1. Introduction

In February 2011, the Department of Innovation, Industry, Science and Research announced that it would undertake a review of Category 3 – Industry and Other Income, and the Joint Research Engagement (JRE) scheme of the Higher Education Research Data Collection (HERDC). The review will take place from June 2011 and be finalised by November 2011.

The JRE scheme will be specifically considered within the scope of the review. The aim of the JRE is to provide greater emphasis to end-user research by encouraging and supporting collaborative research activities between universities, industry and end-users. As a companion reform to the Sustainable Research Excellence in Universities (SRE) initiative, the JRE scheme involved a revision to the Institutional Grants Scheme (IGS) to remove competitive research income from the calculation formula. The aim of this was to more substantially reward universities that diversify their sources of research income while also recompensing universities for the indirect costs of their Australian Competitive Grant (ACG) research through SRE. Through an examination of the sources of income currently reported under Category 3, and the relevance and weighting of the various elements in the JRE formula, the department will aim to ensure that the policy intent of the scheme is being met.

The department will undertake the review with the assistance of a working group of the Higher Education Research Data Advisory Committee (HERDAC), which comprises representatives from the Australian higher education research sector.

The working group has assisted in the development of this discussion paper, and will assist in the analysis of data and sector feedback, as well as formulating possible adjustments to both the Higher Education Research Data Collection (HERDC) specifications and JRE scheme.

The intention is to revise the Category 3 component of the HERDC as required for 2012. While the intention is to revise the JRE as required for 2012, the timeframe for any changes to the JRE formula will depend on the scope of any modifications, the time required for relevant modelling and the need for further consultation with the sector.

This paper outlines the context for the review and sets out its purpose and method. The department will prepare advice to the Minister for Innovation, Industry, Science and Research on the outcomes from the review by the end of October 2011.
The process for the review, including the timeframe, is outlined in Table 1 below.

**Table 1 – Timeline for the review of Category 3 and the JRE Scheme**

<table>
<thead>
<tr>
<th>Task</th>
<th>Date required by</th>
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<tbody>
<tr>
<td>Establish Technical Working Group under the Higher Education Research Data Advisory Committee (HERDAC)</td>
<td>First meeting scheduled for Tuesday 12 July</td>
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<tr>
<td>- Consider Terms of Reference</td>
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<tr>
<td>Prepare and circulate discussion paper</td>
<td>End of July</td>
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<tr>
<td>Collect and analyse data</td>
<td>August</td>
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<tr>
<td>Independent audits of a select number of universities</td>
<td>August</td>
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<tr>
<td>Seek feedback from higher education sector regarding possible changes to the Category 3 component of the Higher Education Research Data Collection (HERDC), and on the relevance and weighting of various elements in the JRE formula.</td>
<td>September</td>
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<tr>
<td>Model any proposed changes to the JRE formula</td>
<td>Mid September</td>
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<tr>
<td>Further consultation on changes to JRE as required.</td>
<td>From late September</td>
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<tr>
<td>Completion of review and Ministerial endorsement of outcomes, with the exception of the JRE formula if more time is required for consultation and consideration of models.</td>
<td>End of October</td>
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<tr>
<td>Communication of outcomes with sector</td>
<td>Following Ministerial approval</td>
</tr>
<tr>
<td>Apply changes to HERDC specifications and JRE formula (if changes are minor). Significant changes to JRE may require further consultation, consideration, and implementation post-2012.</td>
<td>By Mid November</td>
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2. Overview of Research Block Grant Funding

In 2011, the Australian government is providing $1.51 billion as research block grants to support research and research training in the Australian higher education sector 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 institutions" and "Grants to support the training of research students". Research block grants therefore are provided to institutions specifically to support their research and research training activities.

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

The government allocates research block grants according to performance-based formulae using a combination of the following inputs:

a. research income;

b. research publications;

c. research student total load; and

d. research student total completions.

All data inputs are sourced from the HERDC and the Higher Education Student Data Collection (HESDC).

3. About the Higher Education Research Data Collection

The HERDC comprises research income and research publications data submitted by institutions 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 relative research and research training performance 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 support the policy intent of the funding. The department regularly examines the requirements of the collection to ensure its integrity and robustness as a metric of research performance.

In particular, the specifications provide the information necessary for institutions to determine what can and cannot be included in reporting their research income and research publications data. Every year, the department updates the HERDC specifications in consultation with the sector and other relevant stakeholders. As was the case for reviews undertaken in 2010, relevant findings from this review will provide the basis for any necessary changes to the 2012 HERDC specifications. The department will consult with the higher education sector about any proposed changes before the 2012 HERDC specifications are finalised.
To be eligible to report research income and publications data under the HERDC, institutions must be engaged in research which is defined as:

“…the creation of new knowledge and/or the use of existing knowledge in a new and creative way so as to generate new concepts, methodologies and understandings. This could include synthesis and analysis of previous research to the extent that it leads to new and creative outcomes.”

This definition of research is consistent with a broad notion of research and experimental development (R&D) as comprising of creative work undertaken on a systematic basis in order to increase the stock of knowledge, including knowledge of humanity, culture and society, and the use of this stock of knowledge to devise new applications. The definition encompasses pure and 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 institutions for their success in deriving research income for varying purposes related to research, thereby supporting the overall research effort of the Australian system. This includes income from Commonwealth, state and territory governments and industry. The four categories, as set out in section 7.11 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. Purpose of the Review

This review will be used to identify the sources of income currently reported under Category 3 of their HERDC income return. Through the review the department will also examine trends in the reporting of the subcategories, to ensure that this income aligns with the policy intent of the research block grants and the definition of research outlined within the HERDC specifications.

The review builds on the 2010 reviews of the Australian Competitive Grants Register (ACGR) (Category 1) and Other Public Sector Research income (Category 2) of the HERDC, to ensure that all of the income reported under these categories continues to be fit for purpose.

The review will also examine the impact of Category 3 income in relation to the distribution of JRE funding. The department recognises the need to ensure a balance between the support provided through the JRE and SRE and RIBG schemes.

In the context of the review, the department will examine the appropriateness of the JRE formula. In particular, we will consider the relevance and weighting of the various elements in the formula.

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Specifically the terms of reference for the review are:

1. Compare and analyse the sources of income reported by higher education providers (HEPs) under Category 3 income over the period 2006 - 2010; including to inform a review of the JRE scheme;

2. Examine the validity of the current Category 3 allowable items as an appropriate indication of research income in the HERDC;

3. Consider the relevance of Category 3 income inputs to the policy intent of the research block grants, particularly in relation to the JRE scheme which is intended to support collaborative research activities between universities, industry and end-users by:
   a. examining HEPs expenditure patterns of JRE funding;

4. Consider the relevance and weighting of the various elements in the JRE formula, including student load; and

5. Provide advice to the Minister for Innovation, Industry, Science and Research on outcomes from the review.

5. **Category 3 – Industry and Other Research Income**

In addition to competing for research funds to support basic and applied research projects from Australian Competitive Grant (ACG) programs, institutions procure income from industry and non-government sources, both domestically and internationally for the conduct of research.

Domestically, this includes income secured from industry partners in the forms of grants, contracts and donations, bequests and foundations. Internationally, this includes income from competitive research schemes and other international organisations.

Within the HERDC specifications, this income is subcategorised under Category 3 (Industry and Other income) as follows:

- **Australian**
  - Contracts
  - Grants
  - Donations, bequests and foundations

- **International** A: Competitive, Peer-reviewed research grant income

- **International** B: Other income

In 2010, the sector reported $796 million of research income under this category, which represented 26% of total research income reported. As the primary measure of end user collaboration with Australian industry and international organisations, this indicates the importance of ensuring that this income is consistently reported throughout the sector.

The department will examine a sample of the reported Category 3 income from 2006-10 and conduct an independent quality assurance exercise on a sample of institutions’ 2010 HERDC returns.

Additionally, the department will consider the relevance of the subcategories of income currently reported under Category 3, in measuring the research performance of Australian universities.

Currently, universities are rewarded for their performance in securing income from donations, bequests and foundations for the conduct of research. In many instances, this income may be provided to an institution based on their capacity and previous
performance to engage in valuable and quality research. However, in other instances, this income may be provided to a university without reference necessarily to its previous performance and instead due to connections an individual or organisation may have with the university. Additionally, currently including this income may favour institutions that have greater resources to promote and market their institutions to benefactors rather than specifically rewarding their actual research performance. The review will therefore consider the appropriateness of allowing income earned from donations, bequests and foundations that is available for expenditure on research in the reference year to be included, and the impact of this on the distribution of RBG income.

1. Are the subcategories of income under Category 3 appropriate?

2. Should the HERDC specifications continue to allow institutions to report any proportion of a donation, bequest or foundation that can be clearly and transparently attributed as to be expended on the conduct of research?

3. Is further clarification required in the HERDC specifications regarding the meaning of the term “transparently attributed as to be expended on the conduct of research”?

The department is aware that some sources of international competitive, peer-reviewed research grant income (International A) may not receive the equivalent support for the indirect costs of that research as is provided under the SRE and Research Infrastructure Block Grants (RIBG) schemes for ACG income. In some parts of the sector, there is an expectation that international competitive funding provided and reported under Category 3 should include greater support for these indirect costs.

Within this review the department will consider whether any change may be required in reporting this international income, particularly whether it should be included as Category 1. However, it believes that there are significant administrative and policy issues to consider before such a change could be enacted.

Firstly, as International A income is currently counted under HERDC for use in the RBG allocations, for all schemes except the SRE and RIBG, institutions are already being recompensed with funding from the Australian government, additional to the direct costs received from their international partner, for this reported income.

Secondly, in supporting the indirect costs of research from ACGs, the government also assumes a greater responsibility for ensuring that these schemes meet reliable and valid quality criteria. If international competitive income was counted under Category 1 of the HERDC, additional quality assurance measures would be required to ensure comparability with Australian schemes.

Finally, through supporting the indirect costs of ACG projects, the government receives a return on investment, the majority of which is realised in Australia. In contrast, the return on investment from international competitive grants is likely to be shared between both countries and not necessarily realised in Australia.
4. Does the reporting of international A income under Category 3 act as a disincentive for Australian HEPs to apply for this income?

5. Would it be more appropriate to include this income as Category 1, regardless of whether it has the impact of reducing the amount of support available for the indirect costs of Australian Competitive Grants?

6. If International A income was to be included under Category 1, should all income be counted, and, if not, what principles should be used to identify eligible funding sources? If specifically identified funding sources were listed, how often should reapplication for listing be required?

For the 2011 HERDC specifications the department expanded the allowable items (section 7.2) to allow the inclusion of income received to support the cost of a student’s HDR fee-paying place. This expanded inclusion makes explicit the practice of some institutions in reporting HDR-related tuition fees under the HERDC. The review will consider whether there is consistency in this approach and whether there are any adverse or unintended effects.

7. Is it appropriate to allow the inclusion of tuition fees provided to support the cost of a student’s HDR fee-paying place?

8. Is the current definition within the HERDC specifications explicit enough to identify what fees can and cannot be included?

6. Joint Research Engagement scheme

In recognition that basic research is only one of universities’ diverse roles in the national innovation system, the Institutional Grants Scheme (IGS) was transformed into the JRE initiative in 2010. The aim of the initiative was to encourage universities to increase their collaboration with industry and other end-users rather than focusing on research that was already funded through competitive grants, and which received support for indirect costs through the Research Infrastructure Block Grants (RIBG) scheme.

Revising the IGS funding formula involved the removal of competitive research grant income from the calculations used to allocate the research block grants. By removing competitive research grant income as a funding allocation driver, HEPs are rewarded for attracting funds from other sources, including industry and community partners and public sector research agencies.

While the intent of JRE is to reward institutions for diversifying their sources of income and provide support for the general fabric of their research training environment, the SRE and RIBG schemes both provide funding for the indirect costs of ACG research.

JRE funding is provided as a block grant, on a calendar year basis, to eligible institutions to support research and research training activities on the basis of demonstrated research excellence and ability to attract funding from other sources. Institutions have discretion in the way they spend their JRE grant and may be used to fund any activity related to research.
The JRE aims to:

- Support the general fabric of the research and research training activities of institutions
- Allow institutions to manage their own research activities and set their own priorities
- Assist institutions to respond flexibly to their research environment in accordance with their own strategies
- Enhance support for areas of research strength.

A safety net applies to the JRE scheme. Through the operation of a safety net, the most an institution can lose is 5% from year to year.

At present, in the JRE formula, research income (Category 2, 3 and 4) is weighted at 60 per cent, student load is weighted at 30 per cent and research publications are weighted at 10 per cent. The relevance and weighting of the various elements in the formula, particularly student load as a volume measure, will be considered. Student load, while a general measure of volume, may correlate more closely with Category 1 income than Category 3.

9. Is the current weighting of research income in the JRE formula appropriate to drive greater collaboration with industry and other end-users and diversify income?

10. Should there be greater emphasis on Category 3 and Category 4 income in the JRE formula?

11. Is student load an appropriate measure for the JRE scheme?

12. If student load was removed from the JRE formula should a commensurate proportion of funding currently provided for JRE be redistributed into the Research Training Scheme (RTS)?

13. Should other elements be added to, or taken from the formula?

Institutions have discretion in the way they spend the JRE grant as long as it is used to fund any research related activity, including the support of soft infrastructure and maintenance of capital items, but not capital purchases. As part of the review, some institutions will be requested to provide details on their JRE expenditure via an audit process. Given the open-ended nature of what JRE funding can be expended on, this will assist the department in determining expenditure patterns.

7. Method for collection of requested data and questions raised

In order to accurately identify trends in the sources of income reported under Category 3, the department is seeking a detailed return from each HEP that identifies and describes the individual transactions under Category 3 within a sample of their HERDC income returns, for either 2009 or 2010.
The information provided to the department will be utilised only for the purposes of the review. The department will treat the exercise as separate to the formal submission process for the HERDC, and findings will not result in any adjustment to institutions’ certified 2011 returns and subsequent 2012 research block grant allocations.

The department will contact institutions’ shortly and request a disaggregation of their total Category 3 income reported for either 2009 or 2010. To reduce the burden of reporting, each institution will only be requested to report disaggregated income for one of these years. The department will ensure that the sample chosen to report for each year is representative of the diversity within the sector including cohort groupings and regional and non-regional divisions. Institutions’ will be required to provide the name, description and funding received for each individual source that was counted as Category 3 income within the requested HERDC income return.

All institutions are also invited to comment on the specific questions raised in the paper. The department welcomes feedback by COB Wednesday 7 September 2011 via e-mail to:

RBGrants@innovation.gov.au

Please include “Review of Category 3 income” in the subject header.

8. Quality Assurance Exercise

The department will also work with eight HEPs (a representative sample across the sector) to conduct a quality assurance exercise on their 2010 HERDC income returns. A component of this exercise will also consider Category 3 research income and JRE expenditure. An independent organisation will be engaged to undertake this process.