1. Introduction

In January 2010, the Department of Innovation, Industry, Science and Research announced that it would undertake a review of the allowable inclusions under Category 2: Other Public Sector Research Income of the Higher Education Research Data Collection.

This paper outlines the context for the review and sets out the purpose and method of the review. The Department will prepare advice to the Minister for Innovation, Industry, Science and Research on the outcomes from the review by mid 2010.

2. Overview of Research Block Grant Funding

In 2010, the Australian Government is providing $1.42 billion as block grants to support research and research training in Australian Higher Education Providers (HEPs), through a number of performance-based schemes. The Higher Education Support Act 2003 establishes the programs and provides for "Grants to support research by, and the research capability of, higher education providers" and "Grants to support the training of research students". Research block grants therefore are provided to HEPs specifically to support their research and research training activities within their institutions.

Institutions have considerable autonomy in deciding what research projects, personnel, equipment and infrastructure research block grants should support.

Research block grants are allocated according to performance based formula using a combination of the following inputs: research income, research publications, research student total load and research student total completions. All data inputs are sourced from the Higher Education Research Data Collection and the Higher Education Student Data Collection.
3. About the Higher Education Research Data Collection

The Higher Education Research Data Collection (HERDC) comprises research income and research publications data submitted by HEPs each year. The data collected through the HERDC is used in conjunction with student completion and load data collected by the Department of Education, Employment and Workplace Relations (DEEWR), to assess the relative research and research training performance of institutions and in turn drive the allocation of block funding.

The HERDC Specifications, which are published by the Department, control the collection of HERDC data. They are designed to ensure that the research block grants are allocated in a fair and transparent way and to support the policy intent of the funding.

More specifically, they provide the information necessary for HEPs to determine what can and cannot be included in reporting their research income and research publications data.

Research, for the purposes of the HERDC Specifications, is consistent with the standard practices of the Organisation of Economic Cooperation and Development (OECD) in respect of collecting data on research and experimental development. That is, to be able to report income and publications data under the HERDC, Australian HEPs must be engaged in research which comprises:

- creative work undertaken on a systematic basis in order to increase the stock of knowledge, including knowledge of man, culture and society, and the use of this stock of knowledge to devise new applications;
- any activity classified as research which is characterised by originality; it should have investigation as a primary objective and should have the potential to produce results that are sufficiently general for humanity's stock of knowledge (theoretical and/or practical) to be recognisably increased. Most higher education research work would qualify as research; and
- pure basic research, strategic basic research, applied research and experimental development.

Income derived from such research activity is classified into four categories under the HERDC. This recognises and rewards HEPs for their success in deriving research income from different organisations and institutions, including Commonwealth, state and territory governments and industry. The four categories, as set out in Section 7 of the HERDC Specifications, are:

- Category 1: Australian Competitive Grants
- Category 2: Other Public Sector Research Income
- Category 3: Industry and Other Research Income
- Category 4: Cooperative Research Centre (CRC) Research Income
4. **Category 2 - Other Public Sector Research Income**

HEPs compete for funds to support basic and applied research projects from Australian Government competitive grant programs, primarily from the Australian Research Council and the National Health and Medical Research Council.

They also are often able to procure funds for research activity from other sources, including from government business enterprises and contracts from state, territory and local governments, as they tackle issues of more local and regional significance in their community. The HERDC Specifications classify such research income under Category 2, which is defined as "Other Public Sector Research Income", and it includes:

- any other research income received from the Australian Government that is not eligible for inclusion as Category 1 research income;
- research income from Australian Government business enterprises;
- research income (including contract research) from both state and local governments;
- research income from state government business enterprises;
- research income from partly government owned or funded bodies;
- research income from CRCs in which the reporting HEP was not defined within the Commonwealth Agreement as “The Researcher” or a “Participant” (i.e. was not a signatory to the Commonwealth Agreement, a CRC Participants Agreement, or a Company Constitution during the reporting period).

In 2008, for example, HEPs reported $762.2 million of research income under Category 2 of the HERDC, representing 27% of the total income reported. Thus, Category 2 is one key measure of research performance (a proxy of excellence in research capacity) in driving the allocation of Research Block Grants, and there is a need to ensure consistency in the collection of this information.

5. **Review purpose**

Due to the critical nature of importance of the HERDC driving the allocation of Research Block Grants, the Department regularly examines features of the collection. In particular, with the refocussing of the Institutional Grants Scheme into the Joint Research Engagement program in 2010, increased emphasis will be placed on Category 2 research income as a driver of Research Block Grant funding allocations.

Fundamental to this reform is sector confidence that the income being included is fit for purpose and that HEPs are able to apply a consistent and transparent definition for the reporting of Category 2 under the HERDC. A key question is whether the current classification of income sources identified is still relevant for HEPs conducting research for national, regional and local benefit. In addition to examining the definition of research used for HERDC and the Category 2 definition, the Review will explore the nature of the financial contribution of end users to reported Category 2
research income for universities; that is, what proportion of indirect costs of research are being met by end users.

Accordingly, as outlined in the Terms of Reference, this review will:

1. Examine the purpose of Category 2 research income in the HERDC, the associated definitions and the resulting specifications of income that should be included.
2. Examine sources of income currently reported by Higher Education Providers as Category 2 against the HERDC definition of research income.
3. Undertake a number of audits of Category 2 income returns for the purposes of clarifying the appropriate inclusions and exclusions in this Category.
4. Provide advice to the Minister for Innovation, Industry, Science and Research on outcomes from the review and proposed solutions to any identified problems.

6. Method of the review

To undertake this review, the Department is seeking a detailed return from each HEP that identifies and describes the individual elements reported under their Category 2 Other Public Sector Research Income within their 2009 HERDC income return. Currently, Category 2 research income is reported to the Department only as a total amount for each calendar year.

To assist HEPs in providing this information, the Department has developed a template for HEPs to complete (Attachment A). Within the template, HEPs are requested to provide the name, description and funding received for each individual scheme that was counted as Category 2 income within their 2009 HERDC income return.

The Department will also work with a number of HEPs (a representative sample across the sector) to conduct audits on their 2009 HERDC income returns, a component of which will be to specifically consider Category 2 research income. An independent auditor will be appointed to assist the Department.

The primary purpose of the data collection for the review is to examine the ways in which universities are reporting Category 2 research income and to consider possible options for strengthening the transparency of these reporting arrangements in the future.

The process for the review, including key timings, is outlined in Table 1.
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<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tr>
<td>April 2010</td>
<td>Review Paper Released - HEPs to complete Template at Attachment A, which specifies individual schemes that comprised their total Category 2 funding in their 2009 HERDC income return.</td>
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<tr>
<td>7 May 2010</td>
<td>HEPs submit Template to DIISR.</td>
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<tr>
<td>1 May – 30 May 2010</td>
<td>Audits of selected universities undertaken.</td>
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<tr>
<td>1 May – 30 June 2010</td>
<td>Analysis of reported Category 2 income by DIISR, including consideration of outcomes of audits.</td>
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<tr>
<td>30 June 2010</td>
<td>Report to be provided to the Minister for Innovation, Industry, Science and Research by DIISR.</td>
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