October 2012/28
Policy development
Consultation

Responses should be made online by noon on Friday 11 January 2013

This publication consults on our proposals for streamlining the requirements of the Transparent Approach to Costing (TRAC), and for providing greater transparency on the costs of higher education activities.

Review of TRAC

Consultation on streamlining requirements and increasing transparency of the Transparent Approach to Costing

HIGHER EDUCATION FUNDING COUNCIL FOR ENGLAND

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Review of TRAC

Consultation on streamlining requirements and increasing transparency of the Transparent Approach to Costing

To	Heads of HEFCE-funded higher education institutions Heads of HEFCE-funded further education colleges Heads of alternative providers of higher education in England
Of interest to	Senior managers; Finance; Planning; Governing bodies; Academic and administrative staff with an interests in TRAC or provision of information for students NUS, Student representative bodies, students, prospective students and advisers to students
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Executive summary

Purpose

1. This publication consults on our proposals for streamlining the requirements of the Transparent Approach to Costing (TRAC), and for providing greater transparency on the costs of higher education (HE) activities.

Key points

2. The Transparent Approach to Costing is an activity-based costing approach designed with and for UK higher education institutions (HEIs). TRAC supports long-term financial sustainability by providing costing on a 'full economic cost' basis that allows for maintenance of capital infrastructure and the development of the next generation of academics. It supports the understanding and management of financial sustainability of higher education, and helps provide accountability for the public support provided to HEIs. It also provides cost information for HEIs' own use, including for benchmarking purposes. One of its aims is to minimise burden by meeting the needs of a wide range of stakeholders through a single system.

3. The introduction of TRAC in 1999 was in response to concerns about a cumulative degradation of the sector's capital infrastructure and about the financial sustainability of university-conducted research. It followed the 1998 Comprehensive Spending Review which reintroduced capital funding. Following TRAC, the 2004 Science and Innovation Investment Framework reinforced the need to ensure that research in HEIs was financially sustainable. In return for additional investment in the UK HE sector of over £1 billion per year by 2007-08, the Government required assurance that the HEIs had costing and pricing systems in place to ensure that they could better manage their resources and price activities appropriately to ensure the financial sustainability of teaching, research and infrastructure, and that the sector would then operate sustainably.

4. The Government's 2011 White Paper, 'Students at the heart of the system' (June 2011), invited HEFCE to consult the HE sector on 'radically streamlining the reporting requirements of

TRAC'. This recognised the importance of costing and pricing systems to the sector, as well as the need for HEFCE to have a means of determining the costs of higher-cost subjects to inform the funding of HE teaching, and for a costing tool to support the allocation of publicly funded research grants. The White Paper also invited HEFCE to consider how TRAC data might be used to both promote greater transparency and help inform the choices of prospective students, recognising the increasing accountability to students under the new arrangements for funding higher education.

5. To pave the way for such a consultation, HEFCE initially undertook a review of TRAC. In developing that review, HEFCE has been advised by the TRAC Review Group. This group is chaired by an independent HEFCE Board member, with members drawn from across the key stakeholder groups. The group defined the scope of the review by considering a number of fundamental questions about the rationale for the current TRAC arrangements given the changing higher education environment in England resulting from the Government's White Paper.

6. As part of HEFCE's review of TRAC initiated by the 2011 White Paper, it commissioned consultants KPMG to gather evidence from the many stakeholders and to provide analysis of the current TRAC arrangements. The review also drew heavily on evidence in 'Review of time allocation methods: A study for the TRAC Development Group'. This consultation presents the findings of the review and asks the sector for input on the key issues.

7. The review of TRAC has been structured under four themes, and this consultation is structured in the same way:

- Theme 1: The needs of stakeholders, now and in the future
- Theme 2: Burdens and benefits of TRAC as a costing system for the HE sector
- Theme 3: Opportunities to improve and streamline TRAC and the associated reporting requirements, and to secure better use of TRAC information
- Theme 4: Providing greater transparency for taxpayers, students and prospective students.

The inherent challenge set by the White Paper is to provide increased transparency on HE provider costs while seeking to streamline requirements and reduce the burden of the reporting requirements on HEIs.

Theme 1: The needs of stakeholders, now and in the future

8. The review identified multiple uses of TRAC that meet a variety of stakeholder needs. The system provides consistent and comparable information that is reconciled to institutions' annual accounts. The consultation responses to the Government's White Paper and HEFCE's consultation on the future arrangements for funding teaching showed widespread support for the continuation of TRAC.

9. Although the review team did not identify a viable alternative to TRAC, either in the UK or overseas, we invite consultees to present any alternatives that we should consider.

Theme 2: Burdens and benefits of TRAC as a costing system for the HE sector

10. Our review has sought to evaluate the burden caused by the TRAC requirements, recognising that TRAC is only one component of the data and accountability burden on HEIs and their staff from across a range of regulators, including the Quality Assurance Agency for Higher Education, the Research Councils and HEFCE itself.

11. The review found that the costs of operating TRAC are low and would be incurred by many institutions in any case when they evaluate costing for their own purposes. KPMG's work for this review estimated HEIs' staff input amounted to just over two hours a year on average for each academic staff member to complete time allocation schedules, with central costs of operating TRAC of between £25,000 and £80,000 for each institution. Combining these figures, the total annual cost of TRAC for the sector in England is therefore estimated at £13.6 million, representing 0.06 per cent of total income, equivalent to approximately £100,000 per institution on average.

12. We ask HEIs and others to tell us if they think their costs are very different from our estimates.

13. The benefits of TRAC are wide-ranging. HEIs use TRAC to inform decisions such as amounts to charge in fees, to carry out benchmarking exercises, and inform strategic decisions on their teaching and research portfolios. TRAC is not valued universally however – 35 per cent of HEIs reported in their 2010-11 annual TRAC return that they did not use TRAC data to provide management information or to support decision-making processes. We are interested to understand why some feel that TRAC is not useful for these purposes, and to identify what improvements might be made to overcome any barriers or provide greater utility from TRAC as a costing tool.

Theme 3: Opportunities to improve and streamline TRAC and the associated reporting requirements, and to secure better use of TRAC information

14. We have identified a range of options for improving the balance of burdens and benefits of TRAC, by streamlining the minimum TRAC requirements; streamlining the reporting requirements; or by making TRAC more useful to HEIs. Our proposals for reducing the administrative burden include:

a. Increasing the threshold for dispensation to allow more institutions with relatively low levels of publicly funded research activity to be exempt from compliance with the full TRAC requirements.

b. Bringing together the submission dates and sign-off processes for the annual TRAC return and TRAC(T) return by combining them as a single return with the requirements for management and board review, and head of institution sign-off incorporated into the annual accountability framework.

15. We do not know whether such proposals would secure significant operational efficiencies or reduce burden for institutions. Institutions that contributed to the review estimated potential savings at between 5 and 20 per cent – up to £20,000 on average for HEIs that are not currently eligible to claim dispensation from compliance with the full TRAC requirements, with potential for greater savings for HEIs that become eligible for dispensation.

16. We do not seek to consult on the technical details of these options, but to gather high-level feedback on the priority areas for revision of the TRAC requirements.

Theme 4: Providing greater transparency for taxpayers, students and prospective students

17. In recognition of the huge investment in higher education by students and taxpayers, there is a clear need for assurance they are obtaining value for money, by providing information about how funding is spent within HEIs.

18. Our proposals include options for presentation and publication of TRAC data to aid transparency on costs incurred by HEIs. We also consider options for greater disaggregation of TRAC data to produce data on HEI costs at course level. However, there is a cost associated with providing more information that must be justified by a benefit, and changes to existing processes must conform to the principles of better regulation.

19. In 2010 research was carried out on the information needs of students, to inform the content of the new Key Information Set (KIS) on the Unistats web-site as the primary source of essential information for prospective students. This is its first year of operation, and it will be reviewed in 2013-14 and 2014-15. Our discussions suggest that the KIS focuses on the right areas to support prospective students in their choices about what to study and where to study, and that course costing information by HEIs is not a priority for students.

20. We understand that some HEIs are voluntarily providing information for their students at an institutional level that describes how tuition fees are spent. This would satisfy, at minimal cost, an accountability need of both students and taxpayers. A further enhancement could be a comparison of costs by discipline at a sector level.

21. We propose exploring the development of good practice in presenting this information to reinforce the confidence of stakeholders.

22. We invite views on the options for providing greater transparency on how public funding for higher education is spent, what forms are suitable to meet student and the public interest, and how we avoid influencing market behaviour, as well as having regard to the costs of providing such information.

Action required

23. Responses to this consultation should be made by **noon on Friday 11 January 2013** using the online form which can be accessed alongside this document at www.hefce.ac.uk/pubs/year/2012/201228/.

24. We welcome views from anyone with an interest in financial management of higher education and transparency and accountability for public and student investment in higher education.

25. Students and prospective students, their parents and advisers are particularly encouraged to respond. The issues of most interest to them are covered under Theme 1 (paragraphs 78 to 83) and Theme 4 (paragraphs 163 to 168) and questions 10 and 12.

26. We recognise the UK-wide interests in TRAC, though this consultation makes proposals only in respect of universities and higher education colleges in England that are funded by HEFCE. However, we will take into account the view from HEIs outside England, and other HE providers.

27. We are aware that HE staff interest in TRAC extends across the institution. Therefore we encourage heads of institutions and senior managers to ensure their responses are informed by a wide range of views. We also welcome individual responses from academic and administrative staff in HEIs.

28. We will hold consultation events on 8 and 16 November. Details of these events have been communicated to HEIs, and further details of how to book a place are provided on the HEFCE web-site (www.hefce.ac.uk/news/events/name,75693,en.html).

Next steps

29. Responses to this consultation will be considered by the TRAC Review Group in early 2013, which will then make recommendations to the HEFCE Board in spring 2013. It is envisaged that implementation plans will be taken forward in collaboration with the HE sector and other stakeholders.

Introduction

30. This consultation invites views about revisions to the reporting requirements of the Transparent Approach to Costing (TRAC), the activity-based costing approach designed with and for UK higher education institutions that has been adopted since 1999.

31. The consultation is undertaken in response to the Government's higher education White Paper in 2011[1], to recognise the changing funding arrangements for higher education in England, and the Government's aims to reduce administrative burden across the public sector and to provide greater transparency on the use of public funds.

32. Relevant excerpts from the White Paper are reproduced below:

> **6.23** HEFCE has collected data from all HEFCE-funded institutions on the true cost of teaching and research through the Transparent Approach to Costing (TRAC) exercise. It has provided an objective basis for determining how HEFCE teaching grant should be allocated between different subjects. It has also allowed institutions to benchmark their costs against similar institutions, providing useful management information for many universities. It has been designed with, and is reviewed regularly by, the sector and provides credible information that can then be used to satisfy the requirements of a number of major funders, including research funders.
>
> **6.24** Implementing TRAC, however, is far from cost-free and all institutions have to comply with the minimum requirements. While a 2009 report found that the benefits of TRAC outweighed its administrative burden,* it is clear that as universities become increasing accountable to their students rather than to Government, there is a diminishing rationale for a universal reporting system measuring costs across the system.
>
> **6.25** We will ask HEFCE to consult with the sector on radically streamlining the reporting requirements of TRAC. The means of determining the costs of higher cost subjects will need to be given consideration. It must remain available as a benchmark for applications for research funding, but HEFCE will look at how far TRAC requirements can be reduced and simplified at the earliest possible opportunity.
>
> **6.26** Alongside our other reforms to improve information, outlined in Chapter 2, we will work with HEFCE to consider how TRAC data might be used to promote greater transparency and help inform the choices of prospective students.
>
> * JM Consulting and HEFCE (2009) *Policy overview of the financial management information needs of higher education, and the role of TRAC*.

Consultation aims

33. This consultation invites comments on proposals for:

- streamlining the TRAC requirements of higher education institutions (HEIs)
- providing greater transparency on the costs of providing higher education for taxpayers
- assisting prospective students in their choices about where and what to study.

[1] 'Students at the Heart of the System' (June 2011) is available at: http://discuss.bis.gov.uk/hereform/

Scope

34. TRAC is a UK-wide costing approach, implemented in HEIs in England, Scotland, Wales and Northern Ireland, and used by other UK higher education (HE) funding bodies and by the UK Research Councils. TRAC is not required to be implemented in further education colleges, and is not a requirement for other higher education providers. While HEFCE's Review of TRAC recognises the UK-wide interests in TRAC, this consultation makes proposals only in respect of HEIs in England funded by HEFCE and the interests and needs of stakeholders.

Structure of the consultation

35. The consultation has four themes:

Theme 1: The needs of stakeholders, now and in the future.

Theme 2: The burdens and benefits of TRAC as a costing system for the HE sector.

Theme 3: Opportunities to improve and streamline TRAC and the associated reporting requirements and to secure better use of TRAC information.

Theme 4: Providing greater transparency for taxpayers, students and prospective students.

Responding to this consultation

36. The closing date for responses to this consultation is **noon on Friday 11 January 2013**. Please use the online form that can be accessed alongside this document at www.hefce.ac.uk/pubs/year/2012/201228/.

37. We will hold consultation events on 8 and 16 November. Details of these have been communicated to HEIs. To book a place, visit the HEFCE web-site at www.hefce.ac.uk/news/events/name,75693,en.html.

Freedom of Information Act

38. The Freedom of Information Act 2000 provides a right of access to information held by a public authority (in this case, HEFCE). This includes information provided in response to a consultation. HEFCE has a responsibility to decide whether any responses to this consultation, including information about respondents' identity, should be made public or treated as confidential. We can refuse to disclose information only in exceptional circumstances. This means that responses to this consultation are unlikely to be treated as confidential except in very particular circumstances. Further information about the Freedom of Information Act is available at www.ico.gov.uk.

Next steps

39. The responses to the consultation will be considered by the TRAC Review Group in early 2013, which will then make recommendations to the HEFCE Board. It is envisaged that implementation plans will be taken forward in collaboration with the HE sector and other stakeholders.

Background to TRAC

40. TRAC was introduced in 1999 in response to a Government requirement for greater accountability, particularly around public funding for research. It followed the 1998 Comprehensive Spending Review which reintroduced capital funding for HEIs, and was later reinforced by the 2004 Science and Innovation Investment Framework which recognised the need to ensure that university-conducted research was financially sustainable. It led to the funding of publicly funded research projects based on the full economic cost of the activity. Government investment in HE subsequently increased year-on-year, and provided over £1 billion per year in additional funding by 2007-08; this was consolidated into the funding baseline for subsequent years.

41. In return for this increased level of public investment in the HE sector, the Government required assurance that the investment it was making would tackle the backlog of investment in capital infrastructure in the sector, and that the problem of underinvestment would not recur. It required assurance that costing and pricing systems would be developed and used within the sector to ensure that HEIs could manage their resources to ensure the financial sustainability of teaching, research and infrastructure.

42. Although the impetus to develop TRAC was driven by a Government and Treasury requirement to improve public accountability, there were also significant benefits for the sector in using it. The TRAC methodology is holistic – costing all activities, not just research – and is reconciled to HEIs' audited financial statements (a Treasury requirement to provide assurance on the reliability of the data). The TRAC methodology also includes an adjustment to provide costing on a 'full economic cost' basis that allows for maintenance of capital infrastructure and the development of the next generation of academics – supporting long-term sustainability. The introduction of TRAC methodology provided a solid basis from which HEIs could develop their own costing systems to provide management information to support academic and financial decision making. To ensure the TRAC approach was capable of supporting the management information needs of HEIs, its development was undertaken and piloted by the HE sector and overseen by the Joint Costing and Pricing Steering Group[2], which had a membership comprising HEI senior managers.

43. TRAC was explicitly designed as one system to meet many objectives, including those of HEIs, and an important aim from the outset was to minimise regulatory burden.

44. TRAC is a principles-based approach to costing, which allows flexibility in the methods of reporting, in recognition of the diversity of HEIs in terms of their organisation, scale and activities; and the different users and uses of costing information. TRAC was designed to allow HEIs discretion over the precise methods adopted, while maintaining the confidence of funders by providing some standardisation to provide consistency and to ensure data are sufficiently robust for the purposes for which they are used. (A 'one-size-fits-all' approach would not be appropriate.) It was also designed to avoid the need for HEIs to operate 'full commercial costing systems' or to require academic staff to complete weekly or monthly timesheets. Institutions can use a range of methods for collecting time allocation data to satisfy the TRAC requirements, which means they can choose the approach that most suits their internal organisation and needs.

[2] The Joint Costing and Pricing Steering Group was established in 1998 and completed its programme of work in 2005.

45. TRAC comprises three main elements:

a. **Annual TRAC return:** Each HEI reports annually on the full economic costs of activities analysed under three types of activity – Teaching, Research and Other – and further analysis of research costs by type of research sponsor. This return is required to be submitted to HEFCE by 31 January each year for the academic year ended on the previous 31 July. This is often abbreviated to 'annual TRAC'.

b. **TRAC fEC for research project costing:** This methodology forecasts the full economic cost (fEC) of research projects for cost-based pricing for Research Councils and other public funders of research. Data are derived from the annual TRAC return outlined at a. above, for example, analysis of support costs and academic staff time.

c. **TRAC(T):** Teaching costs reported in the annual TRAC return outlined at a above are further analysed by institutions to produce 'Subject-FACTS' – the subject-related average annual cost of teaching a FTE HEFCE-fundable student in a Higher Education Statistics Agency (HESA) academic cost centre. These data are collected as a separate return submitted by 28 February each year for the academic year ended on the previous 31 July, with final sign-off on the data required by mid April. TRAC(T) Subject-FACTS data are used to inform HEFCE's teaching funding method. (Note that TRAC(T) Subject-FACTS data do not represent the total cost of teaching a student. These data exclude the costs of student bursaries and other cost elements that HEFCE funded via other funding streams, such as targeted allocations for widening participation or part-time students, and funded costs for small and specialist institutions.)

46. All HEFCE-funded HEIs are required to implement TRAC and to submit both an annual TRAC return and a TRAC(T) return each year, under the terms of the Financial Memorandum between HEFCE and institutions. Institutions with low levels of publicly funded research are eligible for dispensation from the need to comply with the full TRAC requirements[3]. HEIs in Scotland, Wales and Northern Ireland are also required to implement TRAC and report annually. HEIs in Wales are not required to implement TRAC(T). Further education colleges in the UK are not required to implement TRAC, nor is it a requirement for other higher education providers.

47. There is no standard TRAC method (or software), but there is a set of mandatory standards to be achieved by institutions. This is set out in the 'TRAC Statement of Requirements'.

48. Further information about the background to TRAC can be found in Annex B and in 'Policy overview of the financial management information needs of higher education institutions and the role of TRAC'[4].

49. To increase the use of TRAC data by institutions a suite of guides was issued in 2010 by the Financial Sustainability Strategy Group (FSSG)[5] plus an overview titled 'Achieving academic and financial sustainability: guidance for forward-looking institutions'[6].

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[3] Paragraphs 13 to 17 of Annex B provide further information about eligibility for dispensation.
[4] This publication is on the HEFCE web-site at www.hefce.ac.uk/whatwedo/lgm/trac/tracforseniormanagers/
[5] FSSG is a sector-led body with representatives of funders and institutions as members. More details are at www.hefce.ac.uk/whatwedo/lgm/trac/governanceandqa/
[6] These documents are available at www.hefce.ac.uk/whatwedo/lgm/trac/toolsandguidance/managementinformationprojects/

Approach to the review

50. HEFCE established the TRAC Review Group to oversee the review. The group is chaired by an independent HEFCE Board member, with a cross-section of members drawn from across the key stakeholder groups. The terms of reference, scope of the review and membership of the group are available on the HEFCE web-site[7].

51. In determining the scope of its review, the TRAC Review Group recognised at the outset that it needed to consider some fundamental questions about the rationale for the existing TRAC arrangements given the new higher education environment. The group therefore considered the following questions as a basis for the review:

a. Do HEIs need activity-based costing information to support their management and financial sustainability?

b. Does TRAC have a role in supporting the assessment of, and the understanding of, financial sustainability?

c. Is it desirable to have different costing systems for HEI management; to inform the pricing of research projects (where cost-based pricing is required); to inform HEFCE's teaching funding method; and to provide information for students, taxpayers and Government?

d. Are the needs of the different stakeholder groups compatible? Can these different needs be integrated or satisfied by a single system? Can TRAC do this successfully?

e. Is a system for allocating academic staff time and costs to activity an essential element of costing and management systems for HEIs?

f. Given the changing higher education funding environment, is a consistent sector-wide costing system more or less important than it was when TRAC was established in 1999?

g. Do the costs of developing new or alternative systems to meet these requirements mean that it would be too costly or time-consuming to implement new systems from scratch?

h. What are the benefits of the current TRAC arrangements, and could these be enhanced?

i. What are the costs, burdens and limitations of the current TRAC arrangements, and to what extent can these be minimised or overcome?

52. To support its work, the TRAC Review Group appointed consultants KPMG to gather evidence from across the range of stakeholders, and to provide analysis of the current TRAC arrangements. The resulting report, 'Review of the Transparent Approach to Costing: A report by KPMG for HEFCE' is available on the HEFCE web-site[8].

53. In appointing KPMG we recognised there was a risk of conflict of interest because of KPMG's role in providing support services for TRAC and support to the TRAC Development Group (TDG) and FSSG. The TRAC Review Group sought to mitigate this by inviting an

[7] At www.hefce.ac.uk/whatwedo/lgm/trac/tracforseniormanagers/ under 'HEFCE review of TRAC'.
[8] At www.hefce.ac.uk/pubs/rereports/year/2012/tracreview/

independent assessor to review the consultants' report and provide an opinion on the report in terms of its coverage, methodology, delivery against the specification and how potential conflicts of interest have been addressed in production of the report. The independent assessor was satisfied with the way the review had been conducted.

54. A key part of the work of KPMG and the TRAC Review Group has been to challenge stakeholders, particularly funders to justify what data they require and their level of prescription of how the data are produced.

55. The TRAC Review Group also received papers from FSSG and TDG, and a report from TDG published in July 2012[9] on its review of time allocation methods.

56. The TRAC Review Group additionally invited the National Union of Students (NUS) to provide input to the review in respect of the interests of students and prospective students. That dialogue improved the group's understanding of the information needs of students and prospective students.

57. Throughout its work the TRAC Review Group has been mindful of policy developments in the rapidly changing HE system. Recent developments and consultations which the group reviewed and reflected on include:

- the work of the Higher Education Public Information Steering Group and the development of Key Information Sets for students
- HEFCE's consultation on its funding method for teaching for 2013-14 and beyond (HEFCE 2012/04) and the summary of consultation responses and decisions (HEFCE 2012/19)[10]
- the Government's response to the White Paper and the Department for Business, Innovation and Skills (BIS)Technical Consultation on the New Regulatory Framework for the HE sector[11]
- the Ministerial letter to HEFCE[12] and the Student Loans Company, and the resulting work, undertaken by the Regulatory Partnership Group, to implement the Government's plans.

58. The TRAC Review Group identified early on that the review process would need to incorporate a wide range of interrelated issues and factors extending beyond the request set out in the White Paper. It set out the scope for the review in November 2011[13].

59. This consultation reflects the conclusions of the TRAC Review Group, and presents a set of proposals based on the evidence and analysis available to the group. The group will consider responses to the consultation in early 2013, then present recommendations to the HEFCE Board in spring 2013.

[9] 'Review of time allocation methods: A study for the TRAC Development Group', available at www.hefce.ac.uk/whatwedo/lgm/trac/tracforseniormanagers/

[10] These documents can be accessed on the HEFCE web-site via www.hefce.ac.uk/pubs/

[11] www.bis.gov.uk/news/topstories/2012/Jun/he-white-paper-consultation-response-published

[12] www.hefce.ac.uk/news/newsarchive/2012/name,73166,en.html

[13] www.hefce.ac.uk/whatwedo/lgm/trac/tracforseniormanagers/ under HEFCE review of TRAC

Theme 1: The needs of stakeholders now and in the future

60. The higher education White Paper (see paragraph 32) heralds significant changes to arrangements for funding higher education teaching in England, and there are likely to be consequent changes to the operating framework for higher education providers in England. There will inevitably be an impact on what information HEFCE requires of HEIs in order for HEFCE to fulfil its funding and regulatory roles monitoring the financial sustainability of HE providers, as well as its enhanced responsibility to protect the student interest and promote public benefit from HE providers.

61. In our February 2012 consultation on proposals for the future teaching funding method, 'Student number controls and teaching funding: Consultation on arrangements for 2013-14 and beyond' (HEFCE 2012/04), we included the following question about TRAC:

> *Do you have any comments about our proposal to use an approach based on TRAC(T) – with modifications – to inform our development of the future funding method for high-cost subjects?*

The overwhelming response to this question was that, while it has limitations, TRAC(T) offers the most appropriate basis to inform a future funding model, because it is currently the most complete data set for the costs of delivering higher education teaching.

62. Following consultation, the HEFCE Board approved our teaching funding proposals for 2013-14 and beyond in July 2012, and the outcomes are on our website[14]. The Board will decide how we will implement changes to our teaching funding method during 2013. These are likely to impact on what data are required to inform the teaching funding method, and what data are required via the TRAC process. In any changes we make we will strive to minimise the burden on providers.

63. Even if the White Paper had not asked us to review TRAC, the changes to the funding arrangements would have necessitated a review of the TRAC information requirements. The work of the Regulatory Partnership Group[15] on redesigning the information landscape[16] also forms part of the context in which this review of TRAC is being undertaken.

64. Furthermore, in this increasingly competitive and challenging higher education environment, the need for institutions to ensure they have a sound understanding of the costs of their activities to support management of their financial sustainability becomes ever more important.

Stakeholder needs

Public funders and regulators

65. All public funders of higher education are required to demonstrate accountability and value for money, and from the outset TRAC had this as one of its core objectives. HEFCE, other UK HE funding bodies, Research Councils, the Teaching Agency and the Department of Health all use TRAC to inform their funding and policy requirements. TRAC data provide valuable information, particularly at sector-wide level, enabling increased understanding of the full economic costs of research, and more recently, teaching. TRAC information is regarded as a

[14] www.hefce.ac.uk/pubs/year/2012/201219/
[15] www.hefce.ac.uk/about/intro/wip/rpg/
[16] http://landscape.hesa.ac.uk/

valuable source of information for various purposes by HM Treasury and BIS. The existence of a consistent national costing system provides reassurance about the management of funds in higher education which has benefited all HEIs, both directly in terms of their funding and indirectly through the confidence it has engendered in Government.

66. Notwithstanding the recent changes to the funding arrangements for teaching in England, the Government will continue to provide substantial public investment in higher education, and provide government-funded loans to students to finance their higher education. Thus there will be a continuing need for HE providers to demonstrate accountability for public investment as well as to demonstrate their financial sustainability.

67. KPMG's report to HEFCE notes that annual TRAC data are used in England, Scotland and Northern Ireland (but not in Wales) in assessments of HEIs' financial sustainability, and that they help HE funding bodies to assess whether sufficient resources are invested to sustain the performance of HEIs. While the external auditors' report on HEIs' financial statements provides an opinion on the use of funds, the costs of teaching and research are not differentiated in the financial statements. TRAC data are reconciled to the annual financial statements (a Treasury requirement) and this supports the credibility of TRAC, providing an additional layer of assurance to funding bodies on the use of public funds for teaching and research.

68. Nearly all HEIs are charities, and as such their trustees have legal obligations in respect of charitable income, other funds, and statutory reporting requirements about their delivery of public benefit. As principal regulator of HEIs in England that are exempt charities, HEFCE has the specific regulatory responsibility to promote compliance by trustees with their obligations under charity law. (This includes the responsibilities of trustees for ensuring a sustainable academic and business strategy and to report on going-concern and public benefit.) The TRAC annual return supports this work by providing HEFCE with assurance that HEIs are aware of the challenges to financial sustainability and their ability to continue delivering public benefit through their teaching and research activities. In this regard, the FSSG is carrying out development work with a number of pilot institutions to help HEIs and their governing bodies to assess their institution's sustainability and is considering the implications of the report from the Sharman Inquiry[17]. The outcomes of the FSSG's work are expected to be available in early 2013. It will build on the work of its 2011 report 'Assessing the sustainability of higher education institutions'[18].

69. In evidence provided to the TRAC review, HM Treasury and BIS stated that they recognise TRAC as an important national system which can be used to benchmark costs on a whole-sector basis and which provides confidence in the use of public funds by HEIs. In particular, HM Treasury stated that TRAC is an important tool in providing information about higher education and science and research funding in the run up to the next government Spending Review. TRAC, with modifications, is also accepted by the European Commission for full cost funding of projects under Framework Programme 7.

70. Hitherto, TRAC has been implemented as a UK-wide approach, providing consistency of reporting across the UK. Now that different arrangements for funding teaching are envisaged across the devolved administrations, funders acknowledge that variations by country may be

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[17] 'Going Concern and Liquidity Risks: Lessons for companies and auditors': report from the Sharman Panel of Inquiry, published June 2012

[18] www.hefce.ac.uk/whatwedo/lgm/trac/tracforseniormanagers/

necessary. Nevertheless, HE funders in the devolved administrations – the Scottish Funding Council (SFC), Higher Education Funding Council for Wales (HEFCW) and Department for Employment and Learning (DEL) – remain committed to retaining a UK-wide system where possible. The funding of research projects by Research Councils will continue to operate consistently UK-wide.

71. The Research Councils use TRAC methodologies to determine a cost-based price for research grants and contracts that are funded at 80 per cent of full economic costs. Through the annual TRAC return, evidence is provided on the sustainability of research. For the Research Councils TRAC also provides a tool to enable them to implement efficiency savings, and to monitor the delivery of efficiencies by Research Councils and HEIs. Research Councils UK (RCUK) is currently undertaking a review of its own requirements from TRAC, the outcome of which will feed into this review. RCUK has reconfirmed its commitment to the principle of funding research projects based on full economic costs, and is understood to be committed to reducing burden and complexity in its requirements.

72. HEFCE also intends to use TRAC data derived from the study on TRAC-Research Cost Relativities (TRAC-RCR) as part of its assessment of subject cost relativities in informing its quality-related (QR) funding for research. SFC, HEFCW and DEL also participated in the TRAC-RCR review, and SFC and DEL are also likely to use the results. HEFCW may not do so because of the small size of the HE sector in Wales.

Higher education institutions

73. TRAC was developed not only to provide accountability to funders, but to provide useful management information for institutions, to support their understanding of costs and support financial and academic decision-making. In completing the annual TRAC return for 2010-11, HEIs were invited to state whether they used data from TRAC for internal management purposes – almost two-thirds (65 per cent) confirmed that results were used in this way. Further evidence of the utility of TRAC data was provided in the TDG's report 'Review of time allocation methods', for which a survey of 82 HEIs and visits to 12 HEIs identified that over half of the institutions surveyed were using TRAC data for other purposes – mainly internal costing and to inform resource allocation and fee decisions. Furthermore, TRAC is used by some HEIs as an accepted method by HMRC for VAT partial exemption calculations, and we understand that some HEIs are interested in developing the use of a TRAC-based approach for corporation tax purposes. While TRAC may not be able to replace existing internal costing tools, it can be a helpful check on results generated by other systems.

74. In addition, HEIs report that TRAC is useful because it provides a nationally accepted method of costing that enables internal benchmarking against a comparator group of HEIs, and provides credibility if they wish to make a particular case to funders.

75. As the funding environment for higher education evolves over the coming years, and particularly the funding of teaching, a sound understanding of the institution's cost data will be increasingly important to enable HEIs to make informed decisions about which parts of their provision to expand or contract. This will apply to UK, EU and international students, and across undergraduate and postgraduate, full-time and part-time, provision. Furthermore, in making such decisions, institutions will need to understand not just the variable costs of existing teaching provision, but the full economic costs of teaching activity, as provided by TRAC. Indeed, in its submission to the TRAC Review Group, FSSG expressed the view that the new funding

environment in England made an activity-based costing system such as TRAC increasingly relevant.

76. The FSSG and TDG have done much to enhance and promote the utility of TRAC for institutions, notably through publication of a suite of guides called 'Management Information Projects' which are based on case studies of good practice that demonstrate use of TRAC as a financial management tool in HEIs. These guides, published in 2010[19] are:

- Optimising programme efficiency: course costing
- Academic and operational efficiencies: departmental sustainability
- Prioritising and aligning resources to academic strategies
- Fulfilling student expectations through effective workload planning.

77. One aspect of TRAC on which we wish to consult is to establish why the levels of utility reported are not higher than they are, and what changes to the TRAC methodology, or its implementation within institutions, would make it more relevant and helpful. We consider these issues further under Theme 2.

Student and public interests

78. The White Paper invited HEFCE to consider how TRAC data might help inform the choices of prospective students. In doing so, the TRAC Review Group drew on the research commissioned by the HEFCE team that was working to launch the new Unistats web-site and the development of the new Key Information Sets (KIS) and received input from the HE Public Information Steering Group (HEPISG) which is overseeing that work[20] [21]. The evidence indicated no desire by students for the provision of detailed provider cost information when choosing course and place of study.

79. An early review of the KIS, from October 2012 to December 2013, will seek feedback from prospective students, current students and their parents and advisers about what additional information about HE provider costs would be useful to inform their choices about what to study and where to study. This initial indication of need will be built on by further work, principally a major review of provision of information about HE which is planned to commence in 2013-14 and report in 2014-15. The outcomes from the early review of KIS will be considered alongside responses to this consultation on the Review of TRAC.

80. The TRAC Review Group also invited input from the NUS on the information needs of prospective students. This dialogue confirmed views that Unistats is a key way of providing essential information for students. While there may be scope for enhancing the information it provides (for example, better indicators regarding employability and salary projections), detailed provider cost information was not considered a priority in informing student choices. While there was interest in data, at sector level, to show the variation in cost of different subjects, this was not in terms of seeking to compare institutions.

[19] www.hefce.ac.uk/whatwedo/lgm/trac/toolsandguidance/managementinformationprojects/
[20] www.hefce.ac.uk/news/newsarchive/2012/name,75539,en.html
[21] http://unistats.direct.gov.uk/

81. There is a general expectation for HEIs and the HE sector to provide greater transparency to students, their advisors, and taxpayers. This is additional to the statutory responsibility of HEI governors, as charity trustees, to report on public benefit.

82. In addition to Unistats data, a wider set of information is to be made available by all publicly funded HEIs, further education colleges with undergraduate provision, and private providers that subscribe to the Quality Assurance Agency for Higher Education (QAA). From 2012-13 the QAA institutional reviews (which include reviews of colleges of further education that offer HE courses) will include a judgement on the quality of information about the learning opportunities offered, including that produced for prospective and current students. The focus of the new judgement will be whether HE providers produce information that is fit for purpose, accessible and trustworthy. The QAA's 'UK Quality Code for Higher Education – Part C: Information about higher education provision'[22], published in March 2012, has become a reference point for reviews carried out by QAA from September 2012.

83. Proposals for increasing transparency in respect of TRAC data are considered under Theme 4 of this document.

TRAC as a sector-wide activity-based costing system

84. The evidence available to the TRAC Review Group indicates that the majority of institutional representatives and stakeholders that have provided input to the review thus far remain committed to the continuation of TRAC. The views expressed to the group argue that TRAC provides:

- a mechanism to provide accountability for public money
- assurance around the regularity of expenditure
- a valuable policy tool for informing teaching funding
- a consistent approach for costing research projects and benchmarking costs between institutions.

It is also used to inform costing and pricing considerations within institutions and as a tool to support the overall management of financial sustainability. For example, if an institution is at risk of becoming financially unsustainable, TRAC information enables management to assess which parts of the institution's mission are leading to that unsustainable position.

85. KPMG's work did not identify any other consistent approach to costing that would provide sector-wide data on the costs of activities, although other information on financial performance and costs does exist in various forms. For example, HEIs provide financial information to the Higher Education Statistics Agency in the HESA Finance Statistics Return (FSR). In it, income and expenditure is reported by HESA cost centres and for various areas of activity for all UK HEIs. However this return does not attempt to separate the costs of teaching, research and other activities as reported under TRAC, nor does it represent the full economic costs of HEIs' activities as defined in TRAC.

86. In its work KPMG sought evidence about approaches to costing higher education activities in other countries. It was unable to establish any evidence of alternative costing systems in use

[22] www.qaa.ac.uk/Publications/InformationAndGuidance/Pages/Quality-Code-Part-C.aspx

on a consistent sector-wide basis. Indeed, in many respects other countries look to the practice adopted in the UK, and to TRAC as the benchmark when developing their approaches to costing.

87. This and other preliminary information and evidence available to the TRAC Review Group indicate that there was no desire from across stakeholders, particularly from HEIs, to abolish TRAC and replace it with an alternative system or systems and reporting arrangements. Moreover, the initial evidence suggests that even if TRAC was not a formal requirement of funders for accountability purposes, substantial elements of the current TRAC arrangements would still be required and operated within HEIs for internal management purposes. In the absence of evidence that there are better or more effective alternative costing approaches that could be adopted to satisfy the range of stakeholders, the emerging view is that there was neither appetite nor capacity within the HE sector to undertake major change or to invest in alternative approaches, given the investment made in TRAC to date and the extent of other changes in higher education.

88. This conclusion is corroborated in the responses to the Government's consultation on the White Paper. The Government's subsequent response included the following:

> 2.4.5. Most respondents who commented on the proposal to streamline the reporting requirements of TRAC (Transparent Approach to Costing) supported it, although many emphasised that TRAC was a useful process and should not be substantially rolled back.

89. Furthermore, the responses to HEFCE's consultation on teaching funding regarding the use of TRAC(T)[23] to inform HEFCE's teaching funding method were an overwhelming acknowledgement that – while it has limitations – TRAC(T) still offers the most appropriate basis to inform a future funding model, because it offers the most complete data set on the costs of delivery.

90. In summary, the evidence suggests that the majority of stakeholder needs are met by the existing national costing framework provided by TRAC, and thus that the focus of this review should be on identifying the scope for improvements to TRAC to enhance the value and utility of outputs to stakeholders, while keeping burden to a minimum.

Consultation question 1

The initial findings of the TRAC Review Group did not identify evidence that existing sources of cost data other than TRAC provided the same level of useful, consistent and comparable information across the HE sector to meet the needs of stakeholders. Do you agree with this conclusion? If not, what sources of information could be used to meet the needs of existing stakeholders, including funding bodies?

[23] TRAC(T) is a component of the TRAC approach used for allocating teaching costs to disciplines (HESA academic cost centres) and was developed to provide the data used by HEFCE (and SFC) to inform its teaching funding method.

Application of TRAC to HE providers

91. All publicly funded HEIs in England, Scotland, Wales and Northern Ireland are required to implement TRAC and provide annual TRAC returns to their respective funding bodies, including data required by Research Councils to inform their funding of research projects as a condition of funding[24]. All HEIs are required to comply with the TRAC Statement of Requirements, with the exception of HEIs with low levels of publicly funded research activity which are eligible to apply for dispensation from some of the requirements.

92. HEFCE's consultation on student number controls and teaching funding in 2013-14 and beyond (see paragraph 61) noted its commitment to implementing a fair and equitable approach across the whole higher education system, recognising the benefits of a diverse system operating on a 'level playing field' on which HEFCE's policies and implementation approaches operate for all providers falling within the Government's regulatory framework.

93. In evidence provided to KPMG, all respondents from HEIs agreed that the requirements to implement the annual TRAC requirements should be extended to new entrants to the HE sector where they are in receipt of HEFCE funding or subject to the same regulatory framework.

94. However, further education colleges and alternative providers of HE typically do not receive funding for research from either HEFCE or the Research Councils. And further education colleges already have assurance mechanisms in place to ensure accountability for public funds, on which HEFCE places reliance. For example, further education colleges are subject to regulatory oversight by the Skills Funding Agency (SFA) and are subject to a range of regulatory reporting mechanisms, including the requirement for external auditors to provide an opinion on the use of funds through a 'regularity audit'. HEFCE would not wish to duplicate existing assurance mechanisms which provide accountability for public funding.

95. Since HEFCE conducted its consultation on the future proposals for student number controls and teaching funding in February 2012, the Government has published its responses to the consultation of the White Paper and the BIS Technical Consultation. These confirmed that the Government would not be bringing forward primary legislation in the current Parliament. Without new legislation, alternative providers of HE will not be eligible to receive grant funding from HEFCE.

Consultation question 2

Do you agree with the principle that the requirement to implement a TRAC-based annual reporting requirement should be applicable to all HE providers in receipt of HEFCE grant funding excluding those regulated by the SFA?

[24] HEFCW does not require HEIs in Wales to implement TRAC(T).

Theme 2: Burdens and benefits of TRAC as a costing system for HE

96. The report 'Policy overview of the financial management information needs of higher education, and the role of TRAC'[25], was prepared for the FSSG and the TDG in 2009. It found that TRAC provided clear and quantifiable benefits for all types of institution, and for funders. The report concluded, however, that implementing TRAC was not cost-free, and that the challenge was to manage the balance of burden and benefit.

97. The burden caused by collecting and processing the information needed to meet TRAC requirements is only part of a more general data and accountability burden on HEIs and their staff. It is important for us to acknowledge that TRAC requirements comprise only a small part of the total demands on HEIs within a wider data landscape. Other regulatory requirements include those of the QAA, other components of HEFCE's accountability framework, the new requirements in respect of KIS for students and accountability to the Research Councils in respect of research projects, as well as the requirements to provide data to HESA. A report on the wider information landscape was published under the auspices of the Regulatory Partnership Group in June 2012, and work continues to implement its recommendations[26].

98. This section evaluates the evidence currently available to assess the burdens associated with TRAC, plus the benefits derived from TRAC across all users and stakeholder groups. We then assess the proportionality of the benefits and burdens as a basis for considering where changes may achieve a better balance of benefits versus burden.

Assessing the burden of TRAC

99. Since the introduction of TRAC a significant body of work has been done to assess its regulatory burden on HEIs. In the report 'Review of the Transparent Approach to Costing: A report by KPMG for HEFCE'[27], KPMG summarises these as follows:

> There have been several attempts to estimate the total cost of TRAC, including the following:
>
> a. In 2008 PA Consulting carried out a project to assess the total accountability burden on the HE sector in England, using a sample of HEIs. The PA Consulting report[28] compared the 2008 costs of regulation with those in 2004. The report noted that the overall burden of regulation had fallen by as much as 21%, although some significant areas of regulatory obligation had increased over the period, including TRAC. The report concluded that the average incremental annualised cost associated with compliance with collation and submission of TRAC information for each HEI was approximately £49,000, leading to a sector cost of £6.5 million (based on 132 HEIs in the English HE sector). It should be noted that the report also cited TRAC as one of the areas of obligation that generated the most significant benefits.
>
> b. The TDG Review of Time Allocation Models indicated that on average the amount of time it takes an academic member of staff to complete their TAS [Time allocation survey] return was just over 2 hours a year (138 minutes), or 0.14% of a 'standard' academic year

[25] Available at www.hefce.ac.uk/whatwedo/lgm/trac/tracforseniormanagers/ under 'Publications and guidance'/'Policy overview'.

[26] www.hefce.ac.uk/about/intro/wip/rpg/redesigningthedatalandscape/#d.en.75428

[27] www.hefce.ac.uk/pubs/rereports/year/2012/tracreview

[28] PA Consulting Group, 'Positive accountability: Review of the costs, benefits and burdens of accountability in English higher education' (January 2009).

of 1650 hours.[29] This compares favourably to the time taken to complete weekly or monthly timesheets, for instance. We have estimated that the cost of academic staff complying with time allocation requirements across the English HE sector is therefore £7.1 million based on total academic salary costs of £5.1 billion in England.[30] The amount of central staff time spent on time allocation and on TRAC as a whole varies considerably across institutions. The cost to administrative staff of administering the TAS system was estimated at 42 days per year and the overall estimate of days per year of central staff spent on administering the whole TRAC process was 154 days.

c. TRAC(T) was estimated to cost £2,000 to £5,000 per institution to implement when calculated in 2006.[31] This would equate to approximately £500,000 across the UK HE sector. However, these costs represented an initial investment in enhancing systems and processes, and institutions have told us that they have in large part now been absorbed within the overall TRAC process. There is for example no additional allocation of academic time as a result of completing the TRAC(T) return. It is therefore not necessarily the case that removing the annual requirement would result in a significant cost saving.

Extract from KPMG report: Review of the Transparent Approach to Costing (October 2012)

100. KPMG sought to establish an up-to-date assessment of resources committed to implementing TRAC requirements by visiting institutions. It found a range of estimates, reflecting differing sizes of institution, the nature of the activities, the extent to which TRAC compliance processes can be differentiated from other financial management processes, and the extent to which institutions use TRAC for other purposes. Nevertheless, KPMG made the following conclusions about the costs associated with TRAC:

a. HEIs' costs of TRAC are between approximately £25,000 and £80,000 for each institution, excluding the academic time for time allocation surveys (TAS). A few institutions have costs in excess of this range and the smallest institutions have lower costs.

b. Assuming an average of £50,000 per institution, for 130 institutions in England, this gives a total annual cost for TRAC of **£6.5 million** (excluding the costs of academic staff completing TAS).

c. Together with the **£7.1 million** estimated total cost of academic input into TAS, this gives a total annual cost for TRAC of approximately **£13.6 million** (equivalent to approximately £100,000 per institution, on average). This does not include the costs of Principal Investigators preparing bids for Research Council or other contracts.

d. This compares to total income for HEIs in England in 2010-11 of **£22,949 million**. Therefore overall this cost represents **0.06% of total income**.

101. These costs break down as follows:

a. Time spent by administration staff (usually in finance or research services but also in registry and estates) on operating the TRAC process, and time of senior management providing oversight and quality assurance of the process.

[29] KPMG, 'Review of time allocation methods, A study by KPMG for the TRAC Development Group' (July 2012).
[30] HESA Finance Plus, Table 7 (2010/11).
[31] HEFCE, TRAC for teaching bulletin (July 2006).

b. Academic staff in completing TAS.

c. The costs of IT systems to support the TRAC process.

d. The costs of auditing and compliance: these vary but can be significant. For example, internal auditors review institutions' TRAC processes periodically, and periodic exercises are undertaken by RCUK such as the Quality Assurance and Validation of TRAC (QAV) process in 2008.

Additionally there is the time taken for Principal Investigators to plan and cost the resources needed for research projects, including a forecast of the academic time required. This was not included in the estimate in the previous paragraph because it varies materially according to the volume of research activity and the number of research project proposals an institution submits.

102. HEIs can use a range of time allocation methods to satisfy TRAC requirements; however, they must all cover activity over the whole academic year, and all staff over a three-year cycle. Many HEIs use 'in-year retrospective' methods, using time allocation surveys to cover the whole year, and will either survey all academic staff in one year or survey approximately a third of academic staff each year. Some institutions use 'one-week 24-hour diaries' for a sample of academics selected on a statistical basis, while others are developing the use of workload-based models. This enables each institution to choose the time allocation method that best suits their culture and circumstances, but always within a framework of consistent data quality at a national level.

103. Evidence based on the 82 HEIs responding to the institutional survey undertaken for the TDG's 'Review of time allocation methods' includes the following:

a. Over 70 per cent of respondents considered the burden of time allocation to be 'fairly reasonable', 'not a problem', or 'high but acceptable' given the benefits derived.

b. Approximately half of these respondents indicated that they used time allocation survey data for other purposes.

c. Of the 30 per cent of HEIs that indicated that the burden of time allocation was excessive, almost half also use the time allocation data for other purposes.

d. Nearly half of respondents were neither satisfied nor dissatisfied with the time allocation requirements within TRAC. Only 17 per cent were dissatisfied whereas 34 per cent were either satisfied or very satisfied.

e. 70 per cent of respondents stated that time allocation data would be collected even if it were not a TRAC requirement.

f. The greatest burden arising from time allocation rests with staff, typically within the finance department, responsible for co-ordinating the time allocation process. The average time spent was 42 days per year compared with the total central staff time spent on administering the whole TRAC process of 154 days per year.

g. The average time spent by academic staff on completing time allocation returns was 138 minutes per year. The total burden on academic staff time will depend on the total number of staff within the institution that are required to complete time allocation schedules. (Not all academic staff are required to complete the returns.)

h. Most institutions operate an approach in which ‘in-year retrospective’ returns are collected, with academic staff typically asked to complete three returns in a year. Approximately half of institutions ask academic staff to complete the time allocation process every year, and broadly half collect the information for one year in every three years. (A small number use other approaches.)

i. A small number of institutions are using workload planning-based approaches, and all that do believe that this approach provides a more accurate result. Based on the survey, 18 per cent of institutions are planning to use workload planning information to varying degrees in enhancing their approach to time allocation in the future. (Evidence from 2010-11 TRAC returns indicates that 32 per cent of institutions intended to implement workload planning-based approaches to inform their time allocation process for costing.)

104. Evidence gathered for ‘Review of time allocation methods’ (see paragraph 99b) did not suggest excessive burdens on academic staff; the process is nevertheless perceived to be burdensome. The study sought to establish the nature of these concerns about burden, and to assess concerns raised about lack of confidence in the data derived from the time allocation process.

105. The time allocation study also confirmed through interviews with individual institutions that the ‘actual’ burden on academic staff in complying with time allocation requirements was not significant, and concluded that the perception of burden arose from a lack of awareness about why data were collected or how they were used. Some institutions suggested that the frequency of data collection was seen as an irritant when the results (for some institutions) were relatively static.

106. Institutions interviewed expressed mixed views about their confidence in the time allocation information. Though it was hard for the consultants to fully elicit the concerns of those not satisfied, contributory factors seemed to revolve around the political drivers to TRAC; the nature of data validation processes ; and limited or no communications with the academic community regarding how the data are used or how the institution benefits from the information.

107. The time allocation study highlighted three steps identified by institutions as helping to reduce the perceptions of time allocation process as a burden:

- where there was strong and open support at a senior level for the processes supporting TRAC
- where institutions have embedded elements of the TRAC data in the day-to-day running of the institution
- where there is local support for the process, such as dean or head of department.

108. The KPMG report and the Review of time allocation methods that informed the TRAC review did not identify – either within institutions across the HE sector, or in research on practices in other countries – alternative approaches to academic staff time reporting. Nevertheless, through this consultation, we wish to gather information about alternative approaches that might incur lower burdens for institutions.

109. In respect of TRAC as a costing system, KPMG reported that, with the exception of the annual financial statements, most institutions and other stakeholders felt that there were no other

available sources of information beyond TRAC that provided sufficient assurance to meet the needs of stakeholders regarding the cost of activities.

The benefits of TRAC

110. Since the introduction of TRAC a range of uses and benefits for institutions have been developed and delivered. Its various elements have been responsible in part for increased funding for research; ensuring teaching funding is informed by real costs; providing a tool for assessing institutional sustainability; supporting government Spending Review representations; and providing a range of data for institutions.

111. The benefits of TRAC to funders and to Government are set out in Theme 1. TRAC has also paved the way for a number of studies which have helped to ensure that funding and policies are informed by evidence about costs. Examples are: the sustainability of teaching and learning, the costs of nursing, the costs of teacher training, and the costs of clinical subjects.

112. In its review of TRAC, KPMG reported that HM Treasury saw TRAC as an important tool in providing information about higher education and science and research funding in the run-up to the next government Spending Review.

113. HEIs use TRAC data for internal management purposes. According to annual TRAC returns for the academic year 2010-11, two-thirds of HEIs use the data to provide management information and support decision-making processes.

114. Further evidence of HEIs' use of TRAC data is provided by the NAO report 'Regulating financial sustainability in HE – Census summary report'[32]. Based on an 84 per cent response rate to a survey of all HEIs in England, it found that:

- 53 per cent of institutions used their TRAC data to inform decisions on amounts to charge in fees
- 52 per cent used TRAC data to carry out benchmarking exercises
- 43 per cent used TRAC data to inform strategic decisions on their teaching and research portfolios.

115. Also, the survey to inform the review of time allocation methods identified that 44 per cent of institutions use time allocation data for purposes other than TRAC.

116. One reason why HEIs say that they find TRAC useful is that it provides a nationally accepted method of costing which is used internally for benchmarking against a group of comparator HEIs, and therefore provides greater credibility when they make a particular case to funders. In the TRAC review KPMG noted continued enthusiasm for benchmarking time allocation survey data, both internally and externally between institutions and peer groups. This did not appear to be driven by anti-competitive agendas, but was more a genuine reflection that benchmarking provided a useful process to judge the appropriateness of an institution's own time allocation survey results.

117. It is not the case that use of TRAC is valued universally. The NAO report also noted that a fifth of institutions had not presented their TRAC data to their governing bodies during the previous year, and 35 per cent of HEIs reported in their 2010-11 annual TRAC return that they

[32] National Audit Office (March 2011): www.nao.org.uk/publications/1011/financial_sustainability_in_he.aspx?alreadysearchfor=yes

did not use TRAC data to provide management information and support decision-making processes.

118. We wish to understand why some institutions feel TRAC is not useful for these purposes, and what improvements might be made to overcome any barriers or provide greater utility. We are also keen to understand where alternative approaches or tools are in use that may be more suitable or less burdensome as a means to assessing where changes or improvements could be made.

Evaluation of proportionality of benefits and burdens

119. In reviewing the benefits and burdens of TRAC, the TRAC Review Group was keen to evaluate not just the absolute burden, within the context of other accountability and reporting requirements that apply to the sector, but also to assess that burden in the context of the benefits derived. A key objective of this review is to determine the potential for securing a better balance between the burdens and benefits associated with TRAC.

120. It is important to distinguish between the costs of setting up a new costing system such as TAS and TRAC, which can be quite significant, and the cost of maintaining it once adopted. Abolishing TRAC and replacing it with a significantly different system will inevitably increase burden in the short term.

121. It is also important to understand the difference between the costs to HEIs of meeting the **minimum requirements** imposed on them by the need to comply with TRAC and any additional costs that accrue because they choose to use TRAC for other internal management purposes.

122. The TRAC Review Group has considered whether there was value in retaining a single system to satisfy the needs of multiple stakeholders, and whether there would be merits in seeking to extend the use of TRAC to underpin the pricing of other publicly funded activity. This might result in a reduction of overall burden for the HE sector.

123. TRAC methodology, in an adapted form, is already being used by a small number of institutions to apply for grants on a full cost basis under EC Framework Programme 7 (TRAC EC-FP7). Most institutions use the alternative ‘additional-cost-flat-rate’ method, which is less burdensome but offers a lower rate of funding. However, since Framework Programme 8 (referred to as Horizon 2020) is unlikely to use a full-cost methodology, RCUK has argued that the introduction of a single flat rate for reimbursement of indirect costs is ‘a regressive move’. It has stated that, ‘given the investment across Europe in developing full-cost systems; those institutions that have robust accounting systems, allowing identification of full economic costs, should have the option of indirect cost reimbursement based on this’[33].

124. The Department of Health (DH) (which funds bursaries and tuition for students considering employment within the NHS) and the Teaching Agency also make limited use of TRAC data. But TRAC might be adapted to provide data to support negotiations with DH on price of training contracts, or to inform funding of teacher training for different subjects. Thus there may be an opportunity for TRAC to be further developed to support the data needs of other funders such as the DH, Training Agency or Ministry of Defence; currently they operate separate arrangements for pricing non-competitive contracts with HEIs.

[33] RCUK, Response to the European Commission’s Horizon 2020 proposal (May 2012).

125. As well as using outputs from the TRAC process for internal management, HEIs have benefitted from a number of TRAC-related reports, such as the well-received ‘Review of the Costs of Sustainable Learning and Teaching’ (2009)[34] and various Management Information Projects run by FSSG and TDG, such as projects on Course Costing and Workload Allocation Models (see paragraph 76).

126. Institutions and the HE sector as a whole also benefit from benchmarking of TRAC data, both as a mechanism to aid better understanding of their own activities, and to support and monitor efficiency across the HE sector. The Universities UK Efficiency and Modernisation Task Group published ‘Efficiency and effectiveness in higher education’[35] in June 2011, and is undertaking further work to secure efficiency through benchmarking via a tool to enable all HEIs to evaluate their operational costs. This is being led by Universities UK and the FSSG.

127. In assessing the proportionality of benefits and burdens for institutions, we invite comments on whether the effort put into costing by your institution is too high in relation to the benefits obtained.

Consultation question 3

Should the accountability requirements to Government and funders be reduced in the new higher education environment, and if so in what way? Given the information supports the accountability requirements of multiple stakeholders, is there merit in seeking use of TRAC to underpin pricing of other publicly funded activity or contracts, such as by the NHS, Ministry of Defence or the European Union for ‘Horizon 2020’?

Consultation question 4

The review has sought to establish evidence about the benefits and burdens associated with TRAC. What are your views on the existing burdens and benefits of TRAC? How could the burden be reduced? Is there an alternative to TRAC which could meet the accountability requirements of Government and might offer greater benefits or lower burdens to institutions?

Consultation question 5

Given the increasingly competitive and complex external environment, in which HEIs will need to be better aware of the costs and contributions of all their activities to ensure financial sustainability, how could the HE sector better articulate the uses and benefits of TRAC to reduce the perceptions of burden and promote wider adoption as a management tool?

Theme 3: Opportunities to improve and streamline TRAC and the associated reporting requirements, and to secure better use of TRAC information

128. The HE White Paper invited HEFCE to consult with the sector on ‘radically streamlining the reporting requirements of TRAC’. In assessing this requirement, the TRAC Review Group noted that the reporting requirements of TRAC represent only the end part of the process (submitting data returns to the funders). As indicated in Theme 2, much of the effort associated with TRAC does not arise from the reporting requirements, but in the implementation and operation of a

[34] www.hefce.ac.uk/whatwedo/lgm/trac/tracforseniormanagers/ under ‘Policy overview’.
[35] www.universitiesuk.ac.uk/Publications/Pages/EfficiencyinHigherEducation.aspx

costing system and related management information flows and processes to support provision of data. The TRAC Review Group therefore looked wider than the reporting requirements themselves to include consideration of the specification of the TRAC requirements for a fully compliant TRAC system and the extent to which these requirements could also be streamlined.

129. From international comparisons of HE systems, we have not found evidence of an obvious alternative costing system to TRAC which would deliver similar benefits at significantly lower cost. Indeed, the UK's TRAC system is seen as a benchmark system internationally, and an approach which a number of other countries either have adopted or are considering adopting. Therefore it is likely that savings in the costs of operating TRAC will come from reforming aspects of TRAC itself, rather than adopting alternative costing systems. However we are open to suggestions on alternative approaches.

130. A key aim of the TRAC review is to strike a balance between providing consistent and comparable data and analysis (for funders and for benchmarking), and the desire for more flexible, less prescriptive requirements which could better meet the needs of institutions. The TRAC requirements are principles-led, and were developed in a way that provides flexibility and choice of methods for how HEIs implement the requirements. Equally, as evidenced by the fact that HEIs use data for other purposes, some HEIs can and do choose to implement methods that go beyond the minimum requirements for TRAC. This may be because their choices of approach are better suited to their internal operational and management arrangements; because they consider it provides greater confidence in the reliability of data; or because they wish to develop their costing system to provide information beyond the outputs required to be reported to funders.

131. Some have expressed lack of confidence in the data produced from TRAC systems. Thus a further tension exists between seeking to ensure high-quality data and reducing prescription and burden.

132. Under this theme we consider three ways of improving the balance between the burdens and benefits of TRAC:

a. By streamlining the TRAC requirements.

b. By streamlining the reporting requirements.

c. By making it more useful to HEIs (and other stakeholders).

133. We are not seeking to consult on the technical detail of TRAC guidance.

134. The TDG has responsibility for oversight and updating of TRAC guidance. It periodically reviews the guidance, informed by feedback by the user community. The TDG aims to reduce the burden to HEIs of complying with TRAC, and the outcome of this review will inform that work.

Options for streamlining the TRAC requirements

135. We identify options below for potential streamlining of TRAC requirements. This is not a comprehensive list: we welcome suggestions about further options for reducing burden, or improving the value and utility of TRAC as a costing system. Inevitably, changes to TRAC requirements have advantages and disadvantages; for example if greater flexibility were allowed in reporting there would be reduced comparability for benchmarking.

136. Options for streamlining TRAC requirements include the following:

a. **A revised threshold for eligibility for dispensation**[36]. The threshold for dispensation is set at £0.5 million of publicly funded research income (calculated as a five-year rolling average), a limit that has not been raised since its inception in 1999. At that time, approximately 39 HEIs were eligible for dispensation (25 per cent of the UK higher education sector) compared with 30 HEIs currently (19 per cent of UK sector). It is now timely to review this threshold. A higher threshold would reduce the administrative burden of TRAC for HEIs that have low levels of publicly funded research. In future we could instigate a review of the threshold, say at five-yearly intervals. The threshold needs to be at a level that reflects the level of materiality and risk in respect of public funding of research, and proposals for a revised threshold would be subject to approval by RCUK. It would remain the choice of individual HEIs eligible for dispensation whether they claim dispensation, since they would need to assess the administrative advantages against the potential financial implications of applying potentially lower dispensation overhead rates on their Research Council-funded projects.

Currently, 28 HEIs in England [UK: 30] are eligible for dispensation from the requirement to comply with the full TRAC requirements, of which 25 HEIs [UK: 27] claimed dispensation when applying for Research Council funded projects from 1 April 2012. HEIs claiming dispensation use indirect cost rates and estates costs rates set at the lower quartile of the UK sector rate when applying to the Research Councils for research project grants.

If the threshold were raised to £2 million, we estimate that 44 HEIs in England [UK: 53] would be eligible for dispensation (equivalent to 35 per cent of the sector [UK: 33 per cent]). A threshold of £3 million would release an estimated 50 HEIs in England [UK: 61] from compliance with the full TRAC requirements (39 per cent of the sector [UK: 38 per cent]).

b. **Refining time allocation method(s)**. The TDG review of time allocation methods identified that HEIs adopt a range of methods to meet the TRAC requirements: from 'in-year retrospective' methods to statistical approaches to time allocation surveys, with a small number using approaches based on workload planning models. No single method would be acceptable across all institutions, and 40 per cent of institutions in the survey did not have information on academic staff time analysis beyond the data collected for TRAC. Beyond workload planning-based approaches, few substitutes were identified that could be used in place of time allocation surveys. Similarly, the review of international approaches to academic time recording did not identify approaches that appear to offer viable alternatives to the methods in use in the UK, with other countries often seeking to emulate the practices in the UK. More detailed evaluation of options is provided in the TDG's review of time allocation methods. The proposals we present below for streamlining the time allocation requirements focus on the conclusions drawn from that work:

[36] HEIs eligible for, and claiming, dispensation are exempt from full compliance with the TRAC requirements in return for accepting indirect and estates rates applied to research grant applications based on sector data. The dispensation cost rates were originally set at the sector average rate, but in 2010 the dispensation rates were reduced to be set at sector lower quartile. Further information about dispensation is provided in Annex B (paragraphs 15 to 17).

i. A reduction in the minimum required response rate required for in-year, non-statistical time allocation methods. Although the cost per individual academic of completing TAS returns is low, the overall burden on an HEI depends on how many academics complete such returns. The overall response rate is above 75 per cent (75 per cent is the minimum response rate specified in the TRAC requirements). For departments or schools where there are large numbers of academic staff, a lower sample rate may be enough to obtain statistically reliable results; a more nuanced approach to sampling academic staff could offer a reduction in administrative burden without reducing the reliability of cost allocations. A (slightly) reduced minimum response rate may therefore be acceptable. A maximum required threshold could also be identified as a further way of reducing burden on institutions.

ii. Shorten the survey interval in order to reduce the length of the recall period for the ‘in-year non-statistical retrospective time allocation’ method. Currently the TRAC process allows the use of just two returns to cover the whole year, meaning that staff completing the return can be looking back over a period of six months when completing time allocation information. Evidence from literature reviews suggests the length of this recall period may be too long to provide reliable data, and that credibility of the time allocation data would be improved with a collection period less than the six months currently permitted.

iii. Reduce the frequency of collection of time allocation data. Approximately half of the institutions surveyed for the TDG review of time allocation methods collect academic time allocation data from staff every year, with almost all of the remainder collecting the information once every three years. The minimum requirements for TRAC specify coverage of all staff on a three-yearly cycle, and so some institutions may wish to exercise the option to reduce the frequency of their data collection from academic staff in order to potentially reduce burden for both academic staff and central administration. However, any potential gain of reducing the frequency of collecting this information would need to be balanced against the additional effort required to reacquaint staff with a process that is operated less frequently. There is also a risk that less frequent collection could reduce the validity and acceptance of the data internally, or could limit the utility of the data for other purposes, such as assessment of changes in departmental time allocation year-to-year.

c. **Other suggestions** for reducing burden or increasing the reliability, confidence and/or utility in the use of time allocation data include:

i. Automation of the time allocation process as a way of reducing the administrative burden and scope for data error.

ii. Reasonableness checks by both academic and finance staff to provide a level or corroboration of the information and enhance the credibility of time allocation data. This good practice in any case.

iii. Improvement in quality, reliability and response rates for academic time allocation data. This has been achieved in institutions that have provided a structured programme of communication with academic staff, led by senior staff, and supported locally by heads of department to raise awareness about the purposes of TRAC and linking this with income flows to the institution. Institutions that have embedded elements of the TRAC data in day-to-day operational processes, also report greater confidence in and acceptance of the time allocation data and processes.

iv. Move to a workload allocation model. Some institutions have moved to a workload allocation model to generate time allocation data rather than using a survey approach, stating that a workload model approach better aligns with the culture of how academic staff time is managed. This can also overcome the difficulty of assessing how many hours should be counted towards an academic's workload in the TAS, which can lead to academic staff over-estimating the amount of time spent on research.

d. **Alternative approach to calculating cost adjustments:** There is general acceptance of the rationale within TRAC for the two cost adjustments and of the infrastructure adjustment as a mechanism to ensure consistency across all institutions. However we are aware of some concerns and debate about the use of a formula-based proxy to derive the Return for Financing and Investment (RFI) adjustment. Some changes and improvements to the RFI adjustment were made in 2011, but work to define an alternative metric to represent the margin required for long-term sustainability is currently being undertaken by FSSG as part of its work on to develop a set of metrics for sustainability. We anticipate that the outcomes of FSSG's work (due in early 2013) will inform improvements to or replacement of the RFI adjustment currently used within the TRAC methodology.

e. **Research sponsor-type analysis:** Currently institutions are not required to report robust data at research sponsor-type[37] level; however this will become a mandatory requirement from 2013-14. While some institutions have questioned the need for and robustness of these data, in the 2010-11 TRAC returns 67 per cent of institutions reported that their data on allocation of academic staff time to research sponsor-types were robust. HEIs claiming dispensation are not required to provide robust data, and our proposals set out at a. above for extending the eligibility for dispensation would release more institutions from the need to report robust analysis at this level. These data remain important for use by HEFCE, Research Councils and Government in informing their understanding of the sustainability of university research activity.

f. **Simplify requirements for research facilities:** TRAC guidance on reporting on research facilities is complex. While it represents good practice in costing of such facilities and encouraging efficient use of research equipment, TRAC practitioners and TDG have identified it as a priority area for review, with considerable potential for streamlining requirements. However, while there is scope for simplification of the minimum requirements, we do not propose to limit HEIs' adoption of existing good practice in costing

[37] Research sponsor-type categories for TRAC reporting purposes are: Institution-own funded; Postgraduate Research; Research Councils; Other government departments; European Union; UK-based charities; Industry (including all other organisations such as UK industry, EU non-government organisations, Overseas charities and industry). Research Income is matched against these sponsor categories. Recurrent research funding from the Funding Councils is reported separately. This was to help clarify the national picture on research deficits and sources of funding as research funding from the funding councils is allocated as a block grant and can be used to support publicly funded research categories at the individual HEI's discretion. Some HEIs prefer to provide a different presentation of this analysis for internal management purposes.

research facilities. In any changes it will be important to consider the Research Councils' arrangements for funding equipment and enhancing equipment utilisation in the future.

g. **Simplify requirements for laboratory technicians:** There is scope for simplification of TRAC requirements, which currently permit three different approaches to costing laboratory technicians.

h. **Harmonisation of TRAC definitions and HESA FSR categories:** We note that a small number of HEIs have suggested there may be scope for better alignment of TRAC definitions with reporting categories in the HESA Finance Statistics Return (FSR) which might offer potential for streamlining reporting requirements. We propose to explore this with HESA.

137. We do not take a view on the extent to which these proposals could secure operational savings or efficiencies for HEIs, and we would welcome HEIs' assessment of this in their responses.

138. Institutions that contributed to the development of this review indicated that potential cost savings resulting from streamlining the requirements were likely to be marginal. They estimated savings in the order of between 5 per cent and 20 per cent of the total costs of operating TRAC for those that do not currently fall within the dispensation arrangements. These estimates of potential savings depended on the extent to which TRAC data were currently used within the institutions, and the nature of potential changes to the requirements.

139. Streamlining TRAC requirements may have negative consequences in terms of reduced data quality and robustness, or reduced value of benchmarking data. More streamlined requirements might also mean that institutions need to put more effort into developing any local systems. We consider HEIs to be well-placed to assess these potential related consequences in the context of their own use of TRAC data.

140. We seek views on whether the proposals set out in paragraph 136 would deliver beneficial reductions in burden for institutions. In commenting on our proposals and putting forward suggestions for alternative approaches, please include some consideration of the consequences of taking forward the proposals for streamlining, including the potential for reducing burden and implications for data quality, data utility and benchmarking.

Consultation question 6

Please comment on the proposals set out in paragraph 136 for streamlining the minimum requirements for TRAC. Are there areas we have omitted, and are there other ways to improve the efficiency of TRAC implementation? Please include in your response an assessment of the potential to secure operational savings or efficiencies, and any potential loss of benefits that should be considered in relation to these proposals.

Options for streamlining and reducing the burden of the TRAC reporting requirements

141. The completion of TRAC returns is not in itself significantly burdensome, since the data returns are generated as outputs from institutions' TRAC systems and processes. Nevertheless, this section considers the scope for reducing the burden of the reporting requirements by considering the content of the data returns and the quality assurance processes associated with the data reporting.

142. In paragraph 45 we set out the current reporting requirements:

- the annual TRAC return
- TRAC fEC for research project costing (combined with the annual TRAC return)
- TRAC(T) data.

The annual TRAC return data and TRAC fEC data are collected as one return, while the TRAC(T) data return has a separate reporting date. The later return date of the TRAC(T) data collection arises from the need during its initial implementation to provide time for institutions to respond to a new reporting requirement. Institutions identify unnecessary burden resulting from the requirement for the head of institution to sign off two returns prior to submission, with a further post-submission validation period in respect of TRAC(T) data.

143. Further, as part of the sign-off process on the annual TRAC return a confirmation of compliance with TRAC requirements is needed from a committee of the HEI's board. This also results in duplication in the current arrangements, because the TRAC(T) return uses the annual TRAC data as its starting point and there is a need to cross-validate the two. The later submission date for TRAC(T) and the post-submission validation period also result in delay before that year's TRAC(T) Subject-FACTS data (see paragraph 45c) to inform HEFCE's funding for teaching. Institutions have raised concerns about using historic data to inform HEFCE's teaching funding allocations, and making the data available earlier would enable HEFCE to use more recent data.

144. We therefore propose that the data collection for annual TRAC, TRAC fEC (for RCUK) and TRAC(T) be combined as a single return with the requirements for management and board review and head of institution sign-off incorporated into HEFCE's annual accountability framework. This may result in a need to change the timing of some institutional activity in collating the TRAC data, and we would envisage a period of transition in which to accommodate this. We would like to know what practical issues would need to be tackled in moving to such a harmonisation of the annual accountability reporting. Equally, we would be interested to understand more about what HEIs' current arrangements exist to ensure that their board is able to consider TRAC information alongside other financial information.

145. We assessed the annual TRAC return, in terms of the current and future needs of stakeholders, and identified limited scope to reduce the number of items of data collected. There is scope to revise the sub-analysis of the publicly funded teaching category to reflect changes in the funding arrangements for teaching in England. Some sections of the annual TRAC return are not part of the data return itself, but provide validation checks on the data entered for use by those preparing the submission, and present the institution's trend data in graphical form. These validation checks may be reduced, although this information helps institutions to make submissions error-free.

146. As noted in paragraphs 60 to 63, HEFCE's requirements of TRAC(T) will change in order to provide cost information to inform the development of HEFCE's funding method for high-cost subjects from 2015-16. The outcomes from the consultation on high-cost subjects that are relevant here are at paragraphs 130 to 146 of the consultation outcomes document[38]. Changes

[38] www.hefce.ac.uk/pubs/year/2012/201219/

will include the need to move away from ‘SubjectFACTS’ as currently defined, and to modify the TRAC(T) methodology to collect data reflecting both:

a. the total cost of teaching a student, on a financial sustainable basis (including recognition of the costs of student bursaries)

b. The need to disaggregate the costs of undergraduate students and taught postgraduate students.

(HEFCE has commissioned a study to investigate possible approaches to obtaining data on the costs of taught postgraduate provision in order to inform HEFCE’s teaching funding method. The study will consider whether the TRAC(T) method can be adapted to meet these needs, recognising the need to consider the proportionality of any associated burden[39].)

147. In response to HEFCE’s consultation on the development of its teaching funding method, the overwhelming majority accepted that, despite some reservations about limitations for management information purposes, a modified version of TRAC(T) was the most appropriate approach for HEFCE to adopt for provision of cost data to inform its funding method.

148. It is proposed however that sections C and D from the TRAC(T) return, which provide additional analysis of teaching costs and student numbers data, should no longer be collected. These are currently optional and only one-third of HEIs return these data. These analyses were designed to be of use to HEIs to aid their understanding of teaching costs, but many report that they do not find them useful, or prefer to undertake their own, separate analysis which better meets their internal needs.

149. In the longer term, it may be possible to move to less frequent, periodic data collections for data to inform our teaching funding method, but not until there is greater stability in the arrangements for funding higher education teaching. Given the administrative load associated with production of the TRAC(T) return is modest, there may be only marginal gains for institutions in fewer data collections when weighed against the need for the re-familiarisation required when updating on a less frequent basis.

150. In the analysis of the burdens around TRAC (paragraphs 99-109) we noted that it was important for funders and regulators to recognise the totality of data demands on HEIs. For instance, HESA’s data requirements of institutions are identified as challenging. The HESA Finance Statistics Return provides a different analysis of expenditure derived from HEIs’ financial statements (by expenditure categories), and does not provide an activity-based analysis (reported by Teaching, Research and Other) as provided by TRAC. To reduce the totality of the burden of financial reporting, we propose that HEFCE works with HESA during the next review of the HESA Finance Statistics Return to consider opportunities to eliminate duplication, remove redundancy and seek streamlining of the respective financial data collections. Such a review is expected in late 2013 when the new FE and HE Statement of Recommended Practice has been issued.

[39] See www.hefce.ac.uk/whatwedo/crosscutting/pg/costing/

Consultation question 7

Do you have any comments on our proposals for streamlining the reporting requirements for TRAC? Do you have any suggestions on additional areas for streamlining the reporting requirements or improving the efficiency of TRAC reporting arrangements?

Options for enhancing utility for institutions

151. As mentioned earlier, while TRAC offers significant potential for use within institutions to support internal financial management and decision making, the extent to which HEIs have adopted it for these purposes varies. We wish to establish in what ways this is a result of TRAC's limitations in supporting these wider uses, and whether TRAC can be changed to make the information outputs from TRAC more useful to institutions.

152. The TDG's work on the Management Information Portfolio[40] noted that institutions have used TRAC to support management processes such as course costing, resource allocation, and departmental and institutional sustainability.

153. Many institutions consider that aggregated sector and peer group level TRAC data are valuable for understanding their own cost analysis and for supporting processes for delivering cost savings and efficiencies. Universities UK and FSSG are leading a sector project, 'Efficiency through Benchmarking', in response to the recommendations from the Diamond Review (2011)[41] and will consider how TRAC benchmarking data can better support sector efficiencies. We welcome views on whether TRAC is helpful for this purpose, and whether streamlining TRAC requirements would help or hinder its usefulness.

154. It would be helpful for the HE sector to address how it can better provide tools for academic managers to support them in making informed decisions about the academic portfolios they manage. If it is felt that TRAC is not a useful tool for this purpose, please suggest alternatives.

Consultation question 8

Do you have any comments on the proposals for enhancing the utility or increasing the benefits from TRAC?

Other issues

155. The TDG's role includes consideration of new TRAC requirements, clarifications of existing requirements, and revision or simplification of requirements. The periodic review of the guidance is informed by feedback by the user community through the TRAC Support Unit Helpdesk, TRAC practitioner networks, and funders. The work of the TDG is overseen by FSSG in the context of the latter's wider remit of financial sustainability for the HE sector.

156. The guidance for practitioners on the implementation of TRAC and meeting the minimum requirements was last comprehensively updated in 2005. Subsequent updates to requirements

[40] TDG Management Information Portfolio – 'Achieving academic and financial sustainability (guidance for forward-looking institutions)'.
[41] 'Efficiency and effectiveness in higher education' (2011) www.universitiesuk.ac.uk/Publications/Pages/EfficiencyinHigherEducation.aspx

have been issued as numbered updates, and reflected in the TRAC Statement of Requirements, but the updates are not integrated in the core guidance. In response to representations from sector TRAC practitioners, TDG is considering a range of options to develop the guidance: from simplification of the guidance based around the minimum requirements, through to enhanced guidance with detailed examples and case studies. TDG's plans to develop the guidance will depend on the outcomes of this consultation, and on achieving agreement on how future plans to support such development for the sector is funded.

157. We propose that, subject to the outcomes of this consultation, FSSG and TDG should continue to provide leadership and oversight of financial sustainability and maintenance and development of TRAC guidance. The current terms of reference for FSSG and TDG are available on the HEFCE web-site at www.hefce.ac.uk/whatwedo/lgm/trac/. We welcome views on the roles and remits of FSSG and TDG in the future.

Consultation question 9
Do you agree with the proposal that FSSG and TDG maintain their existing roles for oversight of financial sustainability, and oversight of the maintenance and development of TRAC? Do you have any comments on how these groups should be funded and resourced?

Theme 4: Achieving greater transparency

Current arrangements for publication of TRAC data

Confidentiality of data

158. Since the introduction of annual TRAC reporting in 1999, the UK funding bodies undertook to only publish sector aggregate TRAC data and not individual HEIs' data. This was on the basis that individual institutions' cost information was commercially sensitive information. HEFCE currently produces and publishes an annual summary of the aggregated annual TRAC data for HEFCE-funded institutions – usually published as part of HEFCE's report on the financial health of the higher education sector. Analysis of the 2010-11 TRAC data are available on the HEFCE web-site[42]. Individual institutions' data are not published or made available to other HEIs.

159. Likewise, TRAC(T) data have only been published at sector level and in summary graphical form as part of HEFCE's analysis in the review of the teaching funding method. This was agreed with the HE sector when TRAC(T) was established: that confidentiality should be extended to TRAC(T) because of the commercial sensitivity of the data. Additionally, since TRAC(T) reporting was designed to meet HEFCE's requirement to understand the relative costs of subjects to inform its teaching funding method, the data reported in TRAC(T) did not represent the total cost of teaching a student, but only the subject-related element of costs. More recently, additional sector-aggregate TRAC(T) data have been published to inform consultations on HEFCE's teaching funding method. This information is available on the HEFCE web-site[43].

160. In addition to publication of aggregated sector annual TRAC data, HEFCE makes available to HEIs benchmarking data by TRAC Peer Groups[44]. In the early stages of implementing TRAC,

[42] www.hefce.ac.uk/data/year/2012/tracincomeandcostsbyactivity/
[43] www.hefce.ac.uk/data/year/2012/highcostsubjectsanalysisusingtractdatadetailedcommentary/
[44] www.jcpsg.ac.uk/guidance/revisions/Peergroups12.pdf

and subsequently TRAC(T), the purpose of these benchmarking data (which are at sector and peer group level only, and not by individual institution) was to aid institutions' understanding of their own data and help improve the robustness of the data. As TRAC processes have matured and become more embedded, the benchmarking serves to enhance the utility of the TRAC data in supporting institutional financial management. The benchmarking data are not in the public domain.

Freedom of Information Act

161. These arrangements around confidentiality of TRAC data for individual HEIs were established prior to the enactment of the Freedom of Information Act.

162. A request to release TRAC(T) Subject-FACTS data was made in 2010-11 under the Freedom of Information Act. Following this HEFCE proposed to explore the implications for HEIs and HEFCE of moving towards a proactive publication policy for TRAC data, an approach that is in line with the Government's aim of providing greater transparency of data. HEFCE also proposed to consider whether TRAC datasets should be made available for use within the HESA-run Higher Education Information Database for Institutions (HEIDI) to facilitate benchmarking within the sector.

Greater transparency for taxpayers, students and prospective students

163. The White Paper asked HEFCE to consider how to provide greater transparency to taxpayers on how public funding for higher education is spent within HEIs. Much of this need could be satisfied by improving access to HE expenditure data that are already published by HESA. This might include providing sector-level data from the HESA Finance Statistics Return in graphical form akin to the 'Council tax pie charts'[45], and would provide transparency without creating additional burden for institutions in collecting and reporting new information. Such data would not be envisaged to include the full public cost of HE because it would not include the substantial input of the student loans, which is estimated to exceed 30 per cent of the total value of the total value of student loans.

164. The White Paper also invited HEFCE to consider how TRAC data might inform the choices of prospective students. The TRAC Review team maintained close dialogue with the HEFCE team that oversaw the launch of the new Unistats web-site in September 2012[46] and Key Information Set (KIS) for prospective students and their advisers as well as with the UK-wide HE Public Information Steering Group that oversaw the development of the KIS. The KIS comprises what students have identified as the most useful items of information about each undergraduate course. The Unistats site contains links to additional information on institutions' web-sites on, for example, fees, employability and accommodation.

165. The development of KIS has been informed by independent research about the information needs of students[47]. This research did not indicate a desire for the provision of detailed provider cost information (as opposed to fees) to help inform students in their choice of course and place of study. The TRAC Review Group's dialogue with the NUS also confirmed that such information was not considered a priority in informing student choice. Nevertheless, the information on Unistats will be kept under review, and any changes to the KIS items will be underpinned by

[45] www.hesa.ac.uk/index.php?option=com_content&task=view&id=2404&Itemid=161
[46] http://unistats.direct.gov.uk/
[47] www.hefce.ac.uk/pubs/rereports/year/2010/hepublicinfouserneeds/

sound evidence of need. We are also aware that in response to feedback from students, Universities UK and GuildHE have agreed that it would be appropriate for institutions to include information on any additional costs to students that are not included in the tuition fee, such as costs of field trips or charges for materials, alongside other course information via Unistats.

166. More data are now available from the re-launched Unistats web-site about all publicly funded HEIs, further education colleges with undergraduate provision, and private providers that subscribe to the QAA, and as described in paragraph 82, from 2012-13 QAA institutional reviews will include a judgement on the quality of information produced for prospective and current students about the learning opportunities offered. The QAA's 'UK Quality Code for Higher Education – Part C: Information about higher education provision'[48] sets out providers' responsibilities for producing information about their higher education provision structured around a number of purposes including:

- to communicate the purposes and value of higher education to the public at large
- to help prospective students make informed decisions about where, what, when and how they will study
- to enable current students to make the most of their higher education learning opportunities.

167. Our review of TRAC considered the merits of providing information to show how student tuition fees are spent within HEIs. Publication of this information could help drive down the costs of teaching, by encouraging HEIs to deliver courses more efficiently, thereby enabling them to reduce the fees charged to students. However, research that underpinned the development of KIS and evidence from our dialogue with the NUS indicated that students are more interested in the value they might derive from a particular course or place of study. These value judgements are informed by other information included in KIS, such as student satisfaction, starting salaries and employment statistics for recent graduates. Data on expenditure per student may not, in themselves, be a good indicator of the value of the student experience, or provide a meaningful indicator of value-for-money when compared with the fee charged. Arguably, where there is relatively limited differentiation in fee levels (and with the payment of fees being via the tax system after graduation), the availability of HE providers' cost information may be likely to lead students to choose a course where the expenditure is higher. Provision of cost or expenditure data at this more granular level would also require audit validation, as a much higher quality bar for the data would be required.

Consultation question 10

Should additional information on HE provider costs be made available to assist prospective students in their choices of course or where to study?

168. The Government's response to the HE White Paper and BIS Technical Consultation noted that the Government plans to introduce measures to bring alternative providers and those further education colleges that do not currently receive HEFCE direct funding for HE provision into the student number control alongside other providers. BIS plans to consult later in 2012 on the

[48] www.qaa.ac.uk/Publications/InformationAndGuidance/Pages/Quality-Code-Part-C.aspx

process for applying these controls. BIS also intends that alternative providers designated for student support have to successfully complete a QAA assessment as one mechanism to provide protection for students and maintain confidence in the higher education system in England.

Implications for competition between HE providers

169. The Government's White Paper set out an aim to encourage increased competition in undergraduate education to stimulate innovation and to drive quality improvements and value for money for students. Competition law has the effect of restricting the sharing and/or publishing of information by institutions where this would result in an appreciable negative effect on competition. Competition law does not directly apply to HEFCE's public role in publishing information and data, but nevertheless it would be inappropriate for HEFCE to publish information (such as TRAC data) where it would cause appreciable reduction in competition unless there were compelling reasons to do so.

170. Widely available information is important for a competitive market to function effectively. For example, Information provided via the Unistats web-site will help students make better-informed choices about higher education. Competition law does not restrict the publication of data and co-operation between entities at the same level in the supply chain in cases where there is no appreciable implication for competition. However, increasing transparency on cost could reduce positive competition. For example, an institution that knew that its competitors had little scope to reduce costs could raise its prices (or reduce the generosity of its fee waivers and bursary offers) with less fear that other institutions might respond by changing their prices. This would in turn impact on value for money for students.

171. In addition, under competition law HE is likely to be viewed as several markets, depending on the product or service under analysis, as students do not choose between any course at any institution, but generally consider a certain range of courses at a certain range of institutions. Thus some markets may in practice be quite or even very small (for example, for particularly specialist provision) with the result that openly available cost information would be more likely to produce a restrictive effect. For example, a small number of institutions offering a particular specialist course would, with open cost information, be more likely to act together, including indirectly, to maintain prices at a certain level.

172. While detailed cost data for the current period, and forecasts or projections, has potential to negatively influence competition in the market, historic data could be less sensitive. However, as HEIs' costs bases do not change rapidly, historic data still have potential to influence market behaviour. There are also more direct implications for HEIs which compete for significant volumes of work by tender – for example, medical training funded by the NHS – as shared cost information could jeopardise competition to provide value for money in tenders. We have therefore considered that data in respect of such courses should be excluded from publication requirements.

173. Competition issues thus point to a balance to be struck between presenting information that facilitates the positive operation of competition in higher education, and the avoidance of disclosing information that would blunt incentives for institutions to strive for value for money.

174. Universities UK is planning to issue high-level guidance to its members on the application of competition law in relation to information exchanges between HEIs. We encourage HEIs to

consider this guidance, to inform their responses to this consultation on proposals for publication of data as set out in paragraphs 182 to 194 below.

Examples of published information on HE provider costs

175. In considering options for publication of cost data to meet student and public interests, the TRAC Review Group considered approaches adopted in the US, which has a higher education system where the student is responsible for payment of tuition fees.

176. One example is provided by the US Delta Cost Project's Trends in College Statistics[49] [50].

Case Study: US Delta Cost Project's Trends in College Statistics
Trends in College Statistics is an interactive web-based tool which allows public access to information on institutional revenues and spending, performance and enrolments for all tertiary education providers in the US with data derived from the US Department of Education's Integrated Postsecondary Education Data System (IPEDS)[51] surveys – similar to the datasets submitted to HESA. The 'Trends in College Spending Online' tool provides access to information for individual institutions, groups of institutions, or the nation as a whole, in both tabular and graphical form based on six primary 'metrics'. The data are released with a two-year time lag, and shows a possible approach to achieving transparency in a commercially sensitive market. However, the primary driver for the Delta Cost Project was to facilitate the use of 'financial information and other data to highlight spending patterns and bring into greater relief the true costs of academic and administrative decisions': thus its primary use is as a resource for policymakers and academic administrators with analysis of expenditure trends being one of the main uses, although the data and web tool are publicly available. Other tools such as 'College Navigator' have been developed with students and parents as the primary users, and these are similar to the 'KIS widget' that has been implemented as a primary source of information for prospective students applying to higher education courses in England.

177. A further example of how financial information could be presented to offer transparency for a range of users is provided by 'OnlineUniversities.com' using example data for Harvard University[52].

178. In addition, the Telegraph's Course Finder tool (http://coursefinder.telegraph.co.uk/) includes data on 'Spend per Student' derived from the HESA Finance Statistics Return and student numbers data, using average data for 2007 to 2010. This provides an average figure for 'Spend per student' for the institution as a whole; or for particular courses. This site also provides a comparison tool, which includes graphical representations of the data. The tool uses departmental expenditure data excluding depreciation. Departmental expenditure includes

[49] www.deltacostproject.org/index.asp.
[50] www.tcs-online.org/Reports/Report.aspx
[51] Delta Cost Project TCS uses a simple formulaic approach to disaggregate the costs of teaching and learning from other operating expenditure. The IPEDS dataset does not include academic staff time allocation. Tertiary providers are not required to provide their own cost analysis between these categories.
[52] www.onlineuniversities.com/how-harvard-spends-tuition

expenditure on both teaching and research activities, but does not include expenditure on central services such as libraries, IT and student support services.

Options for achieving greater transparency

179. HEFCE and the TRAC Review Group have thus considered various ways of providing greater transparency on the costs of providing higher education. In considering the options, we recognise that further education colleges and other providers are not currently required to implement TRAC.

180. In some cases, for some data, improved transparency could be achieved without risk of distortion in HEI behaviour by innovative use of aggregated and/or anonymised data.

181. In the following paragraphs we describe six options for publishing data to provide greater transparency for all stakeholders, particularly for taxpayers, and which may also be of some interest to students and prospective students. The options are not mutually exclusive. They are based on financial or cost data reported by HEIs to HESA or HEFCE. In developing the options below, HEFCE considered the following factors:

- the availability of existing data and opportunities to make them more accessible
- avoiding the need for additional or new data collections
- the provisions of the Freedom of Information Act, and the presumption of publication unless there are compelling reasons for an exemption
- potential limitations concerning commercially sensitive information and the implications of competition law, recognising that there is a balance to strike when considering student and public benefit in this area
- recognition that the information needs of stakeholders (funders, the public and students) will change as a consequence of the new arrangements for funding higher education teaching in England, and is likely to lead to new information needs and opportunities for information-sharing
- our commitment to meeting the information needs of students and prospective students.

Option 1: Better access to HESA FSR data and analysis

182. HESA FSR data include analysis of HEIs' expenditure data reported under categories such as 'Departmental activity', Research Grants and Contracts, Central Services (including Libraries and IT expenditure), and Premises expenditure. They also include income data reported by source of income. These data are collected from all publicly funded HEIs. HESA FSR data are already published with some data freely available and some data available to purchase from HESA. We recommend to HESA that more of these data be freely available and made more accessible to the public.

183. HESA expenditure data may, however, be less helpful to end users than TRAC data, since the expenditure data are not analysed between 'teaching' and 'research' activities and 'central services' and 'premises' expenditure are reported separately and not allocated to departments.

Option 2: Re-analysis of the HESA FSR data using a proxy method to allocate premises and central services expenditure between teaching, research and other activities

184. To provide a more useful analysis of the HESA FSR data, and more meaningful representation of the expenditure on teaching students, it may be possible to develop a formulaic proxy approach to disaggregate departmental expenditure on teaching from other departmental expenditure, and to allocate expenditure on ‘central services’ and ‘premises’ to teaching. This could be used to derive an average expenditure per student.

185. This approach would replicate the approach used to provide the US Delta Cost Project’s Trends in College Statistics, and would be a relatively low cost approach to gaining better use of the HESA FSR data. However, our attempts to model such an approach indicate that it would provide a very poor proxy compared with the analysis undertaken by HEIs in their TRAC and TRAC(T) returns. We do not propose this option is taken forward.

Option 3: Publication of TRAC data

186. Currently TRAC data are published aggregated at sector level. We propose publishing the following data from annual TRAC returns for all HEIs on a named basis. These data provide the full economic costs of the activities and are reported at ‘whole institution’ level and not at ‘department’ or ‘HESA cost centre’ level.

a. Data from the annual TRAC return (Section A) showing the institutional costs of teaching, research and other activities, on a full economic cost basis, together with the income allocation to these categories.

b. Publication of the complete dataset from the annual TRAC return, on a named institution basis, with the exception of the following data items which we assess to be commercially sensitive (see paragraphs 169 to 174).

- indirect and estates cost rate data and the data underpinning the calculation of these rates (Section D)
- Analysis of academic staff time percentages (Section F.2)

c. Calculation and publication of an institutional ‘Teaching cost per student FTE’ derived from data submitted in the annual TRAC return and student data returns. This analysis would be a more sophisticated version of option 2 and would be a single indicator of the ‘average cost per student’. Having only a single indicator would minimise the commercial sensitivity of the data. However, it would be a simplistic indicator, of limited value in providing comparability because of the diversity of HEIs and HE provision, including for example the different subject and/or student mix. Despite these limitations, we propose that this option is taken forward by the HE sector since the underlying data would be available for others to perform this calculation.

187. We would continue to produce TRAC benchmarking data (sector and peer group summary statistics) to support HEIs in their understanding of costs and to assist them with delivering cost reductions, including the items listed in paragraph 186b above. TRAC benchmarking summary statistics would also be published.

Option 4: Publication of TRAC(T) Subject-FACTS data

188. Currently, only limited data from the TRAC(T) returns are published. We propose making available more of these data at an aggregated level (sector and peer group). We do not propose to go so far as to publish data at individual institution level since they could be considered to be commercially sensitive.

189. The publication of TRAC(T) Subject-FACTS data would provide transparency to taxpayers and students about the variations in the costs of providing different subjects. TRAC(T) Subject-FACTS data are reported for HESA academic cost centres, and are not available at a more granular level or at individual course level.

190. Publication of these data would need to make explicit that they do not represent the total cost of teaching a student. Some costs of teaching are specifically excluded from this analysis, such as the costs of student bursaries and some costs associated with activities funded separately by HEFCE.

Option 5: Modification of TRAC(T) to provide the total cost of teaching a student

191. Data on the total cost of teaching a student are not currently collected. Some institutions have indicated that this information would be more useful to them for internal use than Subject-FACTS data, and some may produce such data for this purpose. HEFCE may need this information in future to inform our funding of high-cost subjects. We propose that the TRAC(T) return could be developed to provide the total full economic cost of teaching a student, with further sub-analysis (if necessary) to inform HEFCE's teaching funding method. This would also provide useful analysis of the costs of teaching for all stakeholders, and would provide a more valid comparison with fees than using 'Subject-FACTS' or HESA FSR data.

192. We propose that these data be published at an aggregate level (sector and peer group).

193. The costs of producing these data would need to be evaluated against the benefits of improved data on to inform our teaching funding method, and the greater transparency it would provide for taxpayers and students.

Option 6: Development of TRAC(T) to provide cost data disaggregated to course level

194. Cost data disaggregated to course level are not currently collected. Such data would perhaps be more relevant to students than data provided for the institution as a whole, but there would be a substantial additional burden on HEIs in attempting to develop and implement a system at this level of granularity. Also it is likely to offer less consistency because of the diversity of courses. It would require additional data to be collected from academic staff and investment in new systems. It would also require audit validation. The burden on HEIs is likely to be substantial and disproportionate to the benefits likely to be derived. We therefore do not propose that this option is taken forward.

Input from the TRAC Development Group

195. When developing the options to publish TRAC data presented above, we received legal advice and advice from TDG.

196. The TDG commented specifically on the following elements of the TRAC dataset:

- Indirect cost rates and estates rates: TDG confirmed the Wakeham Task Group[53]

[53] Financial Sustainability and Efficiency in Full Economic Costing of Research in UK Higher Education Institutions; Wakeham Report (June 2010), www.rcuk.ac.uk/documents/reviews/fec/fECReviewReport.pdf

report conclusion that these data should not be published and that only sector aggregate data, or possibly peer group data, should be considered for publication. (The Wakeham Task Group considered whether requiring the publication of each institution's indirect cost and estate rates would help improve efficiency. It concluded that the benefit of doing so would not be significant and that it was likely (if not more likely) to inflate the costs of the currently lower cost HEIs as it was to reduce those of the higher cost HEIs.)

- Analysis of academic staff time for staff covered by time allocation surveys – including percentage staff time by activity and percentage staff costs by activity: TDG considered that these data could be published but that it would require supporting narrative to aid interpretation.

- TRAC(T) Subject-FACTS: TDG considered that these data should be exempt from publication on the grounds of commercial sensitivity, and recommended that institutions be consulted should publication or release of these data be planned.

197. TDG noted that some data would be difficult to interpret, and it would be important to provide interpretation of the published data.

Consultation question 11

a. Do you have any comments on the proposals for providing greater transparency of TRAC and TRAC(T) data (options 3a, 3b, 3c and 4)? Please comment on the proposals in relation to providing information:

- for taxpayers
- for students, prospective students, their parents and advisers.

b. Option 3b suggests publishing extracts from individual HE providers' annual TRAC returns, to provide greater transparency. What data should be exempt from publication at named individual institution level?

c. How could TRAC(T) reporting be developed to provide more useful data on the cost of teaching for HEIs' own use and/or to provide more meaningful data for taxpayers and students (options 4, 5 and 6)? What are the drawbacks in making such data more widely available?

Presentation of data

198. The options above propose making more data publicly available and we invite views on the best way to publish them, such as whether it should be via HEIs' own web-sites, Unistats HESA or HEFCE.

199. The options we present above provide transparency over the funds received by HEFCE-funded universities and colleges, and how they are spent. However the full public cost of higher education to taxpayers would need to consider the cost of providing loans to students.

200. Some HEIs have already begun to make data available to explain how the HEI's resources are deployed to support the undergraduate or postgraduate student experience. We would be interested to learn more about HEIs' plans or developments for providing information for students and prospective students.

Consultation question 12

Do you have any suggestions about how HEIs can present information to students on how their tuition fees are spent?

Consultation question 13

Do you have any other comments or suggestions to contribute to HEFCE's Review of TRAC?

Annex A
List of consultation questions

Theme 1: The needs of stakeholders now and in the future

Consultation question 1

The initial findings of the TRAC Review Group did not identify evidence that existing sources of cost data other than TRAC provided the same level of useful, consistent and comparable information across the HE sector to meet the needs of stakeholders. Do you agree with this conclusion? If not, what sources of information could be used to meet the needs of existing stakeholders, including funding bodies?

Consultation question 2

Do you agree with the principle that the requirement to implement a TRAC-based annual reporting requirement should be applicable to all HE providers in receipt of HEFCE grant funding excluding those regulated by the SFA?

Theme 2: Burdens and benefits of TRAC as a costing system for HE

Consultation question 3

Should the accountability requirements to Government and funders be reduced in the new higher education environment, and if so in what way? Given the information supports the accountability requirements of multiple stakeholders, is there merit in seeking use of TRAC to underpin pricing of other publicly funded activity or contracts, such as by the NHS, Ministry of Defence or the European Union for ‘Horizon 2020’?

Consultation question 4

The review has sought to establish evidence about the benefits and burdens associated with TRAC. What are your views on the existing burdens and benefits of TRAC? How could the burden be reduced? Is there an alternative to TRAC which could meet the accountability requirements of Government and might offer greater benefits or lower burdens to institutions?

Consultation question 5

Given the increasingly competitive and complex external environment, in which HEIs will need to be better aware of the costs and contributions of all their activities to ensure financial sustainability, how could the HE sector better articulate the uses and benefits of TRAC to reduce the perceptions of burden and promote wider adoption as a management tool?

Theme 3: Opportunities to improve and streamline TRAC and TRAC reporting requirements

Consultation question 6

Please comment on the proposals set out in paragraph 136 for streamlining the minimum requirements for TRAC. Are there areas we have omitted, and are there other ways to improve the efficiency of TRAC implementation? Please include in your response an assessment of the potential to secure operational savings or efficiencies, and any potential loss of benefits that should be considered in relation to these proposals.

Consultation question 7

Do you have any comments on our proposals for streamlining the reporting requirements for TRAC? Do you have any suggestions on additional areas for streamlining the reporting requirements or improving the efficiency of TRAC reporting arrangements?

Consultation question 8

Do you have any comments on the proposals for enhancing the utility or increasing the benefits from TRAC?

Consultation question 9

Do you agree with the proposal that FSSG and TDG maintain their existing roles for oversight of financial sustainability, and oversight of the maintenance and development of TRAC? Do you have any comments on how these groups should be funded and resourced?

Theme 4: Achieving greater transparency

Consultation question 10

Should additional information on HE provider costs be made available to assist prospective students in their choices of course or where to study?

Consultation question 11

a. Do you have any comments on the proposals for providing greater transparency of TRAC and TRAC(T) data (options 3a, 3b, 3c and 4)? Please comment on the proposals in relation to providing information:

- for taxpayers
- for students, prospective students, their parents and advisers.

b. Option 3b suggests publishing extracts from individual HE providers' annual TRAC returns, to provide greater transparency. What data should be exempt from publication at named individual institution level?

c. How could TRAC(T) reporting be developed to provide more useful data on the cost of teaching for HEIs' own use and/or to provide more meaningful data for taxpayers and students (options 4, 5 and 6)? What are the drawbacks in making such data more widely available?

Consultation question 12

Do you have any suggestions about how HEIs can present information to students about how their tuition fees are spent?

General comments

Consultation question 13

Do you have any other comments or suggestions to contribute to HEFCE's Review of TRAC?

Annex B

Further background to TRAC

1. TRAC is an activity-based costing system, adapted to an academic culture in a way which also meets the needs of the main public funders of higher education, and supports the understanding and management of long-term financial sustainability of higher education.

2. It was introduced in 1999 in response to a Government accountability requirement, particularly around research. It also followed the 1998 Comprehensive Spending Review which reintroduced capital funding, with £85 million in 1999-2000 rising to £150 million in 2000-01. The 2002 Spending Review continued capital funding (at around £300 million a year) recognising the substantial capital backlog of under-investment in the higher education sector. The 2004 Science and Innovation Investment Framework recognised the need to ensure that university-conducted research was financially sustainable. This provided for the UK in total:

- additional funding to Research Councils to allow them to provide close to the full economic costs of research rising to £320 million a year by 2007-08
- additional quality-related research funding, addressing areas where full economic costs are not met (such as from charities), by up to £90 million by 2007-08
- capital funding for the renewal of the research infrastructure, amounting to £500 million a year by 2007-08.

These sums were consolidated into the funding baseline for subsequent years' funding.

3. One of the major benefits of TRAC was that, although the impetus to develop it was driven by a Government/Treasury requirement, the TRAC methodology was developed as a holistic costing methodology – costing all activities, not just research, and reconciled to HEIs' audited financial statements. As such it provided a solid basis from which HEIs could develop their own costing systems, to provide management information to support academic and financial decision making.

4. The development of TRAC was overseen by the Joint Costing and Pricing Steering Group – a sector-led group. While most of the 1999 design of TRAC drew on experience from within the sector (for example, on academic time allocation approaches), the TRAC methodology also included adjustments to enable the calculation of full economic costs (fEC) in order to provide costing that allowed for maintenance of capital infrastructure and the development of the next generation of academics.

5. This was a significant innovation and was designed to account for the fact (accepted by Government) that the 'real' cost of higher education activity was higher than the historic expenditure stated in most institutions' published financial accounts. The differences arise due to a combination of factors including the current asset values in some institutions (depending on valuation practices); inadequate investment in physical assets (shown by backlogs of maintenance for example) and in services and support for students; and the need to allow a 'margin' for risk, financing and development.

6. The two cost adjustments are used in TRAC as a proxy to reflect the additional economic costs to ensure HEIs recover sufficient income and manage their resources to ensure their activities are sustainable. These adjustments are an essential component of determining the full

economic costs of activities which are used to set the Research Council grants for research projects which are funded at 80 per cent of the full economic cost, for setting the price for grants made by other government departments, and for informing the price on projects for other sponsors.

7. TRAC is a principles-based approach to costing, which allows flexibility and choice in the methods to recognise the diversity of HEIs in terms of their organisation, scale and activities, and the different users and uses of costing information. Thus TRAC was designed to be flexible and to allow HEIs discretion over the precise methods adopted while maintaining the confidence of funders. It was also designed to avoid the need for HEIs to operate 'full commercial costing systems' or to require academic staff to complete timesheets.

8. The principles, established at the inception of TRAC, include: materiality; that costs are fair and reasonably stated; flexibility and choice of methods; consistency of costing treatment; auditability (of the methods, not the data themselves).

9. TRAC comprises three main elements: Annual TRAC Reporting; TRAC fEC for Research project costing; TRAC(T). These are described in paragraph 45 of the main consultation document. In addition, there are two further components of TRAC but these are not part of formal on-going reporting requirements:

a. TRAC-RCR: this is a data analysis tool designed to inform HEFCE's review of the research cost relativities within HEFCE's funding method for QR. This analysis was collected from a sample of 43 volunteer institutions (including a small number of HEIs in Scotland, Wales and Northern Ireland) for three years. It is not a mandatory requirement, and HEFCE does not plan to collect these data in the future.

b. TRAC-EC-FP7: this is a modified version of the TRAC fEC which complies with the EC Framework Programme 7 requirements for a 'full-cost method' for those HEIs submitting projects under this programme and wishing to claim funding at 50 per cent of the full cost. This methodology is approved by the EC for use by UK HEIs but it is not widely adopted by institutions because it is significantly more burdensome, and most HEIs prefer to use the 'additional cost-flat-rate' method for claiming funding on FP7 programmes, although the level of funding received using this approach is significantly lower. It is unlikely that this methodology will be valid for use under Framework Programme for Research and Innovation – Horizon 2020.

10. A fuller explanation of the background to TRAC can be found in 'Policy overview of the financial management information needs of higher education institutions and the role of TRAC' (see Annex C).

11. Additional information about the further development of the use of TRAC led by the FSSG and TDG can be found in the suite of guides issued as a 'Management Information Portfolio' in 2010 entitled 'Achieving academic and financial sustainability: guidance for forward-looking institutions' (see Annex C).

Current TRAC requirements

12. The TRAC requirements are set out in the 'Statement of Requirements' issued by the TRAC Development Group covering the minimum requirements for TRAC under the following headings: Control environment; Annual TRAC; Calculation of the charge-out rates for Research; Charging costs to research projects; TRAC(T); TRAC EC-FP7. The Statement of Requirements can be accessed at www.jcpsg.ac.uk/guidance/require/.

13. Table 1 provides a high-level summary of the TRAC requirements as set out in the 'Statement of Requirements', their relevance to the different components of the TRAC system, and sections where exemptions are available for HEIs eligible to claim dispensation.

Table 1: Summary of TRAC Statement of Requirements

TRAC Statement of Requirements: section heading	Number of requirements	Requirements applicable to:			Number of exemptions for HEIs applying dispensation	Notes
		Annual TRAC	TRAC fEC project costing	TRAC(T)		
A. Control Environment	45	Yes	Yes	Yes	-	Applies across all element of TRAC
B. Annual TRAC (includes cost attribution, academic staff time for use as a cost driver, estates costs and attribution of indirect costs)	55	Yes	Yes	Yes	37	Requirements apply across/ underpin all elements of TRAC.
C. Calculation of charge out rates for research	59		Yes		59	Relies on Annual TRAC
D. Charging costs to research projects	20		Yes		20	Relies on Annual TRAC
E. TRAC(T)	8			Yes	-	Relies on Annual TRAC
Total requirements/ total exemptions	187	100	79	8	116	

Note: this summary should not be taken to imply that all requirements are equal in burden or importance.

14. Currently, 28 HEIs in England [UK: 30] are eligible for dispensation from the requirement to comply with the full TRAC requirements, of which 25 HEIs [UK: 27] claimed dispensation when applying for Research Council-funded projects from the 1 April 2012.

15. HEIs that are eligible for and claiming dispensation, while being required to submit Annual TRAC and TRAC(T) returns for accountability purposes, are not required to comply fully with all of the requirements of TRAC. The dispensation for institutions with publicly funded research income of less than £0.5M per year (calculated on a five-year rolling average) removes the need for compliance with the following requirements:

a. Obtain time allocation data from academics (heads of department could, for example, provide this information).

b. Use more than four to six cost drivers to allocate indirect costs.

c. Identify space use across the whole institutions.

d. Calculate laboratory technicians and research facility charge-out rates, and apply these separately from estates rates.

e. Calculate indirect costs rates and estates rates.

f. Robustly calculate staff FTEs.

16. Examples of the latest annual TRAC and TRAC(T) reporting forms can be found at:

www.jcpsg.ac.uk/guidance/revisions/TRAC12wkb.pdf

www.jcpsg.ac.uk/guidance/2008/1011/TRACT11.pdf

Annex C

Key references

These publications are referred to throughout this consultation.

Title	Location on web
The Government's Higher Education White Paper, 'Students at the heart of the system' (June 2011)	http://discuss.bis.gov.uk/hereform/
Review of the Transparent Approach to Costing: A report by KPMG for HEFCE (October 2012)	www.hefce.ac.uk/pubs/rereports/year/2012/tracreview/
Review of time allocation methods: A study by KPMG for the TRAC Development Group (July 2012)	www.hefce.ac.uk/news/newsarchive/2012/name,73689,en.html
HEFCE consultation on student number controls and teaching funding: • Consultation on arrangements for 2013-14 and beyond' (HEFCE 2012/04) • Summary of responses to consultation and decisions made (HEFCE 2012/19)	 www.hefce.ac.uk/pubs/year/2012/201204/ www.hefce.ac.uk/pubs/year/2012/201219/
Policy overview of the financial management information needs of higher education, and the role of TRAC (July 2009)	www.hefce.ac.uk/whatwedo/lgm/trac/tracforseniormanagers/ under 'Policy overview'
Achieving academic and financial sustainability: guidance for forward-looking institutions, FSSG (June 2011)	As above under 'Management Information Projects'
Assessing the sustainability of higher education institutions, FSSG (June 2011)	As above under 'Assessing the sustainability of higher education institutions'

List of acronyms

BIS	Department for Business, Innovation and Skills
DEL	Department for Employment and Learning (in Northern Ireland)
EC	European Community
fEC	Full economic cost
FSR	HESA Finance Statistics Return
FSSG	Financial Sustainability Strategy Group
FTE	Full-time equivalent (students)
HE	Higher education
HEI	Higher education institution
HEFCE	Higher Education Funding Council for England
HEFCW	Higher Education Funding Council for Wales
HEIDI	Higher Education Information Database for Institutions
HEPISG	Higher Education Public Information Steering Group
HESA	Higher Education Statistics Agency
HMRC	Her Majesty's Revenue and Customs
KIS	Key Information Set
NAO	National Audit Office
NHS	National Health Service
NUS	National Union of Students
QAA	Quality Assurance Agency for Higher Education
QAV	Quality Assurance and Validation of TRAC
QR	Quality-related (funding for research)
RCUK	Research Councils UK
RFI	Return for Financing and Investment
RPG	Regulatory Partnership Group
SFA	Skills Funding Agency
SFC	Scottish Funding Council
Subject-FACTS	Subject-related full average costs of teaching a student
TAS	Time allocation survey
TDG	TRAC Development Group
TRAC	Transparent Approach to Costing
TRAC-RCR	TRAC research cost relativities
TRAC(T)	TRAC for teaching (a national framework for costing teaching, based on TRAC principles)
VAT	Value-added tax