University of Auckland Submission to the Ministry of Education on Proposed Changes to the External Research Income Component of the PBRF

Introduction and Summary

The University of Auckland thanks the Ministry of Education for this opportunity to comment on the proposed changes to the External Research Income (ERI) component of the PBRF and welcomes this consultation. This submission is made on behalf of the management of the University of Auckland, as we have not had time to consult widely within the University on the proposed changes. A summary of our comments is as follows:

- We welcome and support the Ministry’s proposal to increase the ERI component of the PBRF from 15% to 20% of the fund.
  - This change demonstrates that the Government places value on research that is of relevance to end users and research funders, but it does not necessarily signal that research which requires little funding or is in areas where end users have little capacity to fund research is valued.
  - This change may encourage Tertiary Education Organisations (TEOs) to further support and incentivise researchers to seek ERI, alongside the very significant incentive which is the ERI itself.
  - The main risks are that the change reduces the recognition given to research which may be of excellent quality but is in areas where little funding is required or available, and that the distribution of a slightly larger proportion of PBRF funding will be heavily influenced by the discipline mix of the participating TEOs.

- We note that a decision has been made to place a weighting of 2 on ERI from NZ non-government sources, and a weighting of 1.5 on ERI from international sources.
  - The Government should consider weighting international funding equally with funding from NZ non-government sources, in recognition that international funding is direct foreign investment in the New Zealand economy; that obtaining this funding requires considerable effort; and that it can be the best source of funding for some research.
  - We question whether this proposal is intended to encourage TEOs to seek funding from domestic charitable sources, and/or whether it is intended to partially compensate for the lack of overheads that usually accompany charitable funding.
  - The definitions related to these changes will need to be drafted in very close consultation with the sector, as small changes in the definitions could significantly increase compliance and audit costs. For example, our systems are currently unable to reliably tell us the original source of all of our research funding. However, before this change and the associated compliance costs are introduced, the Ministry should undertake modelling to determine the extent to which the change will actually alter the distribution of PBRF funding.
Increase in ERI Component to 20%

The University of Auckland welcomes and supports the Ministry’s proposal to increase the ERI component of the PBRF from 15% to 20% of the fund. We note that the intention is to encourage institutions to undertake research that is of relevance to end users, presumably with an aim to increase the impact of research and the cross-over of research findings into practice. We offer the following responses to the questions included in your letter.

1. *In your view, will increasing the proportion of PBRF income allocated based on External Research Income better value user-perspectives of research quality?*

The proposed additional weight to be placed on ERI demonstrates that the Government places value on research that is of relevance to end users and research funders. It is not clear that the changes place weight on the perspectives of end-users in relation to the *quality* of research undertaken. It is also not clear that this change places more value on end-user perspectives in cases and subject areas where research requires or attracts little funding but may have a significant social, economic or environmental impact. In addition, some end users may have a greater capacity to fund research than others.

2. *Will the proposed change encourage tertiary education organisations to more actively seek out additional research income, and to what extent?*

Our calculations suggest that tertiary education organisations (TEOs) receive approximately 11c from the PBRF for every dollar of ERI earned. If the ERI component of the PBRF is increased, we would expect this amount to increase commensurately. This will therefore provide a very small added weight to the existing incentives for TEOs to seek ERI, alongside the very substantial incentive which is the ERI itself. Although the additional weighting is unlikely in itself to be sufficient to change behaviour of individual researchers, the change may encourage TEOs to further support and incentivise researchers to seek ERI. For instance, the University of Auckland uses PBRF revenue to deliver a range of internal research funding initiatives, including Thematic Research Initiatives, which are aimed at increasing collaboration between researchers and building research capability in areas where sources of ERI are available; and the Strategic Research Initiatives Fund which provides funding for research centres or initiatives in areas of strategic relevance to the University, often in areas with potential to grow ERI.

3. *What do you see as the potential benefits and risks associated with increasing the proportion of PBRF funding allocated based on External Research Income, and decreasing the proportion of funding allocated through the Quality Evaluation?*

The potential benefits of increasing the proportion of PBRF funding based on ERI will be to increase the incentive for TEOs to encourage their researchers to seek ERI. The main risk is that this reduces the recognition given to research which may be of excellent quality, as perceived by both the research community and end-users, but is in areas where little funding is required or opportunities for funding are limited. For the same reason, this will also mean that the distribution of a slightly larger proportion of PBRF funding will be heavily influenced by the discipline mix of the participating TEOs.
New Financial Weightings for ERI from non-NZ Government Sources

We note that the decisions made following the 2013 consultation on the PBRF included a decision to introduce the following new financial weightings:

- A weighting of 2 on ERI from NZ non-government sources
- A weighting of 1.5 on ERI from international sources.

We question why the proposed weighting to be placed on ERI from international sources should be lower than the weighting to be placed on ERI from NZ non-government sources. The Cabinet Paper suggests that the weighting of 2 on ERI from NZ non-government sources recognises the additional effort required by TEOs to engage with end users and seek out research funding from such sources in New Zealand. We point out that engaging with international funders also requires significant effort and that success in obtaining international research funding means direct foreign investment in New Zealand. International funding can be the best source of funding for areas of particularly high research quality, for particularly expensive research, and for research in the high-tech sectors that have considerable potential to grow the New Zealand economy. However, obtaining this funding requires considerable effort on the part of the researcher and the TEO. We would encourage consideration of weighting ERI from international sources equally with that of NZ non-government sources.

We also note that domestic charitable funding will be given a weighting of 2 under this proposal. Domestic charitable funding is not usually accompanied by overheads, and therefore comes at a significant cost to TEOs. We question whether this proposal is intended to encourage TEOs to seek funding from these sources, and/or whether it is intended to partially compensate for the lack of overheads that accompany charitable funding. In any case, we consider that the additional weighting will not be sufficient to compensate the TEOs for the costs of accepting research funding that covers substantially less than full costs, and thus will provide little incentive for TEOs to pursue additional funding from these sources.

We are particularly concerned about how the definitions will be drafted to introduce the new financial weightings and that the definitions will need to be overly complex. We are also concerned that the compliance and audit costs associated with this proposal will be very high. We therefore request that if these changes are to be introduced, the definitions are drafted in close consultation with the sector, as small changes in the definitions may have significant impacts on the compliance costs.

Universities already report ERI by source to Statistics NZ as part of the Research and Development Survey, and we strongly suggest that the Ministry undertakes modelling based on this data to determine the extent to which the proposal will actually change the distribution of PBRF funding across institutions before adding significant compliance costs.

In the PBRF factsheet document, it is not clear whether it is the origin of the funding which determines whether funding is from a non-government source, or the agency/organisation/company which is billed that determines the source. Our systems would enable us to identify the agency being billed for the research funding, but not always the origin of the funds and a significant amount of retrospective work may be needed if we are to be able to reliably identify the original source of all
research funding. The following types of examples will need to be worked through in terms of whether they qualify as funding from government or non-government sources:

- Subcontracts from another TEO or Crown Research Institute (CRI) which are funded by a public good grant;
- Funding from industry which involves a Government subsidy through a Callaghan Innovation Business R&D Grant, or funding which involves contributions from both MBIE and industry partners, eg, the Materials Accelerator hosted at the University of Auckland has involved substantial contributions from both Government and industry;
- Funding from a Government agency where that agency is acting as a client in commissioning research, eg, the Ministry of Education funds a lot of contract research to support its programmes through the University’s Faculty of Education.
- Funding from State Owned Enterprises, Crown Research Institutes, District Health Boards, and local government organisations. For example, the University’s National Institute for Health Innovation (NIHI) receives funding for its programmes from an IT board which is funded by a District Health Board, which in turn is funded by the Government. However, the University considers the contract to be of a commercial nature.

We also note that the proposed changes are likely to increase the unpredictability in the level of funding to be received by each TEO in each year, and the implications of this will need to be carefully considered by TEOs.

We look forward to continuing to work with the Ministry as the changes to the PBRF are further developed and introduced.