

5 February 2016

Budget Policy Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Treasurer

The Coalition Government has built unprecedented momentum behind a smart, innovative Australia that can compete on the global stage. Now, more than ever, Australia will be reliant on high quality research and entrepreneurship to create new knowledge-intensive industries that will deliver jobs and growth. This is the path by which we will compete with the low labour costs of our Asian neighbours, transition our economy post-mining boom, and overcome the negative pressures of an ageing population on labour participation and productivity rates.

The 2016-17 Federal Budget provides a critical opportunity to capitalise on the foundations of the Government's National Innovation and Science Agenda to implement a comprehensive, long-term innovation platform that underpins the nation's future prosperity.

**1. A central plank in the Government's innovation agenda is the \$20 billion Medical Research Future Fund (MRFF).**

This smart, long-term policy to create a sovereign fund for health and medical innovation will support a world-class health and medical research system to drive continuous evidenced-based improvement in the quality and efficiency of our healthcare system, as well as underpinning a growing and vibrant biotechnology industry.

The MRFF is estimated to return on average \$3.40 for every dollar expended on health and medical research.<sup>1</sup> These returns will come in the form of health savings from more effective healthcare and a healthier community, a reduction in the burden of premature mortality and morbidity on productivity, commercial returns from medical innovations, and other health and productivity gains resulting from improved health outcomes.

With medical research grant success rates at an historic low, it is essential that MRFF disbursements commence urgently and grow steadily over the next five years if we are to prevent a brain-drain of Australian medical researchers and intellectual property to foreign shores.

**WE URGE THE GOVERNMENT TO REMAIN FIRM ON ITS COMMITMENT TO BUILD THE MRFF TO \$20 BILLION BY 2019-20.**

---

<sup>1</sup> Deloitte Access Economics (2014) *Extrapolated returns from investment in medical research future fund (MRFF)*, prepared for the Australian Society of Medical Research, Sydney. Available at: [http://aamri.org.au/wp-content/uploads/2014/11/ASMR-Deloitte-Report\\_MRFF.pdf](http://aamri.org.au/wp-content/uploads/2014/11/ASMR-Deloitte-Report_MRFF.pdf).

## **2. We commend the Government on reforms to Research Block Grant funding for university research, but urge that these reforms be extended to all parts of the research sector.**

Independent medical research institutes (MRIs) are a crucial part of the medical research sector, along with universities and hospitals. By all available measures of impact and success, Australia's MRIs are the 'jewel in the crown' of Australia's health and medical research sector.<sup>2</sup> Through strong links with health service providers and policy makers, MRIs provide an interface between research excellence and healthcare delivery, bringing research from bench to bedside. The approximately 50 independent MRIs in Australia have a collective annual turnover of more than \$1 billion, employ more than 10,000 staff and students (including ~1,600 Higher Degree Research students), and obtain a third of National Health and Medical Research Council (NHMRC) funding.

However, independent MRIs and hospitals are not eligible for Commonwealth Government Research Block Grant funding, and, unlike universities, do not receive Government funding to reward research excellence, industry engagement, or the diversification of their research income from other sources. This discrepant treatment of MRIs and hospitals by the Commonwealth Government puts the most productive part of the medical research sector at a competitive disadvantage. The absence of competitive neutrality also impedes collaboration between different parts of the sector.

**We urge the Government to act on the recommendation of the *Review of Research Policy and Funding Arrangements - Higher Education* (the Watt Review) to “RESOLVE THE CURRENT COMPLEX AND SEEMINGLY INEQUITABLE INDIRECT COST SUPPORT ARRANGEMENTS TO DETERMINE HOW TO ACHIEVE A LEVEL PLAYING FIELD FOR RESEARCHERS THAT IS INDEPENDENT OF THEIR HOST INSTITUTION”.**

On top of this *inequity* in funding, the *insufficient* funding for the indirect costs of research associated with Commonwealth research grants is arguably the biggest threat to the efficiency, sustainability and outcomes of research in Australia.

These 'indirect' research costs (i.e. those costs not directly attributable to an individual research project but which none-the-less are necessary for a research project to take place, e.g. water/electricity, lab equipment, IT costs, etc.) are conservatively estimated at 60 cents per dollar of a research grant. Best practice countries such as the UK and USA provide close to full economic costing in relation to government research grants. Currently the Australian Government provides universities with around half of the indirect costs related to Commonwealth Government grants, MRIs with around a third of the costs, and hospital-based researchers with no indirect cost funding.

Importantly, the injection of \$1 billion in annual funding from the MRFF by 2020 will create an additional \$600 million in indirect research costs associated with these grants that universities, MRIs and hospitals will need to meet.

**IT IS CRUCIAL THAT THE GOVERNMENT SETS IN PLACE A PLAN TO FULLY FUND THE INDIRECT COSTS OF RESEARCH PRIOR TO THE COMPLETE ROLL OUT OF THE MRFF IF IT IS NOT TO CRIPPLE THE VERY SECTOR IT IS AIMING TO BOLSTER.**

---

<sup>2</sup> See metrics in AAMRI's submission to the Review to Strengthen Independent Medical Research Institutes, available at [http://aamri.org.au/wp-content/uploads/2014/12/141207\\_MRI-Review\\_AAMRI-submission.pdf](http://aamri.org.au/wp-content/uploads/2014/12/141207_MRI-Review_AAMRI-submission.pdf).

### **3. We urge the Government to cut the red tape that prevents some of Australia's best scientists from obtaining Commonwealth Government support for fundamental research.**

Over the past twenty years, many of the world's most important discoveries have come from research that crosses traditional discipline boundaries. In medical research, it is crucial to have the input of not just biologists and clinicians, but also mathematicians, computer scientists, physicists, chemists and social scientists.

Core funding for these non-medical disciplines comes from the Australian Research Council (ARC) rather than the NHMRC, and maximising cross-disciplinary research requires funding from both bodies. **However, because of arcane rules, ARC funding is not available to mathematicians, computer scientists, chemists and physicists in MRIs or hospitals.** This compromises the outcomes of Government-funded research and is clearly not in the best interests of Australia.

**WE CALL FOR ARC FUNDING TO BE OPEN TO RESEARCHERS AT MRIs AND HOSPITALS, SO THAT GOVERNMENT FUNDING IS ALLOCATED BASED ON MERIT TO THE COUNTRY'S BEST RESEARCHERS.**

### **4. Tax reforms impacting medical research institutes**

Through their central focus on medical research, MRIs play a crucial role in the future wellbeing of Australian society, providing advances in disease prevention, diagnosis and treatments, and safeguarding the community from future health risks. As Deductible Gift Recipients (DGRs), MRIs attract more than \$160 million in donations and bequests to health and medical research each year.

Independent MRIs are either Health Promotion Charities (HPCs) or Public Benevolent Institutions (PBIs), and as such, their employees are able to access fringe benefits tax (FBT) exemptions, including a \$30,000 (grossed up) FBT exemption for general living expenses and an uncapped FBT exemption for meal/entertainment/venue hire/accommodation expenses. This allows employees to spend some of their salary pre-tax, increasing their net income.

The purpose of these FBT exemptions is to enable charities to offer staff more competitive wages. MRIs are particularly reliant on these exemptions to compete with universities and the private sector, which receive income streams not available to MRIs, to attract highly-skilled researchers and support staff. MRIs must also compete with international not-for-profit research organisations to prevent a brain-drain of Australia's best researchers overseas.

From April 2016, a new annual (grossed up) cap of \$5,000 (equivalent to \$2,550 in expenses) per employee will be applied to the FBT exemption for meal/entertainment/venue hire/accommodation expenses. AAMRI supports the integrity and transparency that this FBT cap will bring. However, on average, MRI employees currently claim 3-4 times this \$2,550 cap in annual eligible expenses. As such, the new cap will have a considerable impact in terms of net income loss for employees.

Compounding this issue is the eroding real value of the \$30,000 FBT exemption cap, which has not increased since its introduction in 2001. Had the \$30,000 cap been indexed with the Consumer Price Index (CPI) over the past 15 years, it would currently stand at \$44,000 per employee.

Given the reliance of the MRI sector on these tax benefits to offer competitive wages to staff, there is a significant risk that this erosion of benefits will render MRIs uncompetitive in attracting high calibre staff. Many MRIs simply do not have the finances to fill the gap left by the erosion of FBT exemptions and compete with university salaries for researchers and staff.

**WE STRONGLY ADVOCATE FOR FBT EXEMPTION CAPS TO BE INDEXED WITH CPI, INCLUDING A RETROSPECTIVE ADJUSTMENT FOR THE EROSION IN THE REAL VALUE OF CAPS OVER THE PAST 15 YEARS.**

We hope that you will consider these recommendations in ensuring the Government's investment in innovation delivers to the people of Australia.

Yours sincerely



**Professor Doug Hilton**  
President, AAMRI  
T 03 9345 2500  
president@aamri.org.au

### ABOUT AAMRI

**AAMRI is the peak body representing medical research institutes (MRIs) across Australia.** Our 45 member institutes are leaders in health and medical research, and collectively represent more than 10,000 staff and students and an annual turnover of more than \$1 billion. The vast majority of our members are independent MRIs, that is, mission-driven charities legally independent of a university or hospital, and co-located with a hospital or healthcare provider. The remainder are university- or hospital-based MRIs or an alliance of medical research partners with a demonstrable level of independence. Australia's MRIs work on the full range of human health issues, aiming to drive innovation in healthcare to improve the lives and livelihoods of people in Australia and world-wide.

