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Senator Sean Edwards
Chair
Senate Economics Legislation Committee
Parliament House
CANBERRA ACT 2600

Dear Senator Edwards,

On reviewing the Proof Hansard of the testimony that CSIRO provided to the Senate Estimates hearing of 11 February 2016, it has been determined that some information provided to the Committee would benefit from clarification or correction.

During the discussions between Senator Carr and Dr Marshall the following exchange occurred (page 75 of Hansard):

Dr Marshall: If I may—and I believe you know some of this already—CSIRO has a well-established co-investment model. We have had that for about a decade, I believe.

Senator KIM CARR: Yes, but you got rid of the external funding targets at the time that you got rid of the big, hairy, audacious goals. The last CEO got into this sort of business.

Senator RICE: We are deep diving now.

Senator KIM CARR: Yes. That is called deep diving, indeed. It was Dr Garrett's expression, remember, about big, hairy, audacious goals—BHAGS. We were going to have them all over CSIRO. It led to the development of these so-called external funding targets, all of which have now collapsed. Are you telling me now that you will reimpose external funding targets as part of your strategic plan?

Dr Marshall: I was just remembering the BHAG. I think it was Josh Lerner 20 years ago that came up with that concept.

Senator KIM CARR: But Dr Garrett took it up with some enthusiasm as head of CSIRO. It was met with a similar reaction to what you are getting at the moment, I might suggest to you.

Dr Marshall: What I was going to say to you was that some of our external revenue comes from state governments, some comes from federal governments, some comes from foreign government and some comes from industry. We also get some philanthropic funding as well. That is the revenue envelop, if you like, and that changes. We have to project into the future. It is subject to market shifts. Part of the process of planning forward, not knowing how the market is going to change—we have seen a lot of change already this year—the responsibility of the management team is to make sure that we balance those priorities across the portfolio of investments and look at the potential funding revenue grants, or whatever, that feed each of those elements of our work. If there is a decline in the global market, or a shift in the global market, that impacts revenue. If that happens, people lose their job in those business units.

Senator KIM CARR: Are you telling me external funding targets have been reimposed?

Dr Marshall: I am not saying there is anything about targets. It is just that, for us to do what we do to deliver the highest value to Australia, part of what we do is work with commercial companies, part of what we do is work with state and foreign governments. That determines our income.

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At the time period referred to in these questions from Senator Carr, CSIRO's 2003-2007 strategy included a strategic objective of "Go for Growth". That strategy had a demanding growth target in the form of a financial scenario containing dollar figures and 'VYA' (vs year ago) percentage increase for external revenues. The 2003-2007 strategy also included a projection by 2007 of expected value from equity and intellectual property holdings.

These financial targets, as included in the 2003-2007 strategy, have not been "reimposed" in the current CSIRO strategy.

The CSIRO Strategy 2015-2020 includes a strategic action that is relevant to external revenue (see page 11 of Australia's Innovation Catalyst, Strategy 2020, www.csiro.au/strategy). The strategic action is "to enhance our financial sustainability ... grow our overall external revenue ratio ...". This is also reflected in one of the nine performance indicators from the CSIRO Corporate Plan 2015-16, with a metric that is described as increasing our external revenue, particularly from industry and international sources "as a percent of total expenditure from 38 per cent to 45 per cent by 2019-20".

Importantly, it is a different conceptual framework. As explained in my evidence, CSIRO depends upon external revenue to fund its operations including for the cost of maintaining our staff. The strategic action and performance indicator are presented as a ratio of revenue (and expenditure) in order to place an emphasis on CSIRO's need to ensure that its co-investment arrangements (under which the majority of external revenue is secured, and has been secured since the 90s) are achieved on terms that are not disadvantageous. Co-investment revenues are obviously an important mechanism for CSIRO to be able to maintain our staff complement, but the strategic intent is that CSIRO ensure that the arrangements are aligned to the delivery of our strategic outcomes and on acceptable terms, as compared to CSIRO chasing revenue solely for revenue's sake.

Turning to the pragmatic requirements of budget and budget management, operational budgets at both enterprise and business unit level include estimates of external revenue that will be invoiced and earned during the period. Internally, the organisation monitors the sourcing of external revenue, (representing revenue from co-investment, consulting and services; royalty and licence revenues and other revenue including interest and rental) as both planned (i.e. projected or budgeted) and when secured (i.e. contractually committed and received).

Senator KIM CARR: I am asking the question: do you have external funding targets for divisions at the moment?

Dr Marshall: We do not have a target. General philosophy in co-investment is a way to validate the significance of an area. One of the challenges of evaluating the science or the importance of an area is by the presence of a need in that area. One of the ways that indicates the need is the market.

Senator KIM CARR: So you are measuring demand in terms of external revenue?

Dr Marshall: That is one measure. It is not the only measure, but it is one of the criteria that Mr Roy mentioned.

In relation to whether "external funding targets for divisions have been reimposed", the performance indicators referred to above are at enterprise level. There is, as there has always been, an operational requirement for CSIRO to prepare and to manage to budget estimates in relation to external revenues, both at CSIRO enterprise level and at operational unit level. The business unit-level budgets are developed by the relevant leaders in context of all the strategic actions, and these business unit-level budgets aggregate to the enterprise-level budget which is presented in the Portfolio Budget Statements. The budgeted external revenue figure is an important component of the total revenue budget for the business unit and hence also for the financial capability to maintain their staff capability. The business units

therefore do not have any 'targets' for external revenue other than those inherent in the budget which supports the delivery of their strategic and operating plan.

I trust that this explanation clarifies the answers provided by CSIRO at the hearing, and apologise for any inconvenience for members of the Committee and ask you to alert other members of the Committee to these clarifications. I observe that this information also provides the answers to the Question on Notice from Senator Carr on this topic, received by CSIRO on Friday 26 February 2016.

Yours sincerely

Dr Larry Marshall
Chief Executive