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Dear Jessie

**Sustainable Research Excellence Discussion Paper**

It was good to meet with you, members of the Research Policy and Funding Branch of your department and a representative of the ARC, on 5 August 2009 to discuss the design and implementation of the Sustainable Research Excellence (SRE) initiative.

As we sought to convey at the meeting, the University of Sydney is delighted that Minister Carr and your department were able to secure funding for SRE despite the difficult circumstances the Government faced when framing the 2009-10 budget. This really was a significant achievement and we are confident that once SRE is in place it will serve not only to put Australian university research on a more sustainable footing, but contribute to improvements in the overall quality of other university activities such as teaching, community engagement and the translation of new knowledge for public benefit.

The challenge for the sector now is to demonstrate to the Government and the Australian taxpayer the improved outcomes that the SRE enables us to achieve – in order to justify the continuation and (hopefully) expansion of the scheme beyond 2013.

We therefore look forward to continuing to work with your Department to develop a funding model that draws on the most appropriate elements of those in place in the US, UK, and elsewhere, to arrive at an approach for Australia that is as simple as possible; minimises the costs of compliance; is transparent; and has the confidence of both the Government and the sector. We are confident that these objectives will be realised as long as the development and implementation of the policy is not rushed; that the Technical Working Group retains a central role in the process; and universities and researchers are consulted throughout the process.

In broad terms, the University of Sydney supports the submission on the SRE Discussion Paper made by the Group of Eight. We make the attached additional comments in response to the specific consultation questions.

Yours sincerely

Professor Jill Trewhella  
Deputy Vice-Chancellor (Research)
1. Should there be two thresholds for the 80% of SRE funding? Should there be fewer?
2. Should access to Threshold 1 (Incentive) funding be based on the relative share for each university of the first $2.5 million of competitive grant income? If not, should a different threshold be set so, what should this be?
3. Should access to Threshold 2 (Excellence) funding be based on exceeding $2.5 million in competitive grant income? If not, should a different threshold be set and if so, what should this be?

1, 2 & 3 together. The objective of supporting smaller universities to build scale and capacity is supported. We note, however, that the marginal costs of participating in Transparent Costing (TC) and ERA are likely to be relatively high for many Australian universities because of the small amount of Category 1 income they receive. In 2007, for example, some 17 universities earned less than $10 million in Category 1 income and 28 earned under $20 million. Only eight institutions earned more than $50 million with the top 10 institutions accounting for 79% of Category 1 income in 2007. We further note that in the US, institutions with direct research income of under US$10 million are able to opt for a simplified procedure for determining their indirect cost rate.

We therefore see considerable merit in elements of the proposal contained in the December 2008 Allen Consulting Report for the introduction of a single composite model for funding indirect costs. Under such an approach all universities would have the option of accepting a ‘default’ indirect cost rate (target range of 30 to 40 cents in the dollar) or of participating in TC if they wished to try for a higher rate that more accurately reflects their actual indirect costs. While the discussion has now shifted from supporting ‘full economic costs’ to a ‘fair share’ of indirect costs, the composite model approach continues to have merit. It would keep the costs for institutions of participation in TC proportionate to the potential rewards. Each institution would decide when it was ready to participate in TC based on a cost/benefit analysis. The performance measurement/assessment element of the policy as announced could be maintained for all institutions through their participation in ERA and through the performance element of the compact process.

We recognise that as announced the policy stipulated that 80% of SRE funding would be made contingent upon universities participating in TC as well as meeting specified performance targets (Budget Fact Sheet). Nevertheless, just as the Discussion Paper proposes a departure from the wording of the policy statement through the removal of the performance requirement for 13% of SRE funding (Threshold 1), in the interest of minimising compliance costs for small institutions in particular, we believe there is merit in also considering a single composite model which allows institutions to opt out of TC and for a default rate. Failing this, consideration should be given to allowing smaller institutions to opt for a simplified assessment of their indirect costs as is the practice in the US.
4. Do these cost categories provide a suitable means for grouping indirect costs?
5. Are the identified types of allowable indirect costs appropriate? If not, what other indirect costs should be included? What indirect costs should be excluded?

4 & 5 together. We support the Go8’s recommendations in response to these questions. Between the US Circular 21, the UK’s TRAC Manuals and the work undertaken by Allen Consulting, it should be a relatively straightforward process to determine these elements and devise a model appropriate for careful testing in 2010. The Technical Working Group should continue to play an instrumental role in identifying the cost pools, cost drivers and accounting requirements for any Australian model and in overseeing the preparation of the reporting guidelines that institutions will need to follow.

In relation to the indirect costing exercise undertaken by the Allen Consulting Group, we do not have much confidence in the accuracy of the findings for this university. For example, in our return, numerous cost categories were added to the list in the interest of thoroughness and cooperation - thus increasing our costs relative to other institutions. Other institutions were invited to do the same, meaning that they were not reporting against consistent criteria. We have particular concerns that the general staff expenses taken from our financial reports included staff involved in research activity, potentially on Australian Competitive Grants (ACGs). Our data were therefore likely to have over-estimated the cost of this already substantial indirect cost category. Similarly, the approach taken could not account for those staff currently classified as ‘academic’ who are actually an indirect research cost as they support research infrastructure but are not research active. Further, the approach did not take account of a substantial number of non-employees who work on Category 1 competitive grants who benefit from the indirect research support and other services provided by the University. These include large numbers of research students and employees of affiliated research organisations. While the work conducted to date has been useful and we have been happy to participate in the various exercises, we do not believe that the outcomes can be relied upon in any way to determine an indirect cost rate applicable for this University. The very fact that almost a third (6 of 22) of the universities that provided indirect cost data were found to have indirect cost rates considered ‘outliers’ by the Allen Consulting Group suggests a need for further detailed work to be undertaken.
6. Are staff surveys an appropriate means of attributing staff time? If not, what other approaches might be adopted that would achieve robust results whilst minimising the impost on individuals involved?

7. How frequently and over what timeframes should staff time allocation be conducted?

8. Is the use of FTE drivers adequate for all indirect costs? If not, what other indirect cost drivers might be adopted and in what circumstances? Would these produce more accurate results?

6, 7 & 8 together. We do not strongly support activity-based costing based on recurring staff surveys. As the research conducted to date has found, completion rates can be a problem and quality checks are required to ensure the accuracy of information provided in the returns. The survey was completed in quite a rush and we are not confident that staff fully understood its purpose or were in a position to accurately apportion their time across the specified categories. The US approach, based on documented historical costs and cost analysis studies seems preferable. We understand that the Technical Working Group is considering various alternative options for cost drivers which would not require surveys and we support this approach. If staff time surveys are to become part of the TC process, however, then we suggest that rather than individual researchers being solely responsible for the completion of their surveys, heads of departments be given a role in verifying the allocation of individual researchers’ allocation of time. Once again, we make the point that the FTE staff approach does not account for non-employees who are active participants in ACGs led by university researchers. Further, it fails to account for the fact that many universities indirectly support many ACG projects led by researchers not employed by the University but by organisations with varying degrees of affiliation with it.
9. Is the number of weighted publications an adequate proxy measure of research quality until the implementation of ERA outcomes has been tested?

**Publications**

In developing both the RQF and ERA the former and current Governments have recognised that publication counts alone have little value as an indicator of quality. An institution’s share of total Category 1 competitive grant income is a far better proxy for SRE as it relates directly to the research activity that the policy is designed to support and is based on peer reviewed assessment of proposals - including assessment of track record. We therefore strongly support the Go8’s recommendation that Category 1 income be used as the proxy measure of research quality until agreement is reached about the performance component of SRE and the research element of compacts.

**ERA**

The proposed strong dependence of SRE on ERA results is a cause for some concern. In line with previous statements by the Government, ERA outcomes should not be used to determine funding outcomes until the sector has agreed that those outcomes are sound. Having just submitted ERA trial data, in our view it is simply too early to know whether the outcome of the ERA process will have the confidence of the sector and researchers as a mechanism for measuring research quality. ERA is examining universities’ entire research output over a historical reference period, when it should arguably be only the quality of research outputs resulting from ACG funded research that has any bearing on the allocation of SRE funding. The ERA is a disciplinary process when research is increasingly cross-disciplinary and organised and funded as such. The use of bibliometrics, outlet rankings and the overall methodology for analysis proposed for ERA is untested - particularly in the humanities and creative arts. ERA will rely on historical data which means that by the completion of the first full ERA at the end of 2010, these will already be two to seven years out of date. The ability to rely on ERA data for the purposes of SRE will therefore depend on the frequency with which future ERA exercises occur – yet the compact process contemplates performance funding on yearly, or perhaps three yearly, cycles. It may therefore be that ERA data are not the most suitable metrics against which institutions can demonstrate their research performance over the period of a compact. Further, one of the aims of the compacts is to encourage mission diversification. There should therefore be scope in the research component of the compact for institutions to contribute to the selection of metrics against which they will measure their performance. For these reasons we would caution against DIISR committing to using ERA data in SRE until it and the sector can have confidence in the reliability of the data for the proposed purposes.
10. Will the new formula give sufficient emphasis to end-user research?
11. Are there other strategies that should be adopted to encourage and support collaborative research activities between universities, industry and end-users, beyond those supported by competitive grants?
12. Should JRE have the same objectives as IGS i.e. to support the general fabric of universities’ research and research training?

10. We understand the purpose of the replacement of the Institutional Grant Scheme with the Joint Research Engagement Scheme to be to ‘encourage greater collaboration between universities and the business and non-government research sectors’ (Budget Fact Sheet). We note, however, the potential negative impact on collaborations of the type the Government wishes to encourage, of removing of Joint Venture (JV) income from the Higher Education Research Data Collection (HERDC) and as a result as a driver for JRE and all other block funding schemes. If this occurs, we believe it will act as a disincentive for collaboration between universities and other research organisations - particularly in the area of medical research. We note that this issue is the subject of a separate review process, to which we have made submissions.

11. There are many strategies that can be adopted by universities and governments to expand levels of research cooperation between universities, industry and end-users. The issues are complex, however, and have been considered in detail by the Cutler Review, Parliamentary committees, the Productivity Commission and many others reviews over the last decade. For larger, research intensive universities, addressing the issue of indirect research costs is an excellent starting point, because over time it should place these institutions in a better position to foster these types of relationships.

12. The decision to exclude Category 1 income from JRE on the basis that it is being rewarded by SRE appears to misunderstand what IGS and RIBG currently provide for and what RIBG, SRE and JRE will together need to provide for if ACG research is to be put on a more sustainable footing. IGS is a flexible block fund designed to support the general fabric of the research and research training activities of Australian universities. IGS funds are currently used by many institutions to cover key direct costs of ACG research (principally Chief Investigator (CI) salaries) which are specifically excluded from being funded through ACGs or through RIBG. RIBG funds may only be used to cover non-capital costs associated with maintaining research facilities; research equipment costs; the salaries of research technicians providing general support; and some travel costs. By removing Category 1 as a driver from JRE, maintaining the usage restrictions for RIBG funds and restricting SRE to be used to cover indirect research costs, institutions will no longer have a source of funds to support the direct cost of academic staff time devoted to ACG research which is linked to performance in winning these funds. The consequences of this over time could be dramatic and could work against the policy objective that underpins the SRE - putting universities in a position to more fully cover the costs of ACG research. Solutions include the following, or a mixture of the following:
1. reverse the decision to excise Category 1 research as a driver for JRE;
2. ensure JRE retains the flexibility of IGS in terms of the activities it can be used to support;
3. include ERA outcomes (once considered reliable) as a quality driver in JRE;
4. expand the purposes for which RIBG may be used to include academic staff and other direct costs attributable to ACGs;
5. ensure that SRE includes academic staff salaries as a cost driver for SRE allocation; and
6. ensure that institutions have discretion over the costs that can be met from SRE funds.
Subject to the issues highlighted in 12 above being addressed, the University of Sydney is confident that SRE will make a substantial difference to the long term sustainability, quality and competitiveness of Australian university research.

We have been keen to participate in the Allen Consulting Group’s research and to contribute expertise to the Expert Working Party.

We remain keen to work with DIISR and the rest of the sector to develop an indirect cost assessment and funding model that is as simple as possible, yet satisfies the Government’s needs for accuracy, consistency, transparency and demonstrated performance improvement.

We see the Technical Working Group as best placed to provide the expert input that is required to guide the next phase of the development of SRE.

We urge caution against committing too early to using ERA data to inform SRE allocations.

We support the Go8’s proposal that, as for ERA, any SRE model should be thoroughly tested and refined, prior to full implementation.

In the meantime, Category 1 research income should be used to determine SRE allocations as it is widely recognised as a better proxy for research quality than publications and directly reflects the scale of the ACG research at each institution.

ACG is the research that SRE is designed to support and Category 1 income is therefore a more logical interim proxy than research publications which result from an institution’s entire research activity.

For the reasons highlighted in 12 above, we urge DIISR to ensure that institutions have the maximum flexibility possible over the types of research activities that may be supported from RIBG, SRE and JRE funds from 2010 onwards.