



## **Submission to National Commission of Audit**

**26 November 2013**

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## Association of Australian Medical Research Institutes (AAMRI)

AAMRI is the peak body for Australia's independent medical research institutes. Our 41 member organisations, along with universities and hospitals, receive funding from the Australian Government and other sources to carry out medical research to improve health service delivery and health outcomes. Collectively, our members have a research income of over \$700 million and account for over 10,000 staff and students.



## Definitions

**Medical Research Institutes (MRIs)** – Charitable institutions that undertake health and medical research; MRIs are located on hospital campuses and are closely affiliated with hospitals and/or universities, but are independent legal entities.

**Direct costs of research** – Those costs that can be attributed to an individual research project, including researchers' salaries and research materials; Commonwealth Government research grants fund the direct costs of research.

**Indirect costs of research** – Those costs that cannot be attributed to an individual research project, but are incurred by an institution to provide the platform technology and services required to deliver a program of research (e.g. laboratory equipment, IT, overheads, building maintenance, HR and finance, research ethics approvals, etc.).

**Administering institute** – The institution that administers a research grant (i.e. is responsible for financial administration and reporting). Generally, this is the university, medical research institute or hospital that employs the chief investigator of a research grant.

## Summary

### *Issue*

**Commonwealth Government funding for the 'indirect costs' of research is inefficient, inequitable and burdened with red tape.** The product of historically adding new schemes to fill funding gaps, the current labyrinth of schemes for the indirect costs of research across multiple Commonwealth Government departments (and, in some cases, state governments) wastes money and time, while inequitable funding and restrictions on transferring funds encourages gaming of the system.

### *Impact*

Funding for the indirect costs of research is the number one issue affecting the productivity of the medical research institute sector and its ability to deliver outputs that improve the productivity of the health care sector, and improve health outcomes and consequently labour participation and productivity.

### *Relevance to National Commission of Audit Terms of Reference*

- Split of roles and responsibilities across departments and governments
- Efficiency of government programs
- Ensuring tax payers' money is allocated as intended
- Productivity of the government and the research & health sectors

### *Relevant Commonwealth Government agencies*

Whole of Government (i.e. all departments with grants on the Australian Competitive Grants Register), particularly the Department of Health, National Health and Medical Research Council, Department of Education, and Australian Research Council.

### *Opportunity*

- 1. Streamlining the labyrinth of Commonwealth Government schemes for the indirect costs of research** across multiple government agencies, such that the indirect costs of research are simply linked at a fixed rate to research grants would:
  - Reduce the administrative burden on the government and research sector of the myriad of funding schemes, each with different, often complicated funding formula
  - Overcome the split of roles and responsibilities across Commonwealth Government agencies that engender inconsistencies and inefficiencies in funding
  - Prevent gaming of a clunky, inequitable system, and the inefficiencies this creates.
- 2. Removing unnecessary restrictions on the sharing of funding for the indirect costs of research** between research organisations (e.g. for collaborative projects) would:
  - Simplify collaboration between research organisations
  - Ensure that taxpayers' money for research is allocated and controlled as intended by the organisation carrying out the research
  - Improve the productivity of the research sector by reducing the amount of time spent overcoming unnecessary restrictions and complicated funding arrangements.

## Explanation of issue

### *Current system*

The medical research sector consists of three major players: hospitals, universities and medical research institutes. Medical research institutes receive around 28 per cent of the funding provided by the National Health and Medical Research Council (NHMRC, the Commonwealth Government agency primarily responsible for funding medical research) and account for around 50 per cent of outputs from this funding (based on publication output and impact metrics). Medical research institutes, based at hospital campuses, play a unique role in the Australian medical research sector, helping embed research and innovation in the health system for improved services and health outcomes. Being mission-based charities with the principle focus to improve health outcomes through research and its translation, medical research institutes also attract significant philanthropy to the sector. Their board-based organisational structures mean they have the agility and flexibility to steer their research program to focus on emerging health challenges.

Research grants awarded to medical research institutes, universities and hospitals by the NHMRC and other Commonwealth Government agencies (see [Australian Competitive Grants Register](#), ACGR) cover only the ‘[direct costs](#)’ of carrying out the research project (e.g. salaries of research staff and costs of materials to carry out experiments). Grants specifically exclude the costs incurred by institutions to provide the platform technology and services required to deliver the program of work (e.g. laboratory equipment, IT, overheads, building maintenance, human resources and finance, research ethics approvals, etc.). These costs are referred to as ‘[indirect costs](#)’ and are estimated in Australia and internationally to be 60 cents per ‘direct cost’ grant dollar.

The indirect costs of research are (partially) funded through a range of programs across the Department of Education<sup>1</sup> and NHMRC, and, in some cases, state governments. Depending on the type of institution (i.e. university, medical research institute or hospital) that employs the chief investigator of a research grant, the institution will receive funding for the indirect costs of research at a different rate from a different range of schemes with different funding formulae and administered by different government departments (Figure 1).

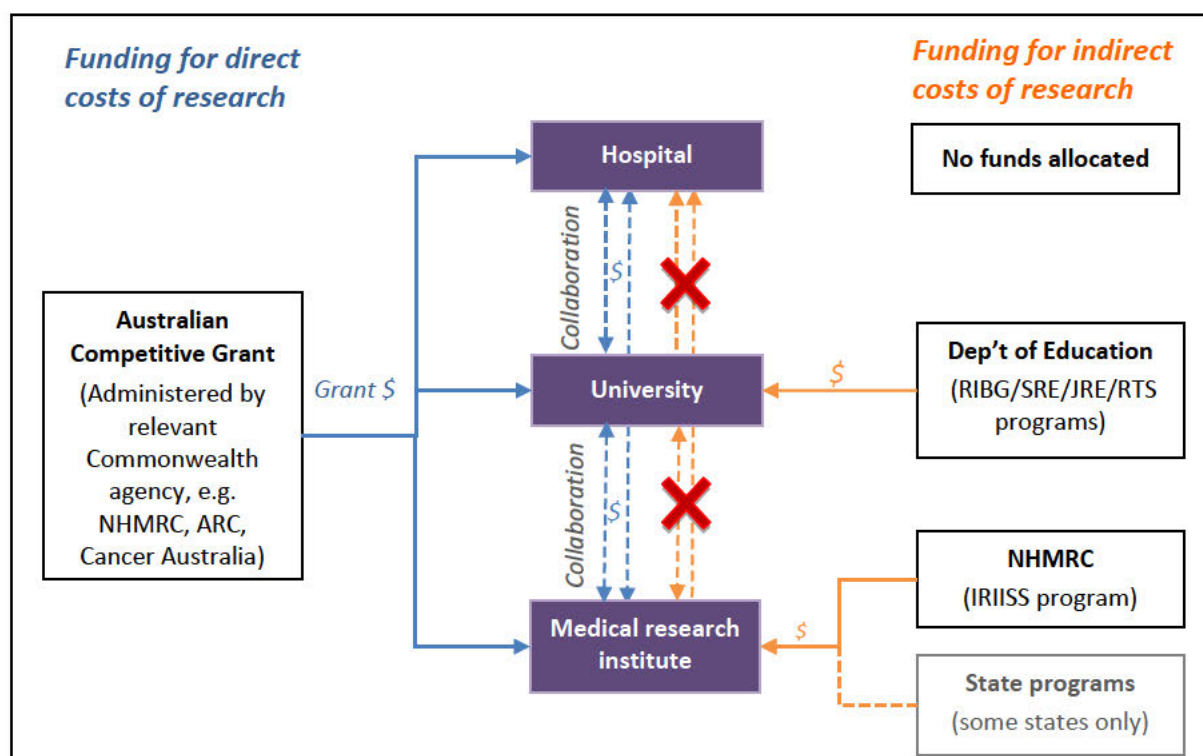
Complicating things further, grants almost always have multiple investigators involved. Where these investigators are from different institutions, the institution of the chief investigator generally administers the grant, and a Multi-Institutional Agreement sets out how grant funds (i.e. for the direct costs of research) will be distributed amongst the institutions of the other investigators. However, Commonwealth Government restrictions prevent funds for the indirect costs of research being similarly transferred between organisations (Figure 1). The Department of Education does not allow funds for the indirect cost of research of universities to be shared with medical research institutes or hospitals. Similarly, while the NHMRC allows medical research institutes to share funding they receive from the NHMRC for the indirect costs of research between each other, it does not allow these funds to be transferred to universities or hospitals.

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<sup>1</sup> Currently funding schemes for the indirect costs of research at universities are listed on the website of the Department of Industry, but presumably the Department of Education will take responsibility for these schemes.



**Figure 1. Commonwealth funding for the direct and indirect costs of research**



- a) Hospitals are not eligible for funding for the indirect costs of research for competitive research grants they attract.
- b) Medical research institutes receive funding for the indirect costs of research at a rate of 20 cents per dollar of NHMRC grants they receive via the NHMRC-administered Independent Research Institutes Infrastructure Support Scheme ([IRISS](#)). No funding is provided by the Commonwealth Government for the indirect costs associated with other [Australian Competitive Grants](#) or competitive grants from other sources. Selected state governments provide various levels of support for the indirect costs of research associated with Commonwealth and other competitive grants.
- c) Universities are eligible for indirect research costs support for all Australian Competitive Grants they receive as well as funding they attract from other sources via four discrete research block grant ([RBG](#)) schemes administered by the Department of Education, each allocated by a different performance-based formula:
  - i. [Research Infrastructure Block Grants](#) (RIBG) scheme – provides funding for the indirect costs of research for Australian Competitive Grants.
  - ii. [Sustainable Research Excellence](#) (SRE) scheme – supplements the RIBG scheme, but uses a different method to allocate funding.
  - iii. [Joint Research Engagement](#) (JRE) scheme – provides funding for research income secured from sources other than Australian Competitive Grants.
  - iv. [Research Training Scheme](#) (RTS) – provides funding towards the costs for students undertaking research doctorate and research masters degrees.

Estimates vary, but on average universities will receive around 40-50 cents of funding for the indirect costs of research per dollar of competitive research grant from the various funding schemes once the SRE scheme is fully implemented.

### *Why this is a problem*

- a) **Administrative burden of an inefficient labyrinth of funding schemes:** The Government is burdened with administering a complex and inefficient mix of funding schemes for the indirect costs of research, each with a different and sometimes complicated funding formula with substantial reporting requirements.
- b) **Discordant split of responsibilities across departments:** Responsibility for funding the indirect costs of research is determined by the type of organisation receiving funding, rather than the department administering the relevant research grant scheme. This engenders inefficiencies and inconsistencies in funding rates and regulations.
- c) **Hampering innovative services in our hospitals:** Research is being driven out of our hospitals because no indirect cost funding is available to hospitals for Commonwealth Government research grants they have competitively secured. Ultimately, this impinges on the quality, effectiveness and efficiency of healthcare provision by the Government.
- d) **Reduced productivity of the research sector:** Research institutions are burdened with trying to navigate (to their best financial advantage) a complicated mix of inefficient and unnecessarily restrictive funding schemes for the indirect costs of research.
- e) **Tax payers' money is not effectively or strategically distributed:** Because the indirect costs of research associated with a grant are not fully funded by government, the more successful an institution at securing research grants, the bigger the funding gap for the indirect costs of research. Plugging the funding gap for the indirect costs of research left by government is not an attractive investment proposition for philanthropists and commercial funding sources, discouraging the leveraging of this investment.
- f) **Lack of transparency and gaming of a clunky, inequitable system:** The lack of parity in funding for the indirect costs of research means that many hospitals and medical research institutes form agreements with universities whereby universities administer Commonwealth Government grants on their behalf, and in return provide some funding (above what the MRI/hospital would have otherwise received from the Commonwealth Government) from a discretionary funding pool to the MRI/hospital for their successful grants. The university benefits because, as the 'administering institute' of the grants, it receives Commonwealth funding for the indirect costs associated with successful grants at the 'university rate'. In general, only a proportion of the funding thus generated is passed on to the institution actually doing the research, in effect subverting funds intended for the research for other purposes unconnected with it. The university is also able to 'claim' outputs from these grants in their success measures, meaning measurement and reward of institutional performance by government is undermined.
- g) **Collaboration is stifled:** The lack of parity in funding for the indirect costs of research and the inability to transfer this funding between organisations for collaborative grants stifles collaboration and research outcomes.
- h) **Penalising our most productive medical research institutes:** It is well established from a range of success measures that there is reward to the community, economy and health sector in having independent medical research institutes as nimble organisations closely linked with health service delivery. But lack of parity in funding for the indirect costs of research has driven some efficient, niche research organisations established as discrete specialised entities to merge with large diverse universities where their specialist purposes are less well supported and their independence is stifled.

### ***Case Study 1 – Complicated mix of inequitable, inefficient funding schemes***

Professor A from The University of Queensland (UQ) and several researchers of her team have multiple grants from Cancer Australia (a Commonwealth Government agency with grants on the Australian Competitive Grant Register). Professor A also has four PhD students in her laboratory, and has received funding from industry to research a potential cancer drug. Consequently, UQ will receive funding from the Department of Education for the indirect costs of research for Professor A's: Cancer Australia grants (via the RIBG and SRE schemes); industry funding (via the JRE scheme); and to help support the research and training costs associated with Professor A's four PhD students (via the RTS scheme).

Professor A decides to move her research team to a Queensland-based medical research institute specialising in cancer. The medical research institute will not receive any indirect cost funding from the Commonwealth Government for the work carried out by Professor A's laboratory, since it is only eligible for indirect cost funding for NHMRC grants, not other Australian Competitive Grants or funding received from industry. It will also not directly receive funding to help support the research activities of Professor A's four PhD students, which will go to UQ, where the students are registered for their degree. There is also no general Queensland Government program that broadly supports the indirect costs of research of medical research institutes.

### ***Case Study 2 – Restrictions on the transfer of funding penalises organisations***

Professor B from the Burnet Institute (a Victorian medical research institute) and Professor C from Melbourne University have successfully secured an NHMRC grant for a research project on malaria vaccines worth \$500,000 over 3 years. Each researcher is contributing equally to the proposed research project.

Should Professor B be named as the primary Chief Investigator on the grant, Commonwealth funding for the indirect costs of research would be provided via the NHMRC-administered IRISS program at 20 cents per dollar to the Burnet Institute. The Victorian Government also provides limited funding for the indirect costs of research for medical research institutes. Melbourne University would not have access to any of the funding for the indirect costs of research required to help support Professor C to carry out her part of the project.

Should Professor C be named as the primary Chief Investigator on the grant, Commonwealth funding for the indirect costs of research would be provided via the Department of Education via several funding formulae at a rate of approximately 40-50 cents per dollar. The Burnet Institute would not have access to any of the funding for the indirect costs of research required to help support Professor B to carry out his part of the project.

## Recommendations

The National Commission of Audit provides an opportunity to overhaul and simplify the complex, restrictive and inefficient system of government funding for the indirect costs of research, for the benefit of government and the research and health sectors.

- 1. We recommend a system in which the indirect costs of research are simply linked at a fixed rate to Australian Competitive research grants**, i.e. paid together with the funding for direct research costs to the administering institution.

### ***Advantages:***

- A much simpler system reduces the administration overheads for both the government and research institutions.
- The discordant split of departmental responsibilities for administering the indirect costs of research is removed, as are the inconsistencies and inefficiencies of funding this engenders.
- A more effective distribution of tax payers' money based on research success, not organisation type, is achieved.
- Improved transparency of a simple, impartial system puts an end to the effective subversion of funding for the indirect costs of research that currently takes place.
- The Australian health and medical research sector becomes a more attractive focal point for philanthropy, international granting bodies and the commercial sector.
- Perverse financial disincentives to performing research in hospitals, and the negative consequences of this on health care services, are removed.

- 2. We recommend that funding for the indirect costs of research be freely transferrable between universities, medical research institutes and hospitals** in the way that grant funding can be shared, so that the institution at which the research is performed receives the indirect cost funding to support this research.

### ***Advantages:***

- A more efficient system is achieved, where funding for the indirect costs of research are awarded to the institution undertaking the research.
- Collaboration between research organisations would be encouraged, not impeded, improving research outcomes and impact.