

## **TRAC Case Study**

### **Attribution of costs and income in medical schools in TRAC**

February 2017

## Table of Contents

|   |  |    |
|---|--|----|
| 1 | Introduction .....                                       | 3  |
| 2 | Understanding the TRAC requirement .....                 | 6  |
| 3 | Knock-for-knock arrangements .....                       | 7  |
| 4 | Step-by-step approach to O(CS) cost attribution .....    | 8  |
| 5 | Income allocation .....                                  | 9  |
| 6 | Complexities for TRAC Oversight Groups to consider ..... | 10 |
| 7 | Glossary of terms.....                                   | 11 |

**Note:**

This document has been prepared by a group of institutions to outline how they have approached the subject of allocating the costs of clinical services in TRAC. The TRAC Development Group has agreed to include this case study as a source of reference alongside the TRAC Guidance, but is not responsible for its contents.

# 1 Introduction

The TRAC Development Group (TDG) released new streamlined TRAC guidance in August 2014 and this has subsequently been updated for the new accounting standard, Financial Reporting Standard (FRS) 102. The TRAC guidance explicitly states the requirements that should be achieved in order to produce a compliant TRAC return; the TRAC guidance also sets out examples of procedures that institutions could follow to fulfil the TRAC requirements. In order to keep the TRAC guidance 'streamlined' and flexible, the guidance does not provide detailed worked examples to inform TRAC practitioners seeking to establish new processes or refine existing systems.

To support the development of TRAC more widely, and to complement the TRAC guidance, TDG is keen to share examples of processes that institutions have introduced to meet the TRAC requirements for areas that are considered to be more complex or difficult to address. The theme tackled by this case study is the reallocation of Other (Clinical Services) activities within TRAC models.

References in this case study relate to TRAC guidance version 2.1 (current at time of publication). Any changes in future versions of the guidance will be recorded in the Change Log, Annex 1.1a.

## 1.1 How to use this TRAC case study

This case study illustrates one approach taken to fulfil the TRAC requirements for accounting for Other (Clinical Services) activity in the TRAC model. It is intended to provide a level of detail beyond the methods described in the TRAC guidance to aid users in understanding and developing their TRAC method.

The case study does not represent a 'TRAC Requirement' and institutions are under no obligation to adopt the practices outlined in the case study. It aims to be a source of reference that institutions may find useful in reviewing or redesigning their TRAC processes.

The TRAC requirements relating to attribution of costs and income in medical schools are provided at the following locations in the TRAC guidance:

- Costing Standards (1.2.3.6)
- TRAC Activity Definitions (1.3.3.2)
- Direct Cost Attribution (3.3.4.3)
- Income Allocation (3.5.4.1)

## 1.2 Aim

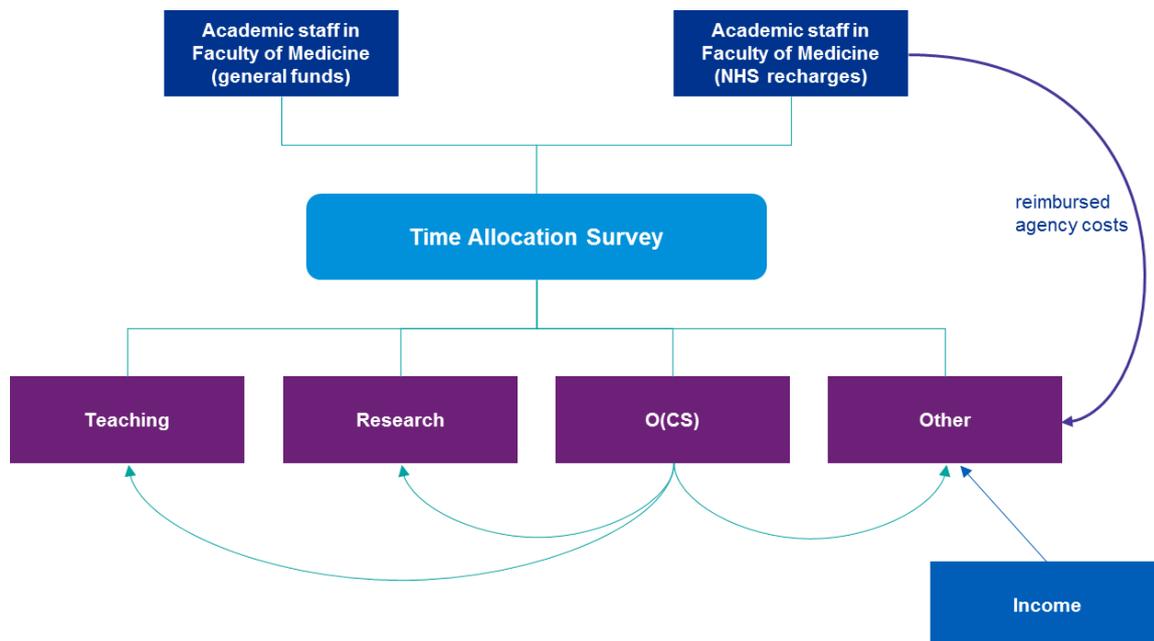
This case study reviews the attribution of costs and income in medical schools and allocation of time returned by academics in time allocation surveys (TAS) as Other (Clinical Services) (O(CS)). It explains:

- the TRAC requirement in this area (TRAC Guidance section 2.1)
- the definition of ‘knock-for-knock’ arrangements (TRAC Guidance section 3.1)
- the approach to cost allocation in TRAC guidance (TRAC Guidance section 4.1) and
- the guidance on NHS income allocation (TRAC Guidance section 5.1).

The diagram below (and each section of this guide) illustrates how the cost attribution process for academic staff time works in medical schools.

### Diagram 1 – Attribution of costs and income in medical schools

The diagram below illustrates the step-by-step walkthrough provided in the sections below.



The Time Allocation Survey definition of O(CS) would include NHS clinical activities (named sessions, non-research clinical trials, ward-rounds, etc.) and internal NHS management (NHS committees, NHS quality assurance, information returns, etc.).

**Note – before you read further: is this case study relevant to your institution?**

Does your institution have a medical school (authorised to issue medical degrees) or does your institution have a school of medical sciences (not authorised to issue medical degrees)?

[www.medschools.ac.uk/STUDENTS/UKMEDICALSCHOOLS/Pages/UK-Medical-Schools-A-Z.aspx](http://www.medschools.ac.uk/STUDENTS/UKMEDICALSCHOOLS/Pages/UK-Medical-Schools-A-Z.aspx)

If you do not have powers to award medical degrees, you do not need to achieve compliance with the TRAC requirements for the allocation of O(CS) listed above at section 1.1.

## 2 Understanding the TRAC requirement

The activities and costs in medical schools are closely interlinked with the activities and costs in NHS Trusts. There are many complex arrangements in place between institutions and Trusts, many of which have developed over time and are in many cases not described in formal contracts. The phrase 'knock-for-knock' is used to describe many of these arrangements. Loosely interpreted this means that the NHS Trusts provide resources and equipment in exchange for resources from the institutions. This is explained further in section 3 below.

TRAC requires that academic staff, who provide clinical services for which the costs are not recoverable from the NHS, should initially allocate that element of their time to a separate TRAC activity called 'Other (Clinical Services)'. This enables these costs to be separately identified for further analysis. This O(CS) time should subsequently be reattributed to Teaching, Research, Other or Support using either of the two allocation methods:

- allocate the part of O(CS) to Teaching that relates to the clinical services which have been undertaken where the primary purpose is Teaching. An additional allocation may also be needed to Research where the primary purpose of the O(CS) time is Research.
- allocate the balance of O(CS) to Teaching, Research, Other and Support on the basis of the services being received from the NHS under 'knock-for-knock' arrangements.

These attributions are informed either by a discussion with each head of department, by a specific study, or by knowledge of what was actually being received. The frequency of review would depend on how often the time allocation data is updated at institution level – but should be no less frequently than every three years (in line with TRAC requirement ref. 3.1.4.3). When undertaking the review, the TRAC Oversight Group should consider which staff are most appropriate to be involved in assessing the reasonableness of how time allocation to O(CS) has been allocated. Agreeing allocations of O(CS) time with academic staff within faculties needs careful consideration and is very judgemental. The review will often require senior management and academic input.

TRAC Oversight Groups should also ensure that evidence of discussions is retained for future reference and to present to auditors upon request.

### 3 Knock-for-knock arrangements

Knock-for-knock describes the nature of the partnership between the institution and the NHS Trust. Here we use this term to refer to un-costed mutual assistance from sharing arrangements. The arrangements cover both:

- The '*service commitment*': the sessions in which clinical academics in the institution provide patient services to the NHS, under contract, through some other local agreement, or as identified under job plans. These services are provided to patients by clinical academics in institutions, therefore teaching may also be taking place.
- The '*teaching commitment*': the sessions in which clinicians in NHS Trusts deliver teaching to students in the institution. These services may or may not involve the provision of services to patients, but would theoretically provide the same number of sessions as the 'service commitment'.

These arrangements are unlikely to specifically cover research, but some research may be undertaken during a session. It is essential for institutions to work closely with the NHS Trusts to better understand the nature of the sharing arrangements. This knowledge can then be used to improve the robustness of the cost allocations over time.

An additional component of knock-for-knock covers support services, for example: the use of laboratories, libraries, non-medical staff, premises and student accommodation. Institutions increasingly make charges for these services, but this may not be happening in all cases, so an understanding of the cost of sharing of support services could enhance the robustness of TRAC cost allocations.

The implications of knock-for-knock for TRAC are that the cost attribution of these activities needs to be robustly allocated to TRAC activities where possible.

Unravelling knock-for-knock arrangements in full is rare. Where institutions have done this they charge NHS Trusts for the service commitment, and NHS Trusts charge institutions for the teaching commitment; and cross-charges would be in place to cover all support facilities. This provides primary information to enable the allocation of costs in TRAC.

## 4 Step-by-step approach to O(CS) cost attribution

The six steps below set out how institutions could approach the cost attribution process in order to meet TRAC requirements:

- a) Identify total staff costs for each department/group of departments (typically through running bespoke payroll reports at department level).
- b) From this departmental summary, allocate the total costs of reimbursed 'agency' costs (e.g. distinction awards, payments for Additional Doctors' Hours (ADHs), intensity payments) to O.
- c) Allocate the remaining costs to T, R, O(CS), O and S on the basis of time on those activities, recorded in the time allocation schedules to reflect (within materiality thresholds) which activities the time related to. Over time, allocations should improve and reliance on materiality judgements to assess the robustness of these attributions will lessen.
- d) Allocate the part of O(CS) to T and R that relates to the clinical services which have been undertaken where the primary purpose is teaching or research using the results of the analytical review as detailed at section 2.
- e) Allocate the balance of O(CS) to T, R, O and S on the basis of the services being received from the NHS. Institutions do not need to unravel the balance further to achieve TRAC compliance, but for robustness and greater transparency, institutions should understand what services they are receiving, and the funding streams for these services. Institutions will need to work closely with the NHS to do this, referring to Heads of Department, contracts, relationship owners for each NHS arrangement, etc.
- f) Ensure the results are fair and reasonable following the approach described at section 2.1.4.2 of the TRAC guidance.

### Reasonableness Checking

When making allocations for O(CS) to T,R,O discussions or a small survey would help to identify the type of clinical service work being undertaken. The following questions could be asked to ensure the reasonableness of the allocations made:

- Are any students present (or research taking place)? If not, then the primary purpose is not T or R;
- Would the patient services have been provided by the clinical academic if the students were not present? If not, then O(CS)(T); and
- Has the presence of the students (or research) significantly increased the time spent on patient care? (If yes, then O(CS)(T) or O(CS)(R) etc.

## 5 Income allocation

This section explains how the income allocation process works for O(CS).

The process for O(CS) starts with the TRAC income allocation guidance (section 3.5) and the accompanying income allocation table (Annex 3.5a). TRAC requirement reference 3.5.4.3 (see extract below) sets out how institutions should approach allocating all income.

### **Extract from TRAC guidance (3.5.4.3)**

The approach to income allocation is based on three rules. Allocations 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 Publicly Funded Teaching or Non-Publicly Funded Teaching).

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.

Using the principles set out above, income from NHS Trusts should be allocated as follows:

- agency payments, e.g. Additional Doctors Hours, distinction awards to O
- reimbursed salaries / National Tariff to O
- other income to T (when related to teaching), R (Other UK Government Departments sponsor type) or O depending on the activity being undertaken

## 6 Complexities for TRAC Oversight Groups to consider

Section 4 referred to the importance of a reasonableness review of TRAC data and systems (TRAC guidance reference 2.1.4.2). Institutions with medical schools will have complex arrangements with the NHS, therefore the emphasis on robust reasonableness checking at all stages is essential to achieving TRAC compliance and producing robust costing data.

The observations listed below illustrate some of the complexities that TRAC Oversight Groups should watch out for or seek to understand. Considering each scenario in turn can enhance their understanding about the cross flow of activities between institutions and Trusts, inform TRAC system design and improve the robustness of TRAC data.

Institutions may find it useful to consider specifically how they have ensured that their processes take account of these complexities to ensure the reasonable allocation of costs.

|  |  |  |
|--|--|--|
| Clinical academics (in the institution) and clinicians (in the Trusts) can both provide management support to the other organisation.              | Although the sessional commitment (clinical academics' service commitment, and clinicians' teaching commitment) may be contractual, there might be no formal and comprehensive record-keeping that describes what happens in practice. | Support services can be part of the set of 'unwritten contracts' or (increasingly) be covered by specific recharges from one organisation to the other.  |
| Responsibilities for the purchase of a building and its subsequent maintenance can be held by different organisations.                             |  | Clinical academics (in institutions) generally hold honorary contracts with Trusts and vice versa.   |
| Clinical services activities provide patient care for the NHS, using NHS facilities, but also often contribute to Teaching (for the institutions). | An amount of work is undertaken outside sessions – mainly management/ administration, and research.  | Staff may be employed through the institution (clinical academics), through the Trusts (clinicians) or both (dual contracts).  |
| Both institutions and NHS Trusts employ staff who undertake teaching and clinical services, and research and other activities.                     | Teaching is always undertaken for the institution, but research may be undertaken for either the institution or the Trust or both (working together).  | In practice, a session may cover one or all of administration, teaching and patient care. Some research may be undertaken during this. A whole session may be dedicated to one or more of these activities, or only part of a session. |

## 7 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.   |
| Institution             | Higher Education Institution (HEI). In this context this means a university or higher education college funded by a Funding Council.   |
| 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). |
| O                       | For TRAC, 'Other' activity category (see TRAC Guidance 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 records.   |
| R                       | For TRAC, 'Research' activity category (see TRAC Guidance section 1.3 for full definitions)  |
| S                       | For TRAC, 'Support' activity category (see TRAC Guidance section 1.3 for full definitions)   |
| T                       | For TRAC, 'Teaching' activity category (see TRAC Guidance section 1.3 for full definitions)  |
| TRAC                    | Transparent Approach to Costing.   |