TRAC DEVELOPMENT GROUP

Supporting and understanding financial sustainability

TRAC Guidance

The Transparent Approach to Costing for UK Higher education institutions

Version 1.0, published August 2014

© HEFCE 2014

Table of Contents

1 Introduction 2

1.1 Introduction 3

1.2 Principles and standards 11

1.3 TRAC activity definitions 14

2 Governance and quality assurance 23

2.1 Governance and quality assurance of TRAC 24

3 TRAC process 34

3.1 Data required for TRAC 35

3.2 Sustainability adjustments 51

3.3 Direct cost attribution 58

3.4 Allocating academic department and central costs 64

3.5 Income allocation 71

4 TRAC reporting 79

4.1 Annual TRAC return 80

4.2 Research charge-out rates 88

4.3 TRAC for Teaching return – TRAC(T) 98

5 Calculation of research project costs 117

5.1 Calculation of research project costs 118

6 Glossary of terms 127

6.1 Glossary of terms 128

Annexes All annexes are online at: www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/

1 Introduction

Chapter 1 contains three sections:

Section		Page
1.1	Introduction	3
1.2	Principles and standards	11
1.3	TRAC activity definitions	14

1.1 Introduction

1.1.1 About this guide

The guidance provided in the following chapters gives direction to UK higher education institutions (HEIs) in order to achieve compliance with the TRAC (Transparent Approach to Costing) requirements. The TRAC Development Group[1] has responsibility for the development and maintenance of TRAC and has approved the release of this guidance.

The guidance is aimed at those personnel within UK HEIs who are involved in the preparation, compilation, validation and approval of TRAC data. Members of TRAC oversight groups or institutional committees with oversight of TRAC will find chapters 1 and 2 helpful in setting out the high level principles and governance requirements. The remainder of the guidance is of greater relevance to those working on the TRAC compilation process and also the application of charge-out rates that the process produces.

The guidance includes all current requirements and does not rely on separately issued notes or updates. Where guidance is updated to cater for the introduction of new requirements or changes to TRAC processes, the new sections will be produced in **bold blue** text and will be accompanied with a change log on the host web page for clarity. Where case studies are provided, they are to illustrate good practice examples of how the TRAC processes can operate; they are not part of the TRAC requirements.

Each section of the guidance follows a standard format, and includes cross references to other sections where appropriate, as well as signposting to external links. The standard format includes:

- Introduction;
- The aim of the section;
- Process workflow diagram;
- The 'TRAC requirements';
- The process that institutions should follow to comply with the TRAC requirements;
- What could go wrong?;
- Annexes;
- Associated good practice and other relevant material.

A set of TRAC definitions and glossary of terms are included at sections 1.3 and 6.1 respectively.

Materiality for TRAC is defined at annex 1.2a.The TRAC guidance is structured as follows:

[1] www.hefce.ac.uk/whatwedo/lgm/finsustain/tdg/

Chapter	Subject		Ref	Section
1	Introduction		1.1	Introduction
			1.2	Principles and standards
			1.3	TRAC activity definitions
2	Governance and quality assurance		2.1	Governance and quality assurance of TRAC
3	TRAC Process		3.1	Data required for TRAC
			3.2	Sustainability adjustments
			3.3	Direct cost attribution
			3.4	Allocating academic department and central support costs
			3.5	Income allocation
4	TRAC Reporting		4.1	Annual TRAC return
			4.2	Research charge-out rates
			4.3	TRAC for Teaching return – (TRAC(T))
5	Calculation of research project costs		5.1	Calculation of research project costs
6	Glossary of terms		6.1	Glossary of terms
Annexes	1.2a	Materiality		
	1.2b	Dispensation		
	2.1a	Requirements and processes for changes in compliance status or institutional status		
	3.1a	Academic time allocation survey form		
	3.2a	Infrastructure adjustment template		
	3.2b	Return for financing and investment template		
	3.5a	Income allocation table		
	3.5b	Guidance on the allocation of Funding Council grants		
	4.1a	Annual TRAC return template		
	4.1b	Peer groups		
	4.2a	Facility costing template		
	4.2b	Technician survey template		
	4.2c	HM Treasury letter – University Research: Costs to Government Departments (13 February 2004)		
	4.3a	TRAC(T) return template		
	4.3b	HESA Academic Cost Centres		
	4.3c	TRAC(T) Funding for non-subject related activities – HEFCE and DELNI		
	4.3d	TRAC(T) Funding for non-subject related activities – SFC		
	4.3e	TRAC(T) Removal of non-subject-related costs (worked example)		

1.1.2 How to use the TRAC guidance

This TRAC Guidance is designed to be a single reference point that describes the TRAC requirements and methods for complying with these requirements.

Green shading in tables

Rows shaded in green indicate that they are 'the TRAC requirements', the 'auditable' requirements. As such, institutions should ensure that their model follows:

- the principles and standards set out in section 1.2;
- the definitions at section 1.3;
- the requirements listed in each section; and
- the process steps that are shaded in green to achieve TRAC compliance.

Green shading in the sections on Process indicates steps that describe mandatory methods for fulfilling the related TRAC requirement.

A glossary is provided in chapter 6, which readers of this guidance may find helpful in interpreting certain words and phrases.

All updates to TRAC guidance are hosted on the HEFCE TRAC web site[2]; no guidance hosted elsewhere forms part of the TRAC requirements. Additional reference materials are provided to illustrate good practice and practical application of the TRAC requirements, but these do not contain requirements in their own right.

The TRAC guidance is both technical and practical in nature, and strikes a balance between absolute prescription and freedom for institutions to tailor the approach to their needs to gain greater utility from TRAC data. It will be of interest primarily to:

- TRAC Managers and management accountants with responsibility for producing the TRAC data and maintaining TRAC systems;
- senior managers with responsibility for overseeing the TRAC processes, e.g. the Chair of the TRAC Oversight group;
- research project administrators and managers;
- auditors and other assurance providers;
- Funding and Research Councils and other public funders of higher education.

Additional reference material is accessible from the HEFCE web site[3] which may be of more relevance to:

- Directors of Finance, Pro Vice-Chancellors of Research, Directors of Research Support Offices, and other senior managers with either lead, or significant functional, responsibility for elements of TRAC within the institution;

[2] www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/

[3] www.hefce.ac.uk/whatwedo/lgm/finsustain/

- individual academics and other institutional professionals (e.g. estates, planning, registry); officers responsible for funding on a fEC (full Economic Cost) basis in Research Councils and other public bodies.

1.1.3 Background to TRAC

TRAC is an activity-based costing system, adapted for an academic culture in a way which also meets the needs of the main public funders of higher education.

It was introduced across the UK higher education sector in 1999 as a government accountability requirement and to support institutional management through better understanding of costs within individual institutions.

By complying with the requirements of TRAC the sector received substantial financial benefits through increased funding, particularly in support of research sustainability. By adopting the TRAC methodology, HEIs are providing confidence to funders and stakeholders that the sector is well managed financially.

TRAC is a process of taking institutional expenditure information from consolidated financial statements, adding 'sustainability adjustments'[4] to represent the full 'sustainable' cost of delivery, and then applying cost drivers (such as academic staff time allocation and space usage) to allocate these costs to academic departments and to specific activities.

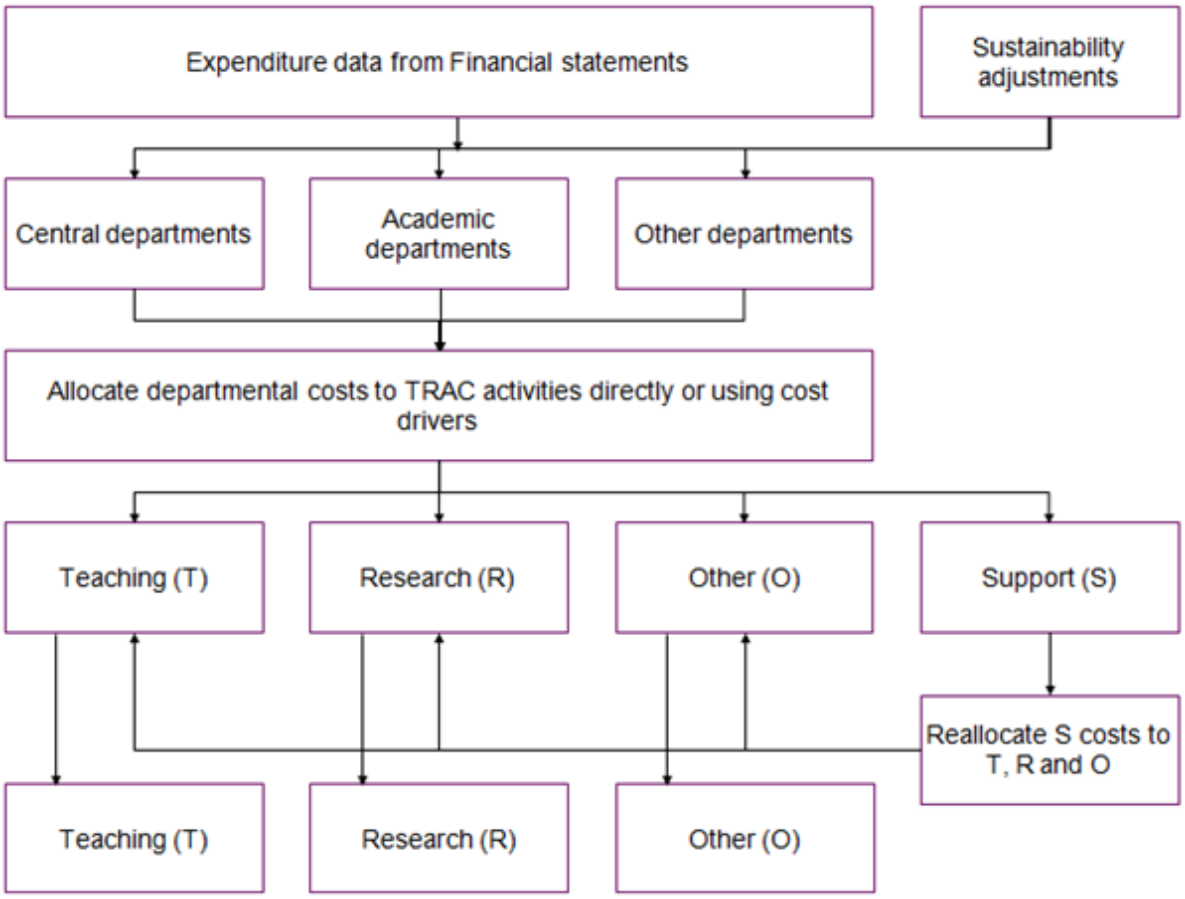
The main activities to which TRAC allocates costs are:

- Teaching (T) – analysed between publicly and non-publicly funded activity;
- Research (R) – analysed between the main sponsor types: Research Councils, Government Departments, charities, European Commission bodies, etc.;
- Other (O) – the other primary income-generating activities such as commercial activities, residences, conferences, etc.;
- Support activities (S) – such as preparation, proposal-writing and administration, which are costed separately but are attributed, as appropriate, to the three core activities – Teaching, Research and Other.

[4] See section 3.2 'Sustainability adjustments'.

The cost attribution process overview is illustrated in Figure 1.1:

Figure 1.1: Process overview



Income is analysed through a separate TRAC process (see section 3.5), so that the gap between the full cost of activities and the income attributed can be determined for each main institutional activity.

These data, at institutional level, are reported annually to the Funding Councils along with calculated charge-out rates for the research-related elements of indirect costs, estates costs, facilities and equipment, and technicians. These rates are used by institutions in forecasting the full costs of research projects and informing pricing.

TRAC has evolved significantly since its inception and now provides greater utility to institutions by providing a basis for activity costing. Examples of how TRAC can be and is used include: HMRC accepted method for VAT partial recovery, informing teaching funding models, Research Council funding of projects, resource allocation models and course costing. In addition institutions have found benefit in using TRAC data and good practice examples to support other internal processes and to assess financial sustainability.

Significant milestones for TRAC are:

- **1999** – The full economic cost concept was established. TRAC principles and costing standards were created for costing and reporting the full economic costs of Teaching, Research and Other activities in HEIs.
- **2003** – Lord Sainsbury letter to all vice-chancellors and principals. Alan Johnson, Minister of State for Lifelong Learning, Further and Higher Education, and Lord Sainsbury, Minister for Science and Innovation, reaffirmed their commitment to the dual support system for funding research. They also announced that the new procedures for applying for Research Council grants would come into effect from September 2005, with funding based on the full economic cost methodology from April 2006.
- **2004** – HM Treasury letter to the Office of Science and Technology confirming the basic principle that Government Departments should expect to pay 100% of the full economic cost of the research that they commission from UK universities.
- **2005** – TRAC fEC for research project costing was introduced for institutions to identify the full economic cost of carrying out individual research projects, including an appropriate share of infrastructure and financing costs.
- **2008** – TRAC(T) data were first collected to allow institutions to determine subject-related costs of teaching, which are used to inform subject price group and funding subject group weightings in the funding methodologies for England and Scotland.
- **2008** – TRAC EC-FP7 was introduced to allow institutions to adapt the TRAC-based project costing methodology for use with European Commission Framework Programme 7 (EC-FP7).
- **2009** – The Financial Sustainability Strategy Group and TRAC Development Group worked with more than 80 institutions in a UK-wide project to increase the use of accessible management information.

Alongside these milestones, the TRAC data have informed the following:

- **2010** – The 'Wakeham' review: 'Financial sustainability and efficiency in full economic costing of research in UK higher education institutions'[5] .
- **2012** – The HEFCE 'Review of clinical subject weightings'[6] .

The Government White Paper in June 2011, 'Students at the Heart of the System'[7], challenged the Funding Councils to undertake a review of TRAC in order to 'radically streamline' the reporting requirements and reduce the burden of TRAC on institutions. HEFCE consulted the sector between October 2012 and January 2013[8]; one outcome was the commitment to redevelop the TRAC guidance. This 'new' TRAC guidance is the outcome of this commitment.

[5] www.universitiesuk.ac.uk/highereducation/Pages/FinancialSustainabilityAndEfficiency.aspx

[6] www.hefce.ac.uk/pubs/rereports/year/2012/clinsubjwghtgs/

[7] www.gov.uk/government/consultations/higher-education-white-paper-students-at-the-heart-of-the-system

[8] www.hefce.ac.uk/whatwedo/lgm/finsustain/current/

The TRAC Development Group[9] is responsible for the development of TRAC and supporting the use of TRAC by the sector to understand and manage financial sustainability. This new TRAC guidance has been developed in collaboration with sector representatives, but is owned and maintained by the TRAC Development Group. Support is provided to users by the TRAC Support Unit and from institutional support groups (see contact details at sub-section 1.1.5).

1.1.4 TRAC activities

Teaching (T), Research (R) and Other (O) are the three core activities to be costed and reported under the annual TRAC process. Costs are either attributed directly to the three core activities of T, R, or O, or attributed to a fourth activity, Support (S). All Support costs are then attributed to the three core activities.

Throughout the TRAC guidance, standard definitions of activities are used. Section 1.3 provides a full set of definitions; a summary of which for Teaching and Research is provided below:

The total costs of Teaching activities are analysed between publicly funded teaching (PFT) and non-publicly funded (NPFT) activities. This categorisation refers to the main source of funds or eligibility for funding. Further categorisations of PFT costs are made between Funding Council fundable and non-Funding Council fundable. Research costs in the annual TRAC process are analysed between seven research sponsor types:

- institution own-funded research;
- training and supervision of Postgraduate Research students (PGRs);
- Research Councils UK (RCUK);
- Other UK Government Departments (OGDs);
- European Union (EU) government bodies including the European Commission;
- UK charities;
- industrial, commercial, EU other and other overseas grants and contracts.

Income is also allocated to Teaching, Research or Other. Teaching income is analysed into PFT and NPFT in line with the costs. Research income is analysed into the seven research sponsor types, plus an eighth research sponsor type: Funding Council recurrent funding for research.

[9] www.hefce.ac.uk/whatwedo/lgm/finsustain/tdg/

1.1.5 Other sources of reference and assistance

There are two principal sources of further reference:

TRAC Regional Groups, through which colleagues can be reached and questions asked. Details of the TRAC Regional Groups can be found at www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/regional/

The TRAC Support Unit, which can be reached on 0115 935 3400, trachelpdesk@kpmg.co.uk

1.2 Principles and standards

1.2.1 Introduction

The TRAC guidance is technical in detail, and contains a number of discrete sections that are based around key stages in the process and the detailed 'requirements' for gaining TRAC compliance. The requirements are founded on a set of principles and costing standards.

It is the responsibility of each institution to comply with the TRAC requirements and follow the TRAC principles (including the principle of materiality, as defined in annex 1.2a). This ensures that institutions provide high quality information that satisfies the requirements for accountability and transparency, is appropriate to justify costs to external sponsors, and is appropriate for use internally in institutions.

The TRAC guidance is based on:

a) A set of Principles;

b) Costing Standards.

1.2.2 TRAC Principles

Detailed below are the Principles:

a) The costing should be transparent and materially robust;

b) The process should minimise the scope for the manipulation and bias of the costings;

c) The process should provide a consistent and fair basis for institutions to cost activities;

d) The process should provide comparability in costings and facilitate collaborative research projects;

e) The process should be auditable and promote accountability;

f) The output data should provide utility to the institution.

1.2.3 Costing standards

TRAC guidance offers institutions flexibility in the design of their systems, but in order for all systems to satisfy the TRAC requirements set out under each section of the guidance, the following costing standards should be applied:

1.2.3.1	Annual TRAC reporting – accountability for public funds: • the TRAC report includes the total gross costs (not net of income) of institutional activity on Teaching, Research, Other, as defined under TRAC (see section 1.3 for TRAC definitions);

	• the TRAC data are calculated by a method that meets the TRAC requirements and agrees with the consolidated financial statements plus the sustainability adjustments; • the TRAC return is signed off by the Head of Institution as representing a fair and reasonable view of the actual costs incurred on the TRAC activities.
1.2.3.2	Costing for internal purposes and to inform pricing by: • calculating the cost of Teaching, Research and Other activities by academic department and research sponsor type; • calculating the cost of Teaching by publicly funded and non-publicly funded activity.
1.2.3.3	Attribution of academic staff costs to activities: • as Direct or Support; • to Teaching, Research and Other; • using in-year time allocation, statistical sampling or academic workload planning.
1.2.3.4	Attribution of other costs to activities: • costs should be directly allocated to activities where possible; • otherwise, allocated using a cost-driver model with robust and relevant drivers.
1.2.3.5	Calculation of the full economic costs of activity by including adjustments for: • infrastructure costs; and • return for financing and investment; • but includes no other adjustments to gross costs.
1.2.3.6	Costs in medical and dental schools: • attribute time on clinical services to Teaching, Research, Other and Support, on the primary purpose with the balance on the basis of the services received from the NHS under ‘knock-for-knock’ arrangements. (see the glossary for definition of knock-for-knock).
1.2.3.7	Review and development of the institution’s TRAC model: • time allocation and space usage collected on a rolling three-year basis; • annual review or update of other numbers-driven cost driver information; other cost drivers to be updated on a three-year basis; • annual calculation of costs reported under TRAC; • research charge-out rates recalculated every year.

1.2.3.8	Quality assurance: • management involvement, including appropriate institutional Committee of the Governing Body confirming compliance with requirements; • systems integrity; • tests for reasonableness.
1.2.3.9	Materiality: • TRAC requirements need not be met if they do not lead to material impact on the data produced; • institutions with low volumes of Research are eligible for dispensation from complying with certain TRAC requirements (see annex 1.2b for further detail); • materiality for TRAC is defined fully at annex 1.2a.
1.2.3.10	Rate calculation: • institutions should calculate indirect cost rates using the cost information calculated under 1.2.3.1 as a base.

1.2.4 Annexes

Annex reference	Document title
1.2a	Materiality
1.2b	Dispensation

Annexes are located on the following web page: www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/

1.3 TRAC activity definitions

In TRAC, all costs and income are attributed to three core activities: Teaching, Research and Other. Costs are either attributed directly to the three core activities of T, R, or O, or attributed to a fourth activity, Support (S). All Support costs are then attributed to the three core activities.

Each core activity includes Direct costs that have been directly attributed to that activity, and Support costs (indirect and estates costs).

1.3.1 Teaching

1.3.1.1	**Teaching (T)** is a core activity. It includes all costs and activities that provide or support the teaching of undergraduate and postgraduate taught students. It comprises: a) The costs of academic staff time directly attributable to teaching. The annual TRAC academic staff time survey includes: • holding lectures, seminars and tutorials; • project, workshop and laboratory supervision; • preparing materials for lectures, tutorials and laboratory classes; • preparing materials for an agreed new course; • editing and updating course materials; • organising and visiting placements, fieldwork; • supervision / contact time relating to projects and dissertations, and their assessment; • other student contact time relating to educational matters, including remedial classes; • preparing and marking examination papers, including resits; • oral examinations / vivas; • reading and assessing student dissertations, reading and marking essays and other student work; • invigilation of examinations including external examining (both at own and other institutions); • mentee meetings. b) Outreach where teaching is the underlying activity (i.e. Teaching funded through a Teaching Company Scheme or Knowledge Transfer Partnership). Other directly attributed costs include: • the full pay costs of staff who work 100% on Teaching; • pay costs of secretarial and administrative staff who support Teaching; • non-staff costs directly attributed to Teaching, which includes placements,

	projects etc.; • the scholarships and bursaries of taught students. c) A relevant share of Support costs, incurred both in the academic department and in the institution's central departments are also attributed to Teaching. This includes the costs of the support time of academics (scholarship, administration, and management) and other Support costs. All teaching costs are further categorised into publicly funded teaching and non-publicly funded teaching.
1.3.1.2	**Publicly funded teaching (PFT)** activity is generally considered across the sector as a whole to be fundable, at least in part from public funds. This includes the costs of: • UK award/credit bearing courses; • all teaching activities like European Social Fund (ESF), Erasmus and Tempus; • all levels of teaching – sub-degree, degree, PGT (but not PGR); • higher education, further education, teacher training, NHS (nursing) etc.; • all courses fundable by public bodies. For HEIs in England, Wales and Northern Ireland, publicly funded loans and grants administered by the Student Loans Company to meet the cost of tuition fees should be classified as PFT.
1.3.1.3	**Non-publicly funded teaching (NPFT)** activity is generally considered, across the sector as whole, to be funded wholly from non-public funds. This includes the costs of: • short courses; • non-award or non-credit bearing courses run in the UK for overseas or NPF students; • non-credit/award-bearing courses run overseas (overseas courses) • other NPF commercial teaching; • part of the costs of award-bearing courses in the UK attended by overseas and self-funded students[10] (where the numbers involved are material); • students studying for equivalent or lower qualifications (ELQs). Note that this is only applicable to institutions in England; • teaching carried out through trading units / commercial companies.

[10] Students who are self-funded are those where the institutional costs are not fundable by Funding Council grants, i.e. where the institution is not potentially eligible for grant aid for the students from a public organisation.

1.3.2 Research

1.3.2.1	**Research (R)** is a core activity. It comprises: • research – refer to the definitions in the Frascati Manual[11]; • fieldwork, laboratory, studio, desk/library work; • management of projects, informal discussions, progress reports etc.; • recruitment and supervision of research staff; • attendance at conferences, seminars and society meetings that are directly connected with specific research projects; • production of research reports, papers, books; • training and supervision of PGR students including training in research methodology, review of drafts and preparation of thesis, and external examining; • collaboration with other academic departments or institutions in any of the above; • outreach where research is the underlying activity (i.e. research carried out through a Teaching Company Scheme or Knowledge Transfer Partnership); TRAC follows the definition used by the Higher Education Statistics Agency (HESA) in the Finance Statistics Return guidance: • Research is to include research and experimental development. The definition of research, below, is taken from the 2002 Frascati Manual. 'Research and Experimental Development (R&D) comprise creative work undertaken on a systematic basis in order to increase the stock of knowledge, including knowledge of man, culture and society and the use of this stock of knowledge to devise new applications. R&D is a term covering three activities: basic research, applied research and experimental development.' Research can be a specific project, or blue skies / speculative in nature, but for TRAC, research has an external sponsor or is expected to lead to some research output (or PGR training / supervision). For TRAC, research: a) Can include clinical trials. Where clinical trials are considered by the NHS to be research then the time spent on them is allocated to research, otherwise they are Other; b) Does not include routine testing (this should be reported as Other); c) Includes institutions' own-funded research. Research work or projects that are solely funded by the institution (including through the Funding Council block grants), and that are not directed by an external sponsor, are still Research

[11] Frascati Manual 2002: ISBN 978-92-64-19903-9

	activity. They come under the research sponsor category of 'institution own-funded' research. However, in the time allocation data, time spent on research (or teaching) that is not considered by the institutions to be necessary for its mission or research strategy should not be recorded; d) Does not include scholarship activity; this can form part of the Support activity for Research, but could equally be Support for Teaching.
1.3.2.2	Research is categorised into eight research sponsor types, summarised below (sub-sections 1.3.2.3 to 1.3.2.6). A research sponsor type is a group of sponsors that are similar in nature. It is not an individual research sponsor organisation. The word 'sponsor' is used in TRAC to denote the funder – external or internal. Where a Research project is funded by a consortium of organisations (public and non-public) the costs will need to be attributed proportionally between research sponsor types. Proxies could be used, e.g. attribution pro rata to the direct costs funded by each sponsor. However, where a research project is only partially funded by a sponsor and the remainder is institution own-funded, all of the academic time is attributed to the research sponsor type represented by the external sponsor through the time allocation process. However, the costs are allocated pro-rata to the external sponsor and institution own-funded categories. Academic time is only attributed to institution own-funded if there is no external sponsor of that project.
1.3.2.3	**Institution own-funded** – This covers work that is not carried out to the direction of an external sponsor (the work may or may not be on specific research projects). The work could be funded through Funding Council block grant or other initiatives, or from an institution's general income (e.g. interest, endowments, or surpluses from other activities). It could include speculative 'blue skies' research undertaken to investigate the potential of ideas before preparing grant or contract bids; or for publication. It must be expected to lead to an external research output (publication, conference presentation, etc.). If this research is done primarily in support of teaching, it is classified as CPD/Scholarship and is allocated to support for teaching.
1.3.2.4	**Postgraduate research (PGR)** – This covers the training and supervision of PGR students including training in research methodology, review of drafts and preparation of theses, and external examining. The costs include: • scholarships and bursaries (a direct cost of Research); • any other direct costs incurred by the institution on behalf of PGR students (e.g. travel and subsistence, consumables, stipends); • the indirect costs and estates costs associated with the PGRs themselves; • the time of the supervisor in PGR training and development • the indirect costs and estates costs associated with this supervision time. The reallocation of income and costs relating to PGR activity away from the external

	research sponsor type to the PGR category is not a TRAC requirement, but the current direction of travel for policy development suggests that this could become mandatory, at least for research intensive institutions (defined as being in the top 60 institutions, in terms of volume, funded by the Research Councils). Noting that this is not a current TRAC requirement, and acknowledging that the burden of undertaking this reallocation needs to be balanced with the utility provided by the data, research intensive institutions are encouraged to report PGR income and costs under the PGR research sponsor type: a) Where costs can be readily identified and reallocated, all income (except HEFCE, HEFCW and DELNI quality-related research funding and SFC's research excellence grants and research postgraduate grant) and costs relating to PGR activity should be recorded under the PGR sponsor type, not the external research grant or contract sponsor type; b) Where costs can not readily be identified and reallocated (i.e. they are not separately recorded in an institution's income and expenditure account, or they are an inseparable part of salaries) then the costs of stipends and scholarships / bursaries are reported against the same research sponsor type as the income that is covering them. If neither of the allocations described above can be done without (in the view of the institution's TRAC Steering Group) significant burden being added to that institution, then, at the least, the institution improves its understanding of the recovery relating to research students. Institutions should indicate on the Annual TRAC return (see section 4.1) whether this reallocation has been undertaken or not.
1.3.2.5	**External research grants and contracts:** • Research Councils, as defined in the HESA Finance Statistics Return guidance. • OGDs: UK central government bodies / local authorities, health and hospital authorities, as defined in the HESA Finance Statistics Return guidance. • European Union (EU) government bodies: research grant and contract income from all government bodies operating in the EU, including the European Commission, as defined under Column 6 in Table 5b of the HESA Finance Statistics Return guidance. • Charities: UK-based charities. (This is irrespective of their classification or recognition in any Research funding method operated by a Funding Council.) • Industry: all other organisations, including (as defined by the HESA in the Finance Statistics Return guidance): – EU-based charities, EU industry and EU other; – UK industry, commerce and public corporations; – other overseas – non-EU-charities, non-EU-industry and non-EU-other

	(other than those specifically mentioned above); – other sources.
1.3.2.6	**Recurrent research income from the Funding Councils** – the eighth category. No costs are recorded against this category.

1.3.3 Other

1.3.3.1	**Other (income-generating activity) (O)** is a core activity. It relates to activities that generate income or could potentially generate income. It comprises: • consultancy that is contracted to the institution and carried out during institution time, including advisory work, journal editing and feasibility studies; • other services rendered, including routine testing and non-research clinical trials (i.e. activities not covered under the definition of Research in the Frascati Manual); • work carried out through trading/commercial companies that is not teaching or research; • technology transfer work if remunerated through the institution (e.g. directorships of start-up companies and/or consultancy contracts for the companies) – if it is not remunerated then it should be categorised as Support to Other; • outreach (where the outreach activity is not teaching or research); As well as the costs of academic time, costs attributable to Other activities include: • residences, catering and conferences; • goods or services sold to students, staff or external customers. These might include printing or reprographics; • trading activities including non-Teaching and non-Research activities in commercial companies, spin-outs (subsidiaries), retail services such as shops.
1.3.3.2	**Other (Clinical Services)** (O(CS))– a sub-category of Other used by institutions with medical or dental schools. It includes services provided to the NHS under knock-for-knock arrangements by academic departments of clinical medicine and dentistry (to be reattributed to T, R, O and S).

1.3.4 Support

1.3.4.1	**Support (S)** is not a core activity. it is carried out in support of the three core activities of T, R and O. Support time is often categorised into several areas to assist both in the recording of the academic staff time and its subsequent allocation (as part of indirect costs) to T, R and O. Five areas of Support are described below: Support for Teaching, Support for Research, Support for Other, general management or institutional Support, and scholarship/professional development.
1.3.4.2	**Support for Teaching** includes: • timetabling; • examination boards; • preparing prospectuses; • interviewing taught students, admissions and induction; • committees related to teaching; • careers advice for taught students; • schools liaison; • academic mentoring (outside timetabled tutorials), counselling; • initial course development (where the future of the course is not certain; preparing materials for an agreed new course is T); • module reviews (but subsequent updates and editing etc. is T); • quality assurance (e.g. Quality Assurance Agency for Higher Education reviews); • publicity for teaching facilities and opportunities. Institutions might also wish to include here scholarship/professional development and other Support (covered below) such as: • writing books and other publications for teaching purposes; • advancement of knowledge and skills related to teaching; • secondment to / academic exchanges with other institutions for teaching activities.
1.3.4.3	**Support for Research** includes: • drafting and redrafting proposals for new work and supporting bids to external bodies (where bids involve a significant amount of speculative research, that element can be attributed to institution own-funded Research); • quality assurance;

	• peer review; • refereeing papers; • publicity for research facilities and opportunities. Again this might also include scholarship/professional development and other Support to Research (which are covered below) such as: • advancement of knowledge and related skills which directly contribute to the academic's research work; • unpaid work advising government departments or committees; • unpaid work for professional bodies or agencies in relation to research matters; • institute and academic department committee work supporting Research; • blocks of time in other institutions on research exchange schemes.
1.3.4.4	**Support for Other** includes: • drafting and re-drafting proposals for new work and supporting bids to external bodies for consultancy and other services rendered (where bids involve a significant amount of speculative research, that element can be attributed to institution own-funded R); • negotiating contract terms and conditions with external bodies; • technology transfer work that is not private, nor undertaken commercially by the institution (e.g. supporting patent applications, licence negotiations, formation of start-up companies).
1.3.4.5	**General Support** includes: • management and administration not specifically related to Teaching, Research or Other; • membership of / participation at faculty boards, senate, institution committees etc. (where these relate to Teaching or Research this time could alternatively be recorded as Support for Teaching or Support for Research); • management duties such as deans, head of admissions, assistant deans; • staff management; appraisal etc.; • publicity; representative work on behalf of the institution or academic department; • careers advice; • information returns; • quality assurance contribution to sector e.g. on (unpaid) committees or secondments to panels (where the quality assurance activity relates to teaching or research, then it should be charged to Support for Teaching and Support for Research, respectively); • secondments, exchanges, all other tasks not attributable to other categories.

1.3.4.6	**Professional development (scholarship)** covers maintenance and advancement of own personal knowledge and skills (reading literature, attending professional conferences, maintaining professional or clinical skills, acquiring new skills etc.). Scholarship activity does not relate to supporting 'student scholarships' as defined at 1.3.1.1 (c) above.

2 Governance and quality assurance

Chapter 2 contains one section:

Section		Page
2.1	Governance and quality assurance of TRAC	24

2.1 Governance and quality assurance of TRAC

2.1.1 Introduction

This section describes the governance and quality assurance arrangements required for the Transparent Approach to Costing (TRAC).

2.1.2 The aim – What are we trying to achieve from the governance and quality assurance of TRAC?

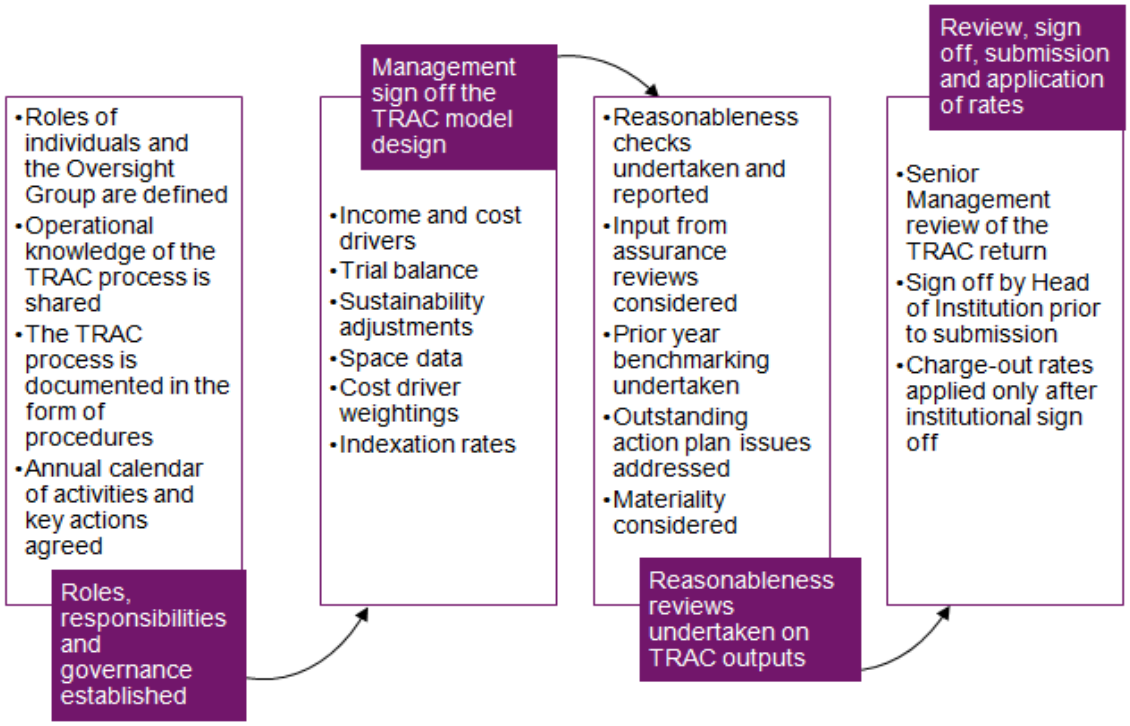
The aim is to ensure institutions have a TRAC process that is overseen and governed in a way that promotes material accuracy and the importance and usefulness of the results. The governance and quality assurance arrangements seek to reduce the likelihood of material errors and/or erroneous judgements being made. In turn this aims to provide confidence and assurance to internal and external stakeholders and funders, through the production of robust and reasonable information.

The TRAC process enables the institution to submit its Annual TRAC and TRAC(T) returns to its funders. The governance and quality assurance processes described in this section apply to both the annual TRAC and TRAC(T) returns.

2.1.3 Process workflow

Figure 2.1 sets out the key requirements and processes as well as the outputs that this stage of the TRAC process is seeking to achieve:

Figure 2.1: Governance and assurance



2.1.4 The requirements

All institutions should develop a working method to comply with the following requirements:

2.1.4.1	Control environment: • There should be clarity of roles and responsibilities for TRAC and a governance structure in place in line with process step 2.1.5.1. • Processes and protocols should be in place to provide resilience and continuity. • There should be clear agreed rationales and audit trails for the TRAC model. • Communication plans and practices should exist that target key internal stakeholders e.g. Senior management, Academic staff, Research offices, Administrators involved in the TRAC process. • Where changes in circumstance arise, through changes in compliance, through higher education institutions (HEIs) merging or moving out of dispensation, or where there are new entrants to the sector, requirements for compliance and/or communication of the compliance status stated in annex 2.1a should be followed.
2.1.4.2	Reasonableness checking: • The Annual TRAC and TRAC(T) results should be aligned with broad expectations for the institution.

	• TRAC-related benchmarking (Annual TRAC and TRAC(T)) should be used to gain assurance over the reasonableness of the results when compared to similar institutions. • High level adjustments should be rationalised and underpinned with appropriate evidence. It is not expected that such adjustments should recur in subsequent years as corrective action should be taken to avoid the need for further adjustments. • If any of the charge-out rates are outside the upper quartile or lower quartile for the sector, then there is a reasonable explanation. • Material errors should be subject to corrective action. If these are identified after submission, resubmission of the TRAC return should be agreed with RCUK and the respective Funding Council, or for the TRAC(T) return, with the Funding Council only.
2.1.4.3	Quality assurance: • The TRAC model should comply with the costing principles and standards detailed in section 1.2. • The TRAC process should comply with the materiality concept, and the TRAC returns and charge-out rates should be free from material error. • The TRAC process and results (the Annual TRAC return and charge-out rates) should be subject to review and approval by a Committee of the Governing Body to confirm compliance with TRAC requirements. This can be achieved either by presenting the return and supporting documentation to a meeting of the Committee, or where Committee scheduling does not enable this, by Chairs action outside of a meeting. Where Chair's action is taken, the return and report should be presented to a subsequent meeting of the Committee. • There should be evidence of annual reconsideration of assumptions and rationales for key treatments by the TRAC Oversight Group. • The TRAC process should be subject to a periodic assurance review, the frequency of which should be determined according to the risk posed to the institution. • Any issue arising from audit or review that could materially affect the cost allocations or charge-out rate calculations should be addressed. • At least every three years there should be a self-assessment against the TRAC requirements and 'what could go wrong' statements (at the end of each chapter). • Controls should be in place to prevent errors in system formulae, errors in data entry and transposition, and double-counting in cost allocations. Details of the apportionment formulae used in the TRAC model should be understood by the TRAC Manager, tested for accuracy, and retained for review by funders upon

	request. • All data used in the TRAC model should agree with source data.
2.1.4.4	Institutions eligible for and claiming dispensation: • Do not have to obtain time allocation data robustly from academics (for example, heads of academic departments could provide this information). • Do not need to identify space usage robustly across the whole institution. • Do not need to take into account the type of space when allocating space costs. • Are not permitted to calculate and apply laboratory technicians and research facility charge-out rates. • Do not need to calculate staff FTEs robustly. • Should apply the lower of their own indirect charge-out rate, or the dispensation indirect charge-out rate[12] to Research Council and Other Government Department cost-based research projects. • Should apply the lower of their own estates charge-out rate, or the dispensation estates rate to Research Council and Other Government Department cost-based research projects.

2.1.5 Process

This sub-section provides a guide for the operation of governance and quality assurance of TRAC processes.

It describes a process that could be followed in order to meet the TRAC requirements above, and indicates the spirit of the activities that contribute to compliance being achieved with those requirements. However, the following description is not the only approach that could be followed and, given the diversity of the higher education sector, it is important that each institution implements the process in a way that will minimise burden whilst ensuring that appropriately robust governance and quality assurance arrangements are in place.

Where a process step is shaded green in the left column below, it describes a prescribed method which should be followed to comply with TRAC requirements.

Roles, responsibilities and governance established

2.1.5.1	A hierarchy of roles and responsibilities for TRAC should be established. Typically this will include the following, adapted appropriately to reflect the size and type of institution: • An Oversight Group (e.g. Financial Sustainability Group, Executive Board,

[12] www.rcuk.ac.uk/about/aboutrcuk/aims/units/assurance/dispensation/

	TRAC Costing and Sustainability Steering Group, etc.) led by an executive member (ideally an academic) and which has representation from the different parts of the institution that are involved with and/or benefit from the TRAC information. The group could stand alone for the purposes of TRAC and sustainability oversight, or, depending on how embedded TRAC and sustainability is in the institution, the role could be performed by a pre-existing group. The group will be responsible for: – the design of the TRAC process and the various judgements and decisions that are taken in designing the model; – reviewing and challenging the TRAC and charge-out data in order for any errors or changes to the process to be identified; – reviewing the final TRAC return and rates to recommend them for approval by a senior management group in the institution; – reviewing the sector benchmark data, understanding the institution's data and identifying whether further development or changes to the TRAC model are required. • An academic champion. This individual will typically be the Chair for the Oversight Group above and will play a critical role in engaging the academic community, and in particular being part of the communication process with the academic community about TRAC. • One or more individuals (TRAC Managers), typically from the Finance Team, having responsibility for the development, maintenance and operation of the TRAC model and associated processes (e.g. time allocation process). This person / these people will operate and populate the TRAC model, liaising with other parts of the institution as appropriate, and provide the outputs for discussion and review. • The Director of Finance or Deputy Director of Finance will provide support and oversight of the above individual(s). In undertaking this role, it is very important that the broader knowledge of the institution is used to consider and agree the most appropriate inputs to the TRAC process.
2.1.5.2	The TRAC methods and systems are documented in a way that will assist someone who is sufficiently qualified but unfamiliar with TRAC to understand the process. These documented procedures should be actively maintained and reflect the current process that is in operation.
2.1.5.3	Wherever possible the detailed knowledge of TRAC and associated processes should not reside only with one person.
2.1.5.4	TRAC systems (and input data) are subject to periodic assurance reviews (e.g. by internal audit), the frequency of which should be informed by an assessment of the risk that TRAC poses to the institution. Review on a three-yearly cycle is not uncommon. Where assurance reviews are undertaken, the results should be reviewed by both

	senior management and the oversight group (2.1.5.1) to inform improvements to TRAC processes and to enable progress in implementing any recommendations.

Management sign-off on the TRAC model design

2.1.5.5	There are numerous approaches to constructing the TRAC model, including spreadsheets, databases, commercial software packages and other financial reporting tools. The institution can select the tool that is most appropriate for its needs, or in some cases expand the use of an existing tool.
2.1.5.6	The TRAC model enables the allocation of costs to the various services, then academic areas, before allocating these to the TRAC categories. The Director and Deputy Director of Finance will be valuable sources of reference and challenge in the development of the TRAC model.
2.1.5.7	The TRAC process requires different datasets that are used to allocate cost pools to activities. Such data will typically be provided by: • finance department; • academic staff time survey or academic workload planning data; • estates office; • human resources; • registry (or equivalent); • academic schools / academic departments; • research office. Other chapters in the guidance outline the requirements for different elements of the TRAC process and these describe the different datasets and how these should be used in the model. Staff from the departments listed above, together with some Heads of Service, will also be helpful in advising on the most appropriate basis for allocating costs and/or cost drivers and their weightings. A key success factor in the above is an effective engagement with the relevant staff in these areas so they have a clear understanding of the information required and its use. Developing a plan of work each year is advisable as this will provide a basis for ensuring sufficient resource is available at the appropriate times to enable the Director of Finance and Oversight Group to monitor progress.
2.1.5.8	Institutional activities and balance thereof can change between years, and this could have an impact on the TRAC model for allocating costs and income to the TRAC activities appropriately. Therefore the design of the TRAC model and the various judgements and key decisions taken are reviewed, and if necessary revised annually, to ensure that the TRAC model remains appropriate. These decisions should be approved by the Oversight Group.

2.1.5.9	The TRAC Manager should maintain a clear audit trail for the TRAC process so the data feeds can be agreed to source, and the reasoning behind key decisions and judgements can be verified.
2.1.5.10	As outlined in 2.1.5.7 the administration of TRAC and its associated processes can be aided by effective communication with those affected by the process. Therefore the annual TRAC timetable[13] for the year incorporates engagement and feedback of the TRAC results to academic staff learning from experience and improvement opportunities identified in the last cycle, whether that is through academic area meetings or other forums. This engagement has been found to ease the burden of obtaining the time allocation returns.

Reasonableness reviews on TRAC outputs

2.1.5.11	Reasonableness checking of the TRAC data is undertaken to ensure that they reflect the institution's activity profile and are in line with broad expectations. Reasonableness checks should be undertaken by management throughout the whole TRAC cycle (keeping TRAC materiality in mind) to identify and understand unexpected results at academic department and institutional level. Reasons for unexpected results could be due to: • incomplete or inaccurate data inputs; • calculation errors in the TRAC model; • inappropriate use of certain cost drivers; • incorrect assumptions in the weighting of cost drivers. Areas of interest for detailed reasonableness checking could include, but not be limited to: • staff time allocation data; • allocations of cost to Teaching, Research and Other; • deficit/surplus by TRAC activity (and sponsor type); • research cost rates; • consistency between certain results and other relevant datasets. In addition the TRAC return (see section 4.1) itself has a series of validation checks and any exceptions that these checks identify should be reviewed and corrected, or explained. Further details of suggested reasonableness checks that could be undertaken on the TRAC(T) return can be found in 4.3.5.24. It is suggested that the Director of Finance and the Oversight Group should undertake reasonableness checks at academic department level. Reviewing data at a more aggregated level could mask errors / anomalies.

[13] TRAC 'The Easier Way', www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/regional/

	Internal benchmarking of the TRAC results against prior year results can identify areas for further review. Also comparing TRAC data with other externally reported datasets can increase the assurance over the TRAC model (e.g. management accounts, student records, Higher Education Statistics Agency datasets). Unexpected results that are not understood and accepted as reasonable should be addressed prior to submission of the TRAC returns.
2.1.5.12	Annual TRAC and TRAC(T) benchmarking data are provided by HEFCE annually and can be accessed via the HEFCE extranet, typically in April each year. Unexpected outliers in sector benchmarking data should be investigated and addressed if necessary; less material variances should be addressed during the next TRAC submission cycle. Material errors should be subject to corrective action. Should these be identified after submission, resubmission of the TRAC return should be agreed with the Funding Councils.
2.1.5.13	An assessment/check is made against all the TRAC requirements and the 'What could go wrong' sub-sections and the results presented to the Oversight Group.
2.1.5.14	High level adjustments to TRAC data are acceptable provided an action plan is implemented to address data or system weaknesses. It is not expected that there will be more than one high level adjustment per year or that the same adjustment is made in consecutive years. Action plans should be retained and available for inspection by funders, auditors and Research Councils upon request.

Review and sign-off of the TRAC return for submission

2.1.5.15	The TRAC Manager maintains audit trails to support management sign-off on the TRAC results.
2.1.5.16	Irrespective of whether TRAC systems are 'third party supplied' or developed 'in-house', details of direct coding and apportionment formulae should be understood by the TRAC Manager and tested for accuracy following any system upgrade. These details should be retained and made available for review by funders on request.
2.1.5.17	The Oversight Group receives the results of the reasonableness tests performed, together with the results of any assurance reviews, the TRAC return and cost rates for review and, eventually, approval. It is typical practice for draft results to be presented for debate in November to allow time for any refinements or changes to be made to the TRAC model, prior to final recommendation for the TRAC return to be approved by a senior management group prior to the return being signed by the Vice Chancellor and submitted.
2.1.5.18	The Annual TRAC and TRAC(T) returns, a summary of the reasonableness checks and any comments from the Oversight Group should be available when the Head of Institution approves the return. The approved Annual TRAC return should then be signed off by a Committee of the Governing Body to confirm compliance with TRAC requirements. It is expected that

	such a Committee will have lay membership and will usually be chaired by a member of the Governing Body. This can be either at a meeting of the Committee or via Chairs action. Note: the TRAC(T) return does not require approval by a Committee of the Governing Body.
2.1.5.19	The TRAC return is submitted via the HEFCE secure extranet in line with the instructions provided by the Funding Councils (see chapter 4).
2.1.5.20	The updated research charge-out rates are communicated to the Research Office/ other relevant area(s) of the institution.
2.1.5.21	Benchmarking data are produced by the Funding Councils annually and are released to institutions to aid self-assessment and peer review.
2.1.5.22	If the Committee of the Governing Body with responsibility for reviewing the results of the tests for reasonableness and confirming compliance with TRAC requirements does not meet until after the TRAC submission deadline, confirmation of who confirmed compliance and when should be recorded on the Annual TRAC return.

2.1.6 What could go wrong? Common areas of non-compliance

Summarised below are the more common areas where things could go wrong and/or lead to non-compliance with the TRAC requirements:

What could go wrong / areas of non-compliance
• The design and rationale for the TRAC process has not been reconsidered annually, increasing the likelihood that the cost driver model and associated judgements become inappropriate.
• Documentation of the TRAC model and processes does not exist or is incomplete, introducing additional risk upon staff turnover or absence.
• Performing reasonableness reviews of input data and time allocation / workload planning data during the submission cycle rather than when the data first become available.
• Reliance on high level adjustments to TRAC allocations rather than addressing process or data weaknesses.
• Reasonableness checking performed too late in the TRAC cycle to allow investigation and correction of unexpected data.
• Materiality assumptions not being aggregated correctly which lead to incorrect results.
• Lack of senior leadership and engagement in TRAC leading to the TRAC Manager being isolated, which could increase the risk of error or uninformed judgements in the TRAC process.
• Failing to address actions identified by external reviews / assurance reviews.
• Errors in the model identified after 1 February that have a material impact on the TRAC

charge-out rates are not notified to RCUK or the UK HE Funding Councils.
• The specific methods for compilation of the TRAC(T) return, as outlined in 4.3.4 and 4.3.5 have not been followed.

2.1.7 Annex

Annex reference	Document title
2.1a	Requirements and processes for changes in compliance status or institutional status

The annex above is located on the following web page:
www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/

2.1.8 Associated good practice and other relevant reference material

Detailed below are other documents or sources of reference that could provide useful reference. These do not however constitute TRAC requirements:

TRAC 'The Easier Way' guide:

- www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/regional/

HEFCE's request for information via its Annual Accountability Returns publication:

- www.hefce.ac.uk/pubs/

Scottish Funding Council Call for Information:

- www.sfc.ac.uk/communications/SectorCommunications.aspx

(Higher Education Funding Council for Wales and Department for Employment and Learning, Northern Ireland send an individual letter to directors of finance at HEIs in October each year.)

Benchmarking session from 2010 TRAC Practitioners' Conference:

- www.hefce.ac.uk/whatwedo/lgm/finsustain/events/

2.1.9 Other sources of reference and assistance

There are two principal sources of further reference:

- TRAC Regional Groups, through which colleagues can be reached and questions asked. Details of the TRAC Regional Groups can be found at www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/regional/
- The TRAC Support Unit, which can be reached on 0115 935 3400, trachelpdesk@kpmg.co.uk

3 TRAC process

Chapter 3 contains five sections:

Section		Page
3.1	Data required for TRAC	35
3.2	Sustainability adjustments	51
3.3	Direct cost attribution	58
3.4	Allocating departmental and central costs	64
3.5	Income allocation	71

3.1 Data required for TRAC

3.1.1 Introduction

This chapter describes the data that the institution will need to collect in order to compile its Annual Transparent Approach to Costing (TRAC) return and TRAC(T) return. This should enable early identification of the different academic and central departments in the institution that will need to contribute to the TRAC process.

3.1.2 The aim – What are we trying to achieve from defining TRAC input data?

To ensure that all inputs to the TRAC model are reconcilable to source data and/or other externally reported datasets, and that the cost drivers used are the most relevant to the cost pools to which they are applied.

3.1.3 Process workflow

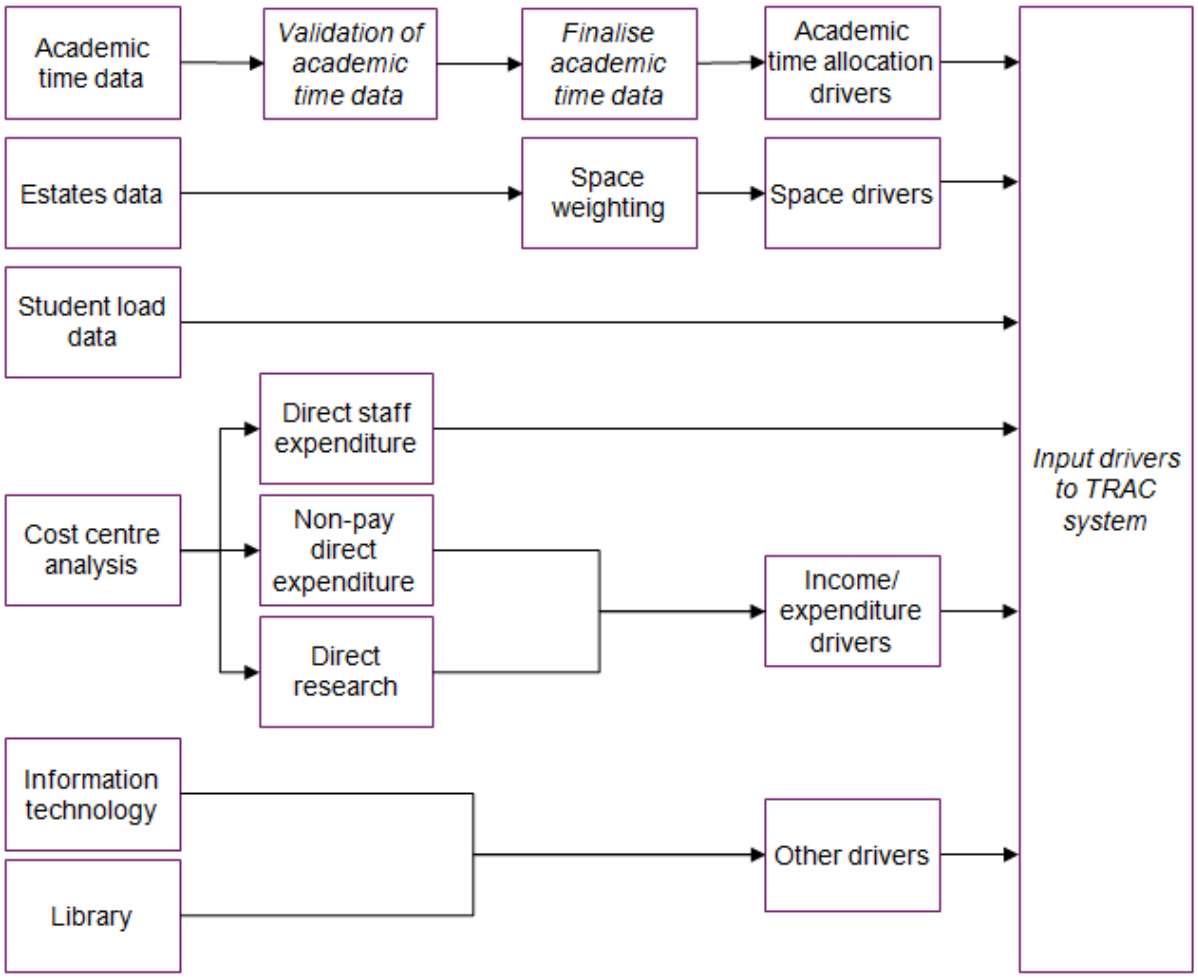
The data required by the TRAC process falls broadly into the following categories:

- Financial data (expenditure and income) as reported in the consolidated financial statements.
- Academic staff time allocation / workload planning data (to allocate academic staff time to Teaching, Research, Other and Support) and technician time data.
- Space data to determine the proportion of space used by each activity type, and to allocate space costs to academic departments and to Teaching, Research and Other activity categories.
- Space weighting factors for cost drivers to reflect the differential cost of servicing different room types (e.g. laboratory versus lecture theatre).
- Other cost driver data: staff and student numbers etc. to allocate costs to academic departments and inform the denominator for charge-out rate calculations.

The data described above are the key inputs to the TRAC model required to enable costs to be allocated to academic and non-academic departments, and to the TRAC categories. Institutions can determine their own definition of ‘academic departments’ but it is expected that these will mirror the structure of the institution. Classification of a faculty or college as an academic department is unlikely to be appropriate as these are typically groupings of a number of schools. There is not a TRAC requirement to select the lowest level of allocation in the organisational structure, but some institutions have found it helpful to select a level that enables the cost apportionment information to be used for other purposes, (e.g. to assess financial performance).

Figure 3.1 sets out the components that each input type should include. Text in italics represents process steps rather than sources of input data.

Figure 3.1: Input data



3.1.4 The requirements

3.1.4.1	TRAC activity definitions should be followed (as defined at section 1.3).	
3.1.4.2	All input data that feed into the TRAC model should reconcile to source data and an audit trail should be maintained.	
3.1.4.3	Input data based on numbers-driven cost drivers (staff, students, etc.) should be updated each year. All other input data should be updated at least every three years (e.g. academic staff time, space usage, library usage).	
3.1.4.4	The cost drivers selected should reflect the consumption of costs for the cost pools to which they are applied.	
3.1.4.5	Costs should be allocated in stages to arrive at the cost of academic departments, then allocate these costs between TRAC categories, as	

	described below: • the allocation of estates costs to central and academic departments; • the allocation of central department costs to academic departments; • the allocation of each cost allocated to academic departments, to the TRAC categories (T, R and O).	
3.1.4.6	Income should not be used as a cost driver unless proven (and evidence is retained) to reflect the consumption of cost. Head of Department (academic department) estimates can be used to allocate academic department general support costs, but these should be refreshed annually and evidence retained of the rationale for the allocation decisions. Institutional policies regarding confidentiality, data protection and data security should be applied to the TRAC process.	*
TRAC requirements for financial input data:		
3.1.4.7	All costs from the consolidated financial statements (excluding exceptional items as defined by Financial Reporting Standard 3 (FRS3)) should be included at gross levels, not net of income.	
3.1.4.8	The treatment for the share of profits / losses in joint ventures, associates, minority interests and endowments set out at 3.1.5.4 to 3.1.5.6 should be followed where material.	
3.1.4.9	Restructuring costs should be allocated to all TRAC activities, not just to Other.	
3.1.4.10	TRAC costs include sustainability adjustments as detailed in section 3.2.	
TRAC requirements for staff data:		
3.1.4.11	Staff full time equivalent (FTE) and headcount data should be representative of the FTE for the year as a whole and agree with those held on the human resources system, the Higher Education Statistics Agency (HESA) Staff record, or the numbers reported in the consolidated financial statements at institutional level.	*
3.1.4.12	The academic staff FTE and headcount included in the TRAC model should be those that consume and therefore drive the costs.	
3.1.4.13	Adjustments should be made for long term absence where material at academic department level.	*
3.1.4.14	Postgraduate Research Student (PGR) FTEs should be weighted by 0.2 when included in the indirect cost rate, 0.8 for laboratory estate rates and 0.5 for non-laboratory estates rates.	*
TRAC requirements for student data:		
3.1.4.15	Student FTE and headcount data should materially agree with those held on the student records system or the HESA Student record.	

3.1.4.16	The student FTE and headcount included should be those that consume and therefore drive the costs (including the further education or overseas campus FTE if material).	
TRAC requirements for time allocation methods:		
3.1.4.17	Academic and research staff time should be attributed directly to a core TRAC activity (as defined in section 1.3) where possible. Institutions should ensure that double-counting does not arise as a result of staff that are directly allocated to a TRAC category also having all of their time allocated through the time allocation system (3.1.4.18).	
3.1.4.18	All academic staff not directly allocated to a single TRAC activity should be included in the time allocation process. For institutions claiming dispensation a robust method is not required, so Head of Department estimates can be used to allocate staff time between the TRAC categories (detailed in section 1.3).	
3.1.4.19	Time data collected through academic survey or workload planning should follow TRAC activity definitions detailed in section 1.3, should be collected at research sponsor level, and should only reflect the time being managed by the institution. This is irrespective of any 'standard' or 'contracted' working week, but should exclude 'normal' periods of holiday, sickness and other leave.	
3.1.4.20	Clear instructions and definitions should accompany the time allocation forms. Where different activity definitions and categories of time are used in workload planning models, these should be mapped appropriately to the required TRAC categories and definitions.	*
3.1.4.21	Reasonableness of time allocation data should be ensured by a review of the results by the Head of Department (academic department).	*
3.1.4.22	Where time allocation data from one year are used as a proxy for the following year, there should be processes which identify material changes in academic departments. Assessments should be made of the impact of these changes on the allocations of time between activity categories.	
3.1.4.23	When different time allocation methods have been used to provide data for different years, they should be aggregated in an appropriate way. Where different time allocation methods are used across the institution, only one approach should be used within each academic department.	
3.1.4.24	Where the institution has chosen to collect academic time in hours, this should be converted to percentages and weighted by FTEs.	*
3.1.4.25	All academic pay costs should be allocated using one of the time allocation methods detailed below, ensuring that the allocation process: • Covers all staff not directly charged to TRAC activities for periods representative of 12 months within a three-year cycle, ensuring that the	*

	returns received are representative of the grade mix for each academic department. • Is completed by individual academics whose pay costs are to be allocated. • Has a maximum look-back period of six months. • Achieves the minimum response rate of 75% for academic departments with a total population of less than 50 academic staff; or 50% or 38 returns (whichever is greater) for academic departments with 50 academic staff or more. • Does not duplicate the allocation of costs already directly allocated to a TRAC category (3.1.4.17).	
3.1.4.26	All academic pay costs should be allocated using one of the following time allocation methods: a) In-year data collection: • The year should be split into at least three periods. b) Statistical data collection: • The sample should be representative of types of staff, academic department, research sponsor type and of the weeks of the year. • The collection should achieve acceptable levels of statistical accuracy; input from a statistician should be evidenced at the stage of designing the process, and in reviewing the levels of response and the results. c) Workload planning methods: • Each academic should agree to the plan drawn up for them at the start of the year as part of a formal process. At the end of the year the academic should confirm that the plan was delivered, or revise the data to represent the actual balance of activities undertaken. • Revisions to workload planning data should be jointly agreed and approved by a relevant manager.	*
TRAC requirement for technician data:		
3.1.4.27	The cost of technician support is: • included in specific research charge-out rates; • the indirect and estates cost pools should be excluded from the technician charge-out rates to avoid double-counting when used for cost-based funding.	
TRAC requirements for space data:		
3.1.4.28	Estates data should: • use the TRAC definitions of activities and not those in the Estates Management Record (EMR);	

	• be attributed on the basis of proportional, not predominate, usage; • be categorised to one of at least four space types (which vary by cost); • use 'Net Internal Area' data in the TRAC model; • classify academic space between laboratory and non-laboratory space; • allocate academic offices to academic department and TRAC based on an assessment of how the space is used. Institutions claiming dispensation do not need to allocate estates costs robustly in the TRAC model. Therefore the method above does not need to be followed to allocate estates costs: high level estimates can be used.	
TRAC requirement for other cost drivers:		
3.1.4.29	Selection of cost drivers and any weightings for the allocation of higher cost support activities (e.g. Library, Learning resource centres and Information Technology) should be informed by the relevant director of these areas to ensure that the driver, or combination of drivers and weightings used, reflects the usage/consumption of those resources.	*
TRAC requirements for weighting data:		
3.1.4.30	• Weighting factors applied to cost drivers within the TRAC model should be both institutionally recognised and utilised, or approved by the TRAC Oversight Group when designed uniquely for the TRAC process. • Space weighting factors should be determined with input from the Estates / Facilities department – the workings for which should be retained by the TRAC Manager. • Standard weightings are mandated for use in TRAC for the following analysis: – Postgraduate research (PGR) FTEs are weighted 0.2 when included in the indirect cost rate, 0.8 for laboratory estate rates and 0.5 for non-laboratory estates rates. – Academic staff time allocations should be weighted for salaries and FTE when calculating the cost of academic time. The weighting by FTE may or may not be relevant, depending on how the institution's time allocation data are used and applied in the TRAC model.	*
TRAC requirements for indexation		
3.1.4.31	Calculated indexation rates should: • reflect price changes for the two years broadly starting from the midpoint of	

	the year being reported on the TRAC return; • reflect both historical and future parts of the two-year period; and • reflect two types of indices – one for pay and one for non-pay.	
TRAC requirements for overseas operations:		
3.1.4.32	• Overseas operations should be treated the same as onshore activities where the costs are included in the consolidated financial statements; • Overseas operations that are not included in the consolidated financial statements should not be included in TRAC.	*

Institutions eligible for dispensation are required to allocate costs to the TRAC categories, but the methods used to do this do not need to be robust. The requirements that are not therefore applicable to institutions claiming dispensation are indicated with an asterisk (*) in the table above.

3.1.5 Process

This sub-section provides a guide for gathering TRAC input data.

It describes a method that could be followed in order to meet the TRAC requirements above, and indicates the spirit of the activities that contribute to achieving compliance with the TRAC requirements. However, the following approach is not the only option and, given the diversity of the higher education (HE) sector, it is important that each institution identifies TRAC input data that are understood internally and are suitable and rationalised for application to the TRAC model.

If the utility of the information is improved by having a process that goes beyond the TRAC requirements, this is wholly acceptable and at the discretion of the institution.

Where a process step is shaded green in the left column below, it describes a prescribed method which should be followed to comply with TRAC requirements.

Background

3.1.5.1	Section 2.1.5.8 of the guidance outlines how the TRAC Oversight Group should have agreed the design of the TRAC model, which includes the decisions over which cost drivers should be used and the related rationales for this. From this decision the input data requirements for the TRAC model should be clear. In selecting relevant cost drivers, there are often a number of options. At this point it is important to consider the 'relevance of the driver to the costs', the 'materiality' of any difference between the options on the allocation of costs, and whether the level of internal acceptance of the data will be enhanced by choosing a particular cost driver. Additional cost drivers to those suggested in this section may be used at the institution's discretion.

3.1.5.2	Agreement of the TRAC model and methodology early in the reporting cycle is necessary to ensure that sufficient time is available to enable the definition of the datasets to be clarified with other colleagues in the institution and the timescales within which the data are required. The Estates data and time allocation/workload planning data often take the longest time to obtain, so forward planning is essential for these datasets. In order to progress the TRAC submission process as early as possible, the TRAC Manager is encouraged to populate the TRAC model with input data early in the submission cycle to perform preliminary analysis. The use of draft datasets in advance of final sign-off is encouraged to allow time for reasonableness checking and trend analysis. The availability of early results can provide a valuable opportunity to test the appropriateness of the TRAC model.

Financial input data

3.1.5.3	The full economic cost reported in the Annual TRAC return reconciles to: • total expenditure, excluding any joint venture activity as reported in the consolidated financial statements; • plus the share of operating losses in joint ventures and associates as reported in the consolidated financial statements (3.1.5.4 and 3.1.5.5 below); • plus or minus minority interests (3.1.5.5); • plus the TRAC sustainability adjustments (see section 3.2). Exceptional items (as defined by FRS3[14]) that appear on a separate line below the operating surplus/deficit in the consolidated financial statements should not be included in TRAC expenditure or income analysis. Surpluses / (deficits) on the disposal of fixed assets are therefore not included in the TRAC income or costs where they are reported as exceptional items. Where the word 'exceptional' appears in one of the expenditure headings that is above the operating surplus/deficit line, these costs are included in the TRAC analysis as they are not exceptional costs as defined by FRS3.
3.1.5.4	The share of profits / losses in joint ventures and associates included in an institution's consolidated financial statements should be added to income if it is a profit, or added to expenditure if it is a loss.
3.1.5.5	For minority interests: the minority interest, as a single figure, should be deducted from (or added to) TRAC costs. If the costs relate to support activity, the cost pool should be reduced by the total minority interest figure.
3.1.5.6	For endowments: transfers from / to reserves below the line that relate to endowments should be adjusted so that income matches expenditure.

[14] https://frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/Standards-in-Issue/FRS-3-Reporting-Financial-Performance.aspx

	When unrestricted donations are reported in the income and expenditure account in one year, but expenditure is made in subsequent years, the income forms part of the TRAC data in the year the income is received. When restricted donations (endowments) are received, income earned is included in the income and expenditure account as earned, and expenditure as incurred.
3.1.5.7	An income allocation schedule, updated annually by the Funding Councils, is provided (see annexes 3.5a and 3.5b at section 3.5) to guide TRAC Managers though the income allocation process (see section 3.5). The total income figure reported under TRAC should reconcile to the consolidated financial statements (before exceptional items – see 3.1.5.3) • total income, excluding any joint venture activity as reported in the consolidated financial statements; • plus the share of operating profits in joint ventures and associates as reported in the consolidated financial statements (3.1.5.4); • plus surplus/(deficit) for the year transferred to accumulated income in endowment funds (3.1.5.6).
3.1.5.8	TRAC costs include an adjustment to represent the full economic cost at institutional level. The TRAC sustainability adjustments are a formulaic calculation and can be calculated provisionally, early on in the TRAC process cycle. Guidance for producing the sustainability adjustments is provided at section 3.2.
3.1.5.9	Costs of central (professional) services are allocated to academic departments and to TRAC categories (as defined at section 1.3). This is explained further in sections 3.3 and 3.4.

Staff FTE and headcount data

3.1.5.10	Staff FTE data will be more appropriate to drive some cost pools, whereas headcount data will be more appropriate for others. To calculate the academic staff FTE and headcount, the TRAC Manager should obtain internally produced source data that reconcile to the HESA Staff Return or the staff numbers reported in the consolidated financial statements at institutional level, ensuring that: • the FTE / headcount data are consistent with the costs to be apportioned for the year as a whole, either by taking an average of two points in the year or by using the value reported to HESA; • the Academic staff FTE data for use in the calculation of the research charge-out rates include: – academic time attributable to research (unweighted for salaries); – postgraduate research students (weighted) excluding those writing up; – research assistants and fellows;

	– temporary research staff; – visiting research academics; and – clinicians (where material and appropriate to be included); • the FTE included are those that consume and therefore drive costs; • adjustments for long term absence should be made only where material at academic departmental level.

Student FTE and headcount data

3.1.5.11	The student FTE and headcount data can be used as a pure, weighted or blended cost driver within the TRAC model. The institution will determine that for certain cost pools it is the headcount total that drives the cost, whereas for other costs, the FTE may be a more appropriate representation of the costs. Some costs will be driven by combined cost drivers, e.g. staff and student FTE for library use. The student FTE and headcount should be obtained from internally produced source data that reconcile to the HESA Student Return at institutional level, ensuring that: • further education students are included; • where material, non-credit bearing students are included; • PGR students are included as appropriate but exclude those writing up.

Time allocation / workload planning data

3.1.5.12	Academic and research staff costs should be attributed directly to a core TRAC activity where possible, for example the costs of Research Assistants to Research or Teaching Fellows to Teaching where they are 100% or close to 100% assigned to that activity. All other academic staff costs should be allocated using the percentage of time spent on TRAC activities while employed by the institution, captured through a time allocation or workload planning process. There are three approaches commonly used in the sector, as follows: • In-year time collection – all staff complete at least three schedules covering the whole year, at least once every three years. • Statistical collection – a statistician has designed a statistically based collection of time allocation returns. The collection process typically requires that either samples of staff or samples of weeks, or a combination are selected each year. The design of the method should provide results that are representative of a 12-month period for the institution as a whole. The results are reviewed by a statistician to ensure that a statistically valid result is achieved that provides results that are representative for the institution as a whole at discipline level. • Workload planning / allocation model – institutions have a proactive

	planning process for the allocation of staff time to activities during the year. The plan is agreed by each academic member of staff and their line manager, and jointly signed off at the year end. Whichever approach is adopted, it should be a robust method that provides credible information for use in the attribution of academic staff costs to TRAC activities. It is acceptable to use different time allocation methods across the institution, but only one approach should be used within each academic department. Reasonableness of time allocation data is ensured by a review of the results by the Head of Department (academic department), but it is not uncommon for the time allocation information to be out of line with the expectations of senior managers. It is therefore important that effort is spent by the TRAC Oversight Group on taking steps to ensure that the time allocation collections provide information that reflects the activities undertaken, to preserve the credibility of the time allocation data, the TRAC data and charge-out rates for publicly funded research projects. A well designed and tested academic staff time allocation process, whether it be a Time Allocation Survey or Workload Planning model, is integral to ensuring staff costs are accurately allocated to activities, and underpins the credibility of the TRAC model and the TRAC results. It also provides valuable data for other uses in the institution.
3.1.5.13	One of the biggest success factors in the time allocation process is the senior sponsorship of the process and the continued communication with academic staff. It is very important that academic staff understand why the time allocation information is collected, how it is used, and the benefit that the institution receives from the TRAC process. This might be put in terms of the research income received, or the TRAC(T) cost data that inform teaching funding policy in England and Scotland. Having a communications plan that is agreed and owned by the TRAC Oversight Group will contribute to a more successful time allocation collection in the institution.
3.1.5.14	All time allocation collection methods should: • only reflect the staff member's time that is managed by the institution, irrespective of any 'standard' or 'contracted' working week; • cover periods representative of 12 months within no more than a three-year cycle; • follow TRAC activity definitions (section 1.3); • be completed by individual academic staff; • be collected from all academic staff to whose employment costs the activity split is to apply; • be representative of the grade mix for each academic department; • achieve a minimum response rate of: – 75% for departments with a total population of less than 50 academic

	staff, or – 50% or returns from 38 academic staff, whichever is greater, for departments with a total population of 50 academic staff or more. Depending on how the institution applies the TAS percentages in the TRAC model it may be necessary to weight these for staff FTEs. For example, if staff time is being grouped into bandings before being applied to costs, then the percentages of time should be weighted by FTEs. If relevant, this step is important as it could otherwise lead to an overstatement of time to the TRAC categories.
3.1.5.15	For in-year time allocation: • the year is split into at least three periods; • returns are not accepted when more than eight weeks has expired after the close of the collection period (i.e. for a four month collection period the returns are not accepted where they are more than six months from the start date of the collection period; • data are collected from academic departments on a maximum three-year cycle.
3.1.5.16	When time periods or academic staff are sampled using a statistical collection method: • they are representative of types of staff, of each clinical, laboratory and non-laboratory group of academic departments, of each research sponsor type, and of the weeks or periods in the year; • they achieve acceptable levels of statistical accuracy and the input from a statistician is evidenced at the stage of designing the process, and in reviewing the results; • the sample size is robust at a lower level (e.g. by academic department, or by type of staff) if institutions are calculating indirect cost or estates rates at these lower levels.
3.1.5.17	When following a workload planning approach: • A manager or administrator prepares the planned activity data for each year for each academic member of staff. This is based on a formal process, e.g. with plans based on planned modules / courses and students, research projects and activity, other projects and activity, formal leadership and management responsibilities, requirements for scholarship and administrative activity, holiday entitlements, and so on. This process is carried out with all academics in the academic departments covered by this method of time allocation, every year (i.e. there is no sampling). The plan for each academic should be drawn up and agreed with their manager or equivalent at the start of the year, retaining evidence of agreement. • At the end of each year each academic confirms that the plan was delivered, or revises the data to reflect the balance of activities undertaken during that year. This review would be informed by actual modules / courses and students taught, active research grants etc., as well as other events or changes in circumstance during the year that affected workload. Any revisions would be

	approved jointly by managers and the individual academic.

Technician survey data

3.1.5.18	Section 4.2 provides guidance on the calculation of Research charge-out rates, one of which is the charge-out rate for laboratory technicians. The costs of Laboratory Technicians should be identified separately within the TRAC model and should be Directly Incurred (DI) or Directly Allocated (DA) (see 4.2.5.7). Attribution to TRAC activities is determined: • by timesheets for technicians being directly incurred (DI) on grants and contracts; or • on the basis of a technician activity survey (DA).
3.1.5.19	Laboratory technician time and costs that are included in a specific research facility charge-out rate are excluded from all Laboratory technician charge-out rates (see section 4.2).
3.1.5.20	If there are no directly allocated technicians, or the levels are not material, separate laboratory technician rates do not need to be calculated.

Space data

3.1.5.21	The space data are used as a pure, weighted or blended cost driver within the TRAC model. To calculate the space data, the TRAC Manager should obtain internally produced source data triennially unless required more often due to known material changes to space ownership. The space data should materially reconcile to the latest 'Net Internal Area' data reported to HESA at institutional level (i.e. excluding institutional balance space), ensuring that: • Space is attributed to academic and central departments on the basis of proportional usage and not on the basis of predominant use. • Space types are classified into at least four bands (which are subsequently allocated different weightings to reflect the range / intensity in cost of servicing and maintaining the space). • A reasonable method is used to calculate a weighted cost for each type of space (see 3.1.5.25 below). • Space dedicated to single TRAC category use is directly allocated to the relevant TRAC category, e.g. Catering and Residences to Other. • Centrally bookable space is allocated to academic department and TRAC categories based on recorded use. • Academic department space is attributed to TRAC categories based on proportional usage (i.e. if a room is used 70% of the time for teaching, and 30% research, the space should be allocated in these proportions and not

	all allocated to teaching). These data can be obtained through surveying the relevant academic departmental staff to understand how the space is used and consequently allocate it to the TRAC categories. Proxies such as academic staff time or staff and student numbers are not sufficiently robust or appropriate. • Academic offices are allocated to academic departments and TRAC categories based on an assessment of how the space is used. This generally involves a survey of space usage, as with other areas of the estate. • Space occupied by overseas operations and campuses should be treated in the same way as onshore activities where the costs are included in the consolidated financial statements.
3.1.5.22	Academic department space is classified between laboratory and non-laboratory space. It is suggested that the institution maintains an audit trail to enable an explanation and rationale to be provided for the split, if questioned (see 4.2.5.4).

Other cost drivers

3.1.5.23	Institutions can select other cost drivers as they deem appropriate, particularly if they are already used internally for attributing similar types of costs. In all cases details of the rationale should be retained to support the choice of drivers. All cost drivers should agree to source data and be matched against the costs they drive.

Weighting input data

3.1.5.24	All unweighted input data that feed into TRAC cost drivers should reconcile at institution level to internally recognised or externally reported data. It is common practice to weight some cost drivers where a more representative result could be achieved. Weighting factors applied to the cost drivers within the TRAC model should be both recognised and used within the institution, or approved by the TRAC Oversight Group when designed uniquely for the TRAC process.
3.1.5.25	A typical way in which types of space and weightings are determined is to consult and seek input from the Estates / Facilities Department. They should be able to inform or undertake a small exercise to determine what the weightings should be for the different types of space. The TRAC Manager should ensure that the calculations for the weighting factors applied to academic and central departmental space are retained.
3.1.5.26	Within the staff and student dataset, FTE and headcount data can be weighted to produce tailored cost drivers. When tailored cost drivers are designed purely for TRAC purposes, they should be tested for relevance and approved annually by the TRAC Oversight Group. Cost driver weightings which are internally recognised and used do not require additional

	approval, provided they are applied consistently within TRAC models. It is necessary to retain details of the rationale for the chosen weightings for audit purposes.
3.1.5.27	Standard weightings are mandated for use in TRAC for the following analysis: • PGR FTEs are weighted 0.2 when included in the indirect cost rate, 0.8 for laboratory estate rates and 0.5 for non-laboratory estates rates; • academic staff time allocations should be weighted for salaries when calculating the cost of academic staff time. Depending on the institution's approach to aggregating the time allocation data, it may be necessary to weight the time allocation percentages for FTE also, to prevent the time allocation percentages over allocating cost to the TRAC categories.

Indexation

3.1.5.28	Institutions have flexibility (within the parameters set out below) about how to set indexation for the charge-out rates for indirect, estates, technicians and facilities, but the level of indexation should be consistent with the plans/ forecasts of the institution. Calculated indexation rates should: • be appropriate, i.e. be used for planning purposes or be from an established source; • reflect price changes for the two years broadly starting from the midpoint of the year being reported on the TRAC return; • reflect both historical and future parts of the two-year period; • reflect two types of indices – one for pay and one for non-pay – applied to the relevant proportion of indirect costs into pay and non-pay.

3.1.6 What could go wrong? Common areas of non-compliance

Summarised below are the more common areas where things could go wrong and/or lead to non-compliance with the TRAC requirements.

What could go wrong / areas of non-compliance
• Income has been used as a cost driver within TRAC models.
• The share of profit/loss in joint ventures and associates have not been allocated to TRAC activities, and have not been included in TRAC income or costs. .
• The share of loss in joint ventures and associates is included in the indirect cost rates (or estates rates) for Research.

What could go wrong / areas of non-compliance
• PGR FTEs are double counted by being included in both staff and student FTE.
• PGRs on writing up assignments are not excluded from FTE counts.
• TRAC definitions are not used and Estates Management Return (EMR) activity definitions are used instead.
• Cost drivers are not refreshed in line with the TRAC requirements.
• Coding errors in the TRAC model misalign cost drivers and costs.
• Cost driver data are incomplete and do not match to the source data.
• Technician cost pools are not excluded from facility, estates or indirect rates.
• Too much academic staff cost is allocated to the TRAC categories as a result of time being directly allocated and also allocated through the time allocation system.

3.1.7 Annexes

Annex Reference	Document title
3.1a	Academic time allocation survey form

The annex is located on the following web page: www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/

3.1.8 Associated good practice and other relevant reference material

TRAC, the Easier Way Guide:

- www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/regional

University of the West of England Workload Planning:

- www1.uwe.ac.uk/aboutus/departmentsandservices/professionalservices/transformationservices/currentprojects/innovationandtransformation/workloadallocationmanagement.aspx

3.2 Sustainability adjustments

3.2.1 Introduction

The costs in institutions' financial ledgers do not reflect what would be described as the 'full economic cost' of activities. The full economic cost (fEC) is the cost which, if recovered across an organisation's full programme, would recover the total cost: direct, indirect and an adequate investment in the institution infrastructure and future productive capacity.

Under current accounting standards (UK Generally Accepted Accounting Practice[15]), institutions are required to account for their infrastructure either on a historical cost or valuation basis, but the associated depreciation charge rarely covers the full economic costs of their premises. For example, the cost of replacing a building, when it becomes necessary, is normally much greater than the costs recognised in the accounts through depreciation of its original capital value. It is important that costs reported under TRAC better reflect the full long-term costs of maintaining the institution's infrastructure in a safe and productive state, and to a standard that reflects the norm required to be competitive in the sector.

All businesses need to cover the cost of financing and to generate a minimum level of retained surplus for investment, whether that be in capital, innovation or human resources. In economic theory, these surpluses are part of the costs of financing the business. The term 'return for financing and investment' is used to describe the total of these costs (covering both loan and equity capital, and represented through interest, dividends and retained surpluses). These are legitimate costs of running a business, and are accepted under the Government Accounting Conventions for this reason.

To take account of these factors two economic adjustments are added to the costs reported in the consolidated financial statements to present a full economic cost. These adjustments are formulaic and are

- the Infrastructure Adjustment;
- the Return for Financing and Investment (RFI).

The RFI adjustment is based on the Government's profit formula for non-competitive contracts. These adjustments are applied to the TRAC model in line with the guidance below to represent the fEC of delivering core institutional activities.

Section 4.1 provides guidance on how the Annual TRAC return presents the sustainability adjustments, and recognises how they influence costing of research activity.

The Financial Sustainability Strategy Group (FSSG)[16] has led a pilot exercise to inform the future direction of sustainability reporting for UK institutions and to assess the options for replacing the Return for Financing and Investment (and potentially the Infrastructure Adjustment). When the

[15] www.icaew.com/en/technical/financial-reporting/uk-gaap

[16] www.hefce.ac.uk/whatwedo/lgm/finsustain/current/

FSSG has concluded its work, this chapter may be updated to reflect any changes to the TRAC requirements recommended by FSSG.

3.2.2 The aim – What are we trying to achieve with the sustainability adjustments?

The costs shown in the consolidated financial statements of institutions need to be adjusted to reflect the full economic cost of institutional activities. The aim is to calculate the sustainability adjustments to be included in deriving the full economic costs of institutional activities and to allocate the sustainability adjustments to the TRAC activity categories.

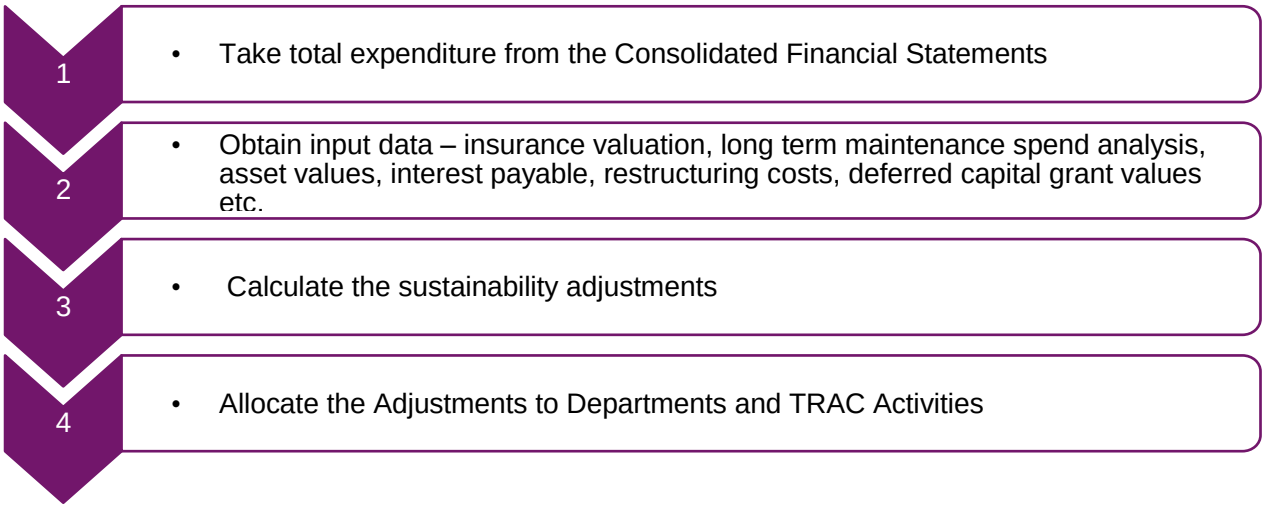
3.2.3 Process workflow

Two sustainability adjustments are calculated and included in TRAC costs as follows:

- Infrastructure Adjustment (IA);
- Return for Financing and Investment (RFI).

Figure 3.2 sets out the TRAC process for calculating the sustainability adjustments:

Figure 3.2: Sustainability adjustments



3.2.4 The requirements

3.2.4.1	Institutions should calculate the Infrastructure Adjustment separately on the residential and non-residential estates using the template provided in annex 3.2a.
3.2.4.2	Where applicable a separate Infrastructure Adjustment should be produced for Historic Buildings (pre-1914) that form part of the institution's assets in its balance sheet (see annex 3.2a).

3.2.4.3	The Infrastructure Adjustment and the Return for Financing and Investment (RFI) should be set to zero if the calculated values are negative.
3.2.4.4	The Infrastructure and the RFI Adjustments should be allocated to the TRAC categories in line with the guidance detailed in sub-sections 3.2.5.3 and 3.2.5.7 respectively.
3.2.4.5	Where component accounting (Financial Reporting Standard 15) has been adopted and the insurance replacement value for plant is known separately from that of buildings, then the Infrastructure Adjustment should be calculated separately for plant and buildings (to reflect different useful economic lives).
3.2.4.6	Institutions should avoid double-counting by identifying and excluding costs already included in the institution's consolidated financial statements which are covered through the Infrastructure Adjustment (e.g. un-capitalised long-term maintenance and the depreciation charge on buildings).
3.2.4.7	The RFI Adjustment should be calculated separately for assets and expenditure using the template provided at annex 3.2b.

The requirements above apply to all institutions, including those that are claiming dispensation.

3.2.5 Process

This sub-section provides a guide for calculating and applying the TRAC sustainability adjustments. Unlike other chapters, the process described in sub-section 3.2.5 is prescribed and should be followed by all institutions in order to meet the requirements set out above.

Where a process step is shaded green in the left column below, it describes a prescribed method which should be followed to comply with TRAC requirements.

Infrastructure Adjustment

Under current accounting standards, institutions are required to account for their infrastructure on either a historical cost or valuation basis, whereas costs reported under TRAC need to reflect the full long-term costs of maintaining the institution's infrastructure. The term 'infrastructure' in this context covers estates (land and buildings) and physical infrastructure (roads, grounds, boiler plants etc.) but does not cover equipment, vehicles, furniture, etc.

The guidance in the template at annex 3.2a calculates the Infrastructure Adjustment, and it is a TRAC requirement to use this, as detailed at 3.2.4.1.

3.2.5.1	Obtain the following information: • The value of buildings subject to depreciation at the end of the year reported. All relevant building related assets in the consolidated financial statements should be included (buildings and components of buildings, but not land, assets in the course of construction, equipment, fixtures and fittings, vehicles etc). • The value used for the full replacement cost is based on the latest insurance

	replacement value (IRV) for buildings subject to depreciation that is to be reported in EMR, updated for any known significant changes since the midpoint of the year being reported, and indexed as appropriate.
3.2.5.2	Calculate the net Infrastructure Adjustment charge in accordance with the guidance template provided at annex 3.2a, ensuring that assets not subject to depreciation in-year are excluded, as follows: • Take the gross book value of relevant assets (i.e. do not deduct accumulated depreciation). • Take the total value of the assets for both the residential and non-residential estate (excluding land, assets in the course of construction, equipment and fixtures and fittings) that were subject to depreciation in the consolidated financial statements, minus any impairment costs that form part of the depreciation costs as reported in the financial statements. Use a simple average of opening and closing asset balances (excluding land, assets in the course of construction, equipment and fixtures and fittings and any impairment costs relating to buildings). • Calculate the ratio, expressed as a percentage, between this gross book value and the averaged depreciation charge that has been charged (in the consolidated financial statements) for the year. • Apply this ratio to the IRV for each element of the non-historic (post-1914) residential and non-residential estate to derive the gross infrastructure charges relating to non-historic buildings for the year. • For historic buildings (pre-1914) determine a depreciation rate in the range 0.33% -0.5% and apply this to the IRV for historic buildings to derive the gross infrastructure charges relating to historic buildings for the year. • If component accounting has been adopted and the IRV for services and plant is known separately from the IRV of buildings, then the infrastructure adjustment is calculated separately for each of the buildings, services and plant. • Add together the gross infrastructure charge for non-historic building components; non-historic and historic buildings to give the total gross infrastructure charges for the year. • Identify and deduct the costs detailed below. These are already included in the institution's consolidated financial statements and are covered through the Infrastructure Adjustment. These costs are deducted from each gross infrastructure charge to give the 'net' Infrastructure Adjustment. The 'net' Infrastructure Adjustment is the term used to describe the adjustment after the deduction of depreciation and long-term maintenance. If these were not deducted it would result in double-counting. The items to exclude are: • un-capitalised long-term maintenance costs which have in effect led to a replacement of the asset, significant improvement or updating of its efficiency/functionality (including the long-term maintenance or

	refurbishment cost, excluding service charges of rented or leased properties or assets); • the depreciation charge on buildings as stated in the consolidated financial statements (excluding any impairment costs on buildings that form part of the depreciation costs as reported in the consolidated financial statements). • If the result is negative then the Infrastructure Adjustment should be set to zero. This can occur where institutions have a relatively new estate, or have recently completed some significant new developments.
3.2.5.3	The Infrastructure Adjustment should be attributed to TRAC activity categories as follows: • Residential estate costs (depreciation, long-term maintenance and net infrastructure charge on residential estate) to Other (residences). • Any investment properties that do not support Teaching or Research should be directly allocated to Other. • Non-residential estates costs (depreciation, long-term maintenance and net infrastructure charge on non-residential estate) to T, R and O (excluding residences), and to academic departments, on the basis of all other estates costs (excluding the RFI).

Return for Financing and Investment adjustment

The RFI adjustment is used to approximate the surpluses required for rationalisation, updating and development, including investment in human capital and innovation, and the costs of raising and servicing capital.

The guidance in the template at annex 3.2b calculates the RFI for assets and expenditure separately. It is a TRAC requirement to use this, as detailed at sub-section 3.2.4.7.

3.2.5.4	Use the guidance template provided at annex 3.2b to calculate the net RFI adjustment on assets as follows: • take the net book value of tangible fixed assets at the end of the year and deduct deferred capital grants and the revaluation reserve; • multiply this by 5.75% (0.0575)[17]; • then deduct all interest payable except interest on pension deficits.
3.2.5.5	Use the guidance template provided at annex 3.2b to calculate the net RFI adjustment on expenditure as follows: • take the total expenditure from the consolidated financial statements (after depreciation but before exceptional items and taxation);

[17] To reflect the cost of long-term borrowing in the sector (and opportunity costs if institutions do not borrow).

	• multiply by 2.85% (0.0285)[18]; • then deduct specific restructuring costs.
3.2.5.6	Calculate the net RFI adjustment by adding the net RFI on assets to the net RFI on expenditure.
3.2.5.7	The net RFI adjustment should not be a negative value, and should be attributed to TRAC activities as follows: a) The indirect cost pool should include restructuring costs and the RFI adjustment on expenditure, allocated as follows: • restructuring costs should be allocated to T,R and O and to academic departments in proportion to all other costs (excluding the sustainability adjustments); • the RFI adjustment on expenditure should be allocated to T,R and O to academic departments in proportion to all other costs (excluding the sustainability adjustments); • the part of the RFI adjustment that has been allocated to Research should be included when calculating the research indirect cost charge-out rate. b) The estates cost pool includes interest payable (excluding pension interest) and the RFI adjustment on assets, which should be allocated as follows: • interest payable on residential estate to O (residences) and on non-residential estate to T,R,O (excluding residences) and to academic departments based on proportion to all other costs (excluding the sustainability adjustments); • the RFI adjustment on assets to T,R,O (excluding residences) and to academic departments in proportion to all other estates costs (excluding the sustainability adjustments); • the part that has been allocated to R should be included in the research estates cost charge-out rate.

3.2.6 What could go wrong? Common areas of non-compliance

Summarised below are the more common areas where things could go wrong and/or lead to non-compliance with the TRAC requirements:

What could go wrong / Areas of non-compliance
• Assets that are fully depreciated are not deducted from the gross book value used in the infrastructure adjustment calculation before the depreciation rate is calculated.

[18] Derived from standard baseline profits (SBPs) earned by a sample of British companies. The SBPs have been adjusted to reflect the fact that institutions do not pay corporation tax or dividends to shareholders.

What could go wrong / Areas of non-compliance
• The value of assets not being depreciated in the consolidated financial statements (e.g. some assets in the course of construction) is included in the gross book value or the IRV.
• The gross book value of buildings used in the Infrastructure adjustment includes land and equipment.
• The infrastructure adjustment is not allocated to TRAC categories based on estates costs.
• The two components of the RFI adjustment are not separately allocated using different bases of allocation in the TRAC model.
• The value of interest deducted in the RFI adjustment includes interest on pensions.

3.2.7 Annexes and external links

Annex reference	Document title
3.2a	Infrastructure adjustment template
3.2b	Return for financing and investment template

Annexes are located on the following web page: www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/

3.2.8 Associated good practice and other relevant reference material

None specified for section 3.2.

3.3 Direct cost attribution

3.3.1 Introduction

TRAC requires institutions to attribute the cost of activities directly to academic, central and commercial departments, and then to TRAC categories where possible and appropriate. The extent to which costs can be directly attributed will depend on expenditure coding structures in use in the institution. As a minimum, academic department staff, relevant non-pay costs, research grants and contracts, and 'other costs' should be directly allocated to TRAC activities as the first stage of the attribution process.

Direct allocation of cost is encouraged, where relevant and appropriate, as it should give the most representative costs for an activity.

Costs that cannot be directly allocated will be indirectly allocated through a cost driver in the TRAC model in line with the guidance provided at section 3.4.

3.3.2 The aim – What are we trying to achieve from directly attributable cost analysis?

To ensure that costs are attributed directly to the appropriate TRAC categories where it is reasonable to do so, and to identify all remaining costs that will subsequently require indirect allocation in the cost driver model.

3.3.3 Process workflow

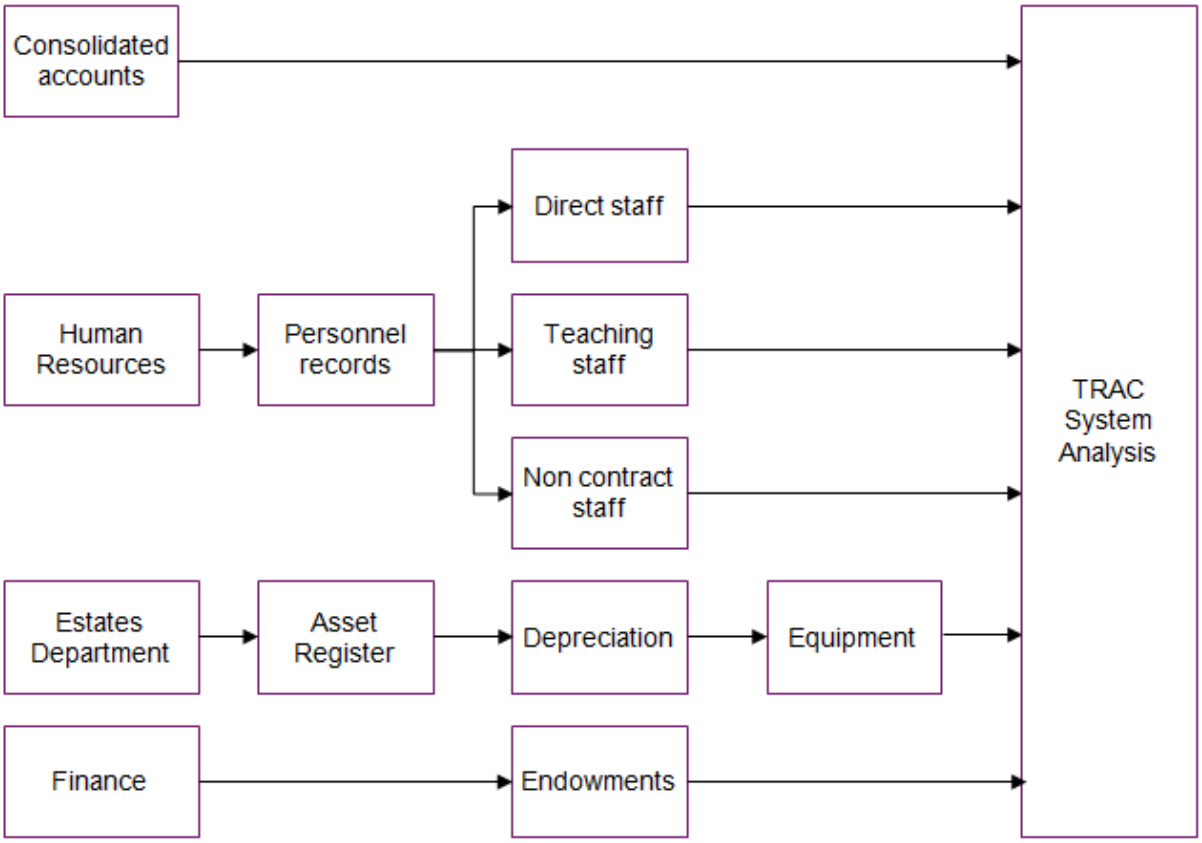
Costs are classified as either direct or support.

Direct costs are those that can be attributed directly to an individual project, programme, or activity, or are shared between a few projects or programmes.

Support costs, such as information technology, libraries and technicians, are necessarily incurred in carrying out teaching, research or other activities, but cannot be directly charged to a specific activity or project. Support costs are attributed to academic departments, and to activities, using cost drivers (see section 3.1).

Figure 3.3 shows costs from different data sources that could be directly allocated:

Figure 3.3: Direct Cost Attribution



3.3.4 The requirements

3.3.4.1	Wherever appropriate, costs should be directly allocated to the relevant TRAC category (see sections 3.3.5.2 to 3.3.5.4 for costs that should be material and be possible to attribute directly).
3.3.4.2	Direct allocations should be logical and be capable of being substantiated.
3.3.4.3	Costs directly allocated to Other 'Clinical Services', should be reattributed to TRAC activities by: a) Identifying the total staff costs for each academic department or group of academic departments; b) From this, allocating the total costs of reimbursed 'agency'[19] costs to Other; c) Allocating the remaining costs based on or using the time allocation schedule data; d) Allocating the part of Clinical Services time to Teaching or Research that relates to the clinical services which have been undertaken, where the

[19] 'Distinction awards, payments for Additional doctors' hours, intensity payments, etc.

	primary purpose is either Teaching or Research; e) Allocating the balance on the basis of the services being received from the NHS under the knock-for-knock arrangements.
3.3.4.4	Where cost headings are not clearly defined in the account structure, e.g. 'Miscellaneous', 'Other' the institution should ensure that the allocation is appropriate and defensible.
3.3.4.5	Decisions on the headings to attribute directly should be agreed by the TRAC Oversight Group as part of agreeing the TRAC model (see 2.1.5.1).
3.3.4.6	Exceptional costs as shown below the line in the consolidated financial statements are excluded from the TRAC costs and income.

The requirements above apply to all institutions, including those that are claiming dispensation.

3.3.5 Process

This sub-section provides a guide for the direct attribution of costs. It describes a process that could be followed in order to meet the requirements above, and indicates the spirit of the activities that contribute to compliance being achieved with the requirements in sub-section 3.3.4. There are different approaches that could be adopted to fulfil the requirements identified and, given the diversity of the higher education sector, it is important that each institution allocates costs directly to TRAC categories, where appropriate, as fully as possible within their own management information structure.

Where a process step is shaded green in the left column below, it describes a prescribed method which should be followed to comply with TRAC requirements.

Allocate cost pools to departments

3.3.5.1	The TRAC Oversight Group is responsible for the design of the TRAC process and the judgements and decisions that are needed in designing the TRAC model (see 2.1.5.1). Management within finance should support the TRAC Manager to identify cost pools appropriate for direct attribution to TRAC categories by analysing costs into, for example: • academic departments; • central departments (support); • commercial departments.

Identify cost pools to directly allocate to TRAC categories

3.3.5.2	Where material and possible to do so, the following cost types should be attributed directly to academic departments and then to Research: • directly incurred costs on research grants and contracts, including dedicated

	technicians and support staff; • depreciation of equipment funded from a research grant; • payments to research students such as bursaries, maintenance, stipends and scholarships; • academic and departmental staff wholly (or mainly[20]) working on research, including research associates and fellows; • clinical services which have been undertaken where the primary purpose is research (see 3.3.5.8 for further guidance); • trading companies where research activity is being carried out.
3.3.5.3	Where material and possible to do so, the following cost types should be attributed directly to academic departments and then to Teaching: • payments to students such as bursaries, maintenance, stipends and scholarships; • academic and departmental staff wholly (or mainly) working on teaching, including visiting lecturers; • clinical services which have been undertaken where the primary purpose is teaching (see 3.3.5.8 for further guidance); • trading companies where teaching activity[21] has been carried out.
3.3.5.4	Where material and possible to do so, the following cost types should be attributed directly to academic departments and then to Other[22]: • directly incurred costs in consultancy contracts that do not meet the definition of Research, including dedicated technicians and central or academic departmental staff; • depreciation of equipment funded for non-research purposes from consultancy contracts; • academic and departmental staff wholly (or mainly) working on commercial activity; • trading companies where commercial activity has been carried out. Catering facilities (where operated for commercial purposes), conferences and residences costs should be allocated directly to Other, or through academic and central departments first if preferred.

[20] Materially (as defined at annex 1.1a) dedicated to research activity.

[21] Trading activities in commercial companies and spin-outs (subsidiaries) where teaching is being delivered.

[22] Costs recorded as Other Services Rendered in the published financial statements/HESA, or activities that generate, or could potentially generate, income, but are not teaching or research.

Reconciling direct and support costs

3.3.5.5	In overall terms, as a control check, direct and support cost totals should agree with the consolidated financial statements, excluding exceptional costs.
3.3.5.6	Irrespective of whether TRAC systems are 'third party supplied' or developed 'in-house', details of direct coding and apportionment formulae should be understood by the TRAC Manager and tested for accuracy following any system upgrade. These details should be retained and made available for review by funders, auditors or Research Councils upon request.

Allocating clinical services in medical and dental schools

3.3.5.7	The activities and costs in medical and dental schools are closely interlinked with the activities and costs in NHS Trusts. There are many complex arrangements in place between institutions and Trusts where costs are borne by institutions and trusts for staff, assets, facilities and equipment that are shared and may not always be recognised in agreements. The phrase 'knock-for-knock' is used to describe these arrangements. The element of time for staff providing clinical services to the NHS should initially be allocated to a separate activity within 'Other' called 'Clinical Services' (O(CS)). This should subsequently be reallocated, where material and possible to do so, using the guidance provided at sub-section 3.3.5.8 below.
3.3.5.8	Where material and possible to do so, attribute 'Clinical Services' time to TRAC activities by: • identifying the total staff costs for each academic department or group of academic departments; • allocating the total costs of reimbursed 'agency'[23] costs to Other; • allocating the remaining costs as per the time allocation schedule data; • allocating the part of Clinical Services time to Teaching or Research that relates to the clinical services which have been undertaken where the primary purpose is either Teaching or Research; • allocating the balance on the basis of the services being received from the NHS under the knock-for-knock arrangements.

[23] Distinction awards, payments for Additional doctors' hours, intensity payments, etc.

3.3.6 What could go wrong? Common areas of non-compliance

Summarised below are the more common areas where things could go wrong and/or lead to non-compliance with the TRAC requirements.

What could go wrong / areas of non-compliance
• Direct allocation based on an activity type description in the account coding structure that is unclear, leading to incorrect allocation.
• Allocation to TRAC categories directly rather than as support to TRAC categories: for example, agents' commission on overseas students should be support for teaching, rather than direct teaching.
• Insufficient direct allocation due to lack of data at academic department level, placing too much reliance on cost drivers and proxies: for example, visiting lecturers costs' being attributed across the TRAC model rather than being allocated directly to Teaching.
• Inappropriate allocation to Other when activity type should be Teaching or Research (Note: administration and support activity is not Other).

3.3.7 Annexes

None specified for section 3.3.

3.3.8 Associated good practice and other relevant reference material

Case studies will be developed by the TRAC Regional Groups over time and published on the TRAC Regional Groups web page at www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/regional

3.4 Allocating academic department and central costs

3.4.1 Introduction

Academic department and central support costs are costs that do not directly and wholly arise from the decision to commence a particular activity (e.g. course, research project, partnership) but from activities that will be undertaken to support these and other activities – these are typically referred to as support costs. For TRAC, support costs are categorised as the centrally and locally incurred indirect costs and estates costs that support all activities delivered within the institution.

Section 3.3 provides guidance for the direct allocation of costs (both direct and support) to the core TRAC activities of Teaching, Research and Other. This section details how central and academic department support costs should be allocated to academic departments and to TRAC activities where they are not directly allocated.

Support costs that are incurred centrally should be apportioned to academic departments and, along with the Support costs incurred at academic department level, apportioned to the core TRAC categories (Teaching, Research and Other).

The Support costs (for research) are also used to calculate indirect and estate charge-out rates that are then used to cost 'cost-based' proposals to the UK Research Councils. This is explained further in section 5.1.

3.4.2 The aim – What are we trying to achieve from academic department and central support cost apportionment?

To apportion centrally incurred and academic department-incurred support cost pools to academic departments and core TRAC activities robustly.

3.4.3 Process workflow

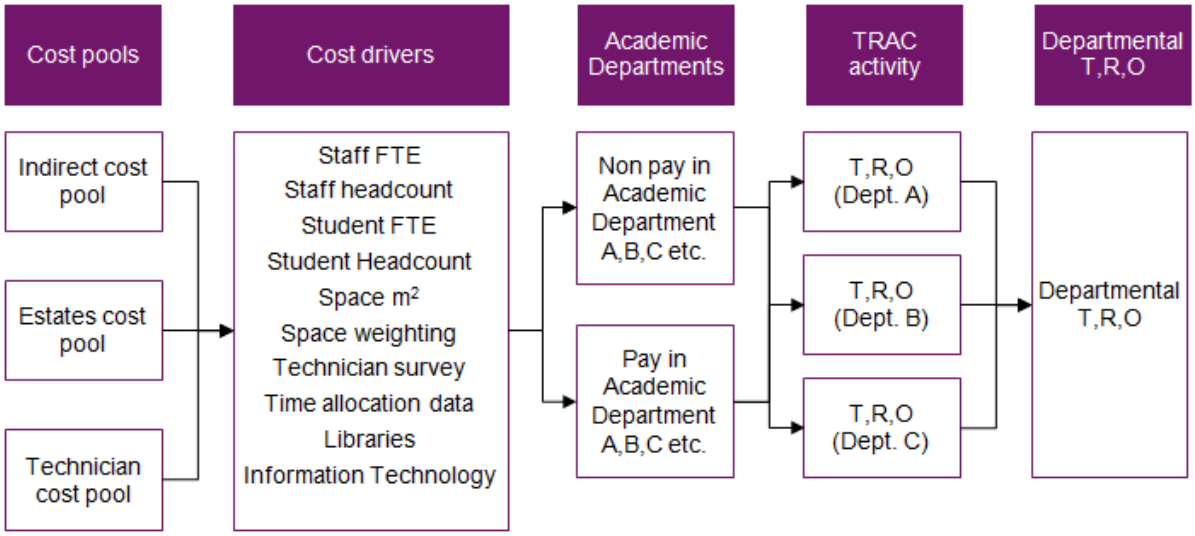
Costs are classified as either direct, or indirect:

- Direct costs are those that are incurred solely as a direct consequence of undertaking a particular activity and can be attributed directly to an individual project, programme or activity, or are shared between a few projects or programmes.
- Indirect central support costs are incurred across the whole institution and cannot typically be directly charged to a specific activity or project. Indirect central costs are sub-classified into indirect and estates costs following the guidance below, and are attributed to academic departments, and TRAC activities, using robust cost drivers.
- Indirect support costs are incurred in academic departments in carrying out Teaching, Research or Other activities, but are not incurred solely as a result of undertaking one

specific activity and cannot be directly and wholly charged to a specific activity or project. Academic department support costs are attributed within academic departments to TRAC activities using robust cost drivers or Head of Department (academic department) estimates.

Figure 3.4 sets out how the 'input data' described in section 3.1 are used to enable the allocation of central and academic department support costs to TRAC activities.

Figure 3.4: Support cost allocations and charge-out rate calculations



3.4.4 The requirements

3.4.4.1	The institutional indirect and estates cost pools should reconcile with the consolidated financial statements (excluding exceptional items), less costs charged directly to an activity, before the addition of the relevant share of TRAC sustainability adjustments and the support time of academic staff.	
3.4.4.2	Cost drivers used to allocate support costs to academic and central departments and activities should be appropriate, robust and have been applied to the appropriate cost pools. The drivers have also been refreshed in line with requirement 3.1.4.3.	*
3.4.4.3	Where weighted cost drivers are used there should be an agreed rationale for the weighting, and this is reconsidered in line with the timescales for refreshing the cost drivers.	*
3.4.4.4	Cost drivers selected should reflect the consumption of resource and do not include bias to achieve a desired allocation of costs.	*
3.4.4.5	Academic time allocation data should not be used to allocate non-academic	

	staff costs or other academic departmental non-pay support costs unless proven to be materially valid and to reflect the resources consumed.	
3.4.4.6	Costs should be allocated through the cost driver model and aggregated to institutional level in line with process steps 3.4.5.10 to 3.4.5.12.	*
3.4.4.7	Totals calculated and the basis of apportionment and allocation in the TRAC model should be checked to prevent double-counting of costs.	

* The requirements marked with an asterisk above do not apply to institutions claiming dispensation.

3.4.5 Process

This sub-section provides a guide for the apportionment of centrally and locally incurred support costs to academic departments. It describes a process that could be followed in order to meet the requirements above and indicates the spirit of the activities that contribute to achieving compliance with the requirements. However, the following description is not the only approach that can be followed and, given the diversity of the higher education sector, it is important that each institution apportions indirect cost pools and estates costs robustly and in a way that is most relevant to the institution.

Institutions have flexibility to design their own cost drivers to apportion support costs within TRAC and they are encouraged to align these with existing internally used drivers where robust and appropriate for TRAC purposes. Indeed, greater use of the TRAC process can be made by making more linkages between cost drivers and other management information.

Where a process step is shaded green in the left column below, it describes a prescribed method which should be followed to comply with TRAC requirements.

Identify indirect cost pools to apportion

3.4.5.1	Whilst acknowledging that institutional coding structures will vary, the total indirect cost pool is expected to contain the following identifiable components: • administrative, clerical and technical staff in academic departments who support core TRAC activities but are not directly allocated to the TRAC activities in the TRAC model; • staff and student facilities; • non-staff costs in academic departments (except where directly allocated); • restructuring costs (where not classified as exceptional in accordance with FRS3 in the consolidated financial statements); • registry; • finance; • human resources; • libraries and learning resources;

	• the estates costs attributable to central service departments; • pay and non-pay costs in other central service departments.
3.4.5.2	To aid identification of the indirect cost pools to apportion, the TRAC Manager could perform and retain a control check reconciling support cost totals back to the consolidated financial statements: • including the estates cost apportioned to central support departments; • including the relevant proportion of the Return for Financing and Investment adjustment (see 3.2.5.7); • including the support time of academics (see 3.4.5.4); • excluding exceptional costs; • excluding the cost charged directly to an activity. In performing this reconciliation, the cost pools that make up the indirect cost pool and the estate cost pool are separately identified. Some institutions perform a reconciliation against the support cost pool totals for TRAC and the values reported to HESA.
3.4.5.3	Irrespective of whether TRAC systems are 'third party supplied' or 'in-house developed', details of direct coding and apportionment formulae should be understood by the TRAC Manager and tested for accuracy following any system upgrade. These details should be retained and made available for review by funders upon request.

Identifying the support costs in academic departments

3.4.5.4	Section 3.1 includes guidance on how to collect and use academic time allocation and/or workload planning data, and includes an example collection schedule to help identify which activities are classified as support rather than direct activities. These support costs are reallocated to the core TRAC activities. The academic time allocated to support for the main TRAC activities (T, R and O) in the time allocation survey should be reviewed for reasonableness using the guidance set out in chapter 2.

Identify estate cost pools to apportion

3.4.5.5	Whilst acknowledging that institutional coding structures will vary, the total estates cost pool is expected to contain the following directly identifiable components: • repairs and maintenance; • utilities; • rates; • estates personnel costs; • rental costs; • gross buildings depreciation;

	• buildings insurance; • cleaning; • porters and security; • equipment and facility costs, when not purchased on a research grant or contract; • part of the central service departments' costs attributable to the estates department and the costs of all support staff that relate to these areas.
3.4.5.6	The TRAC Manager could perform and retain a reconciliation between the estates cost pool total for TRAC and the value reported to HESA: • plus the Infrastructure Adjustment (see 3.2.5.3); • plus the relevant proportion of the Return for Financing and Investment adjustment (see 3.2.5.7); • less the cost of technicians, equipment and facilities that are charged separately (see section 4.2).
3.4.5.7	Section 3.1 provides guidance on the space-related data to be collected to input into the TRAC model. The guidance below explains how to attribute the space data robustly to academic departments and to TRAC categories. In performing this calculation, the TRAC Manager should ensure that this is based on measured usage (see 3.1.5.21). There are two approaches for obtaining space usage data for TRAC: • The Estates Management Return where this is based on a measured basis, not predominant usage, although care needs to be taken to ensure that the TRAC definitions of activities are applied and not EMR definitions which are different. • A separate data collection to allocate space to TRAC categories – typically obtained through undertaking a survey of space usage. The space data are weighted to reflect the relative cost of space before apportioning the cost of space within the TRAC model. Guidance about the weighting of this space to reflect the differential cost of space types is also provided in sub-section 3.1.5.25. The cost of weighted space apportioned to academic departments for Teaching, Research and Other becomes part of the estates charge-out rate calculations (see section 4.2). The estate costs should be apportioned to both academic and central service departments, according to the weighted space driver. The share allocated to the central service departments becomes part of the indirect cost allocations and charge-out rate calculations (see section 4.2 and section 3.4.5.2 above).

Robust and relevant cost drivers

3.4.5.8	Section 3.1 provides guidance on how to compile cost driver input data for the TRAC model. When designing, reviewing and updating cost drivers annually, the TRAC Oversight Group could perform a test to ensure the cost drivers remain relevant for

	allocating support cost pools before approving the cost drivers for use each year.
3.4.5.9	Where existing cost drivers are in place for other purposes, e.g. resource allocation models, and are deemed relevant to each support cost pool, their use in TRAC is encouraged.

Allocate costs to central functions and academic department through the cost driver model

3.4.5.10	The institution should observe the order in which support costs are attributed to other central support and academic departments, as follows: 1) Estates costs relating to central support departments (e.g. Finance, Information Technology, Human resources, Registry) should be allocated using the estates space data occupied by central functions (weighted space driver) to provide the total cost of the central support department. 2) The balance of estates costs relating to academic departments and other functions in the institution should be allocated through the cost driver model to academic departments where direct costs have been recorded, or apportioned according to the weighted space cost driver. Allocation to the TRAC categories at academic department level will be a secondary allocation using the space usage data. 3) The cost of each central support department (including these reallocated elements) is then allocated to academic departments and TRAC categories at academic department level via the cost driver model.
3.4.5.11	Costs attributed to Teaching at academic department level are then allocated between PFT and NPFT using student numbers. Depending on any material differences between the costs of delivery between students classified as PFT and NPFT the institution could consider weighting the student numbers to ensure a fair allocation of costs between these categories. Institutions will find it helpful to refer to steps 4.3.5.3 and 4.3.5.4 in the TRAC(T) section as it will reduce the risk of error and create an efficiency for the institution in having the data prepared ready for TRAC(T).
3.4.5.12	Costs are attributed robustly to research sponsor types. This is typically achieved through a combination of the costs directly charged to the project in the financial ledger, and the allocation of staff time according to the Research Sponsor categories. No costs are attributed to the eighth research sponsor type 'Funding Council recurrent funding for Research'.
3.4.5.13	It is considered good practice, but not a TRAC requirement, for the share of central support department costs consumed by other central support departments to be allocated according to the cost driver being used for that cost pool (e.g. Finance use of Human Resources could result in a cost being allocated to Finance, possibly using a cost driver such as staff headcount). Note: there could be a residual non-

	material balance after a number of iterations; this balance should be allocated on the basis of all other expenditure of the central support departments.

Aggregation of department level data to institution level data

3.4.5.14	The TRAC model should aggregate the academic and central department level data together, to produce institution level data to inform the annual TRAC return by reallocating the support costs of TRAC activities to academic departments and to the core TRAC activities.

3.4.6 What could go wrong? Common areas of non-compliance

Summarised below are the more common areas where things could go wrong and/or lead to non-compliance with the TRAC requirements.

What could go wrong / areas of non-compliance
• Alternative and more appropriate cost drivers have not been considered, and academic staff time is used as the cost driver for cost pools (other than academic pay and related staff costs).
• Cost drivers for libraries and learning resources are not robust and have not been confirmed as reasonable by the Head of Service.
• Estates costs relating to central support services are not allocated to these services, and have been allocated to academic departments only. (Estates costs should be attributed across all academic and central departments.)
• Estates data used to inform TRAC apportionment are not based upon the 'proportionate' use of space.
• Support costs are not separately identifiable at academic department level.
• Too few cost drivers are used, such that the drivers do not have a sufficient relationship to influence the costs incurred in a particular cost pool.
• Estates and Indirect costs are allocated without their share of the sustainability adjustments (chapter 3.2).

3.4.7 Annexes

None specified for section 3.4

3.4.8 Associated good practice and other relevant reference material

Case studies will be developed by the TRAC Regional Groups over time and published on the TRAC Regional Groups web page at www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/regional

3.5 Income allocation

3.5.1 Introduction

Analysis of income against TRAC activities is included within the TRAC process and reporting requirements, which allows analysis of the sustainability margin or sustainability gap against TRAC activities on a full cost basis. This analysis covers publicly and non-publicly funded activity and presents the research data by research sponsor category at institution level. These data are aggregated to provide analysis at sector level.

Robust income allocation for TRAC does not have a direct impact on TRAC charge-out rates but does provide high level data that can inform sustainability analysis at sector aggregate level for use by funders.

The income allocation guidance provided in this section is more prescriptive than the guidance provided for TRAC expenditure analysis. It requires institutions to use a spreadsheet that is updated annually and provided by Funding Councils providing information on grants for the academic year (annex 3.5a and annex 3.5b).

3.5.2 The aim – What are we trying to achieve from explaining how to complete the income allocation process?

To ensure that institutions know where to access the guidance on income allocation for the current year and how to classify each income stream against the core TRAC categories.

The methods used for allocating income are designed to provide a fair and reasonable representation of the financial outcome of each core TRAC activity or research sponsor type and be consistent at a sector level with the purpose for which funds were given, in a way that provides useful data to stakeholders and to institutions. The aim is to:

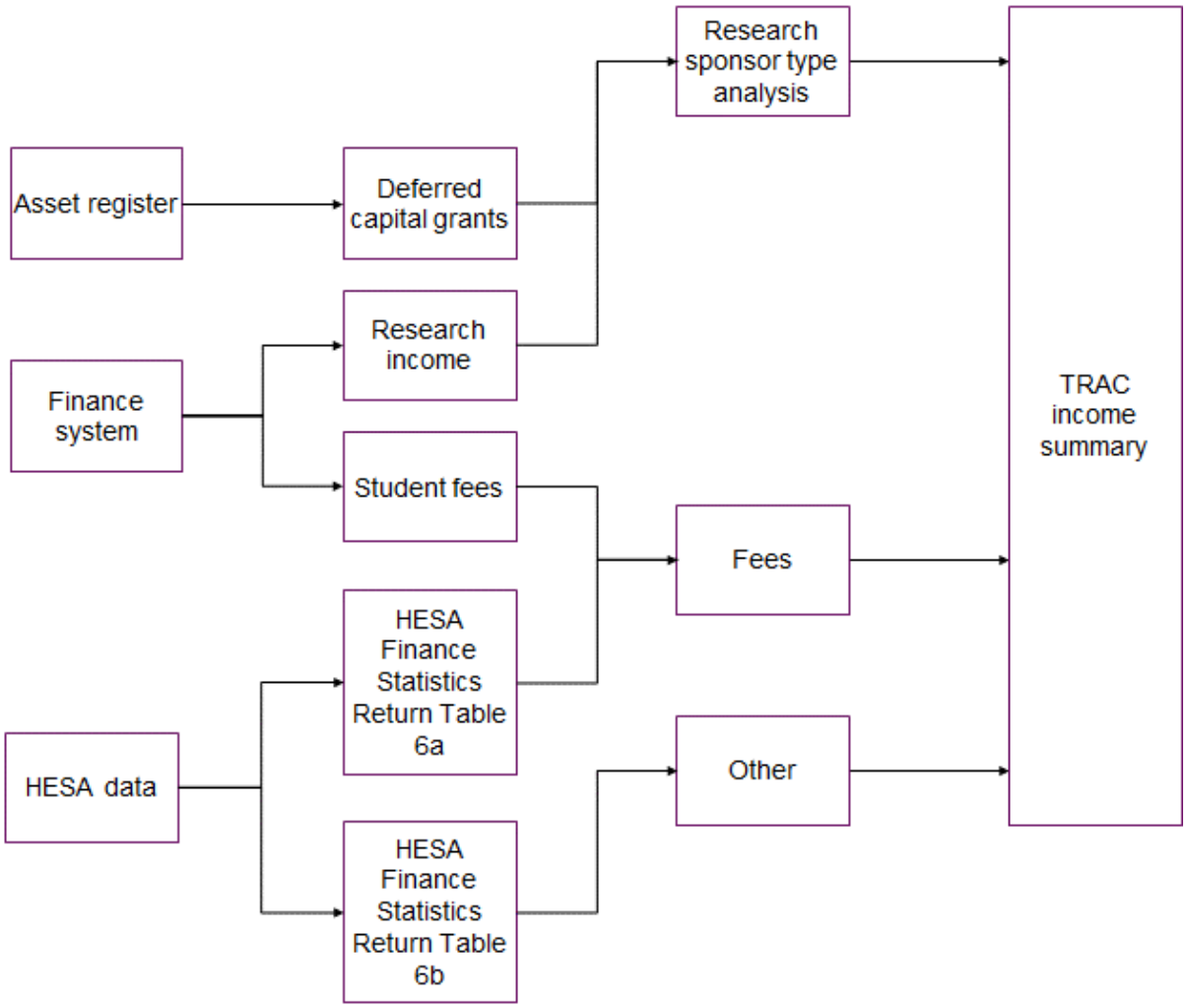
- provide accountability for public funds;
- monitor the financial sustainability of core TRAC activities;
- inform funding policy.

3.5.3 Process workflow

Sections 3.1 to 3.4 explain the processes required to perform the expenditure analysis required to complete the TRAC return and to produce the cost charge-out rates. The methods used for allocating income are designed to provide a fair and reasonable representation of real financial outcome of each core TRAC activity or research sponsor type, in a way that provides useful data to all stakeholders and to institutions.

Figure 3.5 shows sources of data required and types of income to be analysed. The income allocation process should be performed against each of the core TRAC activities, leading to the calculation of a sustainability margin or sustainability gap on each activity type.

Figure 3.5: Income Allocation



3.5.4 The requirements

3.5.4.1	Use of an income allocation process consistent with annex 3.5a and 3.5b: the allocation guidance provided at sub-sections 3.5.5.3 to 3.5.5.21 describes how to allocate the income in the template provided in annex 3.5a and 3.5b.
3.5.4.2	The total income figure on the annual TRAC return agrees with the consolidated financial statements (before exceptional items). Further adjustments are made in TRAC for surplus/deficits from joint ventures and associates and surplus/deficit for the year transferred to accumulated income in endowment funds (see 3.1.5.4 to 3.1.5.6).
3.5.4.3	The approach to income allocation is based on three rules. Allocation should be made according to:

	(a) the purpose of the funding (what was it provided for, irrespective of how it might actually have been employed by the institution); or (b) what it was used for (i.e. where the costs are allocated); and (c) the source of the funds – the type of organisation providing the income (which dictates PFT or NPFT). Method (a) generally takes precedence over (b). Where (c) is in conflict with (a) or (b) then the allocation is made on the basis of (a) or (b) as appropriate.

The requirements above apply to all institutions, including those that are claiming dispensation.

3.5.5 Process

This sub-section provides guidance on how the income allocation process should be performed against each of the core TRAC activities; leading to the calculation of robust sustainability margin or gap on each activity type to meet the requirements set out above.

Where a process step is shaded green in the left column below, it describes a prescribed method which should be followed to comply with TRAC requirements.

Obtaining the income allocation workbook

3.5.5.1	In the October following the closure of each financial reporting period, the UK HE Funding Councils update and release a list of all grant allocations for which there were payments in the financial year together with their allocation to TRAC activities. Any changes made to the template since the previous version are highlighted. This template (annex 3.5b) is available to download from the link at sub-section 3.5.7. Note however that it is updated annually, so care needs to be taken to ensure the correct version is used.
3.5.5.2	The income allocation table (annex 3.5a) includes two sections: • The left side of the workbook provides a copy of the HESA Finance Statistics Return Table 6b template[24]. This template is provided for institutions to populate with their own HESA FSR data. • The right side of the workbook illustrates which TRAC categories each income line should be allocated to. These allocations are mandatory: however, if any element of income is not material, then 'fair and reasonable' allocation estimates can be made instead. When completed, both sides of the workbook reconcile against each other.

[24] HESA Finance Statistics Return guidance, see https://www.hesa.ac.uk/index.php?option=com_studrec&Itemid=232&mnl=13031

Funding body grants allocation

3.5.5.3	Allocate income for 'Funding Body Grants' as follows: • Grants for Teaching or Research should be allocated to publicly funded teaching (PFT) or recurrent research grant from the Funding Councils, respectively. • Grants for 'knowledge exchange' activities should be allocated to O. • Grants not for Teaching, Research or 'third mission' should be allocated on the basis of the costs that they fund. Where grants cannot be allocated in accordance with the above, they should be allocated in the same proportion as the Funding Council mainstream Teaching and Research grants. Annex 3.5b provides a list of grants currently made available by the UK HE Funding Councils, together with their allocation to TRAC activities. This list is updated each October to reflect all UK grant streams for which there were payments in the financial year.
3.5.5.4	Income for 'Teaching grants' from Other Government Departments and other funding bodies (e.g. Scottish Government, the Skills Funding Agency, the National College for School Teaching and Leadership) should be allocated to PFT.
3.5.5.5	Allocate income for 'Capital grants' (release of deferred grants) as follows: • Where the asset is designated for use on a particular activity (Teaching or Research) it should be allocated to that activity. Its source should determine its allocation to research sponsor type. • If there is no specific designation of the asset to an activity, then the grant should be allocated to all categories in the same proportion as the allocation of estates costs in academic departments.

Tuition fees and education contracts allocation

3.5.5.6	Allocate income for tuition fees and education contracts (for each type of income in HESA Finance Coding Manual Table 6a): • allocate higher education course fees for Teaching to PFT (or non-publicly funded teaching (NPFT) for overseas students); • allocate overseas students fees for Teaching to NPFT; • allocate further education course fees to PFT if they relate to a credit-award-bearing course, otherwise allocate to NPFT; • allocate higher education course fees for Teaching to PFT (or non-publicly funded teaching (NPFT) for overseas or ELQ students).
3.5.5.7	Allocate all other fees and support grants between Teaching and Research: • home and European Union (EU) domicile students to PFT (irrespective of whether the fees or loans are paid by public bodies or not) or Research (PGR

	sponsor type); • overseas (non-EU domicile) students to NPFT or Research (PGR sponsor type); • non-credit bearing higher education courses to NPFT; • further education course fees to PFT or NPFT; • research training support grants to Research (PGR sponsor type).
3.5.5.8	Research intensive institutions are encouraged (see sub-section 1.3.2.4) to record income (and costs) related to PGR activity under Research (PGR sponsor type), not the externally funded research sponsor type.

Research grants and contracts allocation

3.5.5.9	Allocate the income for research grants and contracts to the relevant research sponsor type (noting the possible re-allocation to PGR sponsor type above at section 3.5.5.8).

Other income allocation

3.5.5.10	All other income should be allocated to Other, providing the balances satisfy the TRAC definition of 'Other'. Where this is not the case, reconsider which is the most appropriate activity.
3.5.5.11	Allocate income for 'Other Services Rendered' received from UK central government bodies, local authorities, health and hospital authorities: If any income category is not material (as defined at annex 1.1a), allocate to Other, otherwise for: • routine testing to Other; • enterprise activities to Other; • teaching to PFT where specifically designated for Teaching; • clinical trials to Research only if considered by the NHS to be Research, otherwise to Other; • estates charges to activities in the same proportion as the allocation of their costs under TRAC.
3.5.5.12	Allocate income for 'Other Services Rendered' received from EU government bodies: If any income category is not material (as defined at annex 1.1a), allocate to Other, otherwise for: • European Commission funding programmes to Teaching, Research or Other.
3.5.5.13	Allocate income for 'Other Services Rendered' received from other bodies: If any income category is not material (as defined at annex 1.1a), allocate to Other, otherwise for:

	• industry to NPFT when related to Teaching; • EU Other to PFT or NPFT when related to Teaching; • other overseas to NPFT when related to Teaching; • other sources to NPFT when related to Teaching.
3.5.5.14	Allocate the income for residences and catering to Other.
3.5.5.15	Allocate the income from local authorities to PFT when related to Teaching, or to Other.
3.5.5.16	Allocate income from health or hospital authorities: • agency payments and distinction awards to Other; • reimbursed salaries / national tariff to Other; • other income to Teaching (when related to Teaching), Research (Other UK Government Departments sponsor type) or Other depending on the activity being undertaken.
3.5.5.17	Allocate income from the release of capital grants to the activity for which the asset being funded is used. If not known, allocate across all activity types in relation to TRAC estates cost allocations.
3.5.5.18	Allocate the income from intellectual property rights to Other.
3.5.5.19	Allocate income for 'Other Operating Income': If any income category is not material (as defined at annex 1.1a), allocate to Other, otherwise for: • Erasmus and Tempus to Teaching (PFT); • dividends and royalties to Other; • sale of 'spin-outs' to Other; • subsidiary trading companies to be allocated (in relation to TRAC costs) to PFT or NPFT where related to Teaching, to Research (EU other; UK Industry; other overseas sponsor type) or to Other; • shops to Other; • external sales of goods and services to Other; • profit on disposal of fixed assets to T, R, O activities in proportion to the allocations of academic departments' estates costs being made for the TRAC year; • allocate donations to the activity for which the donation is made; to NPFT when related to Teaching, to Research (EU other; UK Industry; other overseas sponsor type) or to Other; • sundry income from learning and teaching activities to activities in a way that

	corresponds with the TRAC allocation of their costs; • consultancy income to Other.

Endowment and investment income allocation

3.5.5.20	Allocate the income for specific endowments to the activities for which the endowments are being used. If income cannot be matched to specific costs (and therefore activities) it should be allocated to Other.
3.5.5.21	Allocate investment income: • income from general endowments investments to Other; • income from investment of short-term funds to Other; • realisation of investments held as long-term funds to Other; • other interest receivable to Other.

3.5.6 What could go wrong? Common areas of non-compliance

Summarised below are the more common areas where things could go wrong and/or lead to non-compliance with the TRAC requirements.

What could go wrong / areas of non-compliance
• Failure to access the most recent income allocation template (annex 3.5a or annex 3.5b); relying on a prior year version instead.
• Failure to allocate ELQ student income to NPFT.
• Where donations are received, and they are not classified as exceptional items in the consolidated financial statements, they have not been matched to the specific activity that donation was made for.
• Exceptional items (defined by FRS3) that appear on a separate line below the operating surplus/deficit in the consolidated financial statements have incorrectly been included in TRAC costs or income.

3.5.7 Annexes

Annex reference	Document title
3.5a	Income allocation table
3.5b	Guidance on the allocation of Funding Council grants

Annexes are located on the following web page: www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/

3.5.8 Associated good practice and other relevant reference material

Case studies will be developed by the TRAC Regional Groups over time and published on the TRAC Regional Groups web page at www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/regional

4 TRAC reporting

Chapter 4 contains three sections:

Section		Page
4.1	Annual TRAC return	80
4.2	Research charge-out rates	88
4.3	TRAC for Teaching return – TRAC(T)	98

4.1 Annual TRAC return

4.1.1 Introduction

Submission of an Annual Transparent Approach to Costing (TRAC) return is a requirement for all UK HEIs in receipt of grant funding from the UK HE Funding Councils. The Annual TRAC return provides a summary of the individual HE cost data by activity categories together with additional analysis of costs for use by the Funding Councils and UK Research Councils (RCUK). Chapter 3 explains how to generate the data required for the Annual TRAC return and the calculation of research charge-out rates. This section clarifies how the Annual TRAC return should be completed.

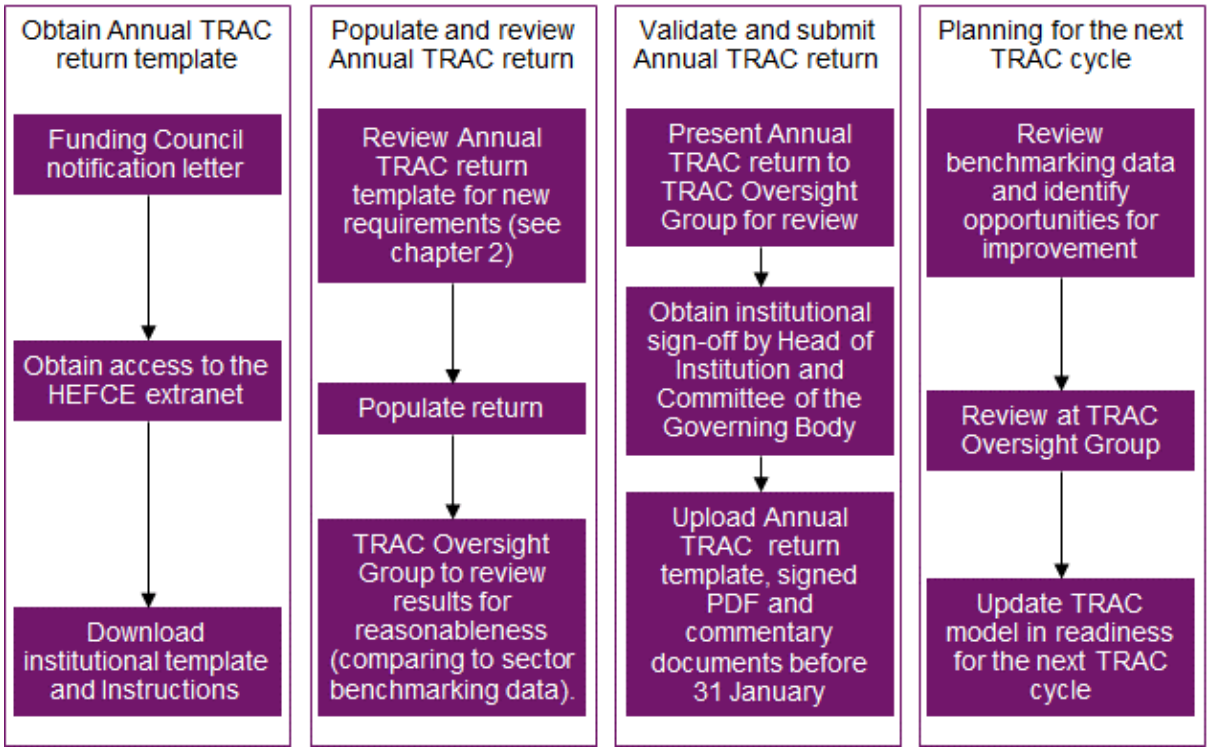
4.1.2 The aim – What are we trying to achieve from explaining how to complete and submit the Annual TRAC return?

To ensure that institutions know where to access the Annual TRAC return, how to complete and review the return, the deadlines for submission to the HE funding bodies and where further help can be obtained.

4.1.3 Process workflow

Figure 4.1 shows the process to follow for obtaining, completing, validating and submitting the annual TRAC return.

Figure 4.1: Annual TRAC



4.1.4 The requirements

4.1.4.1	All higher education institutions are required to complete an Annual TRAC return, including HEIs applying dispensation.
4.1.4.2	The template provided to institutions each year by the Funding Councils should be used (see annex 4.1a) for submitting TRAC data.
4.1.4.3	Teaching activity is robustly allocated between PFT and NPFT at academic department level as defined at section 1.3 (see 3.4.5.11).
4.1.4.4	Research activity is robustly allocated to research sponsor types as defined at section 1.3 (see 3.4.5.12).
4.1.4.5	The TRAC Oversight Group should review the Annual TRAC return for reasonableness in advance of presenting to the Head of Institution for sign-off.
4.1.4.6	Once uploaded, the results file should be checked for post-submission validation errors. If errors are generated, the Annual TRAC return should be corrected and uploaded again.
4.1.4.7	The Annual TRAC return should be signed-off by a Committee of the Governing Body.
4.1.4.8	The submission deadline for the Annual TRAC return for the year ending 31 July is the following 31 January if a week day, or if not, the preceding Friday.

4.1.4.9	Post-submission, on receipt of sector benchmarking data, institutions should review their TRAC data again against peer group and sector data to consider whether data outliers appear reasonable. If errors are identified at this stage, the Annual TRAC return should be corrected and uploaded again.

Institutions claiming dispensation from TRAC requirements are required to make the allocations outlined in requirements 4.1.4.3 and 4.1.4.4 above, but the method for making the allocation does not need to be robust.

4.1.5 Process

This sub-section provides a guide for preparing the Annual TRAC return. It describes how to meet the requirements above.

Institutions eligible for and applying dispensation (see chapter 2) from full compliance with the TRAC requirements are required to complete the institutional sign-off page and tables A to C of the Annual TRAC return, but are not required to complete sections D, E and F.

Obtaining the Annual TRAC return

4.1.5.1	Each year HEFCE produces the Annual TRAC return template on behalf of all UK HE Funding Councils. The template is made available as a PDF document for reference (see annex 4.1a), but data should be completed on individualised Excel spreadsheets, accessed and submitted on line, via the HEFCE extranet. For institutions in England: instructions about how to obtain access to the institutional Annual TRAC return template are provided in an annex to the 'Annual Accountability Returns' letter sent to Directors of Finance each October. For institutions in Northern Ireland: the Department for Employment and Learning of Northern Ireland (DELNI) writes to the Directors of Finance in October with information about the TRAC return process and deadlines, and provides separately and securely the relevant access codes to the HEFCE extranet. For institutions in Scotland: instructions about how to obtain access to institutional Annual TRAC return forms are provided in the 'Call for Information' circular sent to Principals and Directors of Finance each October. For institutions in Wales: the Higher Education Funding Council for Wales writes to the Directors of Finance in October with information about the TRAC return process and deadlines, and provides separately and securely the relevant access codes to the HEFCE extranet. The instructions include guidance on: • accessing the HEFCE extranet; • downloading the Annual TRAC return template; • uploading the completed Annual TRAC return template;

	• uploading an accompanying commentary; • the sign-off process; • accessing technical support.
4.1.5.2	The individualised Annual TRAC return template is accessible by all institutions only through the HEFCE secure extranet site[25]. If the TRAC Manager has not previously used the HEFCE extranet, he or she will need to register using the instructions provided by the Funding Councils, noting that he or she will need to have access to the institution's Annual TRAC 'Group Key' to register.
4.1.5.3	The downloaded Annual TRAC return package contains two files: • a Microsoft Excel template for completing the return; • a Microsoft Word document containing further instructions about completing the Annual TRAC return form.
4.1.5.4	The Annual TRAC return template contains the following sections: • sign-off sheet including declaration of compliance by Head of Institution; • institutional results – for use by the Funding Councils; • TRAC income and full economic cost by activity – for use by the Funding Councils; • Research income and full economic costs by sponsor type – for use by the Funding Councils and RCUK; • Calculation of indirect and estates cost charge-out rates for Research (plus Table D(a) for rates calculated separately by academic department) – for use by RCUK and for benchmarking analysis; • Calculation of laboratory technicians and research facility charge-out rates for Research (plus Table E(a) for rates calculated separately by academic department) – for use by RCUK and for benchmarking analysis; • Analysis of support costs, estates costs and indirect costs – for use by RCUK. The Annual TRAC return template may also contain other optional tables or requests for data to support the development of TRAC. The Annual TRAC return template contains a number of pre-submission validation checks that need to be satisfied before submission. These act as useful checks for the institution. A summary of the validation tests performed and their status is provided alongside the institutional checklist and commentary section at the end of the Annual TRAC return workbook (see annex 4.1a). The summary sheet also provides a comparison of the

[25] https://data.hefce.ac.uk

	current year's data with the two previous years to aid data validation prior to submission.

Important reminders to observe when populating the Annual TRAC return

4.1.5.5	TRAC costs in the Annual TRAC return reconcile to the consolidated financial statements for: • the surplus/deficit after depreciation of tangible fixed assets and before taxation for the institution, excluding any joint venture activity as reported in the consolidated financial statements; plus • the share of operating profit/loss in joint ventures and associates as reported in the consolidated financial statements; plus • the TRAC sustainability adjustments (see section 3.2).
4.1.5.6	Exceptional items (defined by Financial Reporting Standard 3) that appear on a separate line below the operating surplus/deficit in the consolidated financial statements are not included in TRAC costs or income. Where the word 'exceptional' appears in one of the expenditure headings that is above the operating surplus/deficit line, these costs are included in the TRAC analysis as they are not exceptional costs as defined by FRS3.
4.1.5.7	The annual return shows short-run operating costs (comprising costs from the consolidated financial statements plus the Infrastructure adjustment) and long-run sustainable costs (comprising the short-run operating costs plus the Return for Financing and Investment adjustment).
4.1.5.8	Costs of all activities are prepared on a full economic cost basis, including a relevant share of Support costs and sustainability adjustments.
4.1.5.9	Irrespective of the type of collaborative/joint venture, where the collaborative/joint venture is consolidated in the financial statements, the share of income and share of expenditure from a joint venture are included in TRAC: • For joint ventures and associates: the net profit/loss making up the institution's share of its joint ventures and associates' operating results are allocated to TRAC activities, and included in TRAC income and costs. The costs are not, however, included in the indirect cost rates (or estates rates) for Research. In the case of both associates, and joint ventures, the share of profits / (losses) included in an institution's consolidated financial statements is added to income (if in profit) whereas if it is a loss it is added to costs. • For minority interests: the minority interest, as a single figure, is deducted from (or added to) TRAC costs. If the costs related to Support for Research, then the indirect costs (or estates costs) used to calculate the Research charge-out rates are reduced by the total minority interest figure.

	• For transfers from/to reserves below the line that relate to endowments, income should be adjusted to match expenditure, i.e. add income to / deduct income from the same activity to which the endowment expenditure contributed.
4.1.5.10	Institutions should ensure that the appropriate proportion of the costs of teaching has been allocated between PFT and NPFT. In preparing the TRAC(T) return (see 4.3.5.3) the institution will find it helpful to review their non-publicly funded teaching (NPFT) student numbers, which have been used as a cost driver to allocate costs between PFT and NPFT, and if necessary update the student numbers and re-allocate the costs. This will ensure that they are robust at academic department level, which is required for TRAC(T).
4.1.5.11	Institutions should ensure that teaching costs have been fairly and reasonably allocated to NPFT. In doing so the following should be considered: • Allocating the direct additional costs of overseas students (e.g. the international office, English language courses provided for overseas students) directly to NPFT, where material. • Academics allocate their time between 'short/overseas courses' and 'all other courses'. Time on short/overseas courses is allocated directly to NPFT. (Academics are unlikely to be able to allocate their time on courses attended by both home and overseas students between PFT and NPFT using their time allocation schedules alone, and this would not be good practice.) • Splitting the costs of all other courses between PFT and NPFT on the basis of student FTEs in those categories. • Allocating the bursaries, scholarships and hardship payments for taught students to PFT and NPFT where appropriate (those for Research should already have been allocated to R in the Annual TRAC process). Student FTEs could be used as a proxy where actual costs related to different student populations cannot easily be established.
4.1.5.12	Costs are attributed robustly to research sponsor types (see 3.4.5.12) The surplus/(deficit) for each research sponsor type is reasonable and no costs are attributed to the eighth, research sponsor type 'Funding Council recurrent funding for Research'.

Validating and submitting the Annual TRAC return

4.1.5.13	When the TRAC Oversight Group has confirmed satisfactory completion of the return, after performing the reasonableness checks outlined in chapter 2, a Committee of the Governing Body should consider and confirm that the process followed in completion of the TRAC return has complied with the TRAC requirements, as outlined in 2.1.5.22. This can be achieved through Chair's action where the Committee scheduling does not enable a Committee meeting in advance of the TRAC submission. Following this, the Annual TRAC return should be printed and the declaration sheet signed by the Head of Institution and scanned as a signed PDF ready for submission to the Funding Councils.
4.1.5.14	The completed Annual TRAC return, PDF signed copy and accompanying commentary documents must be uploaded to the Funding Councils through the HEFCE extranet[26]. The TRAC Manager should retain copies of the submission documents and receipt for review to satisfy assurance arrangements. Instructions about how to upload the Annual TRAC return documents are provided by the Funding Councils (sub-section 4.1.5.1).
4.1.5.15	Once uploaded, the results file should be checked for post-submission validation errors. If errors are generated, the Annual TRAC return should be corrected and uploaded again.
4.1.5.16	Post-submission, upon receipt of sector benchmarking data, institutions should review the TRAC data again against peer group and sector data to consider whether data outliers appear reasonable (sub-section 2.1.5.11 provides guidance around reasonableness checking). If errors are identified at this stage, the Annual TRAC return should be corrected and uploaded again. To resubmit, you should contact your Funding Council representative.

Planning for the next submission cycle

4.1.5.17	When undertaking post-submission analysis against TRAC benchmarking data (see 4.1.5.16 above) institutions are encouraged to review whether opportunities exist for system and process improvement to address weaknesses in the TRAC approach. Where opportunities exist for system improvement, the TRAC Oversight Group should agree an action plan for implementation.

[26] https://data.hefce.ac.uk

4.1.6 What could go wrong? Common areas of non-compliance

Summarised below are the more common areas where things could go wrong and/or lead to non-compliance with the TRAC requirements):

What could go wrong / areas of non-compliance
• Failure to access the individualised institution-specific template, using the publicly accessible PDF template as a guide instead.
• Downloading institutional templates too late in the process to inform adjustments required to TRAC process each year.
• Submitting return documents too late in the submission window to allow for validation queries to be addressed.
• Missing the submission deadline without informing the Funding Councils of exceptional circumstances.
• Pre-submission validation failures not addressed in advance of submission.

4.1.7 Annexes

Annex reference	Document title
4.1a	Annual TRAC return template
4.1b	Peer groups

Annexes are located on the following web page: www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/

4.1.8 Associated good practice and other relevant reference material

None specified for section 4.1.

4.2 Research charge-out rates

4.2.1 Introduction

The cost and income output data drawn from the TRAC model provides the basis for the calculation of full economic cost (fEC) charge-out rates. These charge-out rates provide an institution-specific basis for institutions to recover support costs attributable to Research projects. The charge-out rates are used in the costing of projects funded by Research Councils and contracts with Other Government Departments. This commitment was confirmed by HM Treasury in its letter to the Office of Science and Technology dated 13 February 2004 (annex 4.2c). Research charge-out rates include rates for indirect costs, estates costs, facilities and laboratory technicians.

Section 5.1 provides guidance on applying project costs as either Directly Incurred or Directly Allocated costs in costing Research Council funded projects. These charge-out rates enable the recovery of direct and indirect costs on research projects.

4.2.2 The aim – What are we trying to achieve from defining output data?

To calculate charge-out rates for indirect costs, estates costs, laboratory technician support and facility access, for use in costing research projects to be funded by the Research Councils and other sponsors.

For institutions claiming dispensation, the indirect and estates cost rates to be applied are the dispensation rates published annually by RCUK[27]. Research facility and laboratory technician infrastructure rates are not applicable to institutions claiming dispensation, and their use is not permitted.

4.2.3 Process workflow

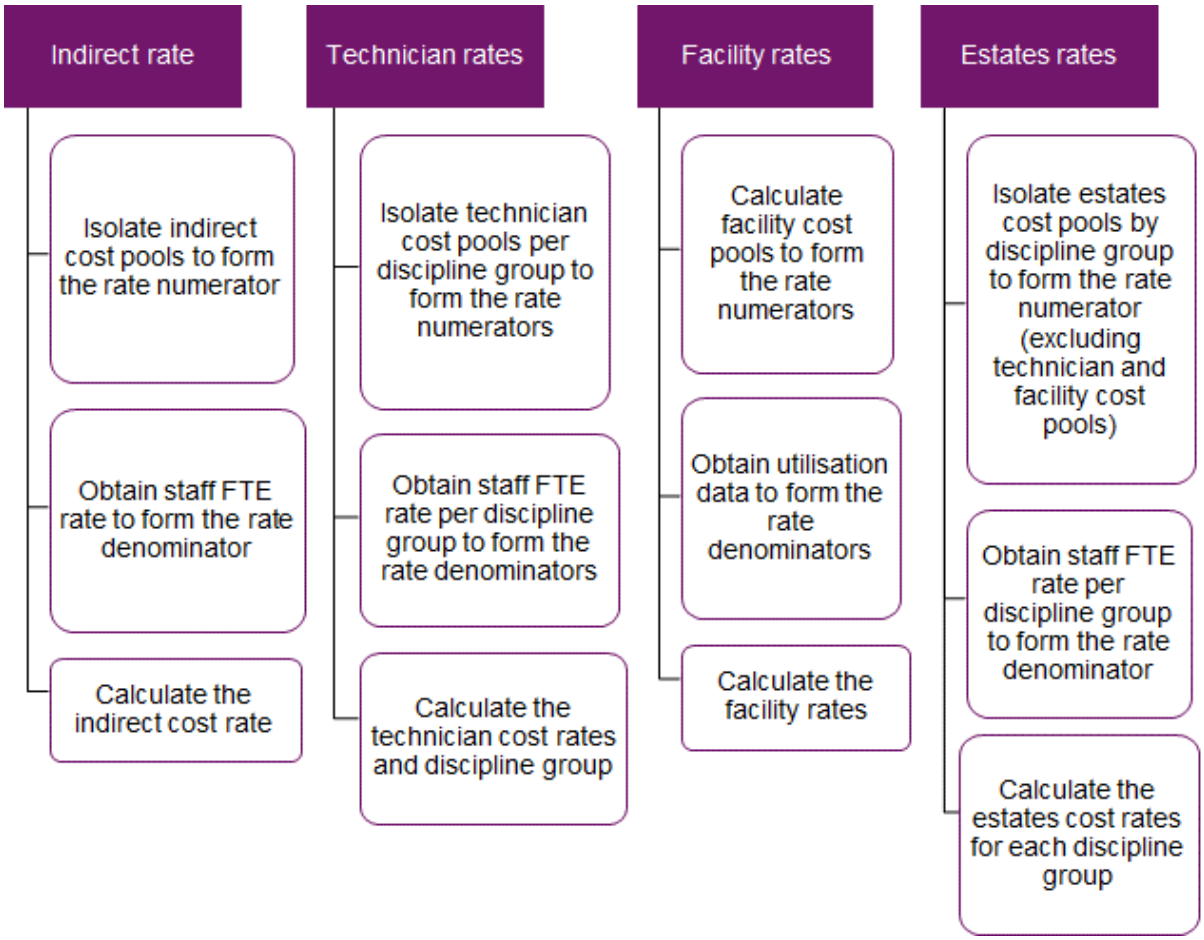
Charge-out rates are calculated for the following cost pools:

- Research indirect support costs;
- Research estates costs – (a) for laboratory-based research and (b) for non-laboratory research;
- Research Laboratory Technicians costs;
- Research Facility and Equipment access.

Figure 4.2 sets out the steps required to calculate each of the costs.

[27] www.rcuk.ac.uk/about/aboutrcuk/aims/units/assurance/dispensation/

Figure 4.2: Research charge-out rates



Note: FTE = Full-time equivalent.

4.2.4 The requirements

4.2.4.1	There should be a clear cut-off date and process that ensures that the updated rates replace the previous rates and are applied to project applications no earlier than 1 February of each year, and no later than six months after this date.
TRAC requirements for the indirect cost charge-out rate:	
4.2.4.2	A Research indirect cost charge-out rate should be calculated each year as a rate per research academic staff FTE.
4.2.4.3	The costs in the numerator of the Research indirect cost charge-out rate should agree with the indirect cost pool in the TRAC model.
4.2.4.4	The denominator of the Research indirect cost charge-out rate comprises: • academic time (FTE) attributable to research (not weighted for salaries); • postgraduate researchers (FTE) (weighted by 0.2); • research assistants and fellows (FTE);

	• temporary research staff FTE; • visiting research academics FTE; and • clinicians FTE (where material and appropriate to be included).
TRAC requirements for the estates cost charge-out rates:	
4.2.4.5	Two Research estates cost charge-out rates (for laboratory and non-laboratory academic departments as defined by the institution) are calculated each year as a rate per research academic staff FTE. If no laboratory (or non-laboratory) academic departments exist within an institution, separate estates rates need not be calculated.
4.2.4.6	The costs in the numerator of the Research estates charge-out rates should agree with the Research element of the estates cost pool in the TRAC model (including the relevant proportion of the sustainability adjustments), less the cost of technicians, equipment and facilities that are to be charged separately.
4.2.4.7	The denominator of the Research estates charge-out rates should agree with the research academic staff FTE used in the Research indirect cost charge-out rate but should be calculated separately for laboratory and non-laboratory academic departments in the Research estates charge-out rates (weighting postgraduate researcher FTEs by 0.8 and 0.5 respectively).
TRAC requirements for the Research technician charge-out rate:	
4.2.4.8	Research technicians, equipment and facilities costs that are to be charged to projects should be excluded from the estates cost pools and form the basis of separate charge-out rates.
4.2.4.9	The numerator of the Research laboratory technician cost charge-out rate calculations should exclude: • costs already being charged to projects as Directly Incurred; • costs that are included in equipment and facilities costs charge-out rates; • costs of technician support in teaching and non-laboratory academic departments.
4.2.4.10	An annual figure of 1650 hours per FTE should be used as the denominator to calculate an hourly rate for the Research technician charge-out rate.
TRAC requirements for the Research facilities and equipment charge-out rates:	
4.2.4.11	All biological facilities (operated under a Home Office licence) should be costed as research facilities and charged directly on projects.
4.2.4.12	Auditable utilisation records covering all activities undertaken should be maintained (at least quarterly) by facility and equipment managers to inform robust rate calculations. Research facilities and equipment without auditable utilisation records should not be recorded as Directly Incurred to research projects.

4.2.4.13	Research facility and equipment managers should be able to justify the utilisation estimates if asked by funders, auditors or Research Councils.

Institutions claiming dispensation from the TRAC requirements are not required to calculate indirect or estates charge-out rates robustly. Institutions claiming dispensation should apply the lower of their own indirect and estates charge-out rates, or the dispensation indirect charge-out rate[28] to Research Council and Other Government Department cost-based research projects. Charge-out rates for Research Facilities and Laboratory Technicians cannot be applied if claiming dispensation.

4.2.5 Process

This sub-section provides a guide for the calculation of charge-out rates for costing research projects.

It describes a process that could be followed in order to meet the requirements above and indicates the spirit of the activities that contribute to compliance being achieved. However, the following description is not the only approach that can be followed and, given the diversity of the higher education sector, it is important that each institution apportions and calculates charge-out rates robustly.

Given the use of TRAC charge-out rates in the costing of Research Council funded projects, the calculation of the charge-out rates and its rationale will be an area of focus in any RCUK assurance review. It is therefore advisable that institutions maintain good audit trails and clearly detail the rationales for the processes employed. Institutions should also take care to prevent any double-counting of costs.

Where a process step is shaded green in the left column below, it describes a prescribed method which should be followed to comply with TRAC requirements.

Calculating the indirect cost charge-out rate

4.2.5.1	A single indirect cost rate is calculated each year for research activity as a rate per research academic staff FTE (detailed below). The Annual TRAC return template (annex 4.1a) sets out the calculation of the indirect cost rate for research. The research academic FTE is determined by: • taking the Research time allocation percentage (excluding Support to Research), unweighted for salaries, and multiplying this by the academic staff FTE to provide an academic staff FTE for research; • plus the FTE of any research assistants and fellows; • plus the FTE of temporary research staff; • plus the FTE of visiting research academics;

[28] www.rcuk.ac.uk/about/aboutrcuk/aims/units/assurance/dispensation/

	• plus the FTE of clinicians (where material and appropriate to be included); • plus the weighted postgraduate research FTE.
4.2.5.2	The TRAC Manager should perform and retain a reconciliation to confirm that the costs in the numerator of the research indirect rates calculations agrees with the indirect cost pool total in the TRAC model. The costs included in the numerator for the research indirect costs charge-out rate calculation include all the elements listed in the cost pools identified in sub-section 3.4.5.1.
4.2.5.3	The TRAC Oversight Group should review and approve the rate calculation. There should be a clear cut-off date and process that ensures that the updated rates replace the previous rates and are applied to project applications no earlier than 1 February of each year, and no later than six months after this date.

Calculating estates cost charge-out rates

4.2.5.4	Two estates cost rates are calculated each year as a rate per research academic staff FTE: one for laboratory-based academic departments and one for non-laboratory academic departments (where both department types exist within an institution). The Research FTE for academic and other research staff should be allocated between the Laboratory and Non-laboratory academic departments so as to be aligned to the cost pools in order to calculate the estates rates. This is necessary as there is a difference in the intensity with which these categories of activity consume resources and generate costs. There are a variety of ways in which this split can be achieved. For example, where the institution's department names enable the clear identification of Laboratory and Non-laboratory academic departments, this is an accepted method for allocating academic and other research staff between the two department types. Some institutions have also used the HESA cost centres as a basis for calculating this split. The guiding principle is that the split is made appropriately to reflect these different academic department types. It is suggested that the institution maintains an audit trail to enable an explanation and rationale to be provided for the split, if requested by Research Councils, other assurance providers and funders.
4.2.5.5	The costs included in the numerator for the research estates costs charge-out rate calculation include all the elements listed in the cost pools identified in sub-section 3.4.5.5. The TRAC Manager should perform and retain a reconciliation, to confirm that the costs in the numerator of the estates laboratory and non-laboratory rates agree with the estates cost pool totals allocated to Research, less technicians, and equipment and facilities that are to be charged as separate Research charge-out rates.

4.2.5.6	The TRAC Oversight Group should review and approve the rate calculation. There should be a clear cut-off date and process that ensures that the updated rates replace the previous rates and are applied to project applications no earlier than 1 February of each year, and no later than six months after this date.

Calculating the laboratory technician charge-out rates

4.2.5.7	Where technical staff work directly with researchers or in support of their rooms or equipment on laboratory projects, costs should be directly charged to projects. The direct charges will be either: • Directly Incurred (DI) – if the technicians are dedicated to a single project, and/or project timesheets are being completed by the technicians, the costs of these technicians should be charged as DI as they are incurred based on actual salary; or • Directly Allocated (DA) – if the technicians are shared between projects or are part of a pooled team, and where it would be inappropriate for them to complete timesheets, their costs should be Directly Allocated (DA) to projects. This can be done by identifying a technician cost per hour (ensuring that the costs of DI technicians are excluded from the technician cost pool) and charging an appropriate number of technicians' hours to each project or as a standard charge expressed in £ per research academic staff FTE. Where technical staff are not working on specific projects but are providing general support services to laboratories[29], this cost (the cost of the proportion of their time) should be Directly Allocated (DA) to projects using a lab technician infrastructure rate per research academic staff FTE (based on the Technician Survey data – see sub-section 3.1.5.18). The infrastructure technician costs at project level should be allocated in proportion to the sum of the time of Directly Incurred researchers, postgraduate students (weighted) and directly allocated academic staff. Therefore the project direct research staff FTE is the driver for the infrastructure technicians, as for Estates and Indirect costs. The estimated costs of shared, pooled, or directly allocated staff should be recorded as a cost against each appropriate project periodically throughout the project life. Only technicians in academic departments need be directly allocated, not those in central support departments such as occupational health, estates, etc.

[29] General support activities include health and safety, storeroom/supplies, hazardous materials handling, laboratory equipment maintenance and administration.

4.2.5.8	The TRAC Manager should perform and retain a reconciliation to confirm that the costs in the numerator of the research laboratory technician rate calculations exclude: • costs already being charged to projects as Directly Incurred; • costs that are included in equipment and facilities charge-out rates; • the cost of technician support in teaching and non-laboratory academic departments. To calculate an hourly rate, an annual figure of 1650 hours per FTE is used as the denominator.
4.2.5.9	The TRAC Oversight Group should review and approve the rate calculation (see 2.1.4.3). There should be a clear cut-off date and process that ensures that the updated rates replace the previous rates and are applied to project applications no earlier than 1 February of each year, and no later than six months after this date.

Calculating equipment and facility charge-out rates

4.2.5.10	The TRAC Oversight Group should review research facilities to determine which facilities should be directly charged to projects, retaining evidence of review and, where they are not charged directly, noting the reasons. When charging research equipment and research facilities separately from the estates charges, the TRAC Manager should calculate and retain equipment and facility calculations based on the costing templates provided at annex 4.2a, ensuring that: • The original depreciation charge for equipment purchased (partly or fully) through a research grant or contract is directly charged to the core TRAC activity and sponsor, and is included within the charge-out rate calculation only if this amount is subsequently deducted from the estates cost pool. • Access charges incurred for shared equipment are only allocated to research costs at the host institution when the host is using the equipment to perform research in its own institution. • All biological facilities (operated under a Home Office licence) should be separately costed and charged directly to projects. • Actual depreciation charges should be adjusted to reflect the replacement cost for institutionally owned facilities or equipment (based on current market prices for replacing equipment with the capacity to satisfy existing and anticipated demand). • Auditable utilisation records are maintained for all research facilities that are treated as either directly incurred or directly allocated to projects based on actual usage or estimated usage respectively. Utilisation records should document use for Research, Other and Teaching activities.

	Calibration down-time and adjustments for less than efficient use should also be recorded to provide more accurate estimate of productive capacity. • 'Useful life' estimates are self-defined by the institution, but should not be less than the lifespan over which the equipment is depreciated in institutional consolidated financial statements.
4.2.5.11	Research facility and equipment charge-out rates should be robustly calculated based on actual costs where known, and forecast costs to run the whole facility for the following academic year. Cost categories may include: • actual depreciation charge, adjusted to reflect the replacement cost of equipment and facilities (including VAT, delivery, installation, testing, calibration, etc.); • insurance; • estates charges; • personnel (technicians, administration and management); • access charges; • consumables and spares; • utilities. (NB: Biological facilities (operated under a Home Office licence) must include all of these cost elements.) The Wakeham review of 2010[30] encouraged institutions to share access to research facilities and equipment. Where equipment is shared, care should be taken when calculating charge-out rates for research facilities and equipment as part of a collaborative arrangement whereby the supply is correctly classified as 'Research' if research is undertaken by the host HEI or where the institution is participating in the research. Where the institution is not participating in the research but is providing access to facilities or equipment this should be classified as 'Other'. (See the pricing and charging section of 'N8 Equipment Sharing Toolkit' –)[31].
4.2.5.12	Auditable utilisation records covering all activities undertaken should be maintained (at least quarterly) by facility and equipment managers to inform robust rate calculations. Research facilities and equipment without auditable utilisation records should not be allocated to research projects. Research facility and equipment managers should be able to justify utilisation estimates if asked to do so by Research Councils, other assurance providers and funders.

[30] www.universitiesuk.ac.uk/highereducation/Pages/FinancialSustainabilityAndEfficiency.aspx

[31] N8 Research Partnership Equipment Sharing Toolkit: www.n8research.org.uk/

4.2.5.13	The estimated annual running costs should be divided by the estimated efficient annual usage for all activities to provide a charge-out rate per unit (per hour or per day)
4.2.5.14	The TRAC Oversight Group should review and approve the rate calculation. There should be a clear cut-off date and process that ensures that the updated rates replace the previous rates and are applied to project applications no earlier than 1 February of each year, and no later than six months after this date.

Indexation of charge-out rates

4.2.5.15	Indexation rates should be calculated using the guidance provided at sub-section 3.1.5.28, and applied as follows: • Indirect cost charge-out rates, estates cost charge-out rates and infrastructure laboratory technician charge-out rates that are used to calculate charges on Research Council projects should incorporate two years' indexation in accordance with the guidance given in sub-section 3.1.5.28; • Directly Incurred and Directly Allocated pool laboratory technician, research facility and staff rates should be at current price levels for Research Council funded projects, but those submitted to other sponsors will typically be indexed to derive Year 1 costs.

4.2.6 What could go wrong? Common areas of non-compliance

Summarised below are the more common areas where things could go wrong and/or lead to non-compliance with the TRAC requirements:

What could go wrong / areas of non-compliance
• Utilisation records are not maintained fully by facility managers leading to under/over recovery and possibly less efficient use of facilities.
• Facility and equipment charge-out rates do not include the costs of all resources required to run the facility.
• Costs to be charged via separate facility or laboratory technician charge-out rates are not extracted from the Research Estates rates, leading to double-counting in respect of Facilities and/or Laboratory technician rates
• Actual depreciation charges are used in facility rate calculations instead of being adjusted to reflect replacement cost depreciation.
• The research academic staff FTE count used as the denominator is incorrect, e.g. the same as the FTE count used for the cost drivers.
• Research charge-out rates are not reviewed for appropriateness by the TRAC Oversight Group.

4.2.7 Annexes

Annex Reference	Document title
4.2a	Facility costing template
4.2b	Technician survey template
4.2c	HM Treasury letter – University Research: Costs to Government Departments (13 February 2004)

Annexes are located on the following web page: www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/

4.2.8 Associated good practice and other relevant reference material

TRAC Development Group facilities and equipment sharing guide:

- www.hefce.ac.uk/whatwedo/lgm//finsustain/publicationsandgoodpractice/

N8 Group Research facility and equipment sharing guidance and research:

- www.n8research.org.uk/asset-collaboration/n8-est/

4.3 TRAC for Teaching return – TRAC(T)

4.3.1 Introduction

Background

TRAC for Teaching (TRAC(T)) is a framework for costing teaching based on the established principles of and building on existing TRAC methods. Under TRAC(T), institutions provide further analysis of the costs of publicly funded Teaching (PFT) reported in Annual TRAC. Submission of a TRAC(T) return is a requirement for all UK higher education institutions in receipt of grant funding from HEFCE, the Scottish Funding Council (SFC) or the Department for Education and Learning of Northern Ireland (DELNI). TRAC(T) is not required from institutions funded by the Higher Education Funding Council for Wales (HEFCW). Key attributes of TRAC(T) are summarised below.

Purpose and use of the TRAC(T) information

The TRAC(T) return is used to calculate the subject-related average annual cost of teaching a full time equivalent (FTE) Funding Council-fundable student in a HESA academic cost centre. This is referred to as 'Subject-related full annual cost of teaching a student' (Subject-FACTS).

TRAC(T) data are used by the Funding Councils to inform their teaching funding methods. The TRAC(T) data do not represent the total cost of teaching a student (in a subject) as the TRAC(T) method requires HEIs to remove the costs that are not directly related to the subject (non-subject-related costs). An institution may wish to include these non-subject-related costs when using the data for internal purposes. It is important to be clear that TRAC(T) is not course costing; rather it is a process that provides Funding Councils with data on the costs of teaching different subjects which is used in aggregate to inform their teaching funding methods.

Key aspects of the TRAC(T) process

Subject-FACTS are the average cost of teaching a student in each subject (defined consistently as a HESA academic cost centre). The costs exclude:

- costs of Research and Other activities;
- costs of NPFT, e.g. costs of overseas students;
- costs of PFT provision that is not fundable by Funding Councils, e.g. those funded by the Department of Health or the National College for Teaching and Leadership.
- costs that are incurred on specified non-subject related activities.

Subject-FACTS are based on the full economic costs of Teaching (as defined by TRAC), i.e. including an appropriate element of central services costs, estates costs and the TRAC sustainability adjustments.

The costs of subject-related activity vary by subject and volume. They therefore do not include additions (or reductions) to those subject-related Teaching costs that are caused by a wide range of non-subject related factors – called the differential costs of non-subject related activities.

Funding councils provide specific funding for some activities through separate funding streams outside of the core teaching funding model (e.g. HEFCE's targeted allocations, SFC's disabled students premium, or DELNI's widening participation grant). The costs equal to the amount of this specific funding should be removed from the publicly funded teaching cost pool to be used in deriving the Subject-FACTS. This method ensures that the costs of activity already funded are not counted when calculating costs to inform the core teaching funding model. It also ensures that where the institution's costs of supporting a particular teaching-related or student-related activity exceed the funding received for that activity, any excess costs will be included in the cost pool used to inform the core teaching funding model. The costs of bursaries to students are also excluded, as these are payments to support students with maintenance and living costs, and are not a direct cost of delivering teaching.

4.3.2 The aim – What are we trying to achieve from explaining how to complete and submit the TRAC(T) return?

To ensure that institutions know:

- where to access the TRAC(T) return;
- how to allocate the costs to calculate the Subject-related average annual cost of teaching a Funding Council-fundable FTE student (Subject-FACTS);
- the Funding Councils' submission deadlines.

4.3.3 Process flowcharts

Chapter 3 explains the processes necessary to generate the output data required by the TRAC return and the cost rates. This section explains how to use the TRAC(T) process to present the outputs in the TRAC(T) return.

Figure 4.3a: Overall approach to TRAC(T)

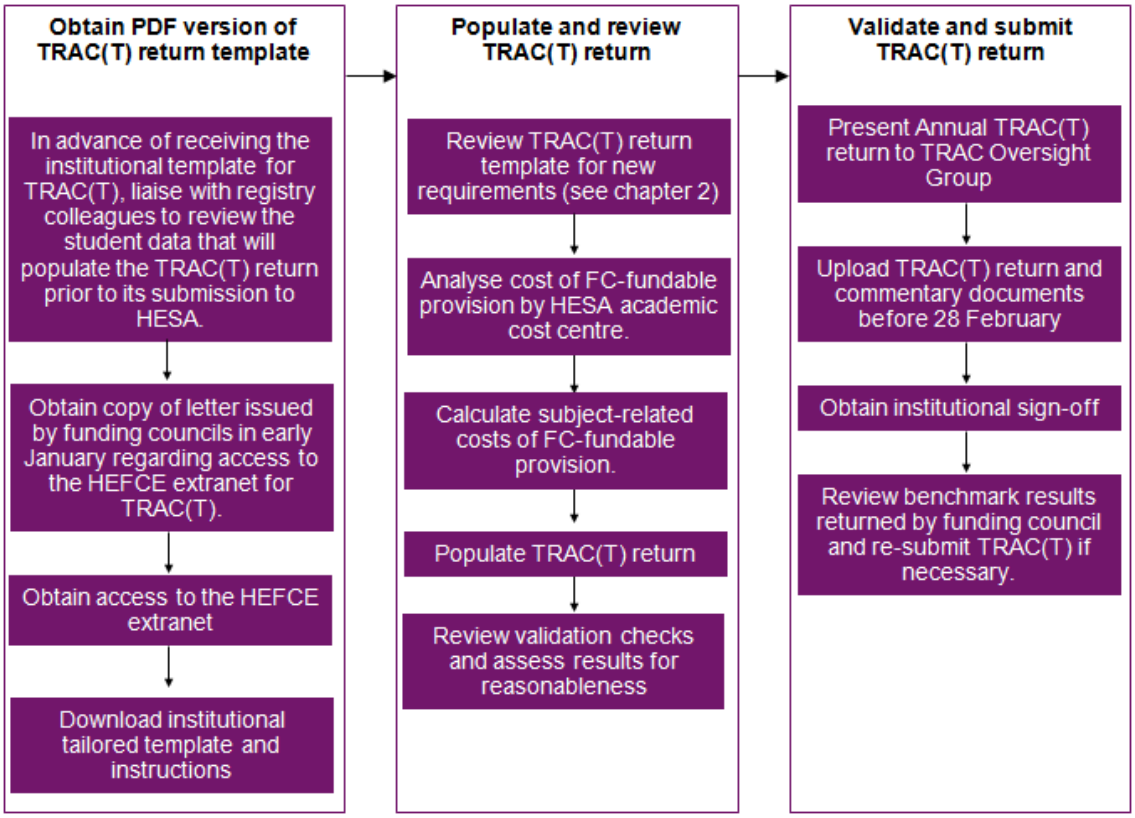
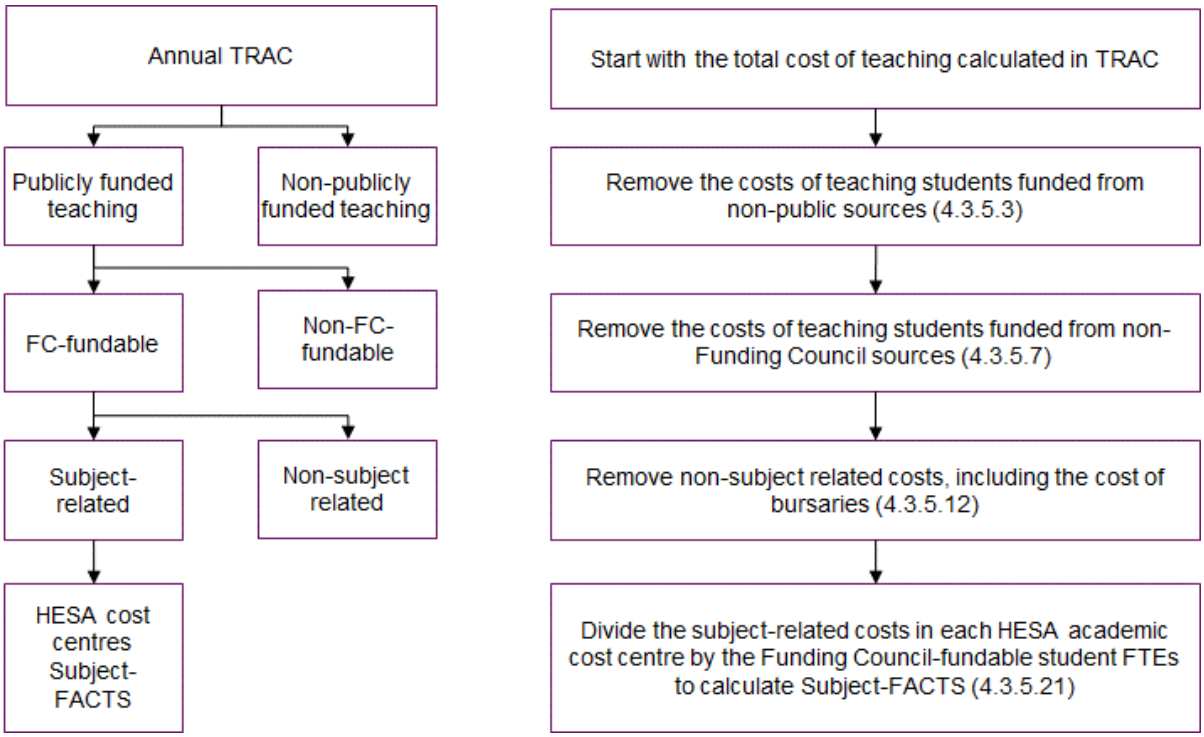


Figure 4.3b: Calculation of TRAC(T) subject-related costs



The following sections and tables of guidance explain each of the elements in Figure 4.3a and Figure 4.3b, and outline the process institutions should follow to calculate the Subject-FACTS by HESA academic cost centre. References to guidance are shown in brackets in Figure 4.3b.

4.3.4 The requirements

4.3.4.1	Each year HEFCE produces the TRAC(T) return template for HEIs in England, and on behalf of the Scottish Funding Council and the Department for Employment and Learning of Northern Ireland for HEIs in Scotland and Northern Ireland. The template is made available as a PDF document for reference (see annex 4.3a), but data should be completed on individualised Excel spreadsheets, accessed and submitted on line, via the HEFCE extranet. All institutions in England, Scotland and Northern Ireland, including those claiming dispensation from the TRAC requirements, should complete the TRAC(T) return (see workbook 4.3a).
4.3.4.2	The full economic cost of teaching is derived from Annual TRAC (section 4.1).
4.3.4.3	Institutions should review the student numbers used as cost drivers to allocate costs, to ensure they are robust at academic department level.
4.3.4.4	Definitions used in the Higher Education Student Early Statistics (HESES) return, for HEIs in England and Northern Ireland, and the SFC Early Statistics return for HEIs in Scotland, to classify students should be used in TRAC(T) together with additional definitions given in the TRAC Guidance.
4.3.4.5	The costs of non-publicly funded teaching and non-Funding Council-fundable teaching should be removed from the Teaching costs to determine the Teaching cost of Funding Council-fundable provision at academic department level in line with sub-sections 4.3.5.3 to 4.3.5.11.
4.3.4.6	Non-subject-related costs which are either funded from separate Funding Council funding streams or the cost of bursaries should be removed at academic department level to determine the Subject-related costs of Funding Council fundable provision (see 4.3.5.12 – 4.3.5.17). Specific methods for excluding non-subject-related costs from the subject-related costs of Funding Council-fundable provision should be used, even if an institution believes it can estimate its costs better in a particular area (see 4.3.5.14 to 4.3.5.15). These methods are: the actual costs of bursaries; and current Funding Council funding (data provided by Funding Councils) as a proxy for the recurrent costs of all other specified activities. All costs funded by separate Funding Council funding streams (e.g. HEFCE's targeted allocation, SFC's disabled students premium, or DELNI's widening participation grant) should be removed from the costs of Funding Council-fundable taught provision for each relevant academic department (except for some specific exemptions – see 4.3.5.15).

4.3.4.7	The Subject-related costs of Funding Council-fundable provision should be mapped onto the Higher Education Statistics Agency (HESA) cost centres and divided by the Funding Council-fundable full time equivalent student numbers (derived from the HESA student data) to calculate the Subject-FACTS, using specific methods outlined in sub-sections 4.3.5.18, 4.3.5.19 and 4.3.4.21.
4.3.4.8	The TRAC Oversight Group should review the TRAC(T) return for reasonableness in advance of presenting to the Head of Institution for sign-off (see 4.3.5.24).
4.3.4.9	The submission deadline for the TRAC(T) return is the last working day of February each year for the previous academic year's data.

The requirements above apply to all institutions, including those that are claiming dispensation.

4.3.5 Process

The TRAC(T) methodology is prescriptive and requires defined approaches to be followed for some elements of the process. This is necessary to achieve consistency and derive the information that the Funding Councils require to inform their funding methodologies for teaching.

Where a process step is shaded green in the left column below, it describes a prescribed method which should be followed to comply with TRAC requirements.

Obtaining the TRAC(T) return

This sub-section outlines the process to obtain the TRAC(T) return, and outlines the sections for institutions to complete.

4.3.5.1	Each year HEFCE produces the TRAC(T) return template for HEIs in England, and on behalf of the Scottish Funding Council and the Department for Employment and Learning of Northern Ireland for HEIs in Scotland and Northern Ireland. This return is made available as a PDF document for reference, but is completed on an individualised Excel template, accessed and submitted on line, via the HEFCE extranet. Obtaining early access to the PDF template is encouraged to enable the TRAC Manager and colleagues working on student data to understand the data requirements. HEFCE funded institutions have access to a web facility[32] where HESA student data can be uploaded in order to receive a number of outputs – one being the data on HEFCE-fundable FTEs for TRAC(T). This output is designed to assist institutions in verifying the HEFCE-fundable student FTEs for TRAC(T) prior to submission of the final student data to HESA. The HEFCE-fundable student FTE data submitted to HESA will be pre-populated in the institutional TRAC(T) return template.

[32] www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/use/

	Much of the analysis of student numbers provided to institutions in England is not provided for those in Scotland (e.g. for foundation degrees, sandwich years-out, long courses) as the costs of these types of students are not treated as a non-subject-related cost. This is because the funding is different under the SFC funding model. SFC-fundable student numbers should be used as the denominator when calculating Subject-FACTS. SFC will derive these from the institution's HESA returns and include them in the TRAC(T) template issued to the institution. If an institution considers the student numbers derived by SFC do not adequately fit with its own cost information then it has the option of changing its student numbers. However, it should contact SFC before doing so. Institutions are free to use any student numbers they consider to be appropriate when allocating costs in their TRAC models. Instructions about how to obtain access to the institutional TRAC(T) return template are provided in a letter sent by HEFCE in early January to HEIs in England and Northern Ireland. For HEIs in Scotland the initial request for TRAC(T) information is sent in the SFC Call for Information letter, which is then followed up with a separate letter to Directors of Finance in January. This letter includes guidance on: • accessing the HEFCE Extranet (and initially registering with the extranet); • downloading the TRAC(T) return template; • uploading the completed TRAC(T) return; • the sign-off process; • further information/accessing technical support.
4.3.5.2	The TRAC(T) return template contains two sections which all HEIs should complete: • **Section A**: Source data. This captures the source data the institution has used in calculating its subject-related costs, and includes: – a reconciliation of the Subject-related costs of Funding Council-fundable provision to the figures returned in the annual TRAC return; – a declaration of the cost recording methods used. • **Section B**: Report to Funding Councils. This captures the institution's subject-related costs of funding council-fundable provision for each HESA academic cost centre and includes: – the institution's Funding Council-fundable student FTE numbers pre-populated from data submitted to HESA; – the calculation of the Subject-FACTS for each HESA cost centre; – the institution's commentary on the reported data. The return template also contains validation checks on the reported data. Any validation errors need to be rectified prior to submission.

Calculating the cost of Publicly Funded Teaching (PFT)

For Annual TRAC, costs will have been analysed between Teaching (T), Research (R), and Other (O); and T costs will have been analysed between Publicly Funded Teaching (PFT) and Non-Publicly Funded Teaching (NPFT).

This sub-section outlines what institutions should do to review the student numbers used in annual TRAC to calculate the NPFT element.

4.3.5.3	Institutions should review their non-publicly funded teaching (NPFT) student numbers, which have been used as a cost driver to allocate costs, and if necessary update the student numbers and re-allocate the costs. This should ensure that they are robust at academic department level. Student FTEs could be weighted (for example for postgraduate taught students or students on long courses) when used as cost drivers, but should not be weighted in the denominator for Subject-FACTS. If students are weighted in the cost drivers for TRAC(T) they should also be weighted in the same way as the cost drivers for Annual TRAC.
4.3.5.4	Institutions should ensure that the appropriate proportion of the costs of teaching has been allocated to NPFT where the level of NPFT activity is material for an academic department. Note that Annual TRAC only requires an allocation to NPFT where it is material for a group of academic departments – i.e. a discipline group.
4.3.5.5	Institutions should ensure that teaching costs have been fairly and reasonably allocated to NPFT. This should have been ensured in producing the Annual TRAC return (section 4.1), but institutions may find it helpful to reconsider the following: • Allocating the direct additional costs of overseas students (e.g. the international office, English language courses provided for overseas students) directly to NPFT, where material. • Academics allocate their time between 'short/overseas courses' and 'all other courses'. Time on short/overseas courses is allocated directly to NPFT. (Academics are unlikely to be able to allocate their time on courses attended by both home and overseas students between PFT and NPFT using their time allocation schedules alone, and this would not be good practice.) • Splitting the costs of all other courses between PFT and NPFT on the basis of student FTEs in those categories. • Allocate the bursaries, scholarships and hardship payments for taught students to PFT and NPFT where appropriate (those for Research should already have been allocated to R in the Annual TRAC process). Student FTEs could be used as a proxy where actual costs related to different student populations cannot easily be established.

4.3.5.6	Definitions used by HESES[33] or the SFC Early Statistics return should be used to classify students. For HEIs in England and Northern Ireland the total student population of an institution is shown by: • Tables 1, 2 and 3 in HESES; • plus non-credit bearing (NCB) students; • plus further education (FE) students returnable to HESA. In ensuring that the student numbers are robust an institution may want to: • Check that the NPFT student numbers include the FTEs of short courses, continuing professional development and other non-credit bearing courses where these are material in an academic department, not just in the institution. • Consider, where material, whether the student FTEs on non-credit bearing courses (who are not included on the HESA Student Return) are defined in broadly the same way as those who are included on the HESA Student Return when they form part of the student number cost driver (i.e. the full time equivalent calculation is broadly consistent). Inclusion or exclusion of non-credit bearing students should be consistent in Annual TRAC and TRAC(T). Where material they should be included in the cost driver for both Annual TRAC and TRAC(T) returns to ensure the robust allocation of costs. • Ensure that the student numbers used to allocate costs to academic departments relate to the staff costs recorded in each academic department. These should be based on the numbers of students taught by an academic department, not those recruited or 'owned' by a department (with the possible exception of franchised-out students). • Note that if an average cost per student is being calculated for each academic department (as well as for each HESA academic cost centre) then it is good practice for the student numbers used as a divisor for the academic department costs to reflect students taught. This ensures consistency with the student number definition used for the divisor of HESA academic cost centre costs when deriving Subject-FACTS. This is not however a TRAC requirement. Table 4.3 provides a summary of the classification of the student population for HEIs in England.

[33] Refer for example to HESES13, HEFCE 2013/26 Annex F.

Table 4.3 Classification of the student population for TRAC(T) for HEIs in England

Reported in	HESES sub-columns	Comments	Classification of publicly funded	
HESES Tables 1 FT 2 Sandwich year-out 3 PT	(a) & (b) funding council-fundable		PFT	Funding Council-fundable
	(c) non-fundable	includes PGRs and provision funded by other public bodies (e.g. Department of Health, National College for Teaching and Leadership)	PFR PFT	Research(PGRs) Non-Funding Council fundable
		and closed courses sponsored by non-public bodies	PFT	Non-Funding Council fundable
	(d) Island/overseas		NPFT	
Non-credit bearing			NPFT	
HESA student record (FE)		FE students	PFT NPFT	Non-funding council fundable

Splitting the PFT cost between Funding Council-fundable and non-Funding Council fundable provision

This sub-section outlines the processes to follow in splitting the PFT cost between Funding Council fundable and non-fundable elements.

Institutions should split the PFT cost between the cost relating to Funding Council fundable provision and that relating to non-Funding Council fundable provision. This is an important step to determine the costs that are incurred in respect of activity that the Funding Councils' teaching funding methods seek to cover and teaching activity which is funded by other public bodies. Note that activity should still be classified as Funding Council-fundable regardless of whether it is funded through Funding Council grants or for HEIs in England via publicly funded tuition fee loans administered by the Student Loans Company.

4.3.5.7	Institutions should identify and remove the costs of provision that is not fundable by Funding Councils (FCs) or for HEIs in England via the publicly funded loans to students administered by the Student Loan Company (SLC) to meet the costs of tuition fees.
4.3.5.8	In allocating the costs between Funding Council fundable and non-Funding Council fundable provision, institutions should take account of the relative costs of the different subjects, i.e. the allocation should be made separately for each academic department.
4.3.5.9	Franchised-out students and the related costs should be included in FC-fundable provision. Where the institution registers students but other institutions are responsible for delivery of the teaching, the HEI should include the costs of franchised-out provision, which will include the money that is passed to the other institution together with costs in the registering institution covering quality assurance, marketing, registration, library etc. Most of the teaching of franchised provision is likely to be carried out by further education colleges or alternative providers. Where, however an HEI teaches students that are registered in another HEI, the costs of teaching those students should be excluded as a non-subject-related cost (see section 4.3.5.15) to avoid double-counting of costs between institutions and inconsistency with where students are registered.
4.3.5.10	The costs of teaching-related activity done for other organisations, not fundable through an institution's own FC income, should be excluded from FC-fundable costs if they are material. This might include collaborative work done for other institutions (e.g. validation).
4.3.5.11	The payments made for bursaries, scholarships and hardship funding for PFT students should be allocated between FC-fundable and non-FC fundable provision. Care should be taken to identify the total cost of bursaries, scholarships and hardship funding as these can be coded within the financial ledgers to a combination of central and local account codes. In allocating bursary costs it is good practice to reflect actual amounts for different types of student (FC-fundable, non-FC fundable). If this is difficult to establish, the total can be apportioned on the basis of student FTEs (similar to the way that student FTEs can be used to attribute costs between PFT and NPFT). This could be done at an institutional level, if the information is not held at academic department level. Note: care needs to be taken when considering bursaries that include elements of fee waivers or fee reductions. Annual TRAC and TRAC(T) follow the accounting treatment for these items and do not override those treatments. It is expected that these items appear as reductions to income in the financial statements and should therefore not be part of an adjustment to costs in TRAC(T).

Calculating the subject-related costs

The costs of subject-related activity take account of two principal factors that determine and differentiate the costs of teaching – subjects and volume (student numbers). Funding Councils use the subject-related costs to inform their core teaching funding method. In order to accurately do this, having removed from the Teaching Cost those costs relating to non-publicly funded students (4.3.5.3 to 4.3.5.6) and the costs relating to provision funded by non-Funding Council sources (4.3.5.7 to 4.3.5.11), the next stage is to remove the non-subject-related costs.

The FC-fundable provision costs calculated in sub-sections 4.3.5.7 to 4.3.5.11 are further analysed to split out and remove the costs of some non-subject related activities. This generates the subject-related costs of FC-fundable provision.

4.3.5.12	Subject-related costs are derived by ensuring that the differential costs of specified non-subject related activities are removed from the costs of Funding Council-fundable provision in every academic department to which they apply. These non-subject-related costs need to be allocated to relevant students to ensure that they are removed from the correct academic department/cost centre. The specific activities for which the associated costs are to be removed are: • student-related (e.g. widening participation and disabilities, bursaries, part-time provision); • provision-related (e.g. sandwich year-out, accelerated and intensive provision); • institution-related (e.g. small institutions, specialist institutions, London institutions, specific initiatives). The costs of all other non-subject related activities are not removed and therefore remain as part of the subject-related costs. These are: non-completion; postgraduate taught courses; flexible learning; employer engagement; and partnership.
4.3.5.13	Bursaries, hardship payments and scholarships relating to Funding Council-fundable taught students are removed from FC-fundable costs using actual expenditure/charges to the income and expenditure account. They are excluded from subject-related costs as they are awarded to students to support their living costs. As these costs are a matter of record in institutions, the actual costs of these non-subject related activities are removed when arriving at subject-related costs.
4.3.5.14	The Funding Council funding received should be used as a proxy for costs for all other specified non-subject related activities (use data provided by the Funding Councils). The funding data provided should be used for excluding some non-subject-related costs of Funding Council-fundable provision, even if an institution believes it can provide a better estimate of its costs in a particular area. This is to enable consistent and comparable data at a sector level and only removes costs

	for non-subject related activities that are funded by the Funding Councils. If the targeted FC funding allocations which support the particular non-subject related activities exceed the actual costs of undertaking the activity (where this is known by the institution) then the balance of the funding should be deducted from the costs in all academic departments, rather than just the departments in which the activity takes place. If the actual non-subject-related costs (where known) exceed the funding received, the actual funding received should still be used as the figure to remove the non-subject-related costs from the Funding Council-fundable cost pool in deriving the subject-related costs.
4.3.5.15	There are some instances where institutions may need to make an adjustment to the Funding Council funding data in determining the proxy for the costs of some of the non-subject related activities. The following points should be applied: • institutions with funding for 'London whole institutions' should allocate their FC funding (as a proxy for costs) between Teaching, Research and Other according to the purpose for which it is provided; • three institutions – the Institute of Cancer Research, the Institute of Education and the University of London – have portfolios of activity that mean they should assume that some of the costs of these non-subject-related activities are in Research as well as Teaching; • institutions with collaborative awards should show their respective proportions of the funding (as a proxy for the costs); • where an institution provides teaching under a Strategic Alliance Partnership but the students are registered in another institution, the costs of teaching those students should be excluded from subject-related costs (i.e. the institution's subject-related costs should relate to the costs of teaching the students registered at their institution); • where an institution has co-funded employer engagement provision, institutions should exclude the costs of this activity from subject-related costs as the co-funded employer engagement students are reported as non-fundable in student returns. The funding for co-funded employer engagement is provided in the Funding Council funding data. However if institutions have already excluded the costs of this activity as non-Funding Council-fundable PFT in their costing model, then an adjustment may be made to the figure used for non-subject-related costs (i.e. deduct the value of co-funded employer engagement funding from the value to be used for non-subject-related costs); • where some of the income received by an institution for a specific project or activity has not been spent, and is being carried forward to a subsequent year, or is being capitalised the proxy amount should be reduced by the amount that is unspent/carried forward/capitalised;

	• where some funding has been brought forward from a previous year and is now being spent, this funding should be added to the costs to be excluded; • funding that an institution has passed to another institution should not be included in the amount removed from the institution's subject-related costs. Where the institution has received some funding from another institution, this should be included in the amount deducted from its subject-related costs. For some of the funding streams included in annex 4.3 c and d, some institutions may have a claw-back of repayable grant. Any repayments that relate to grants allocated in a previous financial year will have been excluded from the data provided to the institution. They will also have been excluded from the calculation of the funding proxy figures to use for non-subject-related costs. Only repayments which relate to the current reporting year have been included in the calculation of the funding proxy figures to be used for non-subject-related costs. HEIs should consider any areas where they have repayable Funding Council grants and review the data provided in annex 4.3 c and d.
4.3.5.16	The non-subject-related costs deducted using funding as a proxy and actual costs of bursaries (see 4.3.5.13) should not be altered where there is investment in a cost centre which does not yet provide teaching. If there are students in that cost centre already then the costs should be included in that cost centre. If there are no students in that cost centre then the costs should be spread across all cost centres containing students.
4.3.5.17	The costs of each non-subject related activity is part of the total FC-fundable costs in each academic department or HESA academic cost centre. The amount that is in each academic department will vary depending on the type and volume of activity carried out in each academic department. The differential costs of each activity should be deducted from each academic department or HESA academic cost centre (not at an institutional level) (see sub-sections 4.3.5.18 and 4.3.5.19). The cost drivers used to determine the costs of non-subject related activity in each cost centre, should reflect the particular characteristics and cost profile of that activity. For example: • the FTE foundation degree students in each academic department should drive the allocation of the FC funding, and therefore the differential costs of foundation degrees to be excluded from different academic departments; • the number of part-time students (headcount or FTE) should drive the allocation of PT costs; • the FTE number of sandwich year-out students should drive the allocation of sandwich year-out costs. Sandwich year-out students and related costs should be excluded from the FC-fundable student FTEs. Note: This step is not relevant to HEIs in Scotland; the value of pay and estates costs should drive the allocation of the funding relating to new-regime students attending courses in London.

Mapping subject-related costs to HESA cost centres

The subject-related costs at academic department level are mapped to the HESA cost centres to enable the final step, which is the calculation of the Subject-FACTS.

4.3.5.18	The subject-related costs of Funding Council-fundable provision in academic departments are mapped onto HESA academic cost centres. An example of how to do this is included in workbook 4.3a (see section 4.3.7). Institutions may map their costs at a higher level (e.g. Funding Council-fundable teaching or Publicly Funded Teaching) and disaggregate the costs across cost centres as they proceed through 4.3.5.3 to 4.3.5.17. Regardless of the order in which this is done, the mapping should reflect the staff teaching the students returned under each HESA academic cost centre. Mapping for TRAC(T) is unlikely to require any significant new work where institutions already meet HESA requirements for reporting staff, students and academic department costs consistently in HESA academic cost centres. Where an academic department's costs need allocating to more than one cost centre the costs should be allocated according to the type of cost, and institutions should give consideration to the following: • splitting the costs of academic staff according to student numbers, subject to a head of department (academic department) review and consideration of appropriate weightings; • weighting non-staff costs and Support staff costs towards the resource-intensive provision, informed by a head of department (academic department) view; • weighting estates costs to reflect smaller group sizes and higher estates costs in the laboratory and studio based subjects; • allocating central services costs using student numbers as the driver. It is not good practice to allocate the academic department costs across more than one cost centre using student numbers. Where students in a HESA academic cost centre are currently funded through more than one price group / subject group it is good practice to calculate a separate Subject-FACTS figure for each group of students in that HESA academic cost centre. For example, provision in clinical medicine (HESA academic cost centre 101) is funded at two price groups / subject groups depending on whether it its clinical or pre-clinical. In some cost centres, costs and student numbers can be reported under two sub-cost centres. There are several ways that this could be done: • the head of the department or resources manager may be able to suggest a weighting based on the relative curriculum or staff workload of a sample of programmes for the two subjects. This information could be used to weight

the student numbers when allocating the academic staff and other costs incurred by the department itself. Estates costs could be allocated pro rata to the number of students, unless one subject is known to use higher-cost space. Central services costs could be allocated pro rata to other allocated expenditure;

- using course costing information.

Where HEIs are unable to use one of these methods then they should just enter their costs and student numbers against the total line for that cost centre.

For HEIs in Scotland there are four HESA cost centres (103, 109, 131 and 135) where different information is required to that required from HEIs in England and Northern Ireland.

- for **Nursing and Allied Health Professions (103)**, HEIs in Scotland are asked to report costs and students split between those associated with students studying for professional qualifications and those associated with other students. It is the nursing and midwifery pre-registration provision which is reported under the professional qualifications sub-heading. In England; these activities are funded by the Department of Health and so are non-FC-fundable and hence not reported in section B of the TRAC(T) return. In Northern Ireland, these activities are funded by the Department of Health, Social Services and Public Safety (DHSSPS) and so are non-FC-fundable and hence not reported in section B of the TRAC(T) return. HEIs in Scotland should report their other activity in the Nursing and Allied Health Professions cost centre against Price group C.
- for **Veterinary Science (109), Social Work and Social Policy (131)**, HEIs in England may report subject-FACTS for each of the price groups. In Scotland, these two cost centres are not funded through more than one subject group. HEIs in Scotland should report their costs and students on a single line for these cost centres.
- for **Education (135)**, HEIs in England may report subject-FACTS against price groups C and D. HEIs in Scotland are asked to report costs and students split between those associated with students studying for professional qualifications and those associated with other students. Teacher training provision should be reported under the professional qualifications sub-heading. In England, these activities are funded by the National College for Teaching and Leadership and so are non-FC-fundable and hence not reported in section B of the TRAC(T) return. In Northern Ireland, the initial teacher training provision is funded by the Department of Education and Learning, but in addition to the main teaching grant allocations and so it is reported as non-FC-fundable and not reported in section B of the TRAC(T) return. HEIs in Scotland should report their other activity in the Education cost centre against Price group C.

4.3.5.19	The following is a narrative explanation of the detailed example provided in annex 4.3e: Each academic department should be mapped onto the HESA academic cost centre(s) where the staff who have been delivering the teaching, and their students, have been allocated for the HESA staff and student returns. The costs of each academic department should be attributed to the cost centres where its staff have been allocated, in a way that reflects the teaching load of those staff. The students taught by those staff can give a reasonable reflection of this load, and student numbers returned for an academic department to HESA can be used as the cost driver when allocating that department's costs between cost centres.
4.3.5.20	To assist with mapping costs to HESA academic cost centres it is good practice to: • Identify the students taught by the staff in each academic department. This may mean a re-creation or analysis of the data used to make the HESA return, to identify the staff and therefore academic department(s) that teach each module, and summarising these into a report that gives Funding Council fundable (and other) students taught by each academic department. • Review any staff database used to allocate staff time to HESA academic cost centres, particularly if that is then used to drive the costs, to ensure that it adequately reflects current staff effort.

Calculating Subject-FACTS

Subject-FACTS are the full average cost of teaching a Funding Council-fundable student at the HESA cost centre level. These are a calculation, determined by the subject-related cost at the cost centre level, calculated at stages 4.3.5.12 to 4.3.5.17, and the student FTE numbers at the cost centre level.

4.3.5.21	Subject-FACTS are calculated by dividing the subject-related costs of Funding Council-fundable provision in each HESA academic cost centre by the Funding Council-fundable FTE numbers.
4.3.5.22	The student FTE data pre-populated on the institutional template are taken from the HEI's student data return submitted to HESA. Using this extract enables the institution to obtain its student FTE data in advance of the pre-populated template being released. This can enable earlier preparation of the TRAC(T) return, which some institutions have found helpful in creating efficiencies and checking the annual TRAC return for robustness. These include undergraduate, postgraduate taught, full-time and part-time Funding Council-fundable students. For HEIs in England these numbers however exclude all sandwich year-out students. Sandwich year-out teaching is defined as a non-subject related activity and the costs of these students are (exceptionally) excluded from Subject-FACTS

	in their entirety, rather than just the differential costs arising from the sandwich year-out experience.
4.3.5.23	Annex 4.3e provides a worked example of the calculation of Subject-FACTS for four illustrative academic departments.

Validating and submitting the TRAC(T) return

The return should be submitted by the last working day of February each year for the previous academic year's data.

4.3.5.24	When the institution has confirmed completion by performing the reasonableness checks outlined in chapter 2 which are relevant to TRAC(T), together with checks detailed below, the TRAC(T) return should be submitted through the HEFCE extranet. Once the file has successfully uploaded the sign-off sheet will appear. The TRAC(T) return can then be printed off and the declaration sheet signed by the Head of Institution and scanned as a signed PDF ready for submission to the Funding Council. *Example reasonableness checks:* The reasonableness tests that could be carried out on TRAC(T) data are listed below. 1. Compare Subject-FACTS in each HESA academic cost centre (or the costs per student in each academic department) with the costs per NPFT student, and the costs per non-Funding Council fundable student (taking into account the inclusion or exclusion of non-subject-related costs as appropriate). 2. Compare cost relativities with the Funding Council price group relativities. 3. Compare with the total subject-related funding (grant plus fees) per student in each academic department (or HESA academic cost centre). 4. Look at the ratio of academic staff / departmental support costs / central services / estates in each academic department or cost centre – if these are very different between subjects then try to ascertain why. 5. Compare with prior years.
4.3.5.25	Upload the individualised TRAC(T) return template and accompanying commentary documents through the HEFCE extranet[34]. The TRAC Manager must retain copies of the submission documents and receipt of these to satisfy assurance arrangements.
4.3.5.26	Once uploaded, the results file must be checked for validation errors. If errors are generated, the TRAC(T) return should be corrected and uploaded again.
4.3.5.27	Once the Funding Council has circulated the benchmarking data, the TRAC

[34] https://data.hefce.ac.uk

	Manager and TRAC Oversight group should review the output data, and review the Subject-FACTS against peer institutions / sector data. This should conclude whether the institution's data outliers appear reasonable. (Chapter 2 provides guidance around reasonableness checking.) If errors are identified at this stage, the TRAC(T) return must be corrected and uploaded again.

4.3.6 What could go wrong? Common areas of non-compliance

Summarised below are the more common areas where things could go wrong and/or lead to non-compliance with the TRAC requirements:

What could go wrong / areas of non-compliance
• Not reviewing the NPFT students to ensure they are robust at academic department level to use as a cost driver.
• Not allocating the cost of teaching NPFT where NPFT is material for each academic department.
• Not removing the appropriate costs of PFT provision that are funded by a source other than the Funding Councils at academic department level.
• Not mapping the subject-related costs onto HESA cost centres, or mapping them using inappropriate cost drivers.
• TRAC(T) does not reconcile to the costs in the consolidated financial statements.
• Not reviewing and addressing the validation queries.
• Submitting return documents too late in the submission window to allow for validation queries to be addressed.
• The TRAC Oversight Group does not review the results of reasonableness checks undertaken on the TRAC(T) return prior to submission.

4.3.7 Annexes and external links

Reference	Document title
4.3a	TRAC(T) return template
4.3b	HESA Academic Cost Centres
4.3c	TRAC(T) Funding for non-subject related activities – HEFCE and DELNI
4.3d	TRAC(T) Funding for non-subject related activities – SFC
4.3e	TRAC(T) Removal of non-subject-related costs (worked example)

Annexes are located on the following web page: www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/

4.3.8 Associated good practice and other relevant reference material

HEFCE web facility:

- www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/use/

5 Calculation of research project costs

Chapter 5 contains one section:

Section		Page
5.1	Calculation of research project costs	118

5.1 Calculation of research project costs

5.1.1 Introduction

The research charge-out rates calculated by the Transparent Approach to Costing (TRAC) process are accepted by the UK Research Councils for use in cost-based grant applications. By including these rates, the full economic cost (fEC) of a research project can be determined – i.e. including the full direct costs, indirect and estates costs, and the TRAC sustainability adjustments. Whilst this section focuses on the calculation of project costs for Research Council purposes, institutions should use this methodology for determining project costs for all research sponsors – recognising that accepted and detailed rules on pricing and eligible costs vary by funder / sponsor. The principle for this is that it illustrates the full economic cost of undertaking a research project. This provides an informed basis for agreeing the price with research sponsors that do not fund the research they commission on an fEC basis, and for pricing projects contracted by private / commercial business or other sponsors. It is important for institutions to understand the basis of the rate calculations described in sections 3.2 to 4.2 to ensure correct application of the charge-out rates.

Comprehensive rules and procedures about how institutions should apply costs to research applications are provided by each of the UK Research Councils (RCUK) particularly through the Joint Electronic Submission (Je-S)[35] system, and by other sponsors in their respective guidance. The guidance provided in this chapter seeks to complement the RCUK information by clarifying the distinction between Directly Incurred (DI) costs and Directly Allocated (DA) costs, and providing details on the methods used to charge costs to research projects that are funded using TRAC fEC principles, with the primary focus on grant applications submitted to RCUK.

For Research Council funded projects, the method for estimating the amount of resource needed is described in the 'justification of resources' section on the project application form and is assessed by Research Council peer review.

Quality assurance of the recording and reporting of project costs is undertaken by the RCUK Funding Assurance Process.

The requirements in this chapter are applicable to all institutions, including those eligible for and claiming dispensation. For institutions claiming dispensation, the indirect and estates cost rates to be applied are the dispensation rates published annually by RCUK. Research facility and laboratory technician infrastructure rates are not applicable to institutions claiming dispensation.

5.1.2 The aim – What are we trying to achieve from application of rates?

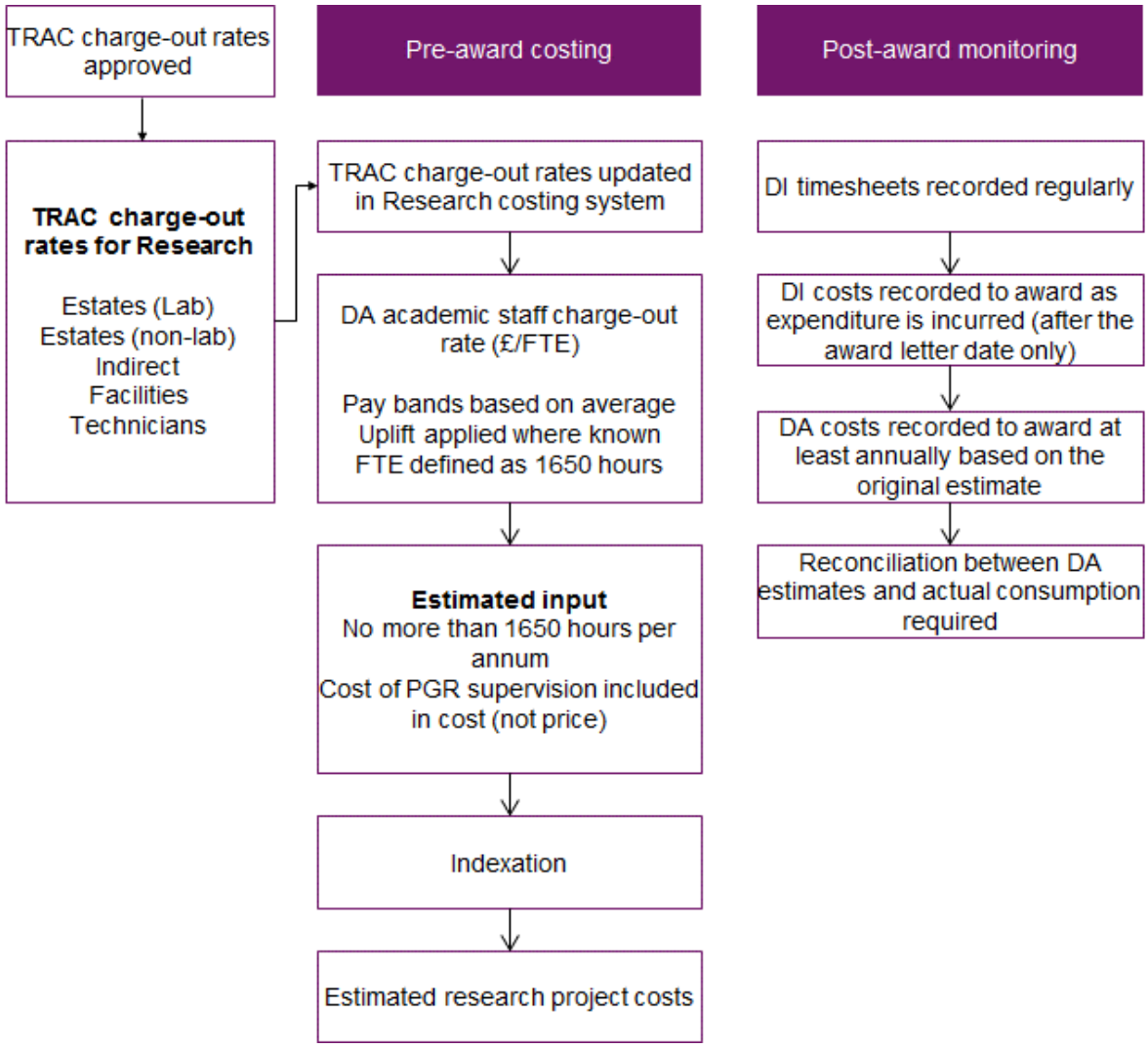
To ensure that the difference between the cost and price of a research project is clear, and to provide guidance on how to produce robust project costings for research projects.

[35] https://je-s.rcuk.ac.uk/

5.1.3 Process workflow

Figure 5.1 illustrates how to apply Directly Incurred (DI) and Directly Allocated (DA) project costs:

Figure 5.1: Calculation of research project costs



5.1.4 The requirements

5.1.4.1	Institutions should establish procedures for guiding academics in estimating DA research project costs and completing cost-based grant applications.
5.1.4.2	Institutions should have robust processes to ensure that DA and indirect cost charge-out rates are applied to projects correctly, using the right unit of consumption (days, hours, etc.).
5.1.4.3	In calculating charge-out rates for academic staff time, there should be adequate control procedures to ensure that staff are classified against the appropriate scale and band and that employment costs (including on costs) are updated correctly.
5.1.4.4	Institutions should ensure that no more than 1650 hours are charged to Research Council projects, by each academic or researcher in each year.
5.1.4.5	Staff record separately the academic staff time spent on supervising and training postgraduate research students (PGRs) when the PGRs are working on projects.

The requirements above apply to all institutions, including those that are claiming dispensation.

5.1.5 Process

This sub-section provides a guide for the application of Directly Incurred (DI) and Directly Allocated (DA) charge-out rates to research projects. The Research Councils also provide guidance on estimating project costs on the Je-S system[36]. Institutions may find it helpful to refer to this system alongside this guidance.

Directly Incurred and Directly Allocated

5.1.5.1	Identify costs to be charged as Directly Incurred or Directly Allocated. (Costs can only be charged as either Directly Incurred (DI) or Directly Allocated (DA). No cost should be classified as both DI and DA. There may be instances where components of cost are split out to DI and DA (e.g. parts of a research facility), but where this is the case clear records should be held to provide evidence for the basis of the split.) Research Facilities and Laboratory Technicians can be classified as either Directly Incurred or Directly Allocated, but cannot be classified as both. Different parts of a resource (e.g. different parts of a research facility) can be classified differently, but the distinction should be clear. A research facility can be moved from DA to DI. Where this happens, new projects (bids not yet finalised) are charged with DI costs, and existing projects (bids agreed) continue to be charged as DA.

[36] https://je-s.rcuk.ac.uk/

Calculating Directly Allocated academic staff charge-out rates

5.1.5.2	When calculating charge-out rates for academic staff to be 'Directly Allocated' to projects, the process followed should be robustly calculated for every individual, or for pay groups or bands, or a combination. Within the calculation, the salaries or pay bands should include on-costs, allowances, honoraria and fees paid in lieu of salary, but they should exclude payments that relate solely to clinical work[37] or academic paid overtime.
5.1.5.3	The charge-out rates on Research Council funded projects are costed on current staff pay scales adjusted to include average increments for the whole project, but with no indexation to start date. Any likely increases related to pay rises are included. Promotions and performance related pay are included where they are reasonably certain (not 'just in case'). An uplift can be included (when appropriate) to reflect a proportion of additional payments incurred as a result of advancement on an incremental scale.
5.1.5.4	Pay bands are based on the average pay for appropriate staff and are recalculated at least every three years. If pay groups are used, these are described in a way that they will be consistently applied.
5.1.5.5	The annual salary costs are divided by 1650 hours when calculating hourly rates, and 220 days when calculating daily rates.

Application of Directly Allocated academic staff charge-out rates

5.1.5.6	Academic staff time and academic staff charge-out rates are applied robustly to estimate project costs in preparing the research proposal. Reviews are undertaken to ensure that fair and reasonable techniques are used to estimate the time likely to be required.
5.1.5.7	There are instructions in place for Principal Investigators and staff completing the project costings and/or the methods they should use to ensure that the correct charge-out rates are applied to each academic's time. Similar procedures may need to be documented for any central teams with responsibility for overseeing project costings. The academic's name should be specified and account taken of their: • grade; • eligibility (i.e. they are not wholly funded under another research project or fellowship, nor staff for whom there is no cost in the institution's records, but clinical academics whose costs are partially or wholly reimbursed can be included).

[37] E.g. merit awards/clinical excellence awards.

5.1.5.8	The charging processes should ensure that: • The latest rates are applied to project costings once they are available, but not before the salary scales apply. This is typically achieved by either using a dedicated costing system with controlled access or through annually updated spreadsheet based systems. The institution should have a version control system in place for its cost rates. • Staff record separately the academic staff time spent on supervising and training postgraduate research students when the latter are working on projects. • Estimates of staff time are either made in units (e.g. hours or days) that are the same as the charge-out rates, or are converted correctly. • No more than 1650 hours are being charged to Research Council projects, by each academic or researcher in each year[38]. This means that a record of commitments is maintained for at least the most research-intensive staff).
5.1.5.9	There are processes in place that: • highlight cases where the estimated resource for the project proposal exceeds the time available for the academic staff member, after taking account of other commitments; • ensure that Principal Investigators are in a position to confirm or otherwise, that, broadly[39], the amount of time estimated at the start of the project has been spent by the staff on the project.

Application of Directly Allocated and indirect charge-out rates

5.1.5.10	The training, support and instructions provided to Principal Investigators and other staff preparing project costs and/or the methods they should use ensure that the rates: • are the correct institutional rates; • relate to the right time period (i.e. are updated no earlier than 1 February of each year); • are indexed correctly: – indirect cost rates, estates rates and infrastructure laboratory technician rates that are used to calculate charges on Research Council projects incorporate two years' indexation calculated in accordance with the guidance

[38] If more than 1650 hours might be charged to projects for any one individual in a year, the institution investigates the case, and if there are no mitigating circumstances the Research Councils are not charged more than 1650 hours. (The work is still carried out.)

[39] 'Broadly' in this context means cumulative over the project so far, with reasonable assumptions as to future work on the project, and plus or minus 20%.

	given in sub-section 3.1.5.28; – Directly Incurred and Directly Allocated pool laboratory technician, research facility and staff rates are at current price levels for Research Council funded projects, but those submitted to other sponsors are typically indexed to derive Year 1 costs; – all costs are then further indexed to derive the costs for each subsequent year of the project.
5.1.5.11	The charge-out rates are based on full time equivalent research staff numbers and are applied to: • the same type of staff as are included in the denominator when calculating the indirect cost, estates, and laboratory technician infrastructure rates; • postgraduate research student numbers that are weighted (by 0.2 for inclusion in the indirect cost rate, 0.8 for the laboratory estates rate and laboratory technicians infrastructure rate, and 0.5 for the non-laboratory estates rate); • appropriate staff, irrespective of whether their institution is leading the project. Charge-out rates are not applied to any researcher or academic whose time has been wholly (100%) charged to another single fellowship or research project funded by the Research Councils, Charities or Other Government Departments.
5.1.5.12	Facility rates that are based on units of consumption, output or process (e.g. hours, runs) are applied to the right output type or process type. It is clear which facilities are Directly Incurred (charged on actual usage) and which are Directly Allocated (charged on estimated usage).
5.1.5.13	Laboratory technician pool charge-out rates are applied to pool technician estimates based on the same unit of time. There are instructions to ensure that these estimates do not include any time of staff that is being charged as a Directly Incurred cost or that is considered to cover infrastructure activity.
5.1.5.14	The difference between costing and pricing is clear. E.g. project costs determined on a TRAC-fEC basis include the costs of supervising and training a PGR student who is a member of the project team (the costs include maintenance / stipends / academic time and indirect / estates costs) but funding from the Research Councils comprises only stipends and fees.
5.1.5.15	Rates applied to projects do not change during the life of the project. However, they are reviewed and updated (for latest estimates) if there is a substantial change to the programme of work; or if they apply to rolling programmes more than three years in length (for example) with a mid-term scientific review.

Charging Directly Incurred and other costs to research projects

5.1.5.16	Directly Incurred costs are charged to projects based on actual cost. Directly Allocated costs cover academic staff costs, indirect costs and estates costs. They are charged to projects on the basis of estimates, and do not change over the life of the project (subject only to major reviews or mid-term reviews on projects of more than three years duration).
5.1.5.17	Staff who are charged as Directly Incurred complete timesheets unless they are 100% charged onto one project or are postgraduate research students: The timesheets are monthly, and for each month that the member of staff works on the project should be completed: • within two months of period end; • by the individual and signed by their manager. Time is recorded against a minimum number of activity categories: • each research council project (separately); • all other Research activity/Teaching /Other; • support (if applicable). Actual productive hours are recorded, adding to the total of actual productive hours worked for each member of staff covered by the time allocation process. (This is unlikely to equal 1650 per annum. However, 1650 is still used to calculate the charge-out rate per hour, or full time equivalent).
5.1.5.18	Directly Incurred costs (apart from laboratory technicians and research facilities) could include: • consumables, travel and subsistence, survey fees, equipment maintenance, purchase of animals; • directly incurred costs from other institutions working collaboratively on a project; • maternity or paternity pay, or sick pay of research assistants incurred post-award. But should not include: • maternity or paternity pay or sick pay for academics; • redundancy pay; • costs of staff providing cover for academics carrying out research; • costs of disseminating project's findings; • a contingency. Where a research fellow or research assistant is working on a project but 100% of their time has already been included in another single fellowship or externally

	funded research project, then no time or cost should be allocated to the new project.
5.1.5.19	The cost of supervising postgraduate research students should not be part of the cost-based price for Research Council projects. Where postgraduate research costs are charged to projects these are shown separately and include: • the time of the supervisor in postgraduate research training and development (including the time of internal and external examiners, co-supervisors etc.); • indirect and estates costs associated with the supervisor's time; • indirect and estates costs associated with the postgraduate researchers themselves (using the weightings provided at sub-section 3.1.5.27); • any direct costs incurred by the institution on behalf of postgraduate research students (travel and subsistence, consumables not included in the research project costs, stipends) excluding PGR tuition fee waivers or reductions in tuition fees as these are not costs (they are income or a reduction in income).
5.1.5.20	When costing a project for Research Councils to be funded on an full economic cost basis: • A realistic estimate of the start date is made. • There must be a realistic profiling of costs. • Pay increments for research assistants are included. • The full economic cost, proposed funding from sponsor, and sustainability margin / sustainability gap are calculated. • No over-costing, discounts or subsidies are built into the proposed funding – they are based on full economic cost. Negotiations with Research Councils are restricted to the type and level of resources.
5.1.5.21	Costs incurred on a project post-award are recorded and audit trails are retained. Directly Incurred costs are recorded as expenditure is incurred (after the date of the award letter). Directly Allocated and indirect costs are recorded on original estimate, at least annually.

5.1.6 What could go wrong? Common areas of non-compliance

Summarised below are the more common areas where things could go wrong and/or lead to non-compliance with the TRAC requirements:

What could go wrong / areas of non-compliance
• Redundancy and severance payments are incorrectly excluded in the indirect cost rates, and included from the salary charge-out rates.
• Underestimating the time required to deliver cost-based projects, as this can have an impact on the recovery of cost against projects and therefore research activity at institution level.

5.1.7 Annexes

None specified for section 5.1.

5.1.8 Associated good practice and other relevant reference material

Research Council Je-S system guidance: https://je-s.rcuk.ac.uk/

6 Glossary of terms

Chapter 6 contains one section:

Section		Page
6.1	Glossary of terms	128

6.1 Glossary of terms

Reference	Definition
Academic department	In the context of TRAC guidance this refers to an academic management unit. The costs of academic departments are assumed to include an allocation of central service costs, estates costs and sustainability adjustments unless the context clearly says otherwise. This management unit might actually be a department, school, group of departments with similar patterns of activities, institutional cost centre, subject area, or 'intermediary operating centre'. Depending on the costs being allocated, it might include research units or trading units.
Academic Full Time Equivalent (staff)	The full time equivalent of academic staff time. Where used as the denominator in the indirect and estate rates calculations, the Research FTE value is calculated as: • the proportion of academic staff FTE spent on research (using the percentage research time of academic staff) ; • the staff FTE dedicated to research (research assistants and fellows) • a proportion of the postgraduate research student number.
Access charges	A fee charged by the host facility to an external user when accessing the facility.
Annual TRAC	Submission of an Annual Transparent Approach to Costing (TRAC) return is a requirement for all UK HEIs in receipt of grant funding from the UK HE funding bodies.
Assets in the course of construction	The cost of purchasing, constructing and installing tangible fixed assets ahead of their productive use.
Associate	Defined in Financial Reporting Standard 9 as an entity (other than a subsidiary) in which the reporting entity holds an interest (usually between 20% and 50%) on a long term basis and over whose operating and financial policies the reporting entity exercises a significant influence (through an understanding or agreement, formal or informal).
Assurance providers	This is a term that refers to an independent organisation (including in-house internal audit functions) that audits or reviews the TRAC model for compliance with TRAC requirements. Assurance providers typically include internal audit, external audit, a professional firm with relevant expertise, RCUK, and Funding Councils' assurance teams.
Audit trail	This refers to the document or sequence of documents that evidences

	the calculations and/or data that support a particular result / number used in the TRAC model. The term is typically used alongside 'source data'. The principle is that the audit trail is the evidence that substantiates the numbers used in the TRAC model.
Below the line	The income and expenditure reported under TRAC are the items that are reported in the 'Surplus / (Deficit) on Continuing Operations After Depreciation of Fixed Assets at Cost and Disposal of Assets but Before Tax' in the consolidated financial statements (plus the TRAC sustainability adjustments). Three items are partly or wholly reported 'below' this surplus line total: • share of associates' operating results' (joint ventures); • minority interests; • transfers to/from accumulated income within specific endowments.
Building Component	When an asset which comprises two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its individual useful economic life.
Bursaries	Payments granted to taught students, comprising bursaries, scholarships and hardship funding, provided for whatever reason.
Central service department	A unit within the non-academic structure. These areas are referred to in various ways, e.g. as administrative services, professional support functions, support directorates.
Committee of the Governing Body	A formal Committee of the Governing Body that will have lay membership. More often than not it is chaired by a member of the Governing Body.
Cost drivers	Cost drivers are used for allocating those costs that cannot be directly allocated to a department and/or an activity category.
Cost pools	Costs in any one pool are attributed using the same cost driver. A cost pool may relate to an activity, or a support cost.
Direct attribution	This refers to the allocation of a cost directly to a department and TRAC activity without needing to use cost drivers.
Direct cost	This is a cost that is only incurred as a result of undertaking a particular activity and can be wholly attributed to that activity.
DA (Directly Allocated)	Charged to a project based on estimated expenditure for project related costs, typically including Project Investigator, Estates, Infrastructure Technicians and Research Facilities.

DI (Directly Incurred)	Charged to a project based on actual expenditure for project specific costs.
Discipline group	This is one of the cost groupings required under the annual TRAC process. The subject types are: • clinical subjects; • laboratory-based subjects – including studio, fieldwork, laboratory; • non-laboratory subjects – also called classroom-based or generic subjects.
Dispensation	In TRAC terms, removing the need to satisfy certain TRAC requirements robustly. Further detail is provided in 2.1.4.4.
EC	European Commission.
Endowment	Transfers from or to reserves below the line that relate to restricted or unrestricted donations.
EMR	Estates Management Return as collected by the Higher Education Statistics Agency.
Exceptional item	Exceptional items (defined by Financial Reporting Standard 3) that appear on a separate line below the operating surplus/deficit in the consolidated financial statements are not included in TRAC costs or income. Where the word 'exceptional' appears in one of the expenditure headings that is above the operating surplus/deficit line, these costs are included in the TRAC analysis as they are not exceptional costs as defined by FRS3.
EU	European Union.
Financial year	In a higher education context the financial year is the accounting period 1 August to 31 July. It is also referred to as the academic year.
Franchised-out	Where students are registered in a higher education institution but are (wholly or partially) taught by staff in another institution (of further or higher education) these students are defined in the registering higher education institution as franchised-out.
FRS	Financial Reporting Standards. (www.icaew.com /en /library/subject-gateways /accounting-standards /uk-frs)
FSSG	Financial Sustainability Strategy Group.
FSR	Finance Statistics Return as collected by the Higher Education Statistics Agency.

Funding Councils or FCs	The Higher Education Funding Council for England; The Higher Education Funding Council for Wales; The Scottish Funding Council; and The Department for Employment and Learning of Northern Ireland (referred to as a Funding Council in this guidance for ease of reference).
full Economic Cost or fEC	This term refers to the inclusion of the sustainability adjustments (detailed in 3.2) with the expenditure reported in the consolidated financial statements. The fEC principle should be applied to the costing of research grant proposals. The Research Councils pay a fixed percentage (80% for most fund headings) of the fEC, which includes an attribution of the cost of academic staff time, and the institution's facilities, estates and indirect costs. It is important for institutions to understand the full costs of the research they carry out on a sustainable basis, recognising the need for appropriate investment in research infrastructure, including buildings, facilities and staff.
FTE	Full Time Equivalent.
Funding Council fundable provision	Publicly funded teaching (PFT) provision that is eligible for funding in the Funding Councils' teaching funding methods.
Group Key	Access code obtained from HEFCE (on behalf of all Funding Councils) for obtaining the Annual TRAC return template.
HE	Higher education.
HEI	Higher education institution. In this context this means a university or higher education college funded by a Funding Council.
HESA	Higher Education Statistics Agency. HESA collects a range of data every year UK-wide from universities, higher education colleges and other differently funded providers of higher education. These data are then provided to UK governments and higher education funding bodies to support their work in regulating and funding higher education providers. www.hesa.ac.uk
HESA academic cost centres	Cost centres are used to return staff, finance and student numbers to HESA.
HESA data	Annual statistical returns including Staff, Student, Estates Management and FSR.
Historic buildings	Buildings constructed before 1914.

HESES	Higher Education Students Early Statistics Survey. This is an annual survey of higher education institutions about students on recognised higher education courses. www.hefce.ac.uk/data/datacollection/heses/
Indirect costs	Charged to a project based on estimated expenditure for non-project specific costs.
In-year	This is a term used in relation to the time allocation survey. It is referring to a method of time allocation whereby a minimum of three returns are received from individual academic staff during a year to identify how they have spent their time across the TRAC categories.
IRV	Insurance Replacement Value: • full loss basis including professional fees, debris removal and site clearance; • like-for-like – IRV less debris /site clearance plus foundation costs.
J-es	The Joint Electronic Submissions portal for submission of research grants applications.
Joint venture	Defined in Financial Reporting Standard 9 as an entity in which the reporting entity holds an interest on a long-term basis and which is jointly controlled by the reporting entity and one or more other ventures under a contractual arrangement.
Knock-for-knock	Institutions and teaching hospitals necessarily work very closely together. Apart from sharing premises and support services (such as laboratories), clinical staff of the institution are involved in delivering NHS services to patients, while NHS staff are involved in teaching students. Institutions and the NHS have not usually engaged in quantification and cross-charging when the staff of one perform duties for the other. The staff time involved has usually been treated as part of a 'knock-for-knock' or informal cost-sharing arrangement (though payments relating to support services are often apportioned between the parties).
Lay membership	A committee that has at least one lay, independent or co-opted member of the Governing Body.
Look back period	This term is used in the time allocation process (section 3.1). It refers to the amount of time an academic has to recall what they were doing during that period in order to complete their time allocation return.
Management	The term is used in a number of places in the guidance. Where not explicitly stated, it refers to individuals with authority and accountability that can and should provide leadership and support to enable informed decisions to be taken, where required.

Materiality	Materiality for TRAC is defined as an impact of 10% or more on the allocation of costs to the TRAC categories, Research sponsor types, Science, non-Science and Clinical activity levels, and the Research charge-out rates. Materiality is defined further at annex 1.1a.
Minority interest	Minority interest is recognised as the minority share (less than 50%) of the assets acquired and the liabilities and contingent liabilities assumed.
Net Internal Area	Net Internal Area (NIA) is the usable area within a building measured to the internal face of the perimeter walls at each floor level. NIA covers all areas which are used for a specific purpose. It does not include those parts of buildings which enable them to function.
Non-Funding Council fundable provision	All PFT provision that is not eligible for funding in the Funding Councils' teaching funding method. It is part of the provision that is returned in sub-column (c) in HESES Tables 1a, 2 and 3, that is sponsored by UK public bodies such as the Department of Health, the National College for Teaching and Leadership, local authorities. (Some provision in category (c) is NPFT, e.g. closed courses funded by commercial companies.) Provision funded by the Skills Funding Agency is also non-Funding Council fundable PFT provision. In the case of HEIs in Scotland, 'Rest of UK' (RUK) students paying deregulated fees are non-funding council fundable.
Non-subject related activities	Non-subject related activities are Teaching activities that affect the costs of Teaching other than those that relate to the subject being taught.
Non-subject-related costs	The differential costs of non-subject related activities – i.e. the costs incurred on each activity that are higher or lower than (different from) those that would otherwise have been incurred from subject-related factors alone. Funding Council-fundable costs are attributed between subject-related and non-subject-related costs.
NPFT	Non-publicly funded Teaching.
O	For TRAC, 'Other' activity category (see section 1.3 for full definitions).
OGD	Other Government Departments.
Other income generating	Activities that generate, or could potentially generate, income, but are not teaching or research.
Other Services Rendered	Costs recorded as Other Services Rendered in the consolidated financial statements/HESA.

Oversight Group	The management group that oversees the development and implementation of TRAC and approves the TRAC and fEC results annually. Of an institution's choosing, these groups can also have a wider remit that includes the oversight of financial sustainability, course costing, resource allocation etc. These are not TRAC requirements, however.
PGR	Postgraduate Research student.
PGT	Postgraduate Taught student.
PFT	Publicly Funded Teaching.
Predominant use of space	As defined by HESA for the Estates Management Return: space type determined by the most common use only.
Principal Investigator	The Principal Investigator is an individual who takes responsibility for the intellectual leadership of the research project and for the overall management of the research or other activities.
Proportional use of space	As defined by the HESA for the Estates Management Return; space type determined by the percentage of use for different activities.
QAA	Quality Assurance Agency for Higher Education. www.qaa.ac.uk
QR	Quality Related funding relating to the HEFCE research funding method.
R	For TRAC, 'Research' activity category (see section 1.3 for full definitions).
RC	Research Council.
RCUK	UK Research Councils. www.rcuk.ac.uk
Relevant assets	This term is used in describing how the Infrastructure adjustment is calculated (3.2). It refers to including only assets from the consolidated balance sheet that are buildings and components of buildings – i.e. excluding land, assets in the course of construction, equipment, fixtures and fittings and vehicles.
Registering institution	The institution at which students are enrolled, registered on the student records system and reported in data returns to the Funding Council. This term typically applies when students are enrolled at one institution, but where the delivery of the course is undertaken by another organisation (e.g. further education college).
Research intensive	Defined for TRAC purposes as the 60 institutions that receive the most grant income from RCUK. www.rcuk.ac.uk/RCUK-prod/assets /documents /documents /rcgrantspend.pdf

Restructuring costs	Voluntary retirement schemes, redundancy programmes, pension fund top-ups to reflect early retirements.
RFI	Return for Financing and Investment (see section 3.2).
S	For TRAC, 'Support' activity category (see section 1.3 for full definitions).
Source data	Refers to the original data source for a data set. This guidance typically states that different data should reconcile to source data. Institutions are required to provide an audit trail back to the source of the data, e.g., the student records system will provide source data for establishing cost drivers for allocating teaching-related costs.
Subject-FACTS	'Subject-related full average costs of teaching a student', the subject-related average annual cost of teaching a FTE funding council-fundable student in a HESA academic cost centre based on TRAC.
Subject-related costs	Subject-related costs are the costs of Teaching that are significantly affected by discipline or subject. They exclude the additional (or lower) costs incurred from non-subject related activities. See non-subject-related costs.
Subsidiary	An entity that is completely or partly owned by another entity and/or over which another entity (the reporting entity) has the ability to direct the operating and financial policies.
Support cost	This is a cost that is not incurred as a result of undertaking a single activity. It is often referred to as an overhead (see chapter 3.4).
Sustainability adjustments	Two economic adjustments applied to the TRAC model in line with the guidance in section 3.2 to represent the full economic cost of delivering core TRAC activities. These adjustments are formulaic and are referred to as the Infrastructure Adjustment and the Return for Financing and Investment.
T	For TRAC, 'Teaching' activity category (see section 1.3 for full definitions).
TRAC	Transparent Approach to Costing.
TRAC(T)	TRAC for Teaching. Submission of a TRAC(T) return is a requirement for all UK higher education institutions in receipt of grant funding from the Funding Councils.
TRAC Manager	The individual within a higher education institution that operates the TRAC/fEC process.
Trading companies	Trading activities in commercial companies, spin-outs (subsidiaries of HEIs).

Weighted space	Space is categorised into different types to reflect its cost. Each of these space types is given a weighting for each element of estates cost. These space weightings are based on a mixture of experience, comparisons, reasonableness reviews, and meter readings.
Widening participation	Additional activities undertaken in the recruitment and support of students from disadvantaged and non-traditional backgrounds, and disabled students.