



THE UNIVERSITY OF  
**SYDNEY**

**Duncan Ivison**  
Deputy Vice-Chancellor (Research)

17 October 2018

Mr David Learmonth  
Deputy Secretary  
Higher Education, Research and International  
Commonwealth Department of Education and Training

By email: [RBGrants@education.gov.au](mailto:RBGrants@education.gov.au); [david.learmonth@education.gov.au](mailto:david.learmonth@education.gov.au)

Dear Mr Learmonth,

**Transition to new accounting standards, effect on research income higher education research data collection requirements, consultation paper – released September 2018**

The University of Sydney welcomes the Department's proactive and early efforts to consult with higher education providers about the possible implications of the new accounting standards for reporting under the annual Higher Education Research Data Collection (HERDC) process. We are pleased to provide our attached detailed response to the Department's consultation paper released in September 2018 and provide some high-level feedback below.

After considering the issues carefully our assessment is that implementing the new revenue standard – AASB 15 – from 1 January 2019 for the reporting of research income under the HERDC would be highly likely to impact materially the total research income reported by providers. Our analysis suggests that the application of the new standard for HERDC research income would lead to a general reduction in research income reported by the sector. Moreover, the changes in research income reported by different providers would be likely to vary considerably depending on their research income and activity profiles.

We anticipate, for example, that the negative impact on reportable research income could be felt the most by smaller providers whose research scholarship and stipend revenues currently represent a larger proportion of their research income reported through the HERDC. As the Department is aware, under the accounting standards, many categories of research scholarships will no longer be accounted for as research revenue received by the provider. Adding to our general concern about the potential impacts for the funding allocations made to some providers under the *Research Support Program* (RSP) and *Research Training Program* (RTP), is the fact that shifting to AASB 15-consistent HERDC research income reporting could coincide with the cessation of the RSP and RTP transition arrangements from the 2021 funding year.

Research Portfolio  
Level 4  
F23 Administration Building  
The University of Sydney  
NSW 2006 Australia

T +61 2 8627 8150  
E [duncan.ivison@sydney.edu.au](mailto:duncan.ivison@sydney.edu.au)  
[sydney.edu.au](http://sydney.edu.au)

ABN 15 211 513 464  
CRICOS 00026A



Adjusting the HERDC return requirements from 2020 to align directly with the new revenue standard could introduce significant and potentially inequitable shifts in the distribution of research block grant allocations across the sector, without the protection provided by the funding 'safety nets' that have been applied during the transition to the RSP and RTP. Continuing the existing requirements for the compilation of the HERDC R&D income returns would be the least disruptive and burdensome approach for providers, at least in the short-term. The quantum and mix of research revenue reported across the sector would remain consistent and continue to result in a relatively stable and equitable distribution of research block grant funding.

While we see advantage in transitioning longer-term to an approach to HERDC research income reporting that is in keeping with the new AASB revenue standards, this should not occur until there is some experience with the new reporting standards and until the sector is broadly comfortable with the way changes in reported HERDC data would translate to shifts in the distribution of allocations from the RSP and RTP funding pools. Further consultation and analysis should occur with the sector after the commencement of the new accounting standards from 1 January 2019.

For these reasons we support the retention of the data collection process set out in the draft HERDC Guidelines also released recently for comment – at least for a reasonable transition period to be agreed between the Department and the sector. We also strongly endorse Universities Australia's recommendation that the Department bring together a working group of research management and finance experts from across the sector, representing a variety of universities, along with the Department's experts. The group should be charged with analysing implications for individual universities under different implementation options, and with identifying how the change in accounting standards could affect the balance of research block grant distributions. This will allow better decision-making on transition options and the timing of the introduction of any significant changes to the HERDC reporting requirements.

Yours sincerely,

(signature removed)

Laurent Rivory,  
Pro Vice-Chancellor (Research)  
Acting Deputy Vice-Chancellor (Research)

**Attachment** University of Sydney response to: *Transition to new accounting standards, effect on research income higher education research data collection requirements*, consultation paper – released by the Department of Education and Training, September 2018

**University of Sydney response to: *Transition to new accounting standards, effect on research income higher education research data collection requirements, consultation paper* – released by the Department of Education and Training in September 2018**

---

**Question 1: Please indicate your preference:**

- Option 1: Adopt AASB 15 and AASB 9 for 2019 R&D income onwards and reconcile existing contracts
- Option 2: Adopt AASB 15 and AASB 9 for all new grants commencing from 1 January 2019 onwards, and keep the reporting of R&D income from existing contracts on their current basis
- Option 3: Maintain current arrangements, where HEPS determine the basis of accounting for HERDC returns
- None of the above. If so, please outline your alternative proposal.

Options 1 and 2 in the form suggested above conflate the requirement to implement the revised accounting standards with the requirement to file the HERDC R&D income return.

All HEPs (except for those that have already-adopted the new standards) are required to adopt AASB 9 with effect from 1 January 2018. The impact of adoption of AASB 9 on R&D income is expected to be largely immaterial.

HEPs are required to adopt AASB 15 with effect from 1 January 2019. While it is very difficult to estimate the impact of adopting AASB15, we expect it will have a material negative impact on the reported income statements of some HEPs for 2019 and future years.

We are concerned that:

- adoption of the new revenue standard is highly likely to result in differential reported revenue impacts across the sector;
- all HEPS have a choice to choose either the modified retrospective or full retrospective implementation method (which may drive differences in reported revenue); and
- there is currently considerable uncertainty created by other differential impacts on reported revenues while cash receipts for R&D income are expected to be maintained.

As a result, the reported revenues of HEPs for the 2019 year in their annual reports will be likely to reflect a significant discontinuity in comparison to prior years. We therefore feel that the accrual basis of reporting required by AASB 15 is not an appropriate basis for completion of HERDC R&D income returns until careful analysis has been conducted on the likely impacts. In advance of such analysis, we strongly recommend the alternative proposal outlined below.

The proposal assumes that all HEPs will have adopted the requirements of AASB 15 as of 1 January 2019 and that as a result, their reported income statements will have been prepared on an accrual basis, which is likely to reflect a significant discontinuity in comparison to prior accounting periods.

**We propose that the general requirements for the submission of the 2019 HERDC R&D income return in 2020 not be changed materially from those that will apply to the 2018 R&D income return submitted in 2019 (for which draft specifications were released in September 2018).**

This proposal will allow HEPs to report HERDC R&D income under the same cash accounting methodology that has operated for the past many years. At the same time, HEPs will be required to prepare their statutory financial reports in compliance with AASB 15. This will maintain the consistency of R&D income returns and ensure that there is no inequitable discontinuity affecting the current system of allocation of Research Block Grants resulting from the annual submission of the R&D income data through the HERDC. This will also continue to allow HEPs to report cash scholarships and stipends as HERDC reportable income.

We note that the 2019 Draft Specifications for the collection of 2018 data includes at paragraph 4.1 a proposal that “HEPs must notify the department if they intend to change the basis for reporting HERDC R&D income (i.e. change from accrual to cash reporting or vice versa) prior to submitting the HERDC R&D income return (**section 1.5**).” This requirement is redundant in 2019 for 2018 data because HEPs are required to continue to report their income for statutory purposes largely on a cash basis for the 2018 year.

Simply put, if the Department accepts our proposal, HEPs will move to full accrual accounting when their statutory financial statements but will also continue to report on a cash basis for the purpose of completion of the HERDC R&D income return.

**Advantages of this proposal include:**

- Research Block Grants are intended to provide infrastructure support for research at institutions and income is used as a proxy for the volume of research and the consequent infrastructure requirement. The most appropriate measure of research activity is cash received for research.
- This approach of reporting addresses the risk of double counting of previously reported HERDC income as would be the case under AASB 15, for those unspent funds received in 2018 and earlier.
- Reporting under accrual accounting risks driving inappropriate spending to drive higher reported research income at the approach to year-end.
- It avoids potential volatility in the sector given that there are likely to be very different effects on research income levels across institutions and maintains the comparability across years of reported research income.
- The ARC and NHMRC currently require acquittal on a cash basis.

**Importance of including cash scholarships and stipends:**

- Many scholarships currently reported as R&D income for HERDC purposes may not be reportable under AASB 9, which fails to both recognise the importance of HDR students as drivers of research productivity and undermines the ability of institutions to drive industry engagement through industry funded scholarships.

**The disadvantage of this proposal is:**

- That HEPs will have to devise and implement systems that will allow them to be able to report on both an accrual basis to meet the needs of AASB 15 or on a cash basis to meet the continuing needs of the HERDC R&D income return.

**Question 2: Are there any issues with any of these options you wish to raise?**

We recommend the retention of the basis set out in the current draft Guidelines for the 2019 R&D income return for subsequent years. However, we acknowledge that at an appropriate time in the future there may be value in harmonising the requirements of the revenue standards and the

HERDC Guidelines for the R&D income return. This should not occur until the sector has gained a sufficient understanding of the impact the implementation of the new revenue standards will have on the individual providers that make up the sector. Developing that understanding and compiling the associated data could take (in our view) two to three years.

We therefore strongly support Universities Australia's recommendation that the Department bring together a working group of research management and finance experts from across the sector, representing a variety of HEPs, along with the Department's experts. The group should be charged with analysing implications for individual universities under different implementation options and with identifying how the change in accounting standards could affect the balance of research block grant distributions. This will allow better decision-making on transition options and reduce the potential impact of unintended consequences producing inequitable distributions of block grant income.

**Question 3: How many individual research grant agreements do you expect to be recoded if there was an immediate reconciliation of the new accounting standards from the previous basis?**

We currently have more than 6,000 research accounts that will need to be considered, reviewed and evaluated when completing our HERDC R&D income return, with up two thirds of these likely to be included in the return.

**Question 4: If possible, please quantify how much income would need to be recorded as a negative adjustment for the 2020 HERDC Return if these changes were adopted.**

The complexity of the standard makes it very difficult to accurately estimate the impact. However, we expect that if we were to report in accordance with AASB 15, 1058 and 9 for the 2020 HERDC Return, our reported R&D income could be impacted negatively by up to \$50 million for the 2019 reporting year compared to that reported in the prior return.

**Question 5: Are there any other technical issues for upfront grant payments that you wish to flag to the department if the HERDC Specifications required reconciliation to the new accounting standards?**

Following the implementation of AASB 15, all HEPs will be required to distinguish between revenue from research contracts under AASB 15 and receipts that take the form of financial liabilities under AASB 9.

This differential recognition will mean that reported revenue for the 2019 year may vary in comparison to that reported in the R&D income return for previous periods.

This change in reporting requirements and therefore reported revenue driven by the adoption of the new standard will not materially change the underlying cash receipts of R&D income that have been reported under the existing HERDC return guidelines. Therefore, we strongly recommend the approach outlined in our response to Question 1 for the preparation of the R&D income returns in 2020.

**Question 6: What technical barriers (if any) do you anticipate in implementing this separation of treatment approaches for scholarship income?**

The interaction of the various standards creates significant complexity and resulting uncertainty in respect to estimating the impact of the new revenue standard on reported revenue in comparison to that reported under prior standards.

It is because of this complexity and uncertainty that we strongly recommend that the basis for preparation of the R&D income return not be immediately adjusted for 2019 at least. We believe it is better to retain the options to elect the basis of accounting AND continue to include cash

scholarship/stipends rather than introducing artificial volatility into the HERDC returns arising from changes in reporting that could result in inequitable allocations of Research Block Grants to HEPs.

**Question 7: Are there any technical barriers to recoding existing grants from scholarship funding organisations that would fall under AASB 9 under the new arrangements?**

While we do expect that there will be technical difficulties in meeting the overly complex requirements of the new standards, the University is required to find a way to do so.

However, because the impact between universities across the sector will vary depending on their mixes of research income and activities, we strongly recommend that the basis for the recognition of R&D income reflect the alternative proposal outlined in Question 1.

**Question 8: Are there any issues you wish to raise in relation to issue 4? If so, please outline the issue.**

We do not foresee any material issues that arise because of the circumstances outlined.

**Question 9: Are there any issues you wish to raise in relation to issue 5? If so, please outline the issue.**

We do not foresee any material issues that arise because of the circumstances outlined.

**Question 10: Would you prefer:**

- i. The option of a HEP choosing either method (input or output) to recognise income?**
- ii. That the department to mandate a consistent approach to performance obligations in the Specifications?**

The standard requires each entity to apply a single method of measuring progress for each performance obligation satisfied over time consistently to similar performance obligations and in similar circumstances. A university may choose to utilise either a single input or output method for all its research contracts based on the ability of its accounting systems to capture such information. However, some universities may apply different measurement methods to different types of research contracts with different characteristics.

Our strong preference is that the choice of accounting methodology should remain at the discretion of each HEP. Each HEP should be allowed to develop its own unique procedural and process approach to ensuring compliance with the requirements of the new standards. Each HEP will have invested – in some cases heavily – in the accounting systems and processes required to support adherence with the new standard and many will already have made substantial progress in implementing those systems.

The specifications should not rule out options that are within the remit of the relevant accounting standard. We take this view with reference to our alternative proposal outlined in Q1. If this approach is adopted, the Department will not need to mandate the use of an input versus an output methodology.

**Question 11: To what extent, if any, do you expect issues of variable consideration to arise at your institution?**

At this time, we expect issues related to variable consideration will be immaterial for the University of Sydney.



**Question 12: Do you expect any issues in implementing a *most likely amount* method when deciding variable consideration?**

At this time, we are not aware of any material contracts that would require the use of a probability weighted 'most likely amount' methodology.

We strongly recommend that the Department not mandate the use of either methodology. Rather, each HEP should be free to adopt the treatment that is best suited to the circumstances of the contract being considered, in line with the intent of the standard.

**Question 13: Are there any other issues you wish to raise that has not been covered by this consultation paper? If so, please provide details.**

There are no other issues upon which we wish to comment.

Ends/