

25 November 2010

Ms Anne Baly

Group Manager

Research

Department of Innovation, Industry, Science & Research

Dear Anne,

Thank you for your previous advice concerning changes to reporting of other Government funding contained in the 2011 Higher Education Research Data collection (HERDC) – Draft for Stakeholder Consultation. These changes have raised considerable concern among members of the Innovative Research Universities (IRU) both in discussions of the Vice-Chancellors and the Deputy Vice-Chancellors (Research).

The HERDC was designed to collect data that would measure the research efforts of the sector which then is used to drive the allocation of research block grants. The rationale for use of the research income measure is that it is a major indicator of the extent of high quality research being done by a university, based in each university's capacity to attract external funding whether from competitive allocations or from other external sources which are presumed to value the quality of the research outputs they support. It also serves to encourage universities to seek external funding, supporting the Government's objective of stronger relationships between industry and other users of research and research producers.

The inclusion of general and untied income from Governments, even where it is expended on research, does not lend itself to this model. While it may pick up some additional income that could be used for research, the decision to claim it is highly subject to manipulation depending on each university's sources of discretionary revenue. To reduce the potential for abuse, the requirement to demonstrate actual expenditure does little in reality to reduce the problem but rather turns the HERDC focus from an estimate of research income to a focus on research expenditure. There will be little or no connection to the quality of the research implied in the current focus on competitive grants and external funding explicitly for research.

To outline the issue further, the definition of general and untied income proposed in section 7.2 is quite broad allowing an institution to include any Government grant or general revenue that is not specifically excluded in the HERDC specification in section 7.3.

The IRU has serious concerns that this will lead universities, including IRU members, to include as much discretionary Government revenue as possible. However, it is clear that larger institutions will have a greater opportunity than smaller institutions to designate non-specific Government grants under the head of research through use of their range of other grants, donations and revenue to cover non-research expenditures..

The major impact of the change is to allow the inclusion of ANU's Government grants to support its research base. It is useful to remember that when the ANU bought into the general research block grant programs it gave up a portion of its direct grant to do so. This increased the total pool and then permitted ANU to compete for funds. To now include the remaining research grant as research income only serves to shift funding to the ANU away from all other universities. IRU estimates suggest that this could be of the order of a net movement of around \$34m to the ANU.

A flow-on effect will be the increased complexity required to audit research expenditure. Unravelling the financial web of non-research income being spent on research activities will be challenging. Further, it only builds again the detailed reporting of university use of funds, which changes to the HERDC over the recent years have introduced, rather than record the broad flow of research revenue and outputs.

The draft HERDC and associated documents do not provide a rationale for why the change is considered useful, addressing how inclusion of the additional sources significantly improves the relative allocation of the block grants or otherwise drives improved behaviour from the universities. As set out above, our analysis is that the change significantly assists one university and encourages all others to do their best to minimise the impact through financial manipulations hypothecating expenditure to revenue sources.

Should the Government maintain that there is a significant case for the change, it would be best to test its implications through collection of the data as an additional set of research income which can be assessed for its actual size, value, and its implications for inclusion in various block grant formulae considered.

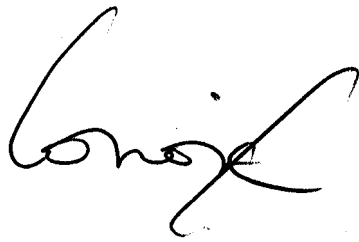
In addition, in response to the draft specifications the IRU offers the points listed below:

- it is important that DIISR remain open to questions concerning interpretation of the specification with the advice provided about audit questions broadly communicated to assist consistency;
- it would be useful for DIISR to provide advice regarding the testing of research projects against the definition of research. Each institution should be responsible for a process/internal control that determines if a project meets the definition of research and auditors are responsible for assessing the institution's processes;
- universities should be able to adjust existing sharing agreements as these are legal documents and cannot be simply changed during the life of a contract;
- in the case of 7.7 affiliations/partnerships with external organisations; could DIISR clarify whether conjoint/adjunct staff are eligible where they are covered by a legal employment arrangement; and
- could DIISR provide a list of government business enterprises to assist with the categorisation of category 2 income. This will save the sector time investigating

each Commonwealth, State and Local government entities involved in a research project as well as improve accuracy in reporting.

The IRU welcomes any opportunity for further dialogue to improve the intent of the HERDC specification.

Yours sincerely,



Conor King
Interim Director