



Australian Government

HIGHER EDUCATION ENDOWMENT FUND

CONSULTATION PAPER
OCTOBER 2007



HEEF Advisory Board

HIGHER EDUCATION ENDOWMENT FUND (HEEF)

CONSULTATION PAPER

HEEF Advisory Board

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Chair's Foreword

Higher education institutions in Australia aspire to improve the quality of their teaching and research. Over the medium to long term, the Higher Education Endowment Fund (HEEF) will play a significant role in providing funding to help many institutions realise these aspirations and elevate their international standing.

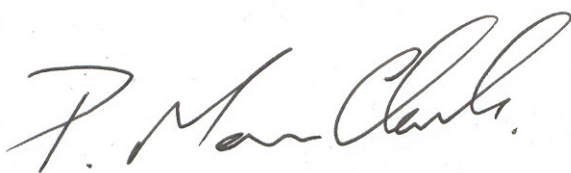
The challenge for the Advisory Board is to determine a process through which funds are allocated in a manner that achieves the stated goals of the government for the HEEF. I believe that these goals are entirely consistent with what the sector would seek to achieve for itself - excellence, diversity and specialisation.

The Minister for Education, Science and Training has also requested that the Advisory Board explore with the sector and other stakeholders, how the Endowment Fund might further stimulate and support a culture of philanthropy in the sector.

To a very large extent, the success of the HEEF to deliver on both of these policy objectives will depend on how well it is designed. Input from the higher education sector will be important in this process.

As the first step in an ongoing discussion, this paper asks a series of questions. Some of these questions are open-ended and others are more targeted, for example, where we seek to test some programme design propositions with the sector. The Advisory Board are asking the sector these questions in the knowledge that collectively we can develop the best mechanism for making grants from the HEEF earnings and to build greater philanthropic support for higher education institutions.

HEEF is an inspired initiative and I am delighted to have been appointed to chair the Advisory Board. I am looking forward to working with the sector to recommend support for investments that will be capable of producing a real "step change" in higher education in this country. I strongly encourage everyone with an interest in this exciting initiative to review the consultation paper and to participate actively in the consultation process.



Philip Marcus Clark AM
Chair
HEEF Advisory Board
12 October 2007

Introduction

The role of the Higher Education Endowment Fund (HEEF) Advisory Board, as defined in the *Higher Education Endowment Fund Act 2007* (the HEEF Act), is to advise the Minister for Education, Science and Training (the Minister) about matters which relate to making grants, from the HEEF earnings, of financial assistance to eligible higher education institutions in relation to capital expenditure and research facilities.

To fulfil this role, the Minister has asked the Advisory Board to advise on the programme design for allocating grants as well as how to encourage greater philanthropic support for the higher education sector. The purpose of this paper is to seek the views of the higher education sector and other stakeholders on these matters. There will be subsequent consultation once draft guidelines have been developed.

Details of the Membership of the Advisory Board are provided at [Attachment A](#).

Background

The HEEF was announced by the Australian Government in the 2007-08 Budget, as part of the higher education component of its education reform package *Realising our Potential*. An initial investment of \$6 billion will be made from the 2006-07 Budget surplus. The government has indicated it intends to keep open the option of making further contributions to the HEEF and the Australian public will also be able to make tax-deductible donations.

The legislative basis for the operation for the HEEF is outlined in two related Acts, the *Higher Education Endowment Fund Act 2007* and the *Higher Education Endowment Fund (Consequential Amendments) Act 2007*.

As outlined in these Acts, the \$6 billion is to be managed by the Future Fund Board of Guardians. The Future Fund Board will determine the level of distributions available to the higher education sector, the 'maximum grants amount' (s48 of the HEEF Act), based on rules set out by the Treasurer and the Minister for Finance and Administration. Distributions will be dependent on the returns that are generated from the financial market, and on costs associated with the management of the Fund.

Decisions on the allocation of distributions, in the form of grants, are to be made by the Minister, taking into account advice provided by the HEEF Advisory Board.

Institutions eligible to receive funding are Table A and Table B providers, as defined in the *Higher Education Support Act 2003*.

The policy context

In announcing the establishment of the HEEF, the government's stated objectives were to:

- promote the development of world-class Australian higher education institutions, by providing an ongoing programme of support for strategically-focused investments in higher education capital expenditure and research facilities; and
- support the Australian Government's broader policy objective of encouraging a culture of philanthropic investment in Australian higher education institutions.

This consultation paper is written in two parts to reflect these two distinct policy objectives.

Flow of funds available for grants

Unlike government funding programmes where there are Budget allocations over a number of years, the Minister will only be able to commit funds up to the 'maximum grants amount' each financial year.

The value of the 'maximum grant amount', or the total amount of funds available to be used as grants to all eligible institutions, will be determined by the Future Fund Board on an annual basis. The Minister will be informed of this amount in October of each year.

This does not preclude the possibility of making commitments to multi-year projects, but the commitments must be made from within the 'maximum grant amount' in any one financial year.

Sector Consultation

As noted in the foreword by the Chair of the Advisory Board, a key aspect of the operation of the Advisory Board is to obtain feedback from the sector. This consultation paper is the first step in what is expected to be a multi-stage process with the sector.

This paper is written as a series of questions as a mechanism for exploring a range of relevant issues. While this may appear prescriptive it is intended to guide, not limit the conversation with the sector. Should you, or your organisation wish to raise additional issues that are not addressed within this paper you are encouraged to do so. Further details on how to make a submission are listed on page 10.

A provisional outline of Key Actions and expected Outcomes is shown below.

Action	Outcome
Release of consultation paper	The Advisory Board receives and considers feedback from the higher education sector and other stakeholders on the consultation paper
State and Territory Forums are held utilising feedback on the consultation paper to help shape the agenda for discussion	The Advisory Board considers input gathered during these forums and makes recommendations to the Minister on the best mechanism for distributing available funds
Draft Programme Guidelines are developed and released for comment	The Advisory Board considers feedback prior to finalising Guidelines for Ministerial approval
Final Programme Guidelines are released and proposals for 2008-09 funding are invited.	Outcomes of the first round of funding are announced

PART 1: HEEF GRANTS

Strategic focus

The Australian Government considers that grants of financial assistance made available from HEEF earnings should reflect the long term goals of the higher education sector, be strategic in nature, and be clearly distinguishable from other Australian Government infrastructure programmes.

In this context, it is expected that HEEF grants should show long term relevance to the national priorities and/or the industries related to the proposals, research disciplines, the regions and institutions. This could include the awarding of grants for single institution projects and/or collaborative projects between institutions.

HEEF grants should help encourage institutions to build their international standing and to diversify and specialise their operations in areas in which they can best provide quality outcomes.

This is intended to promote areas of strength, or emerging strengths, and will enable institutions to further specialise and diversify their research and teaching activities within the Australian and international higher education marketplace.

- 1. What factors can be used to guide an assessment of strategic merit?*
- 2. How can the strategic merit of a project be established relative to other projects?*

Capital expenditure and research facilities

The HEEF legislation states that grants of financial assistance can be made to eligible higher education providers in relation to capital expenditure and research facilities. The legislation does not seek to define these terms, rather it is anticipated that they will be construed broadly within the ordinary meanings of these words.

- 3. What types of projects should be funded given the broad requirement that the HEEF support capital expenditure and research facilities?*
- 4. Would it be useful and/or appropriate to undertake a priority identification process, in the vein of the National Collaborative Research Infrastructure Strategy (NCRIS) Strategic Roadmap? If so, what use would this serve?*

Relationship to existing programmes

The government already operates a number of grants processes which support infrastructure development in higher education and research institutions, including for example: Research Infrastructure Block Grants (RIBG); the Capital Development Pool (CDP); the National Collaborative Research Infrastructure Strategy (NCRIS); Australian Research Council Linkage Infrastructure, Equipment and Facilities (LIEF) grants and National Health and Medical Research Council Independent Research Institute Infrastructure Support Scheme (IRIISS). [Attachment B](#) provides further detail on each of these grants processes.

HEEF grants will operate in addition to existing programmes. The challenge, for designing and managing the most appropriate allocation mechanism, is how best to maximise the benefits for the sector while minimising both duplication and any potential administrative burden for institutions.

5. *What issues, if any, do you see for your institution in managing applications for infrastructure under existing grants programmes and HEEF grants?*
6. *What design suggestions can you provide that might maximise the outcomes for institutions across existing grants programmes and HEEF grants?*

Selection processes

Priority analysis and open selection

The government has indicated that the allocation of HEEF grants will be based on a competitive process. The challenge is to establish a competitive process that also allows strategic insights to be applied to the assessment of proposals.

There are two broad approaches that could be taken to all or part of the funding allocated from HEEF grants.

(1) Open selection – This is a common approach used for programme funding and involves a general call for proposals, from individual institutions or consortiums, which are then assessed against selection criteria. In such a process, different selection criteria are given different weightings. Preliminary assessments are usually prepared by departmental officers for consideration, in this instance, by the HEEF Advisory Board.

(2) Priority analysis – This approach begins with a consultation process with the higher education sector and other stakeholders to first identify their priorities. Once there is broad agreement within the sector on the priorities, specific proposals are developed to address these priorities. This priority identification process could be undertaken on an annual or biennial basis.

The approach adopted in the implementation of the National Collaborative Research Infrastructure Strategy (NCRIS) provides a useful guide as to how this might be achieved in practice. For more information on NCRIS see <http://www.ncris.dest.gov.au/>

Another option is to adopt a mixture of both approaches.

7. *Would an open selection or a priority analysis approach, or a mixture of both, deliver the best outcomes in identifying and supporting strategic investments from HEEF grants?*
8. *What selection criteria should be used by the Advisory Board to select proposals to recommend to the Minister?*

Frequency

The preparation of large scale infrastructure bids is a complex and time-consuming process for applicants. In the light of the strategic, not reactive, nature of funding allocated from HEEF grants and to minimise the burden on applicants it is proposed that a selection process be conducted once a year.

Two stage selection process

A two-stage process for considering proposals could be used, with stage one consisting of a call for proposals, whereby higher education providers are invited to submit short expressions of interest; and stage two consisting of short-listing eligible proposals and inviting applicants to develop the proposal in more detail.

It is expected that a two-staged process could work for either a priority analysis or open selection approach. If there was an open selection approach applicants would determine the subject of the proposal. For a priority analysis approach, priority areas would be determined in advance and applications for specific proposals sought.

This could be a more efficient funding process. Short expressions of interest minimise unproductive time spent writing detailed proposals for those who may not prove successful in the current round. Expressions of Interest would also allow synergies or potential duplications to be identified and possible matchmaking to occur and also decreasing the amount of time required from application to announcement. A two stage assessment process is currently used for the Cooperative Research Centres (CRC) Programme.

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| <p>9. <i>Would you prefer a two stage process as suggested above?</i></p> <p>10. <i>What advantages and disadvantages do you consider would arise from such an approach?</i></p> |
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Transparency

Submissions to the Senate Inquiry into the *Higher Education Endowment Fund Bill 2007* suggest that in relation to selecting proposals to be funded from HEEF grants, it is important to strive to have selection processes that are as transparent as possible to ensure fairness. This needs to be balanced with requirements to protect commercial-in-confidence information.

Transparency could be achieved by having a brief summary of all Expressions of Interest placed on the HEEF website for at least one month before being considered by the Advisory Board. Comments received on these would not be made public, but rather those making comments would be asked to agree to their comments being fully attributable and made available to the proponents for response. This could bring the advantages of peer review to the selection process and underpin the ongoing confidence of the sector in the process.

- 11. What are the issues that may need to be addressed to ensure transparency in the allocation of HEEF grants, while protecting commercial-in-confidence information and maximising value?*
- 12. Would the process proposed, release of brief summaries of all expressions of interest, enhance transparency?*
- 13. If not, how would you propose a consistent and appropriate transparency process be achieved?*

Funding Limits

In order to ensure that funding from HEEF grants achieves the policy intent of creating world-class Australian higher education institutions, a case could be made that HEEF grants should only invest in projects of significant value.

- 14. Is a funding minimum appropriate?*
- 15. Should there be an upper limit to the programme funding range?*
- 16. Are funding value envelopes needed to ensure that significant strategic outcomes are achieved?*

Duration of funding

Infrastructure projects can take some years to complete. For example, it may take 12 to 18 months to construct a research facility and then a further 12 to 18 months until it is fully operational. A good project could achieve its stated outcome in two to three years, but that does not allow for any delays. In recognition of the often long lead times involved in large projects of a strategic nature, a period of up to five years could be applied to HEEF projects.

- 17. Is a maximum period appropriate for the expenditure of allocations from HEEF grants?*
- 18. Should there be a requirement for projects to be completed within a certain time of a funding agreement with the government being signed?*

Co-funding and co-investment

The government has stated that it will not be a prerequisite that institutions have matching funding in order to receive a HEEF grant. The government may choose to fully fund proposals. That said, co-funding by institutions, state and territory governments, and other interested parties, is encouraged and may be taken into consideration when proposals are assessed.

In recent times the use of private co-investment partners, who expect a return on investment, has become more prevalent in the higher education sector. The most common variation on this theme is Public-Private Partnerships (PPP), where an institution will partner with private firms to jointly develop a project. While individual projects vary, the common model of a PPP involves the guaranteed right to use a certain percentage of the development for a certain length of time, allowing the private partner to receive an adequate return on investment.

- 19. What implications do you see emerging for HEEF grants and the design of programme guidelines where institutions may use PPPs?*

PART 2: PHILANTHROPIC SUPPORT FOR THE HIGHER EDUCATION SECTOR

With the Higher Education Endowment Fund (HEEF), the government has created a new avenue for business and the general public to make philanthropic donations to the sector.

Currently, less than two per cent of the income of Australian universities comes from philanthropic donations compared to 15 per cent for US universities.

In announcing the HEEF, the government has also sought to encourage greater philanthropic support to universities.

The government will seek the Advisory Board's advice on the implementation of the following philanthropic aspects of the HEEF:

- encouraging a culture of philanthropy;
- management of gifts designated for particular purposes; and
- management of individual universities' endowment funds.

At this stage, we are seeking the initial views of the higher education sector on the role of the HEEF in advancing philanthropic support to the sector and the likely impacts and benefits of the activities outlined above. Some general questions are outlined below. It is anticipated that further work on these issues will be done during 2008, including the conduct of separate and more detailed consultations.

Encouraging a culture of philanthropy

The *Giving Australia* report, commissioned by the Prime Minister's Community Business Partnership, highlighted the generosity of Australians and the significant funds they give to many causes and institutions in Australia. However, compared to other sectors (the arts, the environment and medical research) the higher education sector is not a significant beneficiary. Increasing the level of philanthropy remains a key challenge for the sector.

20. How might the HEEF encourage philanthropic support for universities from individuals and the corporate sector?

Gifts designated for particular purposes

In the first instance, only unconditional gifts of money may be contributed to the HEEF. Gifts will be treated as tax deductible under the *Income Tax Assessment Act 1997*.

The government indicated when the HEEF was announced that philanthropic donations could be earmarked for particular universities or purposes and could be managed along with that endowment. This issue will be addressed following more detailed consultation with the higher education sector, the Future Fund Board and other stakeholders.

21. What issues might need to be addressed in enabling the HEEF to accept gifts designated for particular purposes?

Management of universities' endowment funds

The government has also indicated that the HEEF will be structured so that it can, if asked, manage individual institutions' endowment funds.

22. Are universities interested in having their endowments managed through the HEEF by the Future Fund Board? What issues might need to be addressed if this were to be done?

PROVIDING FEEDBACK ON THIS CONSULTATION PAPER

Written submissions are invited on this consultation paper.

Respondents are asked to bear in mind the following guidance in preparing their submissions:

- Responses to the consultation questions should include clear headings to aid identification;
- Electronic submissions by email are preferred, with any pictures, drawings or tables provided in pdf or jpeg format;
- The author's name, phone number, email address and/or postal address should be provided so that the Advisory Board or DEST can seek further information and/or verify authorship.

Confidentiality

Submissions will be made publicly available on the DEST website. Authorship of submissions will be acknowledged. DEST reserves the right to withhold publication of submissions.

If you do not want your submission made publicly available, please say so clearly at the front of the submission. If you do not want part of the submission to be made publicly available, please mark it clearly and put that part on separate pages or in separate documents. While DEST will not make your submission publicly available if you request that it be withheld, your name will be published as having made a submission.

DEST may be required to release your submission (whether confidential or not) by the operation of law, judicial or parliamentary body. DEST can therefore give no undertakings that your submission will never be made publicly available or ensure that you will be protected from future legal action. If you have any concerns about this, it is suggested that you seek your own legal advice.

Closing date and address for submissions

The closing date for submissions is COB 7 December 2007. Submissions should be sent to:

HEEF Advisory Board
c/o HEEF Team
Department of Education, Science and Training
Loc Code 530
Level 3, 220 Northbourne Avenue
GPO Box 9880
CANBERRA ACT 2601
Email: heef@dest.gov.au

ATTACHMENT A

HEEF ADVISORY BOARD

The Minister for Education, Science and Training, the Hon Julie Bishop MP, announced the Chair and members of the HEEF Advisory Board on 3 October 2007.

The Advisory Board will be responsible for conducting sector consultations, advising the Minister on programme development and making recommendations to the Minister on grants for capital expenditure and research facilities.

HEEF Advisory Board Membership

Chair	Mr Philip Clark AM
Member	Dr Peter Farrell AM
Member	Dr Cherrell Hirst AO
Member	Mr John Poynton AM
Member	Dr Michael Vertigan AC
Ex-officio Member	Ms Lisa Paul PSM (DEST Secretary)
Ex-officio Member	Dr Jim Peacock AC (Chief Scientist)

ATTACHMENT B

Current and Ongoing Australian Government Infrastructure Funding Programmes

The Australian higher education sector is assisted by a range of funding programmes that are specifically designed to support infrastructure development; research facilities; and/or capital works. Programmes which are available to the higher education sector fall into three broad categories: those that are allocated as a proportion of competitive grant funding; those which operate on a competitive application process to fund specific projects; and those that form part of strategic investments in large scale collaborative projects.

Block Infrastructure Funding

Research Infrastructure Block Grants (RIBG)

RIBG assists higher education providers meet the infrastructure and overhead costs associated with undertaking the research funded by the Australian Research Council (ARC), the National Health and Medical Research Council (NHMRC) and others. RIBG funding is provided to eligible higher education providers based on 20 cents in the dollar of total competitive funding awarded in the previous year. Therefore, it is retrospective in its allocation mechanism and is funded on an annual basis.

Further details on RIBG can be found at:

http://www.dest.gov.au/sectors/research_sector/programmes_funding/general_funding/research_infrastructure/research_infrastructure_block_grants_scheme.htm

NHMRC Independent Research Institute Infrastructure Support Scheme (IRIISS)

The NHMRC provides similar funding under IRIISS to contribute to infrastructure costs associated with NHMRC competitive research awards. The funding is provided annually to independent medical research institutes (MRIs) and is comparable to that provided to Table A and B higher education providers by DEST through RIBG. Like RIBG, IRIISS funds infrastructure at 20 cents in the dollar of competitively awarded NHMRC funds and is intended to underpin the competitively funded research effort.

One notable difference between these two schemes is that support through IRIISS is conditional upon continuing support from the relevant state or territory government.

Further details on IRIISS can be found at:

<http://www.nhmrc.gov.au/funding/types/granttype/infrastructure.htm>

Competitive Funding

Capital Development Pool (CDP)

The Capital Development Pool (CDP) was established in 1994 to assist eligible higher education providers with specific capital projects. This was associated with the 'capital roll-in' which transferred most previous Australian Government capital funding to higher education providers' operating grants. The legislative foundation for the CDP is provided under Chapter 2, Parts 2-3, Division 41 of the *Higher Education Support Act 2003* (HESA). Eligible providers include those listed in Tables A and B of HESA. The Australian Government considers applications for funding from higher education providers on a competitive basis. It also obtains the views of state and territory governments on the relative merits of project proposals.

CDP has the following objectives set out in guidelines made under HESA:

- new campus developments in suburban growth corridors and regional centres;
- capital developments to establish or expand courses identified by the government as discipline areas of national importance;
- communication and IT infrastructure projects which improve educational delivery;
- projects to rebuild or to restore campus facilities as a result of extraordinary circumstances; and
- capital developments which the Minister considers to be priorities for particular higher education providers.

Funding for successful projects typically ranges between \$1 million and \$3.5 million, with relatively few projects receiving a higher grant. Funded projects have included teaching facilities and buildings for a variety of medical, allied health, engineering and science disciplines, IT infrastructure that enhances flexible delivery and campus developments located in regional and outer metropolitan areas.

Applications for CDP funding are assessed on a competitive basis against the following published assessment criteria: demonstrated need; relevance to CDP objectives; feasibility; contribution from other sources; value for money and provider performance of previous CDP funded projects.

Currently, each annual CDP competitive round allocates funds for projects over one or two years, several years in advance. For example, the 2007 round had funded projects in 2009 and 2010. Around \$70 million is available each year.

The conditions of CDP grants are determined by the Minister or the Minister's delegate and cover the outcomes to be achieved, payment arrangements and financial, acquittal and performance reporting requirements.

Further information on CDP can be found at:

http://www.dest.gov.au/sectors/higher_education/programmes_funding/programme_categories/capital_dev_pool/.

In addition to the capital works funded through the competitive Capital Development Pool process, the Australian Government has from time to time allocated special capital funding for projects under HESA or annual appropriations

Linkage Infrastructure, Equipment and Facilities (LIEF) scheme

The LIEF scheme assists higher education providers by providing support for major facilities and equipment, and non-capital aspects of library and information infrastructure. It is run by the Australian Research Council (ARC).

Institutions are encouraged to develop collaborative arrangements among themselves, across the higher education sector and with organisations outside the sector, in order to develop research infrastructure. The scheme is also aimed at enhancing support for research and research training in priority areas: all projects funded in 2007 were identified by applicants as addressing a National Research Priority and many highlighted provision of training facilities for research students and early career researchers.

While the vast majority of projects awarded funding commencing in 2007 were in the Science, Technology, Engineering and Mathematics research fields, a small proportion of projects in the Humanities, Arts and Social Sciences were successful in applying for library and research information infrastructure.

Applications for LIEF grants are judged on the basis of peer-review by members of the ARC College of Experts, with funding provided at 75% of the total direct cost of the project and ranges from a minimum of \$100,000 per calendar year to projects of over \$1 million per calendar year.

Further information on LIEF can be found at:
http://www.arc.gov.au/ncgp/lief/lief07_selection_rpt.htm

Large Scale Strategic Initiatives

National Collaborative Research Infrastructure Strategy (NCRIS)

NCRIS will provide a total of just over \$500 million over five years from 2006 to bring greater strategic direction and coordination to national research infrastructure investments.

Many high-priority, medium-scale research facilities or infrastructure investments are too large or complex to be supported by any single research institution and too important to the wider research community to be confined to individual interests or jurisdictions. NCRIS addresses this problem by supporting leading-edge national research facilities in high priority areas which are built and operated collaboratively and accessible to quality researchers wherever they are located.

NCRIS is not a competitive grants programme, rather coordinated investment plans are developed, through contracted facilitators or coordinating bodies, which meet identified research capabilities in 16 priority areas, including: platforms for collaboration, which assist in the development of overarching data and information management infrastructure, and other capabilities ranging from integrated biological systems and optical and radio astronomy to next generation solutions to counter terrorism and crime.

Funding is allocated to capability areas based on the strategic impact of the investment, taking into account the recommendations of the relevant investment plan. The size of individual NCRIS funding investments is capped at \$60 million per capability. Capabilities that require funding above this level are considered 'landmark infrastructure' and outside the scope of the Strategic Roadmap and the NCRIS funding process.

Further information on NCRIS can be found at:

<http://www.ncris.dest.gov.au/>