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Dear John

Determination of Design of Funding Mechanism: Performance-Based Research Fund

I am writing to advise you of a new *Determination of the Design of Funding Mechanism: Performance-Based Research Fund*, issued under section 159L of the Education Act 1989 (the Act). The determination is set out in the appendix to this letter.

This determination replaces the previous determination issued in 2008, and provides direction to the Tertiary Education Commission (TEC) on the design of the Performance-Based Research Fund (PBRF), and some high-level details on its operation.

Following a review of the fund in 2012/13, a package of changes was developed and has been agreed by Cabinet. This package will improve the PBRF by:

- clarifying its objectives
- better valuing user perspectives of research quality, and engagement in user-orientated research, by rewarding and encouraging external research income
- simplifying the PBRF Quality Evaluation to reduce transaction costs
- better supporting the sustainability of the tertiary education research workforce
- strengthening reporting on research performance.

The determination includes provisions that will give effect to a number of these changes.

Some changes to simplify the Quality Evaluation and strengthen research performance are not included in the determination, either because they are of a detailed operational nature, or because they fall outside the scope of the determination (i.e. they do not directly relate to funding). I expect that the TEC will give effect to these changes through its preparations for the next Quality Evaluation in 2018.

The changes to simplify the Quality Evaluation involve:

- reducing the number of research outputs that can be included in Evidence Portfolios from 30 to 12
- combining the Contribution to the Research Environment and Peer Esteem components into a Research Contribution measure and reducing the number of examples of Research Contribution that can be included in Evidence Portfolios from 60 to 15

- clarifying operational guidance to reinforce that the new 'Research Contribution' measure may include examples of esteem and contribution inside and outside academia
- tightening the criteria for staff to have special circumstances considered in the Quality Evaluation, with the objective that fewer than 10% of Evidence Portfolios submitted seek to have special circumstances considered
- allowing only the chairs of peer review panels to request that an Evidence Portfolio is considered by more than one peer review panel
- discontinuing the use of specialist advisors
- disestablishing the two expert advisory groups (for Pacific research, and professional and applied research).

The changes to strengthen reporting on research performance involve:

- removing two of the four measures of average research quality reported for the 2012 Quality Evaluation, so that future reporting is based on:
 - a primary measure based on the number of full-time equivalent teaching and research staff in tertiary education organisations, subject areas and nominated academic units (AQS(S))
 - an additional contextual measure based on the extent to which teaching at degree level and above is underpinned by high-quality research in tertiary education organisations (AQS(E))
- TEC publishing annual PBRF funding allocations for each tertiary education organisation that detail the funding provided for:
 - the Quality Evaluation, by subject area
 - Research Degree Completions, by subject area, and by weightings for Māori and Pasifika students and te reo theses
 - External Research Income, by source.

To support the reporting of a robust AQS(S) measure, I have directed the Ministry of Education to undertake further work with tertiary education organisations to develop a single framework to capture information about teaching and research staff.

I note that the improvements to the PBRF are being supported by a stronger focus on research performance through the 2015/16 Investment Plan process.

Under section 159O of the Act, it is the TEC's responsibility to develop the operational policy and practices needed to implement the PBRF. I expect that the TEC will set appropriate performance measures for the implementation of the fund through its Statement of Service Performance.

Yours sincerely



Steven Joyce
Minister for Tertiary Education, Skills and Employment

DETERMINATION OF DESIGN OF FUNDING MECHANISM: PERFORMANCE-BASED RESEARCH FUND

PRELIMINARY PROVISIONS

Introduction and Statutory Authority

1. This determination, which is made under section 159L of the Education Act 1989 (the Act), specifies the design of the funding mechanism for the Performance-Based Research Fund (PBRF).

Purpose

2. The purpose of the PBRF is to increase the quality of research by rewarding and encouraging research excellence.
3. The primary objectives of the PBRF are to:
 - a. increase the quality of basic and applied research at New Zealand's degree-granting tertiary education organisations (TEOs);
 - b. support world-leading research-led teaching and learning at degree and postgraduate levels;
 - c. assist New Zealand's TEOs to maintain and lift their competitive rankings relative to their international peers; and
 - d. provide robust public information to stakeholders about research performance within and across TEOs.
4. In doing so, the PBRF will also:
 - a. support the development of postgraduate student researchers and new and emerging researchers;
 - b. support research activities that provide economic, social, cultural, and environmental benefits to New Zealand, including the advancement of mātauranga Māori; and
 - c. support technology and knowledge transfer to New Zealand businesses, iwi and communities.

Definitions

5. "Research" is original investigation undertaken in order to contribute to knowledge and understanding and, in the case of some disciplines, cultural innovation or aesthetic refinement. It typically involves enquiry of an experimental or critical nature driven by hypotheses or intellectual positions capable of rigorous assessment by experts in a given discipline. It is an independent, creative, cumulative and often long-term activity conducted by people with specialist knowledge about the theories, methods and information concerning their field of enquiry. Its findings must be open to scrutiny and formal evaluation by others in the field, and this may be achieved through publication or public presentation. In some disciplines, the investigation and

its results may be embodied in the form of artistic works, designs or performances. Research includes contribution to the intellectual infrastructure of subjects and disciplines (eg. dictionaries and scholarly editions). It also includes the experimental development of design or construction solutions, as well as investigation that leads to new or substantially improved materials, devices, products or processes.

6. "Excellence" as a researcher includes all of the following activities:
 - a. the production and creation of leading-edge knowledge;
 - b. the application of that knowledge;
 - c. the dissemination of that knowledge to students, industry, iwi and hapū, and the wider community; and
 - d. supporting current and potential colleagues (e.g. postgraduate students) in the creation, application and dissemination of knowledge.
7. Excellence will be measured by a combination of external peer review, research degree completion and external research income indicators.

On-plan Funding

8. The Tertiary Education Commission (TEC) must pay funding allocated through this funding mechanism under section 159YA of the Act.

PART ONE: THE FUNDING MECHANISM

General Parameters

Available Funding

9. The total amount of PBRF funding to be allocated will be set through the Government's annual budget processes.

Funding Components and Rates

10. The TEC must pay funding under this funding mechanism to each eligible TEO at a rate determined annually.
11. The amount of funding that the TEC may provide to a TEO will be based on the following three components:
 - a. the Quality Evaluation (QE) – a periodic peer assessment of the research contribution of individual teaching and research staff in participating TEOs
 - b. Research Degree Completions (RDC) – a measure of the number of research-based postgraduate degrees that are completed within participating TEOs
 - c. External Research Income (ERI) – a measure of income received by participating TEOs (and/or any wholly-owned subsidiaries) for the purposes of conducting research.

12. In respect of funding for 2014 and 2015, the TEC must divide the total amount of PBRF funding as follows:
 - a. QE – 60%
 - b. RDC – 25%
 - c. ERI – 15%.
13. In respect of funding from 2016 onwards, the TEC must divide the total amount of PBRF funding as follows:
 - a. QE – 55%
 - b. RDC – 25%
 - c. ERI – 20%.

TEO Eligibility

14. The TEC must only provide funding from the PBRF to TEOs that:
 - a. are based in New Zealand;
 - b. grant bachelor's degrees, master's degrees, or doctoral degrees;
 - c. have an investment plan;
 - d. receive Student Achievement Component funding.
15. A TEO that seeks funding from the PBRF must participate in all three components (i.e. the QE, RDC, and ERI), even if their funding entitlement to one or more components is zero, or likely to be zero.
16. If a PBRF eligible TEO did not participate in the latest QE, the TEO is ineligible for funding through the RDC and ERI components until the next QE.

Quality Evaluation

Evidence Portfolios

17. TEO staff eligible for evaluation in the QE must provide an Evidence Portfolio that sets out information on their research performance. The evaluation of Evidence Portfolios in the QE will be the responsibility of subject-based external peer review panels, comprised of experts in their fields.
18. An Evidence Portfolio will comprise a research output component, and an evidence of research contribution component.

Staff Eligibility

19. The TEC must ensure that each TEO only includes the Evidence Portfolio of a staff member in the QE if:

- a. the staff member is employed by the TEO on the staff census date under a contract of salaried employment with a duration of at least one year; and
 - b. the staff member is employed at a minimum of 0.2 full-time equivalent (FTE) during the period of the contract of salaried employment; and
 - c. the staff member's employment functions included a substantive contribution to research and/or teaching degree-level programmes; and
 - d. the staff member is not based overseas.
20. The TEC must establish criteria for determining:
- a. what is a "substantive contribution to research and/or teaching degree-level programmes" for the purposes of paragraph 19(c); and
 - b. when a staff member is considered to be "based overseas" for the purposes of paragraph 19(d).

Submitting Evidence Portfolios

21. The TEC must require that:
- a. TEOs indicate when an Evidence Portfolio is being submitted in respect of an eligible staff member who is a new and emerging researcher; and
 - b. if a TEO considers that an Evidence Portfolio is likely to be assigned a quality category of R or R(NE), the TEO will not submit that Evidence Portfolio.

Evaluation of Evidence Portfolios

22. The TEC must use the QE process to allocate one of the following quality categories to each Evidence Portfolio:
- a. Category A
 - b. Category B
 - c. Category C
 - d. Category C(NE)
represents a quantum of research activity and quality by a new and emerging researcher at a level which is sufficient for recognition for funding purposes
 - e. Category R
represents a quantum of research activity and quality at a level which is insufficient for recognition for funding purposes
 - f. Category R(NE)
represents a quantum of research activity and quality by a new and emerging researcher at a level which is insufficient for recognition for funding purposes.

23. The quality categories C(NE) and R(NE) will only be available in respect of Evidence Portfolios provided for new and emerging researchers. The TEC must establish criteria to determine when an eligible staff member can be considered to be a “new and emerging” researcher.

Funding

24. The TEC must develop a process for calculating PBRF funding on the basis of the QE, using the following criteria:
- a. the total number of eligible staff whose Evidence Portfolios have been allocated a quality category of A, B,C, or C(NE);
 - b. the full-time equivalency status of those staff members with Evidence Portfolios; and
 - c. the subject areas of the Evidence Portfolios.
25. The quality categories must be reflected as numerical quality scores as follows:

Quality category	Numerical quality score
Category A	5
Category B	3
Category C	1
Category C(NE)	2
Category R or R(NE)	0

26. The subject areas must be given cost weightings as follows:

Subject areas	Cost weightings
Arts, Social Sciences, Business, Accountancy, Law, Teaching	1
Science, Computing, Nursing, Music, Fine Arts	2
Engineering, Agriculture, Architecture, Audiology, Veterinary Science, Medicine, Dentistry, Specialist Large Animal Science	2.5

27. The TEC must allocate funding for QE based on the proportion of the total number of staff at participating TEOs whose Evidence Portfolios have been allocated a quality category of A, B, C and C(NE), weighted by the numerical quality scores, full time equivalency status of the staff members, and the cost weightings for different subject areas.

Research Degree Completions

Calculating RDC

28. The TEC must ensure that each TEO calculates completions of research-based postgraduate degrees in units of equivalent full-time student (EFTS). One (1.0) EFTS unit is defined as the student workload that would normally be carried out by a student enrolled full-time in a single academic calendar year.
29. The TEC must only allocate funding for completions of research-based postgraduate degrees that have a significant externally-assessed wholly-research component (at least 0.75 EFTS).

Funding

30. The TEC must develop a process for calculating PBRF funding on the basis of RDCs, using the following criteria:
 - a. the volume of research in each research-based postgraduate degree; and
 - b. the relative costs of the subject area of each research-based postgraduate degree, in accordance with the subject-area weightings in paragraph 26; and
 - c. if applicable:
 - i) an equity weighting of 2 added to the subject-area weighting for RDCs completed by Māori or Pasifika researchers; or
 - ii) a strategic weighting of 4 added to the subject-area weighting for a RDCs in which the content is entirely written in te reo Māori.
31. The TEC must allocate funding for RDCs based on the proportion of research-based postgraduate degrees completed at participating TEOs, weighted by research volumes, relative costs of the subject areas, and any equity or strategic weightings.

External Research Income

Sources of ERI

32. External research income includes income from public and private sources for research conducted by an eligible TEO (and/or a wholly-owned subsidiary) and includes research income from competitive sources within Vote Tertiary Education (excluding PBRF).
33. The TEC must ensure that each TEO reports eligible ERI, broken down into the following sources:
 - a. New Zealand government contestable funds;
 - b. New Zealand public sector contract research;
 - c. New Zealand non-government sources;

- d. overseas research income.

Funding

34. The TEC must develop a process for calculating PBRF funding on the basis of ERI, allocated from 2015 onwards, according to the following weightings by income source as follows:

Source of external research income	Weightings
New Zealand government contestable funds and New Zealand public sector contract research	1
Non-government sources from within New Zealand	2
Overseas research income	1.5

35. The TEC must allocate funding for ERI based on the proportion of total ERI earned by participating TEOs, weighted by funding source.

PART TWO: FUNDING CONDITIONS

General conditions that the TEC must attach to funding

36. The TEC must impose the following specific conditions on funding provided to each TEO under this funding mechanism.

Tertiary Education Organisations

37. The TEC must attach a condition that TEOs that receive funding from the PBRF under this funding mechanism must continue to meet all the eligibility criteria specified in paragraphs 14 to 16 of this funding mechanism for the length of the funding period.
38. The TEC must attach a condition that TEOs that receive funding from the PBRF under this funding mechanism must:
- a. ensure that staff members included in the QE process meet the criteria specified at paragraph 19; and
 - b. comply with the requirements of paragraph 21; and
 - c. calculate RDCs in accordance with paragraph 28; and
 - d. must report their ERI in accordance with paragraph 33.
39. The TEC must attach a condition that TEOs that receive funding from the PBRF under this funding mechanism must provide any information required to support the reporting of average quality scores from the Quality Evaluation.

Responsible Use of Funding

40. The TEC must attach a condition that TEOs that receive funding under this funding mechanism must use the funding:

- a. lawfully and responsibly; and
- b. in a manner consistent with the appropriate use of public funds.

Recovery of Over-funding

- 41. The TEC must attach to funding a condition that if a TEO receives funding under this funding mechanism that is greater than it should have been, or that it was not entitled to receive, the TEO must treat the amount of the over-funding as a debt due to the Crown that:
 - a. is repayable on demand; and
 - b. may be set-off against all or any funding, or any sum of money payable by the TEC to the TEO.
- 42. The TEC must provide the TEO with reasonable notice before exercising its right to demand repayment or set-off the debt against all or any funding.

TEC Administrative Responsibilities

- 43. If a TEO receives funding under this funding mechanism that is less than it should have been, or less than it was entitled to receive, the TEC must treat the amount of the under-funding as a credit and pay the amount as soon as is reasonably practicable.