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Association of Australian
Medical Research Institutes

SENATE INQUIRY
**INVESTMENT FUNDS LEGISLATION
AMENDMENT BILL 2021**
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AAMRI submission to the Senate Standing Committee on Finance and Public Administration

Investment Funds Legislation Amendment Bill 2021

The Association of Australian Medical Research Institutes (AAMRI) is pleased to provide a submission on the Investment Funds Legislation Amendment Bill 2021. Our 58 member organisations, and their 20,000 staff and research students collectively undertake over one-third of all government funded medical research and are significant recipients of medical research funding from Medical Research Future Fund (MRFF) grants. This Bill seeks to amend various legislation relating to the management of funds by the Future Fund, including the Medical Research Future Fund Act 2015, which is the focus of this submission.

Summary of submission

1. AAMRI supports the Government's intention to change the MRFF's investment mandate to seek greater returns and therefore make additional funding available for medical research.
2. The maximum available funds for medical research, as specified in the Bill, should be subject to indexation.
3. A minimum amount of available funding should be specified, and this should be at least \$650 million per annum to ensure existing commitments in the forward estimates are met. This amount should be subject to indexation.
4. The requirement to protect the MRFF's initial \$20 billion endowment should be kept, and the Bill amended to remove the changes that see this requirement dropped.
5. Mechanisms should be put in place to ensure that funding provided to state and territory governments through the MRFF are directed to specific medical research projects and not used for other purposes.
6. The proposed changes to the length of the Strategy and Priorities, to 6-years and 3-years respectively, should be supported.

Background

The Medical Research Future Fund (MRFF) is one of two the Australian Government's primary funding vehicles for medical research, the other being the National Health and Medical Research Council. The MRFF is relatively new, and it is only recently that it has reached the stage of making significant new investments in medical research. This visionary new investment in medical research has the potential to transform health care and patient outcomes by enabling the rapid development of new research solutions to the health problems facing the nation.

The Government has endowed the MRFF with \$20 billion in initial capital and the investment returns from this are used to fund medical research. When the Fund was announced at the 2013-14 Budget it was anticipated that once fully capitalised about \$1 billion per annum would be available for new investment in medical research. The low-interest environment that has emerged since then has meant investment returns have been lower.

The proposed legislation and change in investment mandate seek to deliver greater investment returns, and therefore increased funding for medical research. The legislation also seeks to make amendments to change the length of the MRFF's guiding strategy and priorities, allow state and territory governments to receive grants, and to change how the maximum funds available is set.

Scope of response

AAMRI would like to provide comment on four areas of the Bill relating to amendments to the *Medical Research Future Fund Act 2015*.

1. New investment mandate for the MRFF
2. Limitation on total annual debits from the MRFF Special Account
3. Removal of the provision to protect the MRFF's initial \$20 billion endowment.
4. Expansion of eligible entities to receive MRFF grants – state and territory governments
5. Extension of duration of the Australian Medical Research and Innovation Strategy and Priorities

New investment mandate for the MRFF

It is understood from the explanatory memorandum that following the commencement of the legislation, the responsible minister intends to issue a new investment mandate for the MRFF.¹ This will allow the Future Fund Board to pursue a higher average annual benchmark rate of return for the MRFF. Over time this should increase the amount of funds available for medical research.

AAMRI supports this policy and believes that the fund is currently too conservatively invested and that greater returns would over the long-term bring about enhanced investment in medical research. This will deliver increased health and economic benefits for the nation. It is recognised that investing the MRFF in assets that will deliver higher returns does entail taking on increased risk, and there will be greater volatility in returns between years. However, over the long-term it is anticipated that returns will be higher and that this increase in volatility can be managed between years.

- 1. AAMRI supports the Government's intention to change the MRFF's investment mandate to seek greater returns and make additional funding available for medical research.**

Limitation on total annual debits from the MRFF Special Account

In section 9 the Bill removes the responsibility to set the maximum funds available for medical research from the Future Fund Board, and instead sets the maximum at \$650 million. This amount is fixed but can be increased by the responsible Ministers through a legislative instrument.

To ensure the funds available for medical research at least keep up with inflation the Bill should be amended to provide an annual indexation for funds available for medical research. Without such an indexation the value of support provided through the MRFF will erode each year.

The Bill should also include a minimum amount of funding to be provided for medical research. There is currently no legal requirement for investment returns to be spent each year on medical research, and as the Act is being amended the opportunity should be taken to change this. Having a minimum amount available would provide greater certainty and confidence that the MRFF will be investing in medical research at a set level irrespective of the cyclical nature of the MRFF investment returns. This minimum amount should be set at least \$650 million per annum to ensure existing commitments in the forward estimates are met.

- 2. The maximum available funds for medical research, as specified in the Bill, should be subject to indexation.**
- 3. A minimum amount of available funding should be specified, and this should be at least \$650 million per annum to ensure existing commitments in the forward estimates are met. This amount should be subject to indexation.**

Removal of the provision to protect the MRFF's initial \$20 billion endowment.

Section 10 of the Bill proposes to remove the legal provision to protect the MRFF's initial \$20 billion capital, allowing this capital to be spent down. This achieved in this section by the removal of Sections 16 & 34(4) of the Medical Research Future Fund Act (2015).

While it is clear this government does not intend to spend down the MRFF capital, AAMRI wants to ensure the MRFF is protected in perpetuity. This was the intention of the fund when it was established so that the MRFF would outlast all governments and provide a secure source of funding for new medical research for the nation.

If the Bill is passed the only action preventing a future government from excessively drawing down and eating into the \$20 billion endowment is a parliamentary disallowance motion. This protection is not strong enough and could allow the MRFF to be spent down. This would effectively end its ongoing usefulness with this undertaken without legislative change. The need to spend the initial capitalisation funds is not necessary in the current environment. Instead, when MRFF investment returns are ahead of expectations a buffer should be established and this funding be used when returns might fall below expectations. The need to protect the \$20 billion endowment should be take precedence over the proposed minimum spending commitment outlined in the previous section.

- 4. The requirement to protect the MRFF's initial \$20 billion endowment should be kept, and the Bill amended to remove the changes that see this requirement dropped.**

Expansion of eligible entities to receive MRFF grants – state and territory governments

Section 16 of the Bill expands the eligible entities to receive grants to include state and territory governments. AAMRI is supportive of this change and hopes that it will enable greater integration of research within the health system. It is notable that according to the AIHW state and territory governments expend over \$900 million annually on health and medical research.ⁱⁱ However, it is difficult to track where most of this investment is made and how effective it is. There is little in the way of reporting on the projects it supports, the outcomes it achieves, and whether any of this funding is instead being diverted to routine patient care rather than research.

- 5. Mechanisms should be put in place to ensure that funding provided to state and territory governments through the MRFF are directed to specific medical research projects and not used for other purposes.**

Extension of duration of the Australian Medical Research and Innovation Strategy and Priorities

The Australian Medical Research and Innovation Strategy sets the high-level direction of the fund, and the related Priorities sets the specific areas that the Minister should consider when making funding decisions.

Sections 36 and 37 of the Bill propose to extend and align the timing of the Strategy and Priorities to reduce ongoing consultation burden on the sector. At present the priorities are set for two years and the strategy for five years, and this has meant older priorities could have been in force when a new strategy had been set. This change means the period for the strategy and priorities will now better align. The Strategy will change to 6 years, and the Priorities to 3 years, with the existing priorities ended a year earlier to help them align.

6. The proposed changes to the length of the Strategy and Priorities, to 6-years and 3-years respectively, should be supported.

ⁱ Explanatory Memorandum, Investment Funds Legislation Amendment Bill 2021, p.4

ⁱⁱ AIHW (2020) Health Expenditure Australia 2018-19. Available at: <https://www.aihw.gov.au/reports/health-welfare-expenditure/health-expenditure-australia-2018-19/contents/data-visualisation>