



HIGHER EDUCATION RESEARCH DATA COLLECTION (HERDC) OPTIONS PAPER: FOR ADVICE OF UNIVERSITIES AUSTRALIA BOARD August 2009

1. Research Policy Context

The Australian Government is responsible for determining national research funding priorities, and providing overarching support for research. In general, State and Territory governments administer their research budget according to their individual priorities and circumstances.

There are several Australian Government agencies which have a significant role in providing funding support for Australia's universities. In particular, the Department of Innovation, Industry, Science and Research (DIISR) provides funding for higher education institutions for research and research training to promote skills development and to maintain research infrastructure in higher education institutions to support world class innovative research. The Australian Research Council (ARC) aims to deliver policy and programs that advance Australian research and innovation globally and benefit the community; the ARC administers the National Competitive Grants Program (NCGP), which is a significant component of Australia's investment in research and development.

In addition, the Department of Health and Ageing (DoHA) promotes, develops, and funds health services for the Australian public, and aims to improve the accessibility and quality of public and private health care service provisions through financing and agreements with stakeholders, industry and State and Territory governments. The National Health and Medical Research Council (NHMRC) is Australia's peak body for supporting health and medical research, and administers a range of research grants to eligible researchers and research agencies.

The research sector, including Higher Education Providers (universities), can also apply for research funding through State and Territory government departments.

There are a number of complexities in the policy oversight and funding arrangements for research in Australian universities which provide challenges in ensuring a holistic response to identified issues within the system as a whole.

2. Research Funding Distribution

The Australian Government has a dual support system for funding of research and research training in universities. The system comprises Research Block Grants, which are allocated to universities to support systemic research capacity based on achievements across a range of metrics that measure the general research and research training effort. The competitive research grant programs, the majority of which are provided by the ARC and NHMRC, use merit based, peer determined processes to fund specific research projects. The ARC and NHMRC are the major competitive research grant programs. Other Australian Government Departments also administer research programs for which universities can seek funding.

A summary of the sources and amount of Australian Government funding available to universities for the 2007 calendar year is at **Attachment A**. The Australian Government provided funding to universities in 2007 of around ~\$7 billion.

For the same year, funding for research, research support and research training was around ~\$2.6 billion. Research funding is primarily provided via DIISR (Research Block Grants), the ARC

(competitive grants) and the NHMRC (competitive grants). Research Block Grants are distributed based on research and research training performance. The funding pools are fixed and allocation is based on each university's performance relative to others.

While the ARC provides funding for the direct costs of research, the NHMRC provides funding for both the direct costs of research as well as the overhead infrastructure costs through the Independent Research Institute Infrastructure Support Scheme (IRIISS). In addition, both the ARC and NHMRC competitive grants are listed on the Australian Competitive Grants Register and as such universities who obtain these grants increase their allocation of Research Block Grant funding. The IRIISS aims to contribute to infrastructure costs associated with NHMRC competitive research awards administered by the NHMRC to eligible independent medical research institutes; and provide infrastructure support to eligible independent medical research institutes that is comparable to that provided to universities through the Research Infrastructure Block Grants Scheme (RIBG). IRIISS funds are allocated to eligible independent medical research institutes by calculating 20 cents for every dollar of NHMRC grants the eligible medical research institute was awarded. In addition, State and Territory Government Departments administer research programs, for which universities may be eligible to apply for funding.

3. Purpose of Research Block Grants

In 2009, DIISR distributed six Research Block Grants allocated using the Higher Education Research Data Collection (HERDC) and the Higher Education Student Data Collection, totalling around \$1.27 billion dollars. Four of these programs were directly focussed on providing support to the training of Higher Degree by Research students, such as the Research Training Scheme (RTS), Commercialisation Training Scheme (CTS), Australian Postgraduate Awards (APAs) and the International Postgraduate Research Scholarship (IPRS). Two grants underpin the research effort of universities. The Research Infrastructure Block Grant (RIBG) aims to enhance the development and maintenance of research infrastructure within universities. The Institutional Grants Scheme (IGS) can be used to support any research and research training activity in a university. The RIBG, IGS and RTS all include weightings in their formulas relating to research income, as per the below formulas:

- RIBG: calculated based on a university's Category 1 relative performance.
- IGS: calculated based on a university's research income (60%), HDR student load (30%) and publications (10%).
- RTS, CTS, APAs, and IPRS: each university's share of the individual scheme's performance index, which comprises HDR completions (50%), research income (40%) and publications (10%).

As research income is a key measure of research performance driving the allocation of Research Block Grants, there is a need to ensure consistency in the collection of this information.

4. Purpose of HERDC

The provision of Research Block Grant funding is outlined in the *Higher Education Support Act 2003 (HESA)*, which provides for "Grants to support research by, and the research capability of, higher education providers" and "Grants to support the training of research students". Therefore, the purpose of Research Block Grants is to reward the success of universities in obtaining competitive grants and supporting them to continue to undertake research and research training activities.

The data collected through HERDC is used to assess the relative research and research training performance of Australian universities and in turn drives the allocation of block funding.

The HERDC Specifications control the collection of HERDC data and are designed to ensure the Research Block Grants are allocated in a fair and transparent way and to support the policy intent of the funding.

5. History of Inclusion of JV Income in HERDC

According to the then Department of Education, Science and Training's (DEST) records, in 2002 it was becoming common for research institutions to win grants on the basis of Joint Ventures (JVs) where several institutions put in a bid for a grant. In many cases, there was a lead institution that received and expended all of the funding but the benefits of expenditure were available to all partners. This raised the question: How to report income received through JVs where one institution receives all the funds, but all partners share resources. DEST was considering allowing JV activities to be reported in the HERDC.

DEST consulted extensively with the AVCC between 2002 – 2005 regarding allowing reporting of JVs in HERDC. The AVCC supported the inclusion of JV provisions and these were introduced in the 2006 HERDC Specifications, allowing a “notional distribution” of income.

The 2006 HERDC Specifications stated that the introduction of JV provisions was designed to address: *“concern from the sector about inefficiency of the previous arrangement. Under the previous arrangement HEPs were required to transfer research income between JV partners to enable their participation in the research to be identified in the HEP's financial statements.”* (Section 6.3, 2006 HERDC Specifications).

6. Problems Identified with the Inclusion of JV Income in HERDC

DIISR (which, since 2008 has had responsibility for HERDC), has become aware of concerns in the sector that some universities may have been reporting JV income inappropriately in order to maximize their allocation of Research Block Grants. There is concern that JV provisions are being interpreted in such a way that grants they report may be more a product of partner institutions' activities. Specifically, a key concern of the sector is that the JV provisions have permitted the inclusion of research income from non-university organisations into the HERDC returns. As a consequence there has been a loss of confidence in the basis for allocation of block funding because it is believed by several universities that the non-university data has inflated the returns of some universities in a non-transparent fashion. There is concern that the basis for allocation of block funding based on the relative performance of universities has been undermined.

In response to concerns the sector had raised, in the latter half of 2008 DIISR undertook an informal survey of JV income and Administered Grants reported by universities. The survey showed 14 of the 36 responding universities reported JV income between 2003 and 2007. Following the inclusion of JV in the 2006 HERDC Specifications, there was an obvious growth in reported income from around \$170K in 2003 to \$152M in 2007 (approximately 6% of the total HERDC income return for 2007). While being informative, the survey results were inconclusive and could not be used to change the existing HERDC Specifications. In May 2009, the DIISR established the HERDC Review Committee to more formally examine the issues raised by the sector. The Review is being jointly undertaken by DIISR and Universities Australia, through the Deputy Vice-Chancellors (Research) Group. The committee comprises membership from all sector groupings (i.e. the Australian Technology Network, Group of Eight, Innovative Research Universities Australia, and non-aligned universities).

The HERDC Committee identified two key ways in which the current JV provisions are of concern. Firstly, because notional distributions are allowed, any differences in interpretation of

the HERDC Specifications reporting cannot be assessed. Further, there is no capacity to publicly assess whether universities might be reporting income for grants that they administer but did not undertake the research. Any distortion in the collection would then lead to a distortion in the Research Block Grant allocation.

Secondly, the Committee identified there is a dilution effect as Research Block Grants are being re-distributed away from universities to their JV partners, some of which may be outside of the university sector. This results in Research Block Grants not being used as intended (to reward success in the competitive stream); instead Research Block Grants are possibly being dispensed to external and private researchers.

The *HESA* does not make any allowance for allocated funds to be transferred to support joint research arrangements between the recipients and other organisations.

Due to the concerns about the distorting and diluting effect of JV reporting and following discussions with the Committee it has been decided that the HERDC Specifications should be modified. The aim of these modifications is to create a level playing field when competing for Research Block Grants by increasing the transparency and accountability of joint and shared research income reporting requirements.

7. Agreed Principles to Resolve Identified Problems

All Committee members agree that JV reporting should be transparent, auditable and consistent. While the majority view of the Committee was that JV provisions should be removed from the HERDC Specifications, this view was not unanimous. Input to the Committee's deliberations suggests that this balance of opinion reflects that of the Sector. If JV provisions were retained, the Committee has agreed that a university's share in a JV should be reported as their share of the research income resulting from the JV. A transparent method of reporting would be for universities to record the 'net' amount they retain from any arrangement. Also, activities such as sub-contracted research (i.e. handing a contract over to another research agency to undertake) should not be reported as JV income (or Shared Grant income for that matter). This could be ensured by implementing a requirement for Vice-Chancellor certification that no income from Third Parties (i.e. income that involve only administration, rather than conduct of research and research training) is contained in the university's HERDC Return.

The Committee has also established that reporting of JV income should be transparent. A possible way of ensuring this is to create a separate HERDC Income category to report all JV income (i.e. income of a notional distribution). This category could be a new category, 'Category 5'. Also, there should be an identifiable audit trail for all research income, which will enable accurate identification of partnerships that involve joint research income and genuine collaboration of research and research training.

8. Possible Solutions to Identified Problems

Option 1: Remove JV provisions and Amend and Rename Shared Grant Provisions to Shared Research Income

Shared Research Income could be defined as any research income which is shared by a university with a Research partner. Under Option 1, the portion of Shared Research Income retained by the university or its Controlled Entities after distribution to their partner organisation(s) would be reportable (i.e. Net Received Income). The key feature of Option 1 is the removal of the provisions to report notional distributions – only income that can appear in audited statements can be claimed. By increasing the transparency of reporting, the perception of fairness would be increased and the level playing field that existed prior to the inclusion of JV

provisions in the HERDC Specification would be reinstated. This measure will also ensure that universities still gain benefit to support their research effort, including through collaborative research with industry.

Option 2: Retain JV with strengthened guidelines

While there is not majority support for the retention of JVs, one option is to consider adopting more prescriptive provisions that might lead to increased confidence across the sector that the HERDC returns provide a comparable basis for allocation of performance based block funding. If JV provisions were retained, there could be two different methods for recording JV. The first method would involve only counting Net Received Income to universities in JV arrangements. The second method would involve allow the counting of Non-Net Received JV income to under particular circumstances.

Option 2 (a) JV Method A: only count Net Received Income to universities in JV arrangements

A transparent method of reporting would be for universities to record the ‘net’ amount they retain from any JV arrangement. The Committee has suggested that the HERDC Specifications define ‘Net Received Income’ for example as being “the amount of income a university retains after a grant has been divided, either between universities involved in the Shared research income, or any other organisation involved”.

Option 2 (b) JV Method B: allow counting of Non-Net Received Income to universities in JV arrangements under particular circumstances

Universities could also be eligible to count Non-Net Received Income where they have implemented measures to ensure that the reporting of JV income is genuine. Under this model, research institutions already in receipt of ongoing Commonwealth funding for research (e.g. CSIRO) would not be able to be JV partners with universities for the purposes of counting research income in the HERDC return.

To ensure that the reporting of JV income is genuine, a university’s JV would need to have dedicated governance arrangements, which involve the university, and in which the university has a role in overseeing the research. An example of a dedicated governance arrangement is for a JV arrangement to be overseen by a Board of Directors. Furthermore, the university would be required to have membership on the JV Board of Directors.

There should be an identifiable audit trail for all research income: this will enable accurate identification of partnerships that involve joint research income and genuine collaboration for research and research training. To ensure that the reporting of Non-Net Received JV income is transparent, the Committee has suggested that JV income could be distinguished from other income, by universities reporting all JV income in ‘Category 5’. Universities would be required, as per the HERDC Specification’s audit requirements, to arrange for an audit of their JV research income and provide the Department with an Audit certificate which clearly certifies that the research income recorded is correct. Also as per the HERDC Specification’s audit requirements, the audit would need to be conducted by an independent, external, qualified auditor (for example a certified public accountant), and it may be conducted as part of an annual audit. Furthermore, the audit certificate would need to state the amount of JV research income certified to be reported in the university’s HERDC Return. This amount would need to correspond with the university’s reported amount of JV income.

At the time of the university's audit, for there would need to be available a JV Contractual Arrangement (JVCA) signed by all parties, which clearly state the agreed distribution of the research, and the approximate amount of income to be received/reported by each party. The understanding of JVCA could be tightened further by removing the provision in 1.3.6 of the HERDC Specifications that the notional distribution can be defined by minutes of discussion between the venturers. Furthermore, a JVCA would need to be a legally binding JV agreement, which would specify the (above) requirements for a JV Board of Directors, and that subcontracted income cannot be reported.

To ensure that a university's reporting of Non-Net Receipted income is from a genuine JV partnership, the university would also need to have identifiable inputs (e.g. Intellectual Property) and outcomes from the JV. Examples of relevant inputs a university would be required to retain for audit are:

1. Number of HDR students enrolled in the university that are physically located on the premises on which the JV occurs;
2. Number of university staff that are physically located at the premises on which the JV occurs;
3. Number of JV partner employees who hold titles with the university. For all research income reported in relation to affiliate or conjoint staff, a university must provide evidence of letters of appointment; and
4. Number of publications in the reference period with the name of the university and the JV partner listed in the by-line.

For universities to be eligible to report Non-Net Receipted JV income, co-investment would need to be identifiable, by which the university would need to have invested capital or equity into the JV. Further, this investment would need to be ongoing. Universities could also be required to follow or specify a formula they have used to determine their investment in a JV.

9. Summary of Advantages and Potential Drawbacks of Both Solutions

Option 1: Remove JV provisions and amend and rename Shared Grant provisions to Shared Research Income

This Option has the advantage that it is transparent and easy to administer. This would ensure the consistency in the collection of research income information, which is used essential for the allocation of performance based block funding.

The main disadvantage of Option 1 is that universities could no longer report notional income they gain through a JV.

Option 2: Amend JV provisions

This option has the advantage that JV arrangements could continue to be reported, where they are judged as bona fide as evidenced by documentation requirements (described above). This would be expected to continue to encourage research partnership arrangements between universities and other organisations.

However, for Non-Net Receipted Income – Option 2(b) - each university would need to provide documentation (as described above). This documentation would need to be audited at the time of the university's annual audit. This would ensure only genuine JV arrangements, which represent the university's research effort would be reported.

The increased reporting and administrative burden placed upon universities (for auditing purposes) may be a drawback to this option. This burden may also be felt by the Department, if it were required to cross check and input the JV data.

Major Australian Government Funding to Universities

Figure 1 below provides an indicative snapshot of major Australian Government funding to universities in 2007. It comes to around ~\$7 billion.

Funding for research, research support and research training including research block grants, Commonwealth competitive and other grants, funding derived by universities from the Cooperative Research Centres Program comes to around ~\$2.6 billion – **Table 1** provides further detail

Figure 1

An Indicative Snapshot of Major Australian Government Funding to Universities 2007

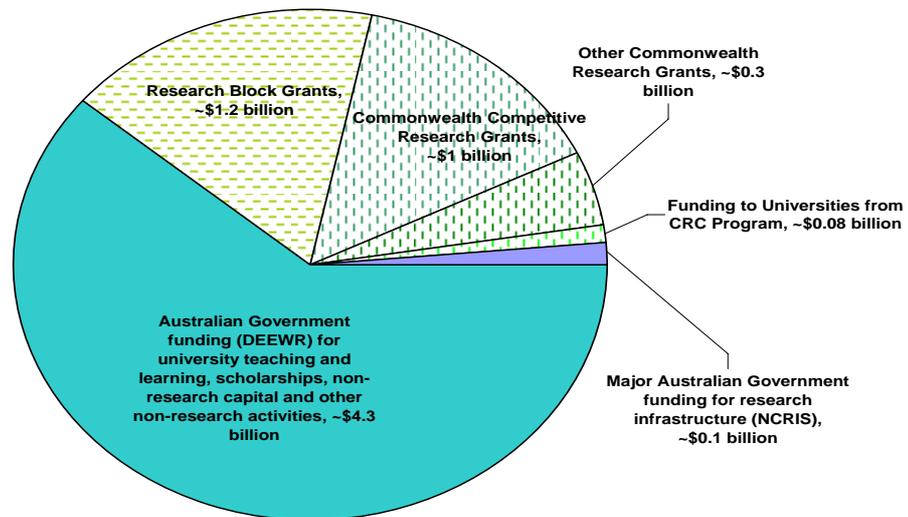


Table 1***Major Australian Government funding to universities for research, research support and research training***

Research, research support and research training	2007 calendar year unless otherwise stated, \$ million
Block Grants	
Research Infrastructure Block Grants (RIBG)	203.9
Institutional Grants Scheme (IGS)	302.0
Research Training Scheme (RTS)	573.9
Regional Protection Scheme (RPS)	3.1
Australian Postgraduate Awards (APA)	95.3
International Postgraduate Research Scholarship Scheme (IPRS)	18.8
Commercialisation Training Scheme (CTS)	5.3
<i>Total Block Grants</i>	<i>1,202.5</i>
Commonwealth Competitive Grants	
Commonwealth Competitive Grants (listed on Australian Competitive Grants Register)	1,008.1 (a)
<i>Total Commonwealth Competitive Grants</i>	<i>1,008.1</i>
Other Commonwealth Grants	
Other Commonwealth Research Grants (Commonwealth research grants from schemes not included in the Australian Competitive Grants Register)	318.1 (a)
Australian Scheme for Higher Education Repositories (ASHER)	5.5 (b)
Implementation Assistance Program (IAP)	2.6 (c)
<i>Total Other Commonwealth Grants</i>	<i>326.2</i>
Other Key Commonwealth Programs Providing Support to Universities for Research and Research-related Activities	
Cooperative Research Centres Program	Total program funding: 199.2 (d) Income derived from universities (2006-07 financial year): 84.3 (d)
National Collaborative Research Infrastructure Strategy	Total program funding: 99.4 (e)
<i>Total Other Key Commonwealth Programs</i>	<i>183.7</i>
Total	2720.5

(a) Income reported by universities in the *Higher Education Research Data Collection*. Includes all sources of Commonwealth research funding, other than schemes listed in this table, but does not include funding through the *National Collaborative Research Infrastructure Strategy*, *ARC Linkage Infrastructure, Equipment and Facilities (LIEF)* grants, *ARC Research Networks Scheme*, income from the *High Performance Computing and Communications Programme to or through the Australian Partnership for Advanced Computing*. Funding listed under Commonwealth Competitive Grants category includes grants from schemes listed on the Australian Competitive Grants Register which includes most ARC funding schemes along with funding from other portfolios listed on the register.

(b) Through ASHER, the Government is providing \$25.5 million over three calendar years [2007-09] to assist higher education providers to establish and maintain digital repositories.

(c) The Government is providing \$16.4 million over four calendar years [2007-10] for IAP to assist higher education providers to develop and implement data gathering and reporting systems for bibliometric and other data as part of the Excellence in Research for Australia initiative.

(d) Income derived by universities corresponds to income reported by universities in the *Higher Education Research Data Collection* for funding derived in cash from Commonwealth Grants to CRCs in 2006-07. Total 2007 calendar year funding listed is an estimate calculated using 1/2 payments made in the 2006-07 financial year and 1/2 payments made in the 2007-08 financial year.

(e) Funding for 2007 calendar year is an estimate based on average of funding for financial year 2006-07 (\$78.2 million) and 2007-08 (\$120.6 million). Universities are not the sole recipients of National Collaborative Research Infrastructure funding so the total does not reflect funding ultimately received by universities.