
FSSG

Financial Sustainability
Strategy Group

TRAC
DEVELOPMENT
GROUP

Supporting and understanding
financial sustainability

Management Information Portfolio

**Academic and operational efficiency:
departmental sustainability**

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EXECUTIVE SUMMARY

Introduction

The objective of departmental sustainability is to be able to identify which areas of the institution are making a sustainable return and which are not. This guide brings together the experience of institutions across the higher education sector in developing and implementing sustainable approaches to departmental financial performance.

It is important to note that the term “sustainability” and the alternative that is sometimes used, “profitability”, in this context means delivering a financial performance that makes a suitable return to cover both current operating costs and to enable investment for the future.

The information required by each Institution will need to be clearly defined as well as both the timing and format that will best inform management.

The resources that can be devoted will depend on the perceived benefits expected and the immediate priorities facing the institution. However, by focusing the available resources on priority areas, some quick wins can be achieved.

Understanding departmental sustainability

When developing an approach to departmental sustainability, institutions need to have a clear understanding of what they want it to achieve. Departmental sustainability can help institutions to:

- make better decisions;
- manage and reduce costs i.e. identify inefficiencies;
- highlight areas that need attention; and
- contribute to the financial sustainability of the organisation

Departmental sustainability is only one of several options that are available to enable long term sustainability. The topics covered by the other Management Information Projects can all contribute to management decision making and form part of a tool kit that can be used as and when required. The other guides are available from the following website:

www.hefce.ac.uk/finance/fundinghe/trac/tdg/mip.asp

Approaches to departmental sustainability

The structure and detail of information contained in the institutions accounts or finance system will influence the outputs available. If these outputs do not match the requirements of the institution, then a longer term approach may need to be adopted, starting by restructuring the chart of the accounts.

The outputs will be taken from the TRAC model wherever possible, or if the information is not available, the model adapted to provide them. It is both inefficient and risky to attempt to run two systems concurrently.

If this is not practical, then the use of estimation and cost apportionment will enable an outcome deemed to be fit for purpose to be achieved, with the methods used reviewed and approved to ensure the reasonableness of the outcomes.

The level and detail of the analysis to be provided will need to be assessed against the risk and value of the outcomes being reviewed. So consideration will need to be taken of the key business areas, both by significance of the income and of the cost pools being considered.

In developing an approach to departmental sustainability, institutions should:

- start by assessing the data that they already have;
- use the most current costs available, to ensure the results are meaningful in the context to which they are being used; and
- get support for their approach from management, academic and administrative staff.

Institutions should note that although costing is an imprecise science, if applied correctly it will give results that clearly identify those areas performing well and those in need of attention.

Using cost data effectively

When presenting cost information, institutions should consider carefully who will be using the information and what they will be using it for. In most institutions, there will be a range of users, both academic and administrative and at senior and operational levels, each of which will have their own particular needs and preferences.

When presented to users, cost information should be:

- clear, in that it is set out in as simple a way as possible, while also explaining any assumptions that have been made or any limitations to the information and its use;
- focused, by providing specific users with the information that they need, rather than providing everyone with all the information that is available;
- accessible, so that people can understand what the information is telling them. Not everyone is, or desires to be, an accountant, so institutions should try to find innovative ways of presenting data, such as dashboards, hurdle rates and other techniques.

Institutions should seek to ensure that cost information is provided in a timely manner and that it is kept up to date. They should also monitor the use of cost information. This will allow them to improve the costing approach over time and to make it more responsive to users' needs.

Implementing departmental sustainability

To get the most out of departmental sustainability requires strong leadership, a high level of senior management involvement and effective engagement with everyone involved in the process. There is a need to emphasise the implementation process and the longer term benefits and uses to

management, as upon first implementation the outcomes may not be as anticipated and the validity of the model could be brought into question. This is however, an inevitable response when presenting information and results that have not previously been formally identified.

Institutions can secure engagement and commitment by getting people involved, making everything accessible and easy to use, and providing appropriate training and demonstrations. Institutions may also find it useful to start small by piloting departmental sustainability in a small number of departments first such that refinements and teething problems can be resolved before rolling it out across the institution.

Institutions will encounter a number of barriers to the successful implementation of departmental sustainability, such as resistance to change and lack of confidence in cost data. However, these barriers can be overcome if addressed promptly and proactively.

It is important that departmental sustainability at a fully-costed level is seen to be at a degree of accuracy that is fit for purpose. By its very nature costing systems use an element of approximation in the approach. This does not invalidate the outcomes, as although the figures are not absolute, they should be within a level of tolerance +/- that is accepted and considered as part of the decision making process.

Early consideration of the systems platform is also required. It may be prudent to develop early models in a flexible environment such as excel, before committing to a more bespoke approach e.g. to invest in one of the leading suppliers of costing software solutions in the sector.

The role of systems in relation to data availability is also important, noting what information is available and in what format as well as how to interface between the different systems being used. In the early stages, as noted above, this should be kept as simple as possible to allow for future development once the process has matured.

This guide provides examples from the sector of how institutions have developed departmental cost analysis to inform key management decisions.

Summarised below are the five things to do first when implementing departmental sustainability:

- Identify and agree what information is needed for decision making in order to support the corporate objectives
- Gain support and agreement from senior management for developing departmental sustainability
- Understand the data and information that is already available in order to identify the additional data and information that is required
- Understand the benefits vs the cost of development
- Define and agree the outputs required to inform management

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INTRODUCTION

As the HE sector becomes ever more challenged, it is essential that good quality management information is available, to enable competitive advantage and financial sustainability agenda. The various projects in the Management Information Portfolio (MIP), sponsored by the Financial Sustainability Strategy Group and the TRAC Development Group and supported by the Leadership, Governance and Management Fund, are designed to assist in developing information strategies that will help institutions in making key decisions.

These guidelines are not prescriptive, but are intended to outline good practice options that could be applied, where appropriate by Institutions wishing to do so.

One size will not fit all, with the obvious diversity of organisations and internal structures that make up the sector. They will range from teaching intensive to research intensive and include many specialist providers. This guide addresses the needs and approaches of the different institutions in the HE sector

What is departmental sustainability?

The objective of departmental sustainability is to be able to identify which areas of the institution are delivering a financial performance that provides a sustainable return and which areas are not. It enables an institution to look at discrete sections of the institution and how they are performing financially and significantly enhances an institution's capacity to make effective decisions, to manage resources and to achieve financial sustainability.

Departmental sustainability does not however, need to be complicated.

How this guide can help you

This guide brings together the experience of institutions across the higher education sector in developing and implementing approaches to understanding departmental sustainability. Whether you are a senior manager, an academic, a planner or a member of the finance team, it will help you to:

- determine what you want to achieve with departmental sustainability;
- identify the best approach for your institution;
- get the most out of your departmental sustainability data; and
- implement departmental sustainability effectively across the institution

Each Institution will need to decide what outputs they want to achieve from the process and both when and how this information will inform management decisions.

The resources that can be devoted to develop management information will depend upon the perceived benefits expected and the immediate priorities facing the institution. The level of resource and skills available could be a barrier, but this can be mitigated by planning both the level and speed of implementation. One approach that an Institution could follow would be to develop the process for one area or faculty first, or plan the project over a longer time frame with phased outputs.

This guide is not intended to give you all of the answers, and neither is the data that is being developed a replacement for good management decision making. It does however provide insights and approaches that can inform sound decision making. In doing this, we hope that you will be able to learn from their experiences and to build on their success.

About the guide

We have designed this guide to be of particular interest to finance and TRAC managers implementing departmental sustainability analysis in their institution.

It may also be of interest to anyone else involved in departmental sustainability in higher education, from Vice Chancellors and senior managers to individual academics, departmental managers and members of finance and planning staff.

We have drawn on the experiences of institutions already working on departmental sustainability to bring you a range of ideas, suggestions, examples and case studies.

A detailed case study is provided as an appendix to this guide along with examples of reports that have been produced by institutions that apply departmental analysis as part of their management tools.

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UNDERSTANDING DEPARTMENTAL SUSTAINABILITY

What do you want to achieve?

When developing an approach to departmental sustainability, institutions need to have a clear understanding of:

- Why they need the analysis
- What do they want to achieve from the analysis
- How they will use the information
- When they need the information
 - Annually (part of TRAC outputs)
 - Quarterly
 - Monthly – possibly at contribution level only
- In what form the information will best deliver the message.

It is noted that departmental sustainability is intended to provide a strategic data set and should only be produced to a timeframe when it will be useful, so producing a monthly report, for example, could be wasteful and actually damage the true benefit of the report. This is because monthly/quarterly reports are focused on controlling the operational costs of the institution, but departmental sustainability reports are about informing the future direction and thus rankings and trends are more important than absolute numbers.

Table 1 below summarises the different types of reporting and examples of data that fulfils these purposes.

Table 1 – Operational reporting data

Operational Reporting	Strategic data
Monthly management reports actual v budget	Subject area surplus/deficit trends
Cost per employer – efficiency measure	Market analysis – student growth areas
Staff to student ratios – efficiency measure	Course/Module costing

Institutions currently using or developing approaches to departmental sustainability are using it for a variety of purposes. Being clear from the start about what they want to achieve has helped them to define the information that will best inform decision making and so improve its chances of successful implementation by ensuring management buy in.

Table 2 on the following page outlines the different uses that have been made of departmental sustainability information.

Table 2 – Utilising the data

Information sets	Potential benefits
Faculty financial performance	Identify best/worst performers Share best practice Inform resource allocation Eliminate inefficiencies
Subject area financial performance	Target student recruitment Inform subject portfolio Review module options Review student costs
Research reporting	Identify surplus/deficit by research type/sponsor Inform research bidding costings Balance the research portfolio

There are three key areas in which departmental sustainability can help an institution.

Making better decisions – having a clear and robust understanding of the financial performance and sustainability of all operational areas of the institution; i.e. teaching, research and other income generating activities, will inform the strategic decision making process.

Managing costs – by measuring and understanding the nature and level of the costs of different areas of the institution, and by comparing them over time can identify both best practice and where cost reductions and efficiencies can be achieved.

Informing pricing decisions – while the level of an institution’s pricing, including tuition fees will be determined by a variety of factors, consideration of the actual cost of each subject; research project and commercial area is a major factor.

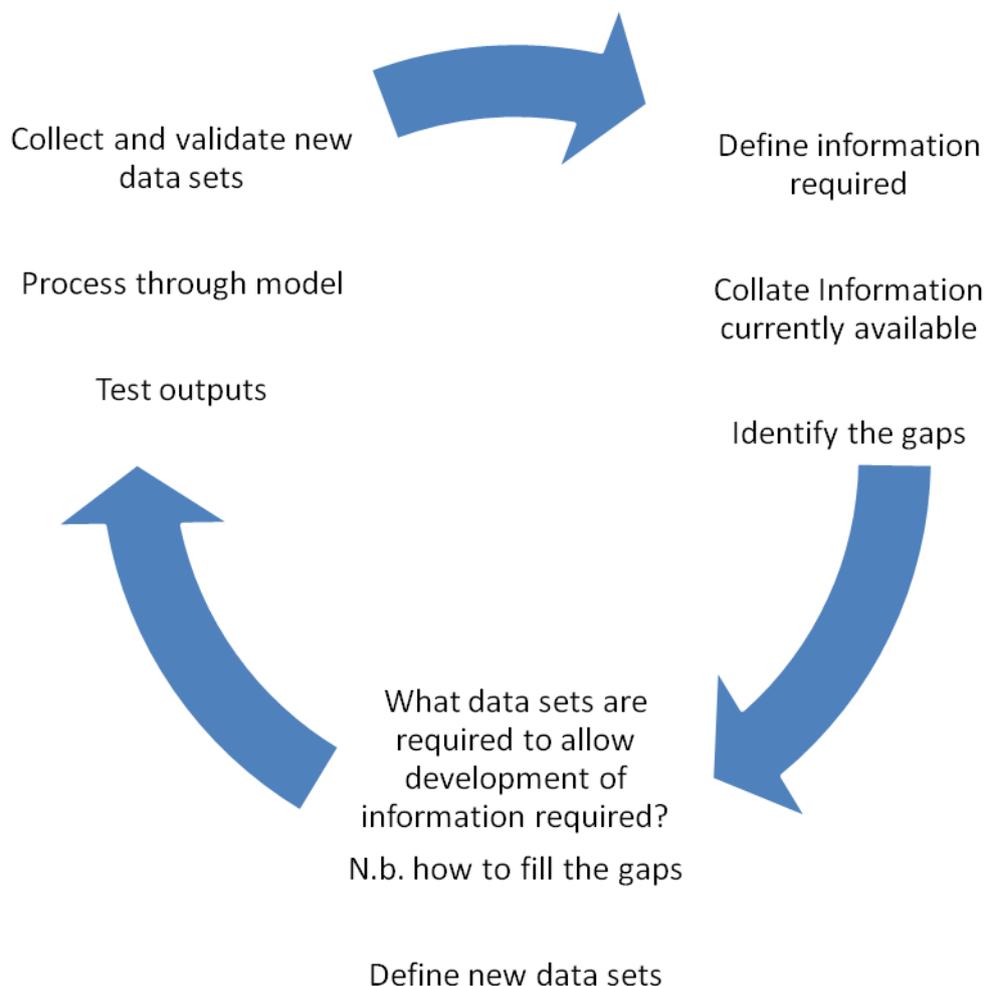
Enable efficiency – the information enables the full cost of different activities to be understood in a level of detail that may not previously have been visible. This enables both benchmarking of relative costs across the institution at a given point in time, and also the ability to understand trends in cost behaviour over a period of time. This information can provide the basis for generating greater efficiency and scrutiny of areas that appear to have scope to improve their performance.

For the above measures to be effective, it will be important to ensure both the consistency and the robustness of the cost drivers used to ensure the outcomes are “accurate” and therefore have the confidence of the managers.

Decision loop

Figure 1 on the following page summarises the key steps involved in establishing a departmental sustainability analysis.

Figure 1 – Decision loop



What you can and can't expect from departmental sustainability?

Having decided what you want, it is equally important to be clear about what you can actually achieve from departmental sustainability. Departmental sustainability is not an end in itself. It may identify issues that have been suspected, but not confirmed and will help you to make informed decisions but it will not – and, indeed, should not – make these decisions for you.

We have considered above what departmental sustainability can do. But it also has its limitations.

Departmental sustainability will not;

- Tell you the strategic path for your institution; this will depend on each institution's, strengths and weaknesses
- Instantly make your institution more efficient or yield cost savings. All it will tell you is how much things cost. It is up to you to decide what costs are reasonable and to identify scope for efficiencies and savings.

- Tell you the price for each activity. Cost should not be mistaken for the price that should be charged.
- Provide you with 100% accuracy. To make departmental sustainability work, you will need to make assumptions and use estimates. You will also have to rely on data provided by various parts of the institution, which will be of varying degrees of reliability. The data will not be perfect, but with care you can ensure that it is fit for purpose.
- Tell you anything about the quality of each activity, it is purely quantitative, but it does provide a data set that can be presented along with other qualitative data in a balanced scorecard/dashboard style
- Be an instant success. Even basic departmental sustainability models take time, effort and several iterations to refine and get right. The processes will however, be much less painful if everyone recognises and accepts this from the start and incorporates it in the implementation plan.

APPROACHES TO DEPARTMENTAL SUSTAINABILITY

The approach to be taken in defining departmental sustainability will depend on several key factors:

- Structure of the institution – will influence the decision points
- Teaching or Research Intensive – will influence the level and type of data required e.g. by research sponsor or by course
- Level of commercial activity – being able to clearly aggregate costs by type of activity
- Centralised or decentralised support structure – will affect the level and type of apportionment used
- Financial information available – at what levels can you identify income and costs will have a bearing on the cost apportionment, and therefore the information required

Departmental analysis can be defined at several levels within an organisation and will vary by Institution. An example of the levels being used is:

- Faculty
- TRAC activity
- Schools/Faculties
- By HESA cost centre
- Subject Area – often at a level below HESA

For other Institutions additional/different levels may be considered:

- College structure
- By Research sponsor type
- By student type

It is recommended that reports are at a full economic cost (fEC) level and not at the more traditional management reporting structure of direct costs.

The methodology applied should be based around the Transparent Approach to Costing (TRAC) guidelines, thus preventing the need for duplicate systems and use outputs from the base model to prepare the reports. This will enable continued improvement in the robustness of the TRAC data and will also ensure consistency of reporting and that all cost allocations and drivers are those used in the TRAC model, again avoiding the need to devise and control duplicate data sets.

Some institutions may want to show the information both before and after applying the TRAC cost adjustments to give the management a better understanding of their impact. Alternatively the adjustments may be replaced by a variable “sustainability” factor, which can be determined by the institution.

Data collection

Even if institutions have a detailed ledger structure that goes down to department/business activity, they are likely to have to collect additional data to facilitate departmental sustainability as central overheads and support costs are not usually reported at that level. This means that a robust method of allocation and/or apportionment will be required. The good news however, is that the TRAC model already has a basis for apportioning such costs.

Allocating key costs, such as estates, will be necessary to ensure that the outcomes are valid. This will mean ensuring that the allocations are fair and reflect the actual costs associated with that area/activity. A key element will be the review process and getting both the agreement and understanding of the methodology used. It is sensible to identify the key areas, starting with the high cost elements and assessing the systems and data available.

For any large scale data collection exercise, the support of those providing the information can make the exercise much more straightforward and productive. We consider how to generate this support later in the guide.

Some tips on understanding and allocating costs

We set out here some hints and tips for dealing with costs, which have been put forward by those institutions that have already got some way through the departmental sustainability process.

- **Start with what you have.** At the beginning, do the best you can with the data that you already have. Once you have developed a basic approach to allocating and apportioning costs, you can develop it further, provided the institution agrees that the benefits of a more comprehensive approach will outweigh the costs of implementing it.
- **Directly allocate costs where possible.** This may mean more control over the coding and control of payroll and invoices.
- **Do not overcomplicate things.** A small number of robust cost drivers to allocate central costs will usually give the desired level of accuracy. The experience of the Working Group was that sophisticated and complex driver models do not often provide a materially different result.

USING DEPARTMENTAL SUSTAINABILITY DATA EFFECTIVELY

Considering the needs of users of the data

As is the case with all good management information the reports issued should be:

- Be based on a methodology that is easy to understand and is defensible
- At a level appropriate to inform the decision – keep it simple and relevant
- Available at the time necessary to inform the decision
- Be in a format that best suits the audience – avoid number overload
- Do not add information that is not relevant – you are trying to inform not impress
- Provide relevant comparisons if available
- Include trends where appropriate: and
- Always remember most of the readers are **not** accountants.

Give thought to **who will use the information** and what they will use it for. This will help you to determine the nature and level of information to provide to each user. For example, senior managers will probably want high level information covering the entire institution, whereas the head of a particular department will be looking for detailed information relating to the key activities in their own department.

Check against other information currently provided to users, such as financial reports, to see how much information they receive and how it is presented. It is also useful to understand why the data may differ in order to protect its credibility. Consistency is also important as they will be more comfortable if they “recognise” the key elements / trends from their budget or report packs.

Discuss with the users the information to be supplied to ensure that they understand it and that it is in a form to help them take decisions.

In determining how to present data, it is necessary to consider targeting reports at the level of the user:

- Governing Body members
- Executive
- Department manager

This means that reports need to be available at a high/summary level for managers, but also at a granular level for departmental managers and comparative analysis.

Being clear about assumptions and limitations

We have discussed previously in this guide some of the assumptions that you may have made in developing and implementing your institution's approach to departmental sustainability. We have also referred to some of the limitations that are inherent to various aspects of departmental sustainability.

Assumption's and limitations are a necessary part of a departmental sustainability process. However, it is important to make it clear when presenting this cost information what assumptions have been make and to communicate to users any limitations in the information presented.

STEPS TO ASSIST IN SUCCESSFULLY IMPLEMENTING DEPARTMENTAL SUSTAINABILITY

Institutions may encounter a number of barriers to the successful implementation of departmental sustainability, such as resistance to change, reluctance to accept the messages given by the information and a lack of confidence in cost data.

However, these barriers can be overcome if addressed promptly and proactively. Some key steps to overcoming these difficulties are:

- The process must be driven and supported by senior management
- Outputs must be relevant to the type of institution – teaching intensive vs research intensive
- Reports should be kept simple, flexible and focussed on the decisions to be made
- Having a system of review and feedback whereby users provide comments that can then inform future development.
- The benefits to the institution and managers must be clearly identified
- The data must be fit for purpose i.e. the level of accuracy understood
- Users must feel that they are involved in the development
- Crucially it must not be seen as a “finance” project

Common barriers and how to overcome them

In developing and implementing their chosen approach to departmental sustainability, institutions will face a number of barriers.

Table 3 highlights some of the difficulties that the institutions contributing to this guide have encountered, together with how they have overcome them.

Table 3 – Common barriers / solutions

Barrier	How to overcome it
Defensiveness and resistance from academic or administrative staff.	<p>Listen and respond to their concerns.</p> <p>Explain why departmental sustainability is being introduced and how it will inform decision making.</p> <p>Explain any assumptions and how they have been arrived at.</p> <p>Share data and explain how it will be used.</p> <p>Invite them to advise/comment on improvements</p> <p>Keep the costing process open and transparent.</p> <p>Have a high level of senior management support.</p>
Lack of skills and expertise.	<p>Don't take on more than you can achieve with the resources you have available. Tailor your timings and coverage</p> <p>Keep the costing methodology as simple as possible.</p> <p>Ensure that support departments are involved and agree the allocation of their costs across departments.</p>
Lack of confidence in the underlying data.	<p>Develop robust processes for collecting data, including clear definitions and quality control arrangements.</p> <p>Ask heads of department to approve and sign off data before it is submitted.</p> <p>Review data when it has been submitted and try to identify any obvious errors.</p> <p>Allow departments to see 'their' data and give them the opportunity to identify any problems with it and advise on how they could improve it.</p>
Organisational barriers.	<p>If the culture is resistant to change, then senior management lead will be essential.</p> <p>Start off with a simple approach to departmental sustainability that can be applied to all departments.</p> <p>Try to link departmental sustainability to existing processes and reports.</p> <p>Involve all areas of the institution; teaching, research and commercial</p>

Excessive procrastination.

Recognise that you will never have the perfect departmental sustainability system.

Keep things simple and at the correct level for informing decisions.

Focus on why you are implementing departmental sustainability.

Try to use the same approach for all departments, rather than tailoring things to particular circumstances.

Reporting

As already outlined, the outputs must be defined to meet the specific needs of the organisation. The information contained within the cost data base will vary, but if the system has been built bottom up, then a large amount of data will be available at several different levels

The reporting Cube - see appendix 1

This demonstrates using a three dimensional example the way the data can be extracted to meet different requirements.

The actual data set available will have additional dimensions not shown – e.g. the teaching data will be split:

- Publicly funded and non publicly funded
- By HESA cost centre
- By funder – HEFCE; TDA; LSC

Below is a table of reports that could be extracted along with a brief description of use

Report Level	Report analysis	Description
University	TRAC activity	To inform the annual TRAC return and to assess the sustainability of key activities of the organisation
Faculty	Total	To assess the performance of each faculty for long term sustainability and efficiency.
Faculty	School/subject area	To assess the performance of key teaching areas of the organisation for long term sustainability and efficiency
Research	By Sponsor	To assess the financial impact of research projects by sponsor.
Research project	Individual project	To monitor the effectiveness of each projects performance and control
Site/campus	Total	To assess the performance of each site/campus for long term sustainability and efficiency.

Detailed examples of reports currently being used across the sector are included as part of the case studies and additional appendices.

Outline implementation timing – a suggested timeline

Linking an implementation to the annual TRAC cycle (assuming that this development would take place as part of a normal TRAC process) provides a typical timescale as detailed below. This can of course be varied to suit specific requirements, but the key elements of the plan will need to be built in: i.e. define requirements, agree data sets, build model, review and verify outputs.

It will be possible to build a model much faster than the time frame detailed at table 4 below, but again careful consideration of resource and timings of outputs need to be considered, particularly during the normal TRAC busy periods.

Table 4 – Time frame for implementation

August 2011	Define scope and outputs – sign off by Executive
September 2011	Identify data sets available
November 2011	Validate data sets (staff; student; estates; nominal)
December 2011	Agree cost drivers
February 2012	Build model (using forecast/prior year data)
March 2012	Draft outputs for review with senior managers
June 2012	Revise model as appropriate
September 2012	Training – Executive/Senior Managers
October 2012	Update data sets for 2011/12
November 2012	Issue draft results for review
December 2012	Finalise TRAC numbers
January 2013	TRAC return submission

This of course could be built and implemented independently and may have internal delivery dates that take priority, but to embed this within the existing model will help to ensure that you do not end up with divergent systems.

The outputs need to be consistent with other reporting systems e.g. management reporting numbers can be identified as part of the outputs.

As we reach the conclusion of this guide, we would reiterate our assertion that there is no ‘one size fits all’ approach to departmental sustainability. It is for individual institutions to develop and implement an approach that works for them, based on what they want to achieve through departmental sustainability, what resources they can devote to it and what data they have available.

This guide is intended to be used to assist in the development of departmental sustainability reporting, it demonstrates the key issues and some potential solutions.

Appendix 1 – The reporting cube

The reporting cube below illustrates a three dimensional example of the way on which data can be extracted to meet different requirements.

(See separate Excel file)

Appendix 2 – Detailed case study

This case study represents an approach that has been adopted by an institution structured into four faculties, each run as independent business areas, supported by centralised student services, libraries, IT systems and central administrative departments.

Why did we decide on department analysis?

The TRAC data model was built on a Department basis, building up from our nominal ledger structure and consolidated at the TRAC summary reporting level.

Much of the review and analysis was centred on performance by Faculty and subject areas, so preparing detailed and fully costed departmental analysis was an integral part of the TRAC model build. This meant that it could support managers reviewing performance and making strategic decisions at a subject level.

This reflected the monthly management reporting and with Income already being allocated out at a detail subject area level, managers were used to seeing profit reporting at a contribution level.

This linked to the TRAC (T) requirements to report at HESA cost centre level, meant that designing reports at this level was useful for both internal and external purposes.

Much of what is now issued has evolved over time and has been refined to reflect feedback and the changing environment.

What we wanted it to achieve

In line with the HEFCE sustainability agenda the institution needed to understand which areas of activity were operating at a level of income and cost that were viable over the long term. This was to enable us to review both income streams and costs to take action in those areas that were not viable over the long term.

This, linked with strategic and market reviews, enabled us to look at where we wanted to target our future growth. The intention was not to make all activities deliver a surplus, but to understand at what level and with what mix of activities the organisation could maintain in the future.

It also allowed a review of areas of best practice and identify inefficiencies.

Scoping the outputs

To prepare for the actual data requirements the first step was to identify the outputs that were required.

The requirements defined or developed over time for the department analysis system are illustrated in Table 5 below and within the appendices to this report.

Table 5 – Illustrative reporting outputs / appendix references

Report	Description	Appendix
HEFCE Annual TRAC return	Income, costs and surplus/deficit by TRAC activity	2a
HEFCE Annual TRAC T return	Average cost to teach a FT UG student by HESA cc	2b
Faculty summary	Breakdown by faculty by TRAC activity	2c
individual Faculty analysis	Broken down by: - Teaching activity by HESA cost centre - Teaching by subject area - Research by project – grouped by sponsor type - Other activity – at project level	2d
Annual Financial Performance report	This shows the 4 year trend of Income and surplus/deficit after the full economic costs by: - HESA cost centre by faculty	2e
Additional information	The extended analysis by Subject Area	2f

The internal reports were shared with the faculty managers at an early stage and significant time was built in for training managers on both how the reports were constructed and what the outputs were telling them.

The case study shows a generic approach to the style of reporting adapted by those institutions working on putting this guide together, but as noted earlier, *each institution* will develop its own model to meet their individual needs.

Reporting options

The institution’s latest/most recent TRAC model dictates in most cases how costs are allocated to departments / faculties and that should be similar across Institutions. However there are choices that Institutions can make when reporting income for the purposes of departmental sustainability:

- Option 1: income allocation driven by RAM / planning model
- Option 2: income allocation driven by earning power, i.e. income earned e.g. resource per student (see appendix 4)

The two options above will give slightly different results and the choice will depend on which information management finds more useful. It was found in some Institutions that Option 2 added more value as it provided true “profitability”, i.e. how the departments performed financially as opposed to how they performed against resource allocated to them by the Management. Option 2 might also help to identify “cash cows” and “loss leaders”.

Appendix 3 includes a summary of cost drivers used by an Institution to allocate income using option 2.

Option 1 was the income allocation method chosen (case study 1) as that already existed in the institution. The institution already used an internal student planning model to allocate both fees and the core teaching grant across faculties/subject areas.

It was also felt that the student load being taught was better represented by the internal student planning model, than the HESA model of students that attracted the core allocation.

The mapping of costs incurred to students taught was felt to be a more realistic matching of Income and a cost in a given period, thus showing financial performance that was not being skewed by changes in student population. This was particularly applicable to the institution, as there is a significant level of in year, mainly January starters.

Data set up

To enable the outputs to be produced a review of the data required was undertaken, as follows:

1. Nominal Ledger
 - a. Review of the chart of accounts – to ensure that Income and costs are able to be recorded at a level to enable the development of Departmental analysis
 - b. Set out the account structure to map to the outputs – e.g. subject areas that cover more than one HESA CC?
2. Staff data - how were staff costs allocated to activity
3. Student data - allocation of students to the final structure through the student model
 - a. Income
 - b. Numbers/Fte's
 - c. Student types
4. Estates data
5. Other Cost drivers

In each case the integrity of the data was reviewed and changes made to better reflect the needs of the institution, but not if this conflicted with the data's core use, or if it meant incurring significant costs in making the changes.

A decision was made that wherever possible, existing data would be used rather than create duplicate information as we felt this would cause confusion.

The cost model

The design and build of the model will vary depending on several factors

- The outputs defined – need to ensure that the model is built at a level to be aggregated at the defined reporting points.
- Frequency of reporting – how quickly does the model need to be run

- The software platform – which can influence both the complexity and flexibility of the information contained as well as the speed that it can be run.

The institution chose, several false starts, to build its own model around MS Excel and MS Access. This was chosen as it was felt that it gave control over both the inputs and outputs, in addition to recognising that the flexibility that the approach provided to update the model over time.

This report does not cover the basic costing principles applied other than to note that compliance with the TRAC guidance needs to be built into the process.

Verification of the outputs

The institution felt that it was necessary to ensure that the outputs from the model were “sense checked”, both internally and externally. In most institutions the analysis would be done at faculty/School level, or even down to department level. Comparison by HESA cost centre is unlikely to be useful internally. The outputs are regularly updated to reflect feedback and to improve its effectiveness.

Examples of internal checks include:

- Comparisons against other Faculties/Departments of a similar type (same HESA CC)
- Comparisons against other Departments for relativity – e.g. do the costs follow the HEFCE Funding bands?
- Compare costs at all key levels
 - Direct delivery costs
 - Overheads by type – e.g. estates costs; Library costs etc
- Verify all exceptions – good performers as well as poor performers

It is also important to check the outputs against prior years and understand movements based on:

- Business performance – increase/decrease in students
- Changes in costs – increases in direct materials
- Overhead allocations – why have they changed?

External checks – usually available at HESA CC level only

- Arrange to use similar organizations to benchmark against
- Use the peer group averages

Using the information

The information will only become useful if the Institution is seen to use it for management decisions or to increase the understanding of those involved in decision making. This ensures that the senior managers are engaged with the process and keen to ensure that the outputs are accurate.

The financial performance report has become part of the strategic analysis of the organisation

Regular reporting across all management levels, and not just to verify the TRAC returns has embedded the process within the institution.

The numbers are carefully rolled out to Managers with suitable explanations and training. The institution also prepares both Forecast and Budget data, and allow managers to review drafts as part of the process

The institution has moved from just issuing a page full of numbers and now include graphs and charts to help understanding. This is an area that is still being developed and one we have not yet fully resolved.

The institution always emphasise that the numbers are not intended to be taken as “correct”, but that they are indicative and will highlight the upper and lower quartile of performers in financial terms.

The importance of adding value to the outputs is also recognised by identifying additional non-financial details such as:

- Staff Student ratios
- Market analysis
- Student feedback
- Student Non completion data

Note included in Appendix 2 is an extension of the data to include additional analysis, that is used to understand the cost structure, which will help inform managers reviewing performance. (Appendix 2f)

Appendix 3 – Summary of cost drivers used to allocate income

As mentioned in appendix 2, an extract is provided below that provides an example of the cost drivers used by an institution to allocate income to departments and activities:

Income stream	Cost driver to department	Cost driver to T, R, O
<u>Funding Council Grants</u>		
HEFCE grant - T & QR	As earned based on prior years' student FTEs	Direct
Quality Enhancement	Pro-rata to T grant	Student FTEs (home)
Outreach	Pro-rata to HEU UG fees	Student FTEs (home)
SDF UK Research Reserve	Pro-rata to QR grant	Direct
Matched funding	As earned	Direct
HEIF	Direct to Other	Other
Other	Pro-rata to T & QR grant	Pro-rata to T&R grants
DCG Equipment	Direct as per fixed asset register (FAR)	Student FTEs / own funded research (IOFR)
DCG L&B research	Direct per FAR	IOFR
DCG other (Eq + L&B)	Direct per FAR	Pro-rata to space method of cost allocations
DCG Commercial Services	Direct to Other	Other
<u>Tuition Fees</u>		
Tuition Fees	As earned	
Short courses	Based on NCB (non-credit bearing student FTEs)	NPFT
RTSGs net of fees	Direct	PGR
<u>Research Grants and Contracts</u>		
	Direct	Research by sponsor
<u>Other operating income</u>		
Other departmental income	Direct	Academic Staff Time
DCG Equipment	Direct per FAR	
DCG Research (Eq + L&B)	Direct per FAR	IOFR
DCG Other	Pro-rata to T & QR grant	Pro-rata to space method of cost allocations
Other income-Erasmus	UG T pro-rata to HEU UG fees	HEU UG
Other income - donations	Direct	
Other income - Library	Library cost driver	Library cost driver
Health and Hospital Authorities	Direct	Pro-rata to costs
Intellectual Property	Direct	Direct to Other
Student Union Shop outlet and clubs	student FTE UG/PG weighted 4:1	student FTE UG/PG weighted 4:1
Commissions and fees	Staff & Student FTEs	Staff & Student FTEs
Sports facilities	Weighted FTE students/ staff	weighted FTE students/ staff
Other income - Miscellaneous	Pro-rata to T & QR grant	Academic Staff Time
Consultancies	Direct	Other
<u>Endowment income and interest receivable</u>		
Other income - Trust funds NPFT	NPFT pro-rata to o/seas fees	O/seas student FTEs
Other income - other Trust funds	Acad.staff & student FTE	Academic Staff Time
Commercial Services	N/a	Other
Interest and LT investments	N/a	Other
Rents receivable	N/a	Other
Subsidiary companies / Associates	N/a	Other

Note: The above does not constitute guidance for the purposes of producing the TRAC return.

Appendix 4 – Additional case study

As mentioned in appendix 2, a reference is included to an alternative model that provides an example of a model using reporting option 2.

The worksheets provided for this second case study do not include the level of narrative provided to accompany appendix 2, but demonstrate how the approach can be adapted to serve different institutional reporting requirements.