

Sustainable Research Excellence (SRE) in Universities
Issues Paper: A Model for Discussion

Department of Innovation, Industry, Science and Research
July 2009

1. Purpose of this Paper

This paper is provided as a basis for discussion with universities on implementing the Sustainable Research Excellence in Universities (SRE) initiative. SRE was announced by the Australian Government as part of a suite of measures to enhance university research in the 2009/10 Budget.

The purpose of this paper is to outline the objectives of the SRE program and a model for the allocation of SRE funding.

The paper identifies key design elements of the program and specific questions are posed throughout the paper on which universities' views are sought.

2. The Objectives of the Government's reform agenda and SRE

As outlined in *Powering Ideas*, the Australian Government's policy ambition for the next decade is to progressively increase the number of research groups performing at world-class levels. Its next priority is to address the gap in funding for indirect research costs. SRE is a key measure in the Government's strategy to meet these objectives.

As such, the SRE program forms one element of an integrated suite of reforms which the Australian Government is implementing to boost the competitiveness of Australian university research and ensure that Australia receives the highest possible dividend from its investment in this area.

The focus of the SRE program is on supporting research excellence and securing its sustainability over the longer term.

The initiative is complemented by the new Joint Research Engagement (JRE) measure, which will encourage greater collaboration between universities and research end-users. It is also complemented by the Collaborative Research Networks (CRN) program, which will support universities to build their research strengths through partnerships with other institutions.

Under SRE, \$512 million will be provided over four years to support universities in meeting the indirect costs of their research activities; the new arrangements will eventually be worth more than twice as much as the current Research Infrastructure Block Grant (RIBG). This funding is in addition to around \$882 million which will be provided over the same period through the existing RIBG scheme. SRE is an ongoing program with approximately \$300m (indexed) to be allocated annually from 2013-14.

Additional funding through the program will progressively address an identified shortfall in the support universities receive from the Australian Government to meet the indirect costs of competitive research by taking average support up to around 50 cents in the dollar by 2014.

3. Access to SRE Funding

All universities in receipt of competitive grant income will benefit from the SRE program.

As previously announced, all universities will receive a share of 20 per cent of SRE funding and thus benefit from increased support.

Access to 80 per cent of SRE funding will be contingent on universities' implementing transparent costing (TC) methods and meeting specified performance targets.

By making 80 per cent of funding conditional and placing increased focus on performance the program aims to:

- Increase transparency and accountability;
- Ensure that resources are allocated more rationally and used efficiently; and
- Promote excellence and make Australian universities more internationally competitive.

Commissioned analytical work being undertaken for the Department of Innovation, Industry, Science and Research (DIISR) by the Allen Consulting Group on issues relating to the indirect costs of university research will (along with targeted consultations with the sector) provide evidence to inform the future allocation of the TC component of the program.

The results of the Excellence in Research for Australia (ERA) initiative will provide a robust assessment of the quality of Australian research across different institutions and disciplines. ERA will inform the performance component of the program when the mechanism for implementation of ERA outcomes into funding allocations has been modelled and tested.

4. SRE Funding Profile

\$512 million in funding is available under the SRE program over the four years 2009-10 to 2012-13. Funding will be gradually phased in over this period, starting at \$85 million in 2010 and increasing to \$300 million in 2013, as set out in Table 1:

Table 1: SRE Funding by Calendar Year

Calendar Year	2010	2011	2012	2013
Funding (\$ million)	85	120	155	300

A proportion of funding in 2010 (up to \$20 million) will be set aside to support a one-off payment to universities to develop their financial management systems and supporting documentation for SRE.

5. A Possible SRE Funding Model

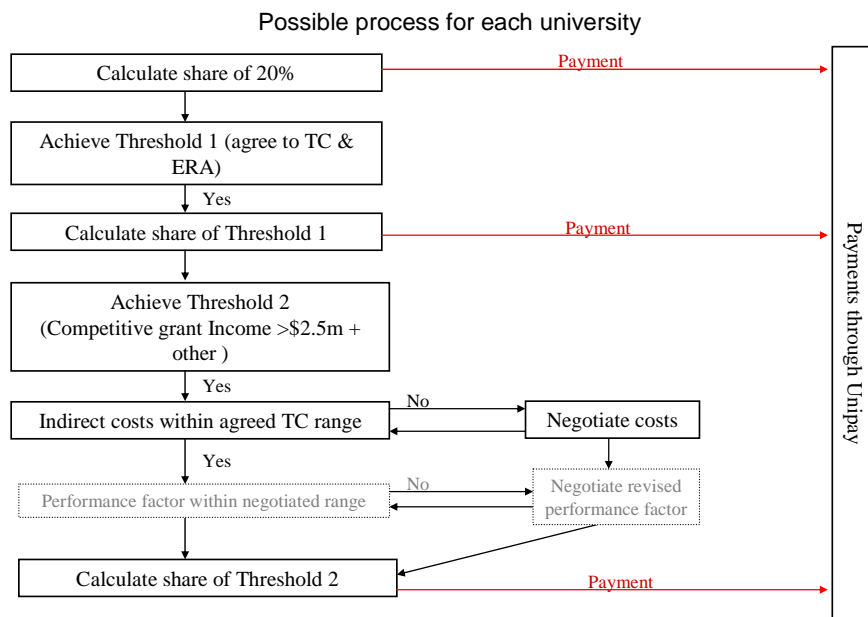
It is proposed that the SRE program have three funding components, as set out in Table 2 below:

Table 2: SRE Funding Components

Component	% of SRE Funding
Sustainability	20% based on RIBG formula
Incentive	13% based on a competitive grant income threshold and meeting eligibility criteria.
Excellence	67% based on a competitive grant income threshold and meeting eligibility criteria.

A possible model for allocating funding according to these components is set out in Figure 1 below. A more detailed description of the model is also provided at **Attachment A**.

Figure 1: A Possible Model for the Allocation of SRE Funding



Under the proposed model outlined above and based on the allocation of \$65 million in 2010, universities currently in receipt of RIBG funding would be expected to gain, on average (across 40 universities), around \$1.6 million in 2010. Gains for individual universities would be expected to range from around \$18,000 and \$8.4 million (for some universities this gain would represent more than 50 per cent of their 2009 RIBG allocation).

These gains would increase further over time as the annual allocation through SRE rises to \$300 million per annum from 2013.

5.1 First 20 per cent of SRE funding

20 per cent of the funding provided under the SRE program will be allocated on the basis of the existing RIBG formula i.e. on the basis of the relative success of institutions in attracting competitive research funds as calculated from schemes in the Australian Competitive Grants Register (ACGR). All universities receiving funding from Australian Competitive Grants (ACGs) will be eligible for funding under this element of the program. Currently 40 higher education providers are in receipt of competitive funding.

No performance thresholds will apply for universities to receive a portion of 20 per cent of SRE funding.

5.2 Remaining 80 per cent of SRE funding

Under the model proposed in Table 2 and Figure 1, 80 per cent of SRE funding would be divided between specified thresholds (Threshold 1 and Threshold 2) as outlined below.

Threshold 1 (Incentive) funding:

- Only those universities participating in TC and ERA would be eligible for this funding.
- Allocations would be based on the relative share for each participating university up to \$2.5 million of competitive grant income it receives (see **Attachment A**)¹.
- This funding element would comprise 13 per cent of available SRE funding in any one year.

Threshold 2 (Excellence) funding:

- All universities that are eligible for Threshold 1 funding are potentially eligible for Threshold 2 funding. As for Threshold 1 funding, only those universities participating in TC and ERA will be eligible for Threshold 2 funding.
- In addition, universities will need to meet specified performance targets to be eligible for Threshold 2 funding.
- Allocations for Threshold 2 would be made according to a performance index based on the relative share of funding calculated for universities that exceed \$2.5 million of competitive grant income (see **Attachment A**).
- From 2011, the TC component would be based on costs calculated by universities via TC and moderated via a formula which takes into account the total pool of funding available and universities' performance against specified targets.
- The performance targets for this element of SRE would eventually be based on ERA data. The initial outcomes of ERA will be available at the end of 2010; however, both the details and the timing of the implementation of those outcomes into the SRE performance component will need to be tested during 2011.

¹ A differential model for calculating indirect costs grants is currently used in Canada. More detail on this model can be found at the following URL: http://www.indirectcosts.gc.ca/home_e.asp

- In the interim, to drive SRE funding a proxy measure of research performance (number of weighted publications) would be used.
- This SRE funding element would comprise 67 per cent of available SRE funding in any one year.

Questions for Discussion:

1. Should there be two thresholds for the 80 per cent 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 and if 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?

5.3 Transparent Costing (TC)

80 per cent of the funding provided under the SRE program will be available only to those universities who participate in transparent costing (and ERA).

Under the model proposed in Table 2 and Figure 1, access to Threshold 1 (Incentive) funding would require universities to implement TC and participate in ERA. Funding for this component would be allocated on the basis of the relative share of funding available earned by each participating university up to \$2.5 million of competitive grant income it receives.

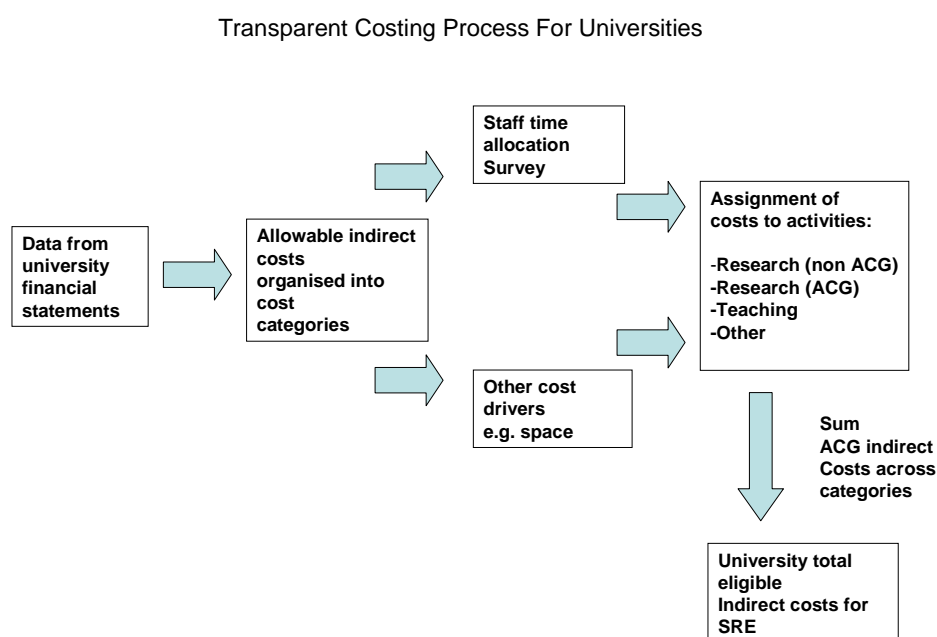
The proportion of the funding available to any one institution deemed eligible for Threshold 2 (Excellence) funding would be determined on the basis of the institution demonstrating (via TC) indirect costs incurred for ACGR and meeting specified performance targets.

The TC framework which will underpin the allocation of Threshold 1 and Threshold 2 funding will comprise the following key components:

1. A set of allowable indirect costs, each of which is associated with a defined indirect cost category; and
2. A set of allowable cost drivers to attribute costs in each of these categories to different university activities (for example, non ACG research, ACG research, teaching, other).

A schematic of a possible TC costing process for participating universities incorporating these 2 components is outlined in Figure 2.

Figure 2: Possible Transparent Costing Process for Universities



In work undertaken for DIISR in 2009², the Allen Consulting Group proposed the following indirect cost categories i.e. indirect costs which institutions incur in supporting research but which cannot be directly attributed to individual research projects:

- Non-academic salaries and on-costs
- Costs of maintaining physical university infrastructure
- Depreciation on buildings and equipment
- Finance, borrowing and insurance costs
- Other costs associated with research.

It also adopted a single common cost driver for all allowable costs: the full-time equivalent (FTE) academic staff effort on ACGs (calculated using a survey of ACG staff time and university FTE data).

² *Understanding the cost of university research, Revised draft guidance paper on the allocation of indirect costs to research funded by Australian Competitive Grants*, The Allen Consulting Group, 2009 (accessible at: http://www.innovation.gov.au/ScienceAndResearch/policy/research_training/Documents/Draft%20guidance%20paper.pdf)

Under this approach the calculation of the proportion of indirect costs in each defined category attributable to ACG research, P(ACG), is given simply by:

Number of FTE staff involved in ACGs * the fraction of time spent by these staff on ACGs / Total FTE staff

The total allowable indirect cost from each category is:

P(ACG)*sum allowable indirect costs incurred in each cost category

The total indirect costs eligible for funding under SRE according to this approach would thus be the sum of the costs calculated for each category.

It is proposed that universities would report TC information as an addition to their annual Higher Education Research Data Collection (HERDC) return to DIISR. That information would then be used as part of the negotiation with each university in relation to its indirect costs of research to determine the final share of Threshold 2 SRE funding.

In 2010, universities will receive a one-off payment to develop their systems and supporting documentation to participate in TC.

Those universities that do not undertake TC, will continue to receive funding for the indirect costs of their ACGR research via the RIBG formula only (based on available RIBG funding and 20 per cent of SRE).

Questions for Discussion:

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?
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?

5.4 Performance Targets

80 per cent of the funding provided under the SRE program will be available only to those universities that participate in ERA (and transparent costing).

ERA will collect performance data across 8 disciplinary clusters. Under the proposed model, this data would be used to assign universities' performance in each of the 8 clusters into one of 5 bands (the highest denoting world-class research performance).

It is intended that ERA will drive the performance component of SRE funding when the implementation of ERA outcomes into an appropriate funding formulae has been modelled and tested. Noting that the first set of evaluations will be completed at the end of 2010, the timing of that implementation will be the subject of further consultation.

ERA will evaluate research excellence across all higher education institutions in eight disciplinary clusters. The results of these ERA evaluations can be integrated into the SRE as elements of the performance component of the funding. Consideration could also be given to using ERA outcomes to establish performance benchmarks to access Threshold 2 funding in addition to the research income threshold.

In the meantime it is proposed that this proxy measure be the number of weighted publications as per the current block grant funding formulas. DIISR already collects publications data in its annual HERDC process so there will no additional burden on the sector to report this information.

Questions for Discussion:

9. Is the number of weighted publications an adequate proxy measure of research quality until the implementation of ERA outcomes has been tested?

6. The role of Joint Research Engagement in research reform.

As outlined above, the Australian Government sees SRE as a complementary initiative to the JRE initiative. From 2010, JRE will replace the current Institutional Grant Scheme (IGS).

The current methodology for calculating IGS funding for each university is based on a formula that includes the amount of funding raised from competitive grants. This rewards research that is already being funded through competitive grants and which receives support for indirect costs through the existing RIBG scheme and the new SRE measure.

To address this, the revised JRE formula removes the existing necessity for universities to rely on the receipt of funds from a competitive grants program and instead reward them for attracting funds from other sources, including industry and community partners and public sector research agencies.

The new formula will give greater emphasis to end-user research by encouraging and supporting collaborative research activities between universities, industry and end-users, beyond those specifically supported by competitive grants.

This initiative is cost neutral as it involves refocusing the existing funding from IGS. In addition, the 95 per cent safety net that currently applies to IGS funding will apply to JRE.

It is important to consider the impact of JRE in relation to the impact of its companion reform, SRE and other new measures.

Questions for Discussion:

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?

7. Forward Timetable

7.1 Timing of SRE Implementation

In terms of timing for implementation, 2010 will be a transitional year in which participation in TC and ERA and provision of proxy performance information (in the case of Threshold 2 funding) will be used to drive funding allocations.

7.2 Timeline for SRE Consultation

This issues paper is one element of a broader process for consultation with the sector on the design and implementation of the SRE program over 2009 (see Table 3).

Formal submissions to the paper are sought from the sector (see Section 8 for how to make a submission). In addition, the Department of Innovation, Industry, Science and Research will hold a series of consultations with individual universities in August 2009.

Feedback received in response to submissions and consultations will be drawn on to develop a SRE Guidance paper which outlines the final framework through which SRE funding will be allocated, including more detailed advice on the transparent costing and performance framework elements and reporting requirements.

The Department will provide universities with the Guidance Paper in October 2009. Universities will be asked to nominate if they wish to participate in the SRE program by the end of November 2009.

7.3 Links to Mission-Based Compacts Implementation and Consultations

The first mission-based funding interim agreements with universities will be negotiated in late 2009.

A key element of compacts will be the SRE program. Those universities wishing to participate in the 80 per cent of SRE funding available will be required to commit in their compacts to participating in TC and ERA (for the Threshold 1 and 2 components of SRE) and also to reporting performance information (for the Threshold 2 component of SRE).

Table 3 below summarises key milestones for the SRE program and Compacts respectively.

Table 3: Key Milestones – SRE and Compacts Development Process

Date	SRE	Compacts
August 2009	SRE Issues Paper released Consultations with universities	Compacts Discussion Paper released Meetings with universities
October 2009	SRE Guidance Paper released	Compact negotiations begin
End November 2009	Universities nominate to participate in SRE	Compact negotiations continue
Early 2010	Universities receive one-off payment to support implementation of TC	Interim agreements for compacts in place

8. Responding to this Issues Paper

Responses to this paper should be submitted in the attached template (**Attachment B**).

Please note that the template should be viewed in Print Layout view for best results.

It is requested that responses be concise and address the questions posed in the paper. Additional material may be provided as attachments if desired.

Please forward written submissions to:

Sustainable Research Excellence in Universities – Submission
Research Funding and Policy Branch
Research Division
Department of Innovation, Industry, Science and Research
GPO Box 9839
CANBERRA, ACT 2601

Or email to: RBGrants@innovation.gov.au

The deadline for submissions is 31 August 2009. Earlier submissions are welcomed.

Summary of Preferred SRE Model from 2011 Onwards

ELEMENT	Total \$ available from 2011	Prerequisites for eligibility	Calculation methodology from 2011 academic year
SUSTAINABILITY Base funding (20%)	2011 - \$24m 2012 - \$31m 2013 on - \$60m	<ul style="list-style-type: none"> • None 	As for RIBG (i.e. funding under this component is proportional to an individual university's relative share of the total competitive grants income for all universities).
INCENTIVE Threshold 1 funding (13%)	2011 - \$16m 2012 - \$20m 2013 on - \$39m	<ul style="list-style-type: none"> • Participate in ERA • Participate in TC 	<p>Funding is allocated based on the relative share for each university of the first \$2.5m (or less) of competitive grant income it receives.</p> <p>A suggested formula on which to base each university's share is: Allocation for Uni_x = (Competitive Grant Income < or = \$2.5m Uni_x) / (Competitive Grant Income < or = \$2.5m Unis_{1-n}) x \$40m</p>
EXCELLENCE Threshold 2 funding (67%)	2011 - \$80m 2012 - \$104m 2013 on - \$201m	<ul style="list-style-type: none"> • Participate in ERA • Participate in TC • Achieve performance threshold based on ERA data or proxy measure 	<p>Individual negotiations would be undertaken to test and confirm both the indirect costs and performance of the individual universities that achieve Threshold 2. In the case of indirect costs, the TC undertaken by all participating universities would be used to determine the sector's spread of indirect costs.</p> <p>An individual university's indirect costs can then be compared and assessed against this range to agree or renegotiate the indirect costs in terms of c/\$ of competitive grants that is applied in the formula to calculate the university's share of the funding.</p> <p>To use a performance factor as part of the calculation of funding, a similar process can be used to agree a performance indicator for each participating university. This initial allocation will have to be moderated to fit within the available funding envelope.</p> <p>Each university's share is allocated based on the university's competitive grant income in excess of \$2.5m, the university's agreed indirect costs and a performance factor. A suggested formula on which to base each university's share is: Notional allocation (NA Uni_x) = (Competitive grant income for Uni_x - \$2.5m) x (Negotiated TC c/\$ for Uni_x) x (agreed performance factor) Moderated allocation for Uni_x = (NA Uni_x) / (total of NA Unis_{1-n}) x \$200m</p>

Sustainable Research Excellence (SRE) in Universities

Issues Paper: Discussion Questions

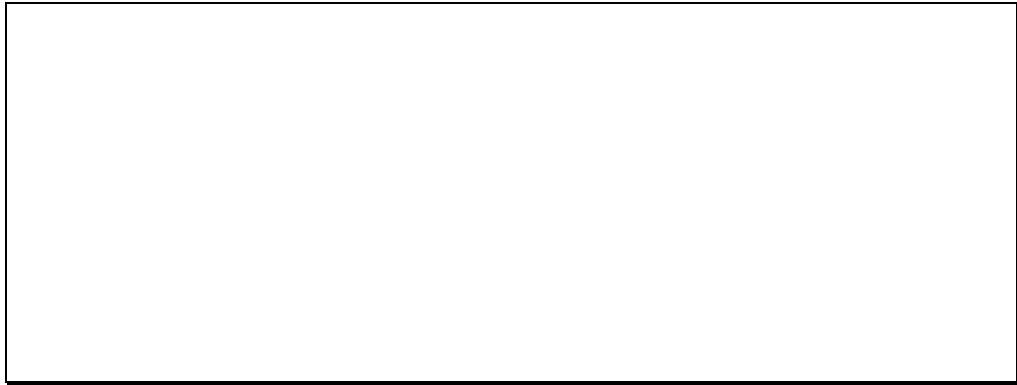
Template should be viewed in Print Layout view for best results

Please confine your answers to 300 words per question. Further information may be provided as attachments to this document if desired.

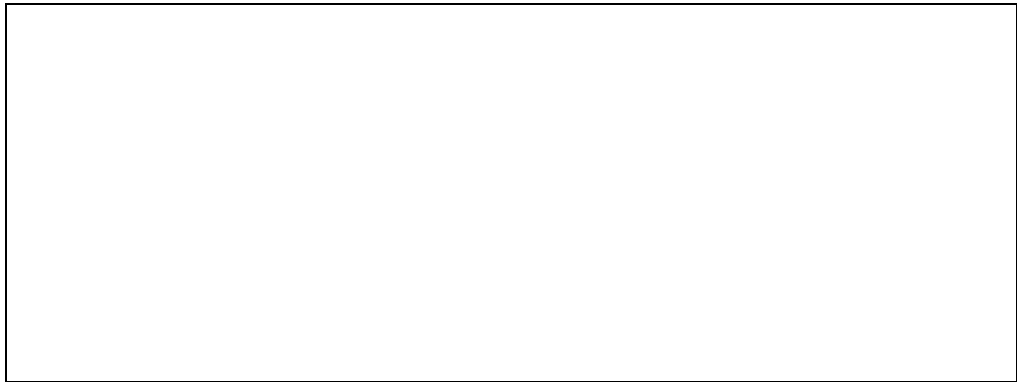
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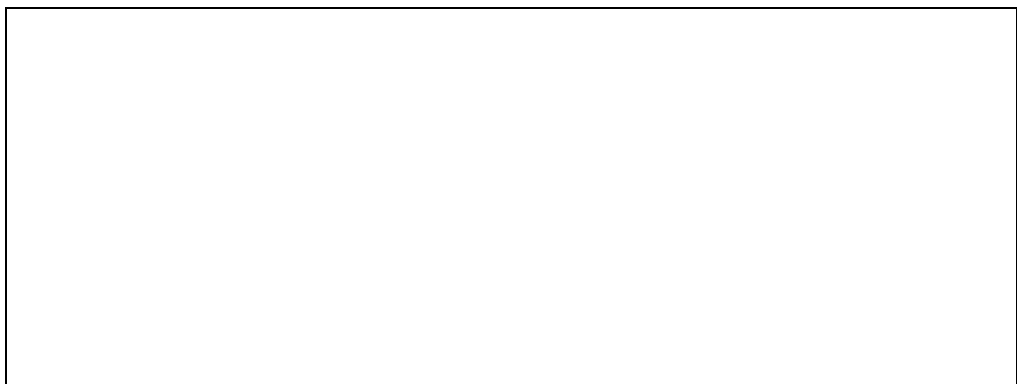
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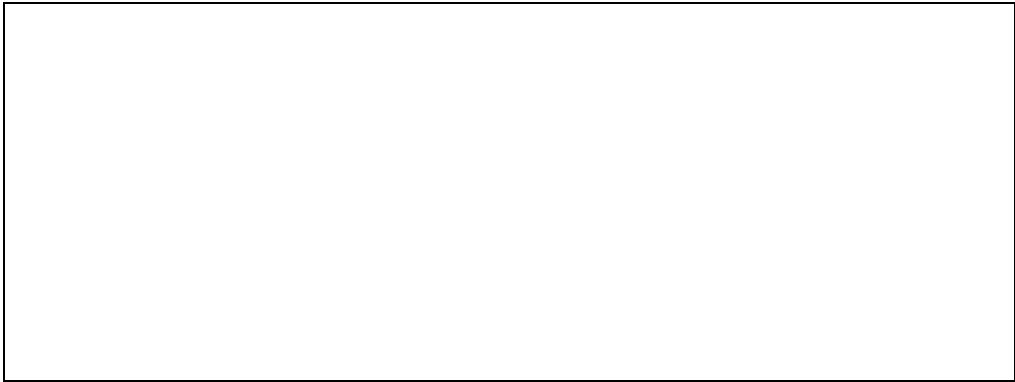
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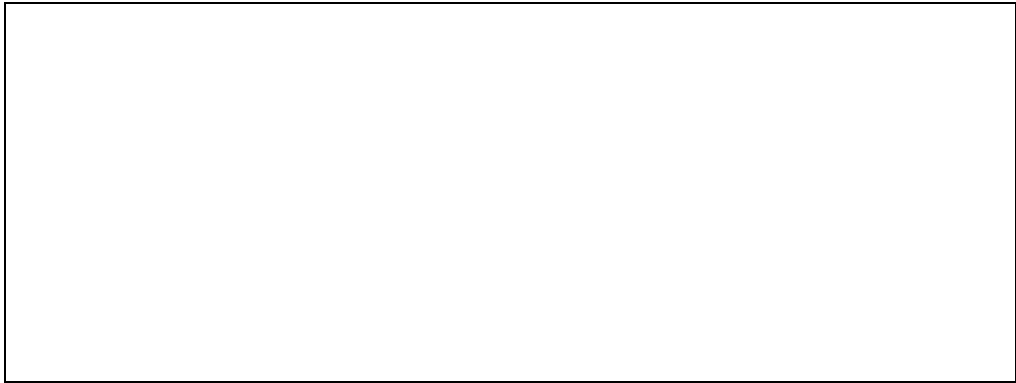
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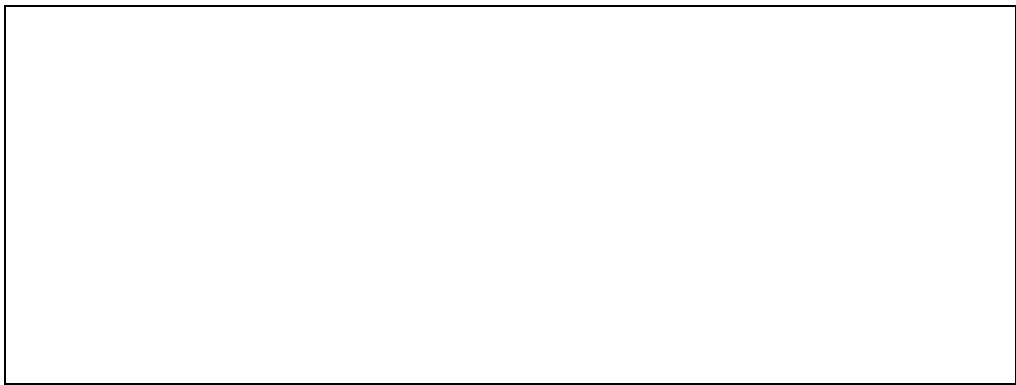
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12. Should JRE have the same objectives as IGS i.e. to support the general fabric of universities' research and research training?

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13. Further comments or suggestions on the SRE model.

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