Innovative Research Universities

Why the transition to new accounting standards should have no effect on research income in the higher education research data collection

IRU response to the Consultation Paper

1. Maintaining a future focused research block grant distribution

The changes to national accounting standards and adoption of AASB 15 and AASB 9 for the purposes of R&D income will provide a better base for presenting the annual financial position of universities. In particular, it will reflect better where the receipt of significant funds intended to be spent over future years can appear to create a significant annual surplus.

The question is whether those accounting changes need to alter the data sets for the Higher Education Research Data Collection (HERDC) that drive the allocation of research block grants (RBGs).

The policy objectives of the RBG are different to those of the accounting standards. The RBG is designed to support universities for current and future research, with the majority distributed in proportion to relative success in attracting research income.

A policy driver for RGB should be to use the most recent and relevant data set. Using research income in the year it is to be used rather than year it was received would subtlety shift the allocation towards past performance on winning competitive research grants and contracts. Whereas the current allocation mechanism uses the two most recent years grant allocations, any change to use the accounting standards approach would mean an allocation would reflect funds won over a period of several past years.

In short, the current approach has a shorter time lag between when research grants and contracts are won, and when that is recognised via RBG. This helps incentivise universities to seek out additional research contract income.

Hence, the IRU recommends maintaining the current standard for HERDC research income as input into RBG (Option 3 of Q1).

2. The problem of adapting the accrual accounting for HERDC

The following section addresses the problems, many raised in the Consultation Paper, of following through the assumption that that the accounting standards changes should flow through to the HERDC.

The technical difficulties of adopting the AASB 15 and AASB 9 for R&D income will vary by institution both for retrospective income (Q3 and Q4 of the Consultation Paper) and future income (Q5 to Q12), but the impacts of the changes can be minimised by simply not changing the basis on which HERDC is collected for RBG purposes (i.e. Option 3 of Q1). The remainder of this submission will outline the broader problems if the new accounting standards for HERDC were adopted for RBG purposes (Options 1 and 2 of Q1).

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Problem 1. Greater uncertainty in RBG during transitional period

Shifting to accrual reporting of HERDC income for RBG purposes will create uncertainty during the initial transitional period due to the reduced quantum of reported income. This uncertainty is particularly undesirable given the recent changes in RBG formulae are still in transition and operating with a safety net.

The current practice uses HERDC income ‘received’ from the two most recent years as inputs to RBG, irrespective of if the income has been ‘earned’ yet. If RBG for 2020 is determined based on accrual HERDC income ‘earned’ in 2018 and 2019, the quantum of reported income for these two years will be considerably less than in previous and future years. HERDC income earned in 2018 and 2019, but ‘received’ and reported in previous years (on a cash basis), will be excluded from RBG calculations unless such income is double counted by including it in two years of reporting. To have a reduced quantum of HERDC income during this transitional period increases uncertainty and would raise distractions about research income appearing to decline.

Problem 2. Greater time lag in RBG

The proposes changes will increase the time lag between when research grants and contracts are won, and when universities are rewarded via RBG. RGB should use the most recent and relevant data set for supporting university research.

Problem 3. Reduced incentives to procure research income

Cash based reporting of HERDC for RBG purposes has important signaling effects and provides immediate incentives to increase research income. While accrual reporting of HERDC would more closely tie RBG to supporting current research, cash based reporting rewards universities when grants and contracts are ‘won’. This more directly incentivises universities to procure research income, particularly from industry, government and other Category 2-4 sources where the quantum of available funding is unrestricted.

Problem 4. Diverting staff resources away from supporting research

The proposes changes will require considerable staffing resources to be dedicated to determining when contract research performance obligations are satisfied and taking on contract/income management methods. This will divert staff away from supporting research and increasing research income. The greater complexity and time required could have a disproportionate effect on Category 2-4 income, where external organisations expect expediency.

Problem 5. Distraction and inconsistency across universities

Cash based reporting for multi-year projects is simple and cannot be manipulated to impact RBG, improving reliability of reporting across universities. While the resourcing impact of the changes would be less if universities were able to choose their preferred input or output method (Q10 of the Consultation Paper), it would raise the potential for strategic use of income reporting or ‘gaming’ HERDC reporting for RBG purposes.

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