

CSIRO's Budget Riches Are Fool's Gold

Max Whitten says the figures don't add up for CSIRO.

There seems to be a degree of enthusiasm in senior quarters of CSIRO about the outcome of the Federal Budget (*AS*, June 2004, pp.41–42). All things are relative: the Budget was welcome news among those thinking that CSIRO's appropriation would be fully withdrawn. And if they also thought that the \$20 million allocated to Flagships in 2003–04 was just a one-off, they would be delighted by the Budget's continued funding of Flagships.

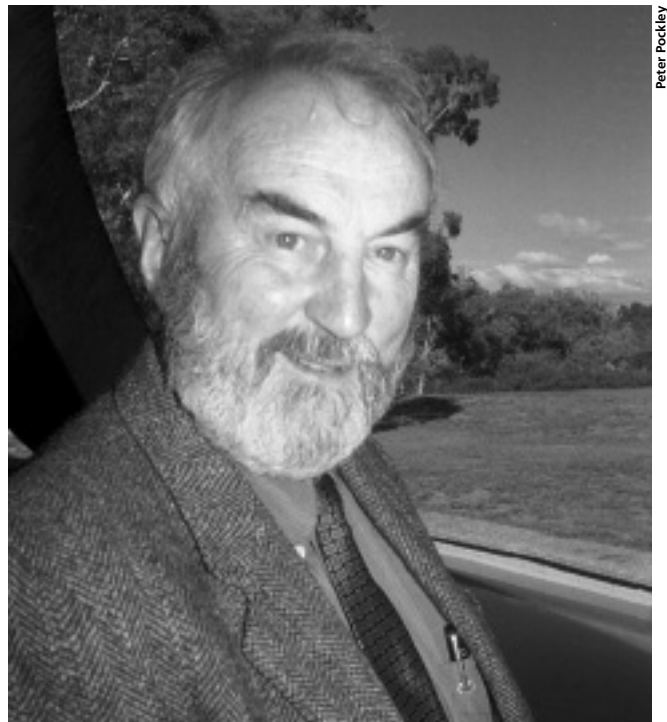
But if anyone is seriously looking at the impact of the Budget on the capacity of any of CSIRO's 20 Divisions to conduct research – especially outside the Flagships – then I don't see the grounds for rejoicing. I wonder if any research managers inside CSIRO with an economics background have analysed the Budget objectively and assessed its true implications.

Bureaucrats in Canberra had warned privately that the government was not going to put new money into R&D, but that all the packaging would be presented to create that illusion. A good example was Backing Australia's Ability 2 (BAA2), which did not increase overall funding but took in programs that were previously outside BAA1 (e.g. Flagships) at the expense of activities such as the Cooperative Research Centres (CRC).

I would be really pleased if a counter-argument can be put to the following observations, some of which are made in relation to Figure 1.

First, a return to triennium funding is in itself a good thing but it only restores something that was dropped at CSIRO's request 2 years ago. While it provides a measure of certainty, it should not be compared with the notion that annual appropriations are uncertain or may even be terminated fully. What really counts is variation on the margins. Annual appropriations traditionally start with the previous year's base appropriation and then add or subtract according to the various issues on the table.

With the new triennium, the core appropriation is projected to increase from the current year over the triennium by only 1.6% in 2004–05 (to \$547 million), by 1.5% in 2005–06 (to \$555 million) and by 1.5% in 2006–07 (to \$564 million). These increases are less than inflation. When



Peter Pockley

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Is CSIRO able to go back to the Department of Education, Science and Training (DEST) within the triennium to correct this using a standard negotiated deflator? Such annual negotiations are still needed and are critical to a fair deal for CSIRO.

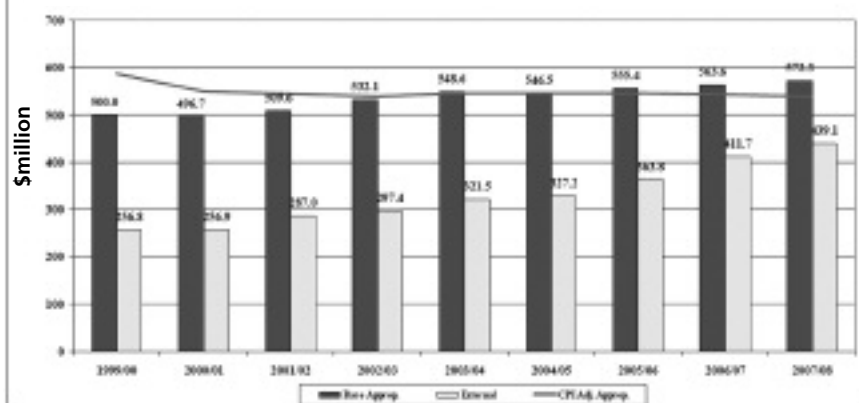
CSIRO's six Flagships are being carved out of its 20 Divisions and will come to dominate the organisation. Last year, CSIRO secured a non-recurrent allocation of \$20 million for Flagships. Given that the Flagships were not a 1-year phenomenon, one would assume that much of the \$20 million was allocated to functions such as recruiting staff that require a commitment beyond 1 year. Thus a failure to provide further funding of not less than \$20 million would have spelt disaster for CSIRO.

The reality is that CSIRO has secured an additional \$10 million, rising to \$15 million and \$20 million, for each year of the triennium. This is a positive outcome for Flagships.

However, a careful reading of the conditions for Flagships funding indicates that secure funding for Flagships is only \$105 million. The remaining \$200 million (for the out-years 2007–11) is subject to review. Presumably, this will have to happen in the second year, when negotiations for the next triennium take place. Bear in mind that the Review of Collaboration between Universities and Public Research Agencies, chaired by Donald McGauchie, has already argued that CSIRO's funding enjoys a security that is not optimal.

Some other conditions for Flagships funding should really be worrying. Investing \$400 million over the coming 4 years

Figure 1. CSIRO revenue 1999–00 to 2007–08. Source: CSIRO



by transferring funds from CSIRO's base appropriation will be difficult to achieve without rebadging existing projects, and will have a devastating effect on core activities such as the Australian National Insect Collection, the Stored Grain Research Laboratory and the National Herbarium.

A further worrying condition for continued Flagship funding is the need to raise external revenue by 11.1%, 13.1% and 6.7% over this triennium. To date, CSIRO has achieved 3.6%, 8.1% and 1.8% increases under its Chief Executive, Dr Geoff Garrett. External funds are usually not recurrent, and certainly not recurrent in the long-term. So, maintaining external earnings at a high level is a very big challenge. The notification of a Flagship review after expenditure of \$105 million is no accident; the roadblock is well and truly in place and conditions for its removal are substantial.

And now to one serious sleeper with the Flagships. Some 15% of Flagship

funding (i.e. around \$40 million) appears as if it has to be allocated to universities on a competitive basis for collaboration. Some have labelled this a "Clayton's CRC program". Does this mean that, of the \$10 million for Flagships in 2004–05, some \$4.5 million won't even go to CSIRO? If so, that leaves around \$5.5 million funding for six Flagships in 2003–04 – less than 1% of CSIRO's budget.

The main increase in funding for the Flagships will therefore come by way of reallocating its base appropriation funding from the Divisions to Flagships. On my estimation some \$40 million will have to be transferred recurrently for each of the next 4 years to meet the \$400 million redirection articulated by Garrett recently. How much of that will come from activities that are not research activities, such as the \$41 million per annum now allocated to commercial activities in CSIRO? My estimation is little or none!

For all its troubles, CSIRO has now copped the principle of contestability of its funding base. Garrett doesn't seem to realise this shift in policy to implement a key finding of the McGauchie review – or he is conveniently ignoring it when he so quickly publishes his positive reaction to the Budget outcome.

There will also be looming PR issues for CSIRO over Flagship funding. The significant reduction in the CRC program budget will be seen by many as a direct consequence of CSIRO's Flagships, even to the extent of establishing a "Clayton's CRC" around the Flagship program.

For every winner in BAA2 there is a loser. All the new activities now included in BAA2 have been at the expense of existing activities.

Finance and Treasury, at the direction of the Prime Minister and Cabinet, saw to it that there would be no new money in R&D. John Howard's men have concluded that there are no votes in R&D. So, it was left to the spin doctors in the ministries and departments of Science and Industry to make it look good.

Remember that the media adviser overseeing DEST for Cabinet Science Minister, Dr Brendan Nelson, is Ross Hampton, who spun tales about "children overboard" while he was media officer for Defence Minister, Peter Reith.

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