not undertaken just to obtain entitlements to grants by companies who are not committed, long-term, to the industry. Also, it does not want resultant merged entities to be paid any more in grants than the previous individual entities were entitled to. Key criteria put in place to assess registration transfer applications require firms to:

- Transfer the whole of the eligible TCF activities of the former entity into the subsequent, and continuing entity;
- Continue to carry on, or propose to carry on the eligible TCF activities of the former entity;
- Continue to incur eligible expenditure in a subsequent program year; and
- Ensure any property rights relating to product development from the former entity are wholly transferred into the ongoing business structure.

Assuming the merged former entity had made substantive SIP investments prior to the merger, applicants for transfer should anticipate AusIndustry will be eager to establish - and this will need to be via lodgment of a claim - the amount of eligible expenditure incurred by former entity up to the date of transfer, prior to its consideration and approval of the transfer request.

Part G - Certain Finished textile products excluded from the Scheme

A further series of Scheme amendments advanced by the Minister aim to remove what was described as, an 'open-ended' opportunity for firms to access TCF-SIP grants under the 'textile products, manufacturing, not elsewhere classified' element in Part G of Schedule 1 (which governs eligibility for the Scheme).

Senator Minchin argued that these changes addressed, "concerns in the industry that SIP funds could be diverted away from activities the Scheme was meant to target." By tightening up Part G, the Minister considered "greater clarity and certainty about the intentions" of both the Government and the industry was being provided, given understandings with industry developed at the time the Scheme was first considered.

Industry circumstances have changed rapidly from the time the SIP Scheme was first considered. What the press release did not reflect was the Minister's relief that he was (hopefully) bringing to an end a saga of distress arising out of flaws in the way the Scheme had been structured to address any likelihood it would be over-subscribed, thus triggering the application of grant 'modulation'. Also affecting this assessment is ongoing confusion regarding eligibility, particularly in the range of Type 2 activities provided for under the Scheme.

The Scheme requires the 'modulation factor' to be announced prior to the commencement of each claim year. The Minister makes a decision on modulation based upon a Departmental assessment of the aggregated registered estimates of investment lodged annually by each SIP participant. What was allowed to become public at the start of 2001, however, were fears the Scheme had become oversubscribed - to the tune of \$1.4 billion - based upon first-cut Departmental assessments of the 'wish-lists' of some 437 year one registrations.

Paranoia amongst certain SIP participants that any over-subscription would mean full entitlements would not be received, drove some of the larger textile companies - especially those in mature market segments - to orchestrate an Industry Associations-based lobby, to resolve over-subscription fears through enforced cut backs in Scheme eligibility. Some 30 non-traditional TCF manufacturing operators - a number of which were curiously known to be progressing substantial investments in innovate future product segments - were targeted for exclusion from the Scheme. The lobby's assertion was such operations were not originally intended to receive SIP support.

While the Government succumbed to political pressure - and the Minister moved quickly to get debate about the Scheme out of the election-sensitive press - many consider the approach taken was wrongly founded, and has instead sent a negative message to those companies now positioning for future TCF industry segments. Although initially celebrating the changes, certain elements of the industry are now just beginning to pick-up on the disincentive to new TCF industry investment the Government's decisions have now put into place, including the negative implications for up-stream and down-stream suppliers and business alliance partners.

Why are the changes to Part G wrongly founded?

A review of the relevant SIP legislation and supporting documents undertaken by TCF Services confirms a view the Scheme was framed in an open manner, in effect, allowing all firms with eligible Australian based TCF manufacturing activities to apply for grants. The carrot, by way of Government financial support, was a preparedness to 'share the risk' with those TCF firms who were prepared to invest in Australian manufacturing by innovating their products/processes so as to position themselves to be internationally competitive in a future free trade environment.

Instead of bowing to pressure brought upon it by a few claiming to represent all of the industry, the Government in its haste to alleviate bad press has showed it lacks a full understanding of current market trends, as well as the breadth of activities now forming to underpin a future, long-term sustainable TCF sector in Australia. By caving in to those interests opposing the reinvention of the TCF sector on the basis of fears their own SIP grants will be reduced, the Government is in fact holding back future employment growth opportunities.

The SIP was clearly intended to assist all segments of the TCF industries. Government spoke at the genesis of the SIP about 'transition' for those industry participants under immediate threat from falling assistance, whilst also looking to the building of global capacity across a broad range of industry sectors, as outlined in Schedule 1. Binding all firms together in investing for reinvention or revitalisation is the concept of innovation - now a cornerstone of the Scheme - and meaning the creation of new products supported by new manufacturing approaches and processes.

The adoption of new technology materials and processes - especially in the area of industrial textiles - is widely recognised as offering local TCF firms a skills-transfer and business opportunity growth path to longer-term sustainability, in rapidly changing global markets. The Government has long criticised the industry for not adding further value to our vast range of natural resources, while ignoring the fact that market growth is in man-made fibres and the resultant plethora of down-stream, performance-based products. Now we have found - on the eve of an important opening of global markets with China's admission to the WTO - that as soon as a company adds value by developing a new finished textile product which carries a Brand and requires a substantial investment in Intellectual property, they may be marginalised from the SIP Scheme through the use of changes to Part G because they may have been too innovative and their new product does not neatly fit into what the mature industry sector considers to be traditional. Quite the opposite of what the scheme should be intending to encourage.

There is little debate in economic texts that the adoption of innovation as a prime driver of industrial development goes hand in hand with a tolerance for structural change. By definition, mature-technology activities will be displaced by newer technology processes - as well as their derivative products - as part of the natural process of economic re-generation. While the Government, in general, supports such a proposition, it repeatedly has difficulty in managing the structural change component. In Australia's case - and if Government can manage the 'transition' - the end result will be a stronger core TCF industry, which has market exposure across a much wider range of end-use products than those traditionally utilised in the clothing and fashion industries. There is a compelling case for taxpayers' money to be channeled in this direction, and well as a need for discipline to be exercised by Scheme administrators to ensure key SIP outcomes sought by Government are achieved.

Clearly, uncertainty resulting from the inclusion of a modulation tool in the TCF-SIP Scheme will not go away, and will cause further angst for subsequent Industry Ministers in latter years of the program. Other commentators (ie: BRW, 10 August 2001, p58) have also picked up on these issues, and have posed the question: what really is the intent underpinning the plethora

of changes to the Scheme? Instead of a program designed to push the boundaries of technology and innovation - and really shake-up Australia's TCF industries - doubt is being cast on the value of a program focused on propping up mature industries where retrenchments will naturally continue to occur. What has happened to the Government's objective to see a sustainable TCF sector develop in Australia by 2005?

Things might prospectively change in respect to wider TCF industry policy questions in the new year with the passing of election hype, and as downturns in retail sales linked to faltering consumer confidence push another round of TCF industry bankruptcy's. Lobbyists in Canberra can't yet confirm how a fresh new administration in 2002 might address such questions, but sense a change could be in the air once the new year turns. Band-aid solutions will not achieve the desired outcomes. The current Minister's record has only created a precedent for manipulation of the SIP, within the tri-annual political cycle, to shore-up activities having a decidedly lower probability of generating a reasonable return from taxpayers' on-going support. New eyes might see this picture differently!

The TCF industries have been provided with a funding commitment by the Government of upwards of \$700m, and with the vast impact of structural change and plant closures, there appears little prospect that the allocated funds will all be expended within the five years allocated to the program. This would be a great mistake as the external perception of the industry by Government and potential investors is not good, with little confidence that the majority of sectors can reach a heightened position of long-term sustainability. Unspent SIP money will be returned to consolidated revenue. As such, every time one sector attacks another, external observers - including Government - only shake their heads, thus marginalizing everybody. What the whole industry should really do is put their differences aside and come together and work out how the \$700 million should really be spent. The probability of this being achieved depends a lot on the industry's leaders, and it is hoped that 2002 will see a more cooperative approach to legitimate utilisation of the Scheme's provisions and benefits.

Access to early SIP payments

Under further political pressure to develop a mechanism for firms in financial stress to gain early access to TCF-SIP payments, Senator Minchin pushed through additional SIP amendments in response to the financial collapse and receivership of the Bradmill Undare Group. Practically, no Minister in the Howard Government wants to see TCF retrenchments, let alone people not being paid their due entitlements, during critical elements of the political cycle. The Ansett debacle has only made the Government more sensitive to this issue.

Initial action to accommodate Bradmill was later extended with a Ministerial announcement that all claimants would be extended the ability to receive advances against their grants. As such, some firms are now able to access 50% of their Round 1 SIP grant - some 4-6 months earlier than previously anticipated - upon presentation of a completed claim accompanied by un-audited final year accounts relating to the year of the claim.

While this concession might initially seem to be a bonus, readers should keep in mind the changes came as a result of a knee-jerk reaction by the Government - they were not actually the result of considered policy. Given the amount of work most claimants are beginning to understand is required to assemble a valid SIP claim, why would you want to go through the process twice? That is, once for the 50% grant advance, and then again to sign-off on the whole claim.

AusIndustry has already flagged that payment of the 50% grant will be subject to the 60 day statutory application processing period. Further, claims are to be subject to challenge on the basis of any AusIndustry re-interpretations of legislative provisions. Under this approach, applicants will need to further lodge the required audited statements (ie: eligible TCF revenues, expenditure and whole of year accounts) in order to complete the claim. The final claim will then be subject to a reconciliation relative to the prior 50% advance, which brings account any changes due to the Auditors' comments, as well as any further challenges to entitlements AusIndustry might make. All this will occur within a further 60 day application processing period.

Accepting that AusIndustry is only just starting to get across the first tranche of claims for a Scheme that retains many vagaries in terms of eligibility and definitions, there might be

advantage to TCF Services clients in holding off, and ensuring they do take the appropriate amount of time to develop and review the entirety of their first claim. Remember, there is no modulation in the first program year. So claimants might prudently take the time to justifiably maximise the grant return on eligible TCF activities that have already been undertaken, without fears these may be arbitrarily scaled back.

Really, it's a bit like the tortoise and the hare on the issue of pre-Program and Program Year 1 claims. Those clients that need to dash forward to secure the cash, will probably have to do so. Alternatively, other clients happy to invest the necessary time and effort - and thoroughly establish and validate their case for AusIndustry's consideration - are likely to reap the greatest benefit, even if it does mean missing out on a cheque before Xmas! Please call your TCF Services client manager to best determine which claim process best suits your needs.

HINTS AND REMINDERS

TCF-SIP Claim Time Lines

Successful advancement of a SIP claim requires a number of parallel activities to be advanced within a series of key milestone accomplishments. However long this takes, your claim must be submitted by 31 March 2002.

Achievement of the various time lines are critically dependent on the quality of information that has been collected over the relevant claim year, along with availability of internal staff and external advisers (ie: such as Auditors) to complete sign-offs required by AusIndustry. Key activities are required in relation to:

a) Financial Accounts

- The preparation of Year End Accounts
- The audit of Financial Accounts (For companies who are not required to be audited for Corporations law you must prepare accounts with notes according to accounting standards.)
- The preparation of statutory Accounts

b) Capital Expenditure (Type 1)

- Preparation of the Final Asset Register
- Preparation of the Type 1 claim
- Completion of audit of the Type 1 claim

c) Innovation (Type 2)

- Verification of Type 2 project expenditure and Innovation statement
- Preparation of the Type 2 claim
- Completion of audit of the Type 2 claim

d) Value-Added (Type 3)

- Finalisation of the value-added calculation
- Completion of the audit of the Type 3 claim

e) Completion of the Whole Claim

- Review, check and completion of the final Claim
- Receipt of final audit sign off for each element of the claim relative to Type 1,2,3 and eligible revenue

f) Request for Determination Form (Payment Request)

Clients may submit the determination for payment with their claim form, following receipt of notification by AusIndustry on eligibility of the claim, or (where relevant), to defer lodging a payment request until the mandatory \$200,000 spending threshold has been reached. The delay for payment, from receipt of determination, is 30 days. Key requirements in these respects include:

- Completion of the audit of Sales (which is generally completed with the value add audit)
- Securing the final AusIndustry Audit sign off

g) AusIndustry Claim Review

AusIndustry must give you notice in writing, within 60 days after receipt of your claim, of its decision as to your eligibility for a grant. If you are considered not to be eligible for a grant, the notice will include the reasons for the decision, along with a statement outlining your right to have the decision reconsidered or reviewed. If this happens to you, contact your TCF Services client manager.

If the decision cannot be made within 60 days, AusIndustry must tell you in writing when the decision will be made, along with any reasons for the delay. In this instance, AusIndustry will advise you of their decision within 7 days of the decision being made. Again, if you have not heard from AusIndustry within the statutory time frames, contact your TCF Services client manager.

If you do not receive any notice from AusIndustry as to your eligibility for a grant within the time frame outlined above, you may, at any time give AusIndustry notice in writing that you wish to treat the claim as being refused. Appeal mechanisms can then be invoked, the details of which will be outlined in a subsequent edition of the 'Advisor'.

**TCF Services
Client SIP Claim
Time Lines**

Assuming all the required information in regard to Type 1, Type 2 and Type 3 claims has been received from clients in a workable and verifiable form, TCF Services is working to the following claim lodgement time lines:

SIP CLAIM ACTIVITY	FULL CLAIM	50% OPTION
• Preparation by TCF Services to yield an auditable claim	30 days	30 days
• Audit of claim to be undertaken	14 days	Nil
• Lodgement of Claim with AusIndustry for review	60 days	60 days
• Lodgement of Determination	30 days	N/A
• Payment on successful notice of assessment	7 days	7 days

The Textiles, Clothing & Footwear Industry Advisor (C) 2001 [Co-Operative Ventures (Australia) Pty Ltd] brings you the latest facts, analysis and contacts regarding Australia's TCF industries and related Government support programs.

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