

3 TRAC process

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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:

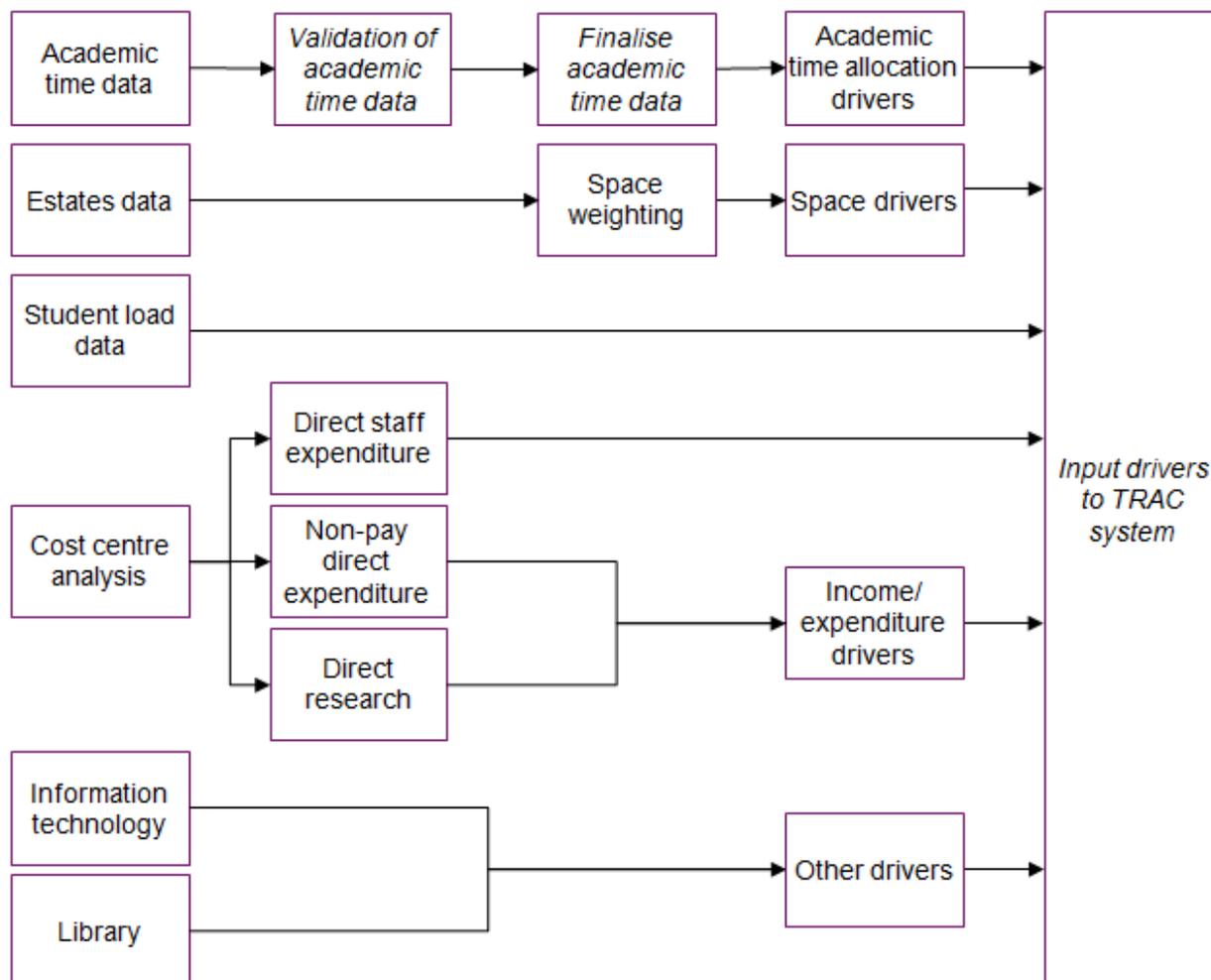
- Financial data (expenditure and income) as reported in the consolidated financial statements.
- Academic staff time allocation / workload planning data (to allocate academic staff time to Teaching, Research, Other and Support) and technician time data.
- Space data to determine the proportion of space 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. In determining how to define academic department in the TRAC model, consideration should be given to the impact it could have on the accuracy of the cost allocations. For example, if academic departments are aggregated to a high level in the TRAC model, this could affect the extent to which cost allocations are differentiated to reflect the different levels of costs consumption by different activities.

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	<p>Costs should be allocated in stages to arrive at the cost of academic departments, then allocate these costs between TRAC categories, as described below:</p> <ul style="list-style-type: none"> • 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	<p>Income should not be used as a cost driver unless proven (and evidence is retained) to reflect the consumption of cost.</p> <p>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.</p>	*
3.1.4.6a	Institutional policies regarding confidentiality, the General Data Protection Regulation (GDPR) 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 should be included at gross levels, not net of income.	
3.1.4.8	The treatment for pension costs, holiday pay accruals, gains or losses on disposal of fixed assets, gains or losses on investments ¹⁶ , the share of surpluses / deficits in joint ventures and associates, taxation charges or credits and non-controlling interests set out at 3.1.5.3 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 the Margin for Sustainability and Investment 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.	

¹⁶ This includes both realised and unrealised gains or losses on investments.

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: Note: TRAC requirements 3.1.4.17 – 3.1.4.24 apply to all methods of time allocation.		
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	Removed.	*
3.1.4.26	<p>All academic pay costs should be allocated using one of the following time allocation methods:</p> <p>a) In-year data collection</p> <p>b) Statistical data collection</p> <p>c) Workload planning methods</p> <p>The TRAC requirements specified under each method of time allocation should <u>all</u> be complied with.</p>	*
3.1.4.26a	<p>For in-year data collection:</p> <ul style="list-style-type: none"> • The year should be split into at least three periods. • The collection should cover 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. • All staff not directly charged to TRAC activities complete at least three schedules, covering the whole academic year, at least every three years. No sampling of staff, or weeks of the year, occurs; all staff not directly charged to TRAC activities are surveyed. • The collection is completed by individual academics whose pay costs are to be allocated. • There is a maximum look-back period of: <ul style="list-style-type: none"> • Six months to the start of the collection window, which includes eight weeks from the end of the collection window. Institutions have until the submission of the 2021-22 TRAC return to comply with this requirement. The returns received should be representative of the grade mix for each academic department. • A 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, is achieved. 	*

	<ul style="list-style-type: none"> • There is no duplication of costs already directly allocated to a TRAC category (3.1.4.17). 	
3.1.4.26b	<p>For statistical data collection:</p> <ul style="list-style-type: none"> • The collection should be undertaken annually and cover all staff not directly charged to TRAC activities. • 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. • The collection is completed by individual academics whose pay costs are to be allocated. • There is a maximum look-back period of: <ul style="list-style-type: none"> • Six months to the start of the collection window, which includes eight weeks from the end of the collection window. Institutions have until the submission of the 2021-22 TRAC return to comply with this requirement. • There is no duplication of costs already directly allocated to a TRAC category (3.1.4.17). 	*
3.1.4.26c	<p>For workload planning methods:</p> <ul style="list-style-type: none"> • The collection should be undertaken annually and cover all staff not directly charged to TRAC activities. • 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. • Workload data that has not been confirmed by the academic should not be used. • A minimum confirmation 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, is achieved. • There is a maximum look-back period of eight weeks from the end of the collection window. • There is no duplication of costs already directly allocated to a TRAC category (3.1.4.17). 	*

TRAC requirement for technician data:		
3.1.4.27	<p>The cost of technician support is included in specific research charge-out rates.</p> <p>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.</p>	
TRAC requirements for space data:		
3.1.4.28	<p>Estates data should:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>	
TRAC requirement for other cost drivers:		
3.1.4.29	<p>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.</p>	*
TRAC requirements for weighting data:		
3.1.4.30	<ul style="list-style-type: none"> • 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: 	*

	<ul style="list-style-type: none"> – 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	<p>Calculated indexation rates for fEC charge-out rates should:</p> <ul style="list-style-type: none"> • reflect price changes for the two years broadly starting from the midpoint of the year being reported on the annual 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	<ul style="list-style-type: none"> • 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 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	<p>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.</p> <p>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.</p> <p>Additional cost drivers to those suggested in this section may be used at the institution’s discretion.</p>
3.1.5.2	<p>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.</p> <p>The Estates data and time allocation/workload planning data often take the longest time to obtain, so forward planning is essential for these datasets.</p> <p>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.</p>

Financial input data

3.1.5.3	<p>The full economic cost reported in the Annual TRAC return reconciles to:</p> <ul style="list-style-type: none">• total expenditure as reported in the consolidated financial statements;• minus costs or plus credits attributable to the deficit recovery plan for the Universities Superannuation Scheme (USS), Superannuation Arrangements of the University of London (SAUL) and the Oxford Staff Pension Scheme (OSPS) pension schemes (3.1.5.3a);• plus loss on disposal of fixed assets¹⁷ (3.1.5.3b);• plus loss on investments¹⁸ (3.1.5.3c);
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¹⁷ These adjustments are made only where there is a net loss on disposal of fixed asset recorded in the statement of comprehensive income. Where there is a net gain recorded in the statement of comprehensive income, this is added to income.

¹⁸ These adjustments are made only where there is a net loss on investments in the statement of comprehensive income. Where there is a net surplus recorded in the statement of comprehensive income, this is added to income.

	<ul style="list-style-type: none"> • plus the share of operating deficits in joint ventures and associates as reported in the consolidated financial statements¹⁹ (3.1.5.4); • plus taxation charges²⁰ (3.1.5.4a); • plus surplus or minus deficit for the year attributable to non-controlling interests (3.1.5.5); • plus the Margin for Sustainability and Investment (see section 3.2). <p>Under FRS 102 items previously classified as exceptional items (as defined by FRS 3) are included in the main income and expenditure headings²¹.</p> <p>Such items are included in TRAC income or expenditure, and may be separately analysed in the Annual TRAC return²².</p> <p>Annex 3.1d provides a worked example of how table A1 should be completed in the TRAC return. If the institution's financial statements detail items below 'Surplus/(deficit) before other gains losses, impairment write-downs and share of operating surplus/deficit of joint ventures and associates', a query should be raised with the TRAC helpdesk to confirm how the item should be treated in TRAC.</p>
3.1.5.3a	<p>Costs relating to most employer pension schemes are included in TRAC expenditure in line with expenditure recognised in the consolidated financial statements. The treatment for each category of commonly operated pension scheme is as follows:</p> <ol style="list-style-type: none"> i) Defined contribution pension schemes, including the defined contribution section of institution-own pension schemes, other employer-sponsored defined contribution schemes and personal schemes: <ul style="list-style-type: none"> • Employer contributions should be included in TRAC expenditure as staff costs without adjustment. ii) Unfunded multi-employer pension schemes such as the Teachers' Pension Scheme, Scottish Teachers' Superannuation Scheme and National Health

¹⁹ These adjustments are made only where there is a net deficit in joint ventures or associates recorded in the statement of comprehensive income. Where there is a net credit in joint ventures or associates, this is added to income.

²⁰ These adjustments are only made where there is a net taxation charge recorded in the statement of comprehensive income.

²¹ FRS 102 requires that entities present additional line items, headings and subtotals in the statement of comprehensive income, when such presentation is relevant to an understanding of the entity's financial performance. When items included in total comprehensive income are material, an entity shall disclose their nature and amount separately, in the statement of comprehensive income or in the notes (see also HESA Finance Record Table 10).

²² Where the statement of comprehensive income in the financial statements has additional entries above 'total comprehensive income for the year' and below 'surplus/deficit for the year' that are not detailed in the TRAC Guidance, then this should be raised with the Support Unit to ensure appropriate treatment in TRAC.

Service Pension Scheme (which are treated as defined contribution schemes for accounting purposes):

- Employer contributions should be included in TRAC expenditure as staff costs without adjustment.

iii) Institution's own defined benefit pension schemes, where it is possible for individual employers to identify their share of assets and liabilities and where there is no periodic recovery plan:

- Staff costs relating to the pension scheme should be included in TRAC expenditure as staff costs without adjustment.
- Interest payable/interest receivable relating to the pension scheme should be included in TRAC expenditure as interest payable (if a cost), or in TRAC income as interest receivable (if a credit), without adjustment.
- Actuarial gains or losses are included in the financial statements below the 'Surplus / (Deficit) for the year' and are not included in TRAC expenditure or TRAC income.

iv) Local Government Pension Scheme (LGPS):

- Staff costs relating to the pension scheme should be included in TRAC expenditure as staff costs without adjustment.
- Interest payable/interest receivable relating to the pension scheme should be included in TRAC expenditure as interest payable (if a cost), or in TRAC income as interest receivable (if a credit), without adjustment.
- Actuarial gains or losses are included in the consolidated statement of comprehensive income but are not included in TRAC expenditure or TRAC income.

v) Universities Superannuation Scheme (USS), Superannuation Arrangements of the University of London (SAUL) and Oxford Staff Pension Scheme (OSPS):

A year-end entry is made in the financial accounts of institutions that participate in certain specific multi-employer defined benefit pension schemes, including USS, SAUL and OSPS. This adjustment reflects the costs or credits attributable to the agreement of a deficit recovery plan for these schemes.

The resultant costs or credits are included in the institution's consolidated statement of comprehensive income within staff costs and interest payable/interest receivable.

	<p>Where such an adjustment has been made in the financial accounts, it is reversed for TRAC purposes. An adjustment is therefore made to TRAC expenditure as follows:</p> <ul style="list-style-type: none"> • The costs or credits calculated in respect of the recovery plan should be subtracted from TRAC expenditure (if a cost), or added back to TRAC expenditure (if a credit). • Total employer contributions paid in the year relating to these schemes, including deficit contributions, should be included in TRAC expenditure as staff costs. <p>Annex 3.1b provides a pensions cost adjustment calculator for calculating the TRAC adjustment relating to the costs or credits attributable to the agreement of a deficit recovery plan for USS, SAUL and OSPS.</p> <p>Note: Pensions is a complex area and involves significant numbers in the financial accounts. Therefore, to limit the risk of material errors being made in the TRAC return, verify the interpretation and treatment of Pensions entries in TRAC with your Financial Controller or equivalent.</p>
3.1.5.3b	Gains / losses on disposal of fixed assets included in an institution's consolidated statement of comprehensive income should be added to income if a net gain, or added to expenditure if a net loss.
3.1.5.3c	Gains / losses on investments included in an institution's consolidated statement of comprehensive income should be added to income if a net gain, or added to expenditure if a net loss.
3.1.5.4	The share of operating surpluses / deficits in joint ventures ²³ and associates included in an institution's consolidated financial statements should be added to income if it is a net surplus, or added to expenditure if it is a net deficit.
3.1.5.4a	Taxation charges / credits in an institution's consolidated statement of comprehensive income should be added to income if a net credit, or added to expenditure if a net charge.
3.1.5.4b	Holiday pay accruals should be treated the same as pay costs within TRAC expenditure.
3.1.5.4c	The Apprenticeship Levy is a statutory deduction and is therefore treated as an additional staff cost. The costs should be allocated in TRAC in line with the staff cost drivers (academic and non-academic) already used in the TRAC model.

²³ References to joint ventures in this section are to jointly controlled entities and to the share of operating surplus / deficit recorded in the statement of comprehensive income in respect of those entities. No adjustment is required in respect of jointly controlled operations (e.g. joint medical schools) where the University's share of the income and expenditure of the operation is already included within income and expenditure respectively. The glossary provides further detail on the relevant definitions.

3.1.5.4d	Institutions in England may receive income via the apprenticeship service account in respect of the institution's own staff on courses as part of an apprenticeship. This will be reflected in the income allocation template (see annexes 3.5a and 3.5b and section 3.5.5.4).
3.1.5.4e	Any amounts of income received via the apprenticeship service account, which are attributable to staff for whom the staff costs are allocated to Research, need to be deducted from the Research indirect cost pool in proportion to the amount of staff costs allocated to Research to avoid double funding. This is explained further in section 4.2.4.3.
3.1.5.4f	Costs that have arisen as part of the IR35 legislation ²⁴ relate to staff costs and should be allocated as such in the TRAC model.
3.1.5.4g	Costs relating to investment in independent research organisations (which may be accounted for as a grant or donation in the institution's financial statements) should in most instances be classed as institution own-funded research, where those independent research organisations are commissioning research from the investing institution, or where the institution is eligible to benefit from research fellowships or other award scheme. Where the treatment is unclear, the TRAC Support Unit should be contacted to seek advice on the most appropriate treatment in TRAC.
3.1.5.5	For non-controlling interests: the surplus or deficit attributable to non-controlling interest, as a single figure, should be added to TRAC expenditure if a surplus, or deducted from TRAC expenditure if a deficit. If the costs relate to support activity, the cost pool should be reduced by the total surplus or deficit attributable to non-controlling interests. Guidance may be needed from the institution's financial accounting team on this item.
3.1.5.6	<p>When unrestricted donations are reported in the statement of comprehensive income in one year, but expenditure is made in subsequent years, the income forms part of the TRAC income in the year the income is received (and the expenditure in the year it is made).</p> <p>Where restricted donations (endowments) are received, they are included within the donations and endowments line as part of total income in the year in which the income is received.</p> <p>Initial recognition of donated heritage assets is at current valuation within donations and endowments income on receipt and any such income is therefore recognised within TRAC income.</p>
3.1.5.7	An income allocation schedule, updated annually by the OfS/Funding Councils, is provided (see annexes 3.5a and 3.5b at section 3.5) to guide TRAC Managers through the income allocation process (see section 3.5).

²⁴ www.gov.uk/guidance/off-payroll-working-in-the-public-sector-reform-of-intermediaries-legislation

	<p>The total income figure reported under TRAC should reconcile to the consolidated financial statements:</p> <ul style="list-style-type: none"> • total income as reported in the consolidated financial statements; • plus gain on disposal of fixed assets²² (3.1.5.3b); • plus gain on investments²⁵ (3.1.5.3c); • plus the share of operating surpluses in joint ventures and associates as reported in the consolidated financial statements²² (3.1.5.4); • plus taxation credits²² (3.1.5.4a). <p>Under FRS 102 items previously classified as exceptional items (as defined by FRS 3) are included in the main income and expenditure headings. Such items should be included in TRAC income or expenditure, in line with the main income or expenditure headings to which they relate, but supplementary analysis should be provided in the Annual TRAC return for items reported under HESA Finance record Table 10.</p>
3.1.5.7a	<p>The total income figure reported in the consolidated financial statements will include income from capital grants as well as from revenue grants.</p> <p>If the accrual model²⁶ is adopted for government capital grants, on recognition the capital grant element will be shown as deferred income and then released as funding body income, research income or other income as appropriate; whereas if the performance model is adopted for government capital grants the capital grant will be recognised as funding body income, research income, or other income, as appropriate, when performance conditions are met.</p> <p>Income in TRAC should agree to income in the consolidated financial statements, and there should be no adjustment to the TRAC income to reflect the choice of accounting policy for government capital grants.</p> <p>Through their Annual TRAC return institutions should report their accounting policy for government capital grants and provide a summary of new capital grants.</p> <p>There is no accounting policy choice for non-government capital grants, which are recognised as income when performance conditions are met.</p>
3.1.5.8	<p>TRAC costs include an adjustment to represent the full economic cost at institutional level. The final calculation of the Margin for Sustainability and Investment requires the financial statements and financial forecasts to be finalised,</p>

²⁵ These adjustments are made only where there is a net gain on disposal of fixed assets, a net gain on investments, a net surplus in joint ventures or associates, or a net taxation credit recorded in the statement of comprehensive income. Where there is a net loss, net deficit or net charge recorded in the statement of comprehensive income, this is added to expenditure.

²⁶ FRS 102 and the FEHE SORP allow the institution to make a choice of accounting policy by applying either the accrual model or the performance model when accounting for Government grants (except for capital grants for land).

	<p>but the adjustment can be calculated provisionally, based on the draft financial statements.</p> <p>Guidance for producing the Margin for Sustainability and Investment is provided in section 3.2.</p>
3.1.5.9	<p>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.</p>

Staff FTE and headcount data

3.1.5.10	<p>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 record or the staff numbers reported in the consolidated financial statements at institutional level, ensuring that:</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> 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.
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Student FTE and headcount data

3.1.5.11	<p>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.</p> <p>The student FTE and headcount should be obtained from internally produced source data that reconcile to the HESA Student record at institutional level, ensuring that:</p>
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- 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	<p>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.</p> <p>There are three approaches commonly used in the sector, as follows:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>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.</p> <p>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</p>
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	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	<p>All time allocation collection methods should:</p> <ul style="list-style-type: none"> • 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; • 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. <p>• achieve a minimum response/confirmation rate of:</p> <ul style="list-style-type: none"> — 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. <p>Depending on how the institution applies the time allocation survey (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.</p>
3.1.5.15	<p>For in-year time allocation:</p> <ul style="list-style-type: none"> • 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	<p>When time periods or academic staff are sampled using a statistical collection method:</p> <ul style="list-style-type: none"> • 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	<p>When following a workload planning approach:</p> <ul style="list-style-type: none"> • 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. The institution has flexibility to decide how the start of the year is defined; this need not be during the first month of the academic year. <p>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.</p>

Technician survey data

3.1.5.18	<p>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).</p> <p>Attribution to TRAC activities is determined:</p> <ul style="list-style-type: none">• 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	<p>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).</p>
3.1.5.20	<p>If there are no directly allocated technicians, or the levels are not material, separate laboratory technician rates do not need to be calculated.</p>

Space data

3.1.5.21	<p>The space data are used as a pure, weighted or blended cost driver within the TRAC model.</p> <p>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:</p> <p>Space is attributed to academic and central departments on the basis of proportional usage and not on the basis of predominant use.</p> <p>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).</p> <p>A reasonable method is used to calculate a weighted cost for each type of space (see 3.1.5.25 below).</p> <p>Space dedicated to single TRAC category use is directly allocated to the relevant TRAC category, e.g. Catering and Residences to Other.</p> <p>Centrally bookable space is allocated to academic department and TRAC categories based on recorded use.</p> <p>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.</p> <p>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.</p> <p>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.</p>
3.1.5.22	<p>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).</p>

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.
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Weighting input data

3.1.5.24	<p>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.</p> <p>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.</p>
3.1.5.25	<p>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.</p> <p>The TRAC Manager should ensure that the calculations for the weighting factors applied to academic and central departmental space are retained.</p>
3.1.5.26	<p>Within the staff and student dataset, FTE and headcount data can be weighted to produce tailored cost drivers.</p> <p>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.</p>
3.1.5.27	<p>Standard weightings are mandated for use in TRAC for the following analysis:</p> <ul style="list-style-type: none">• 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	<p>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.</p> <p>Calculated indexation rates should:</p> <ul style="list-style-type: none"> • 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 annual 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 – applied to the relevant proportion of indirect costs into pay and non-pay. <p>A worksheet is provided in annex 3.1c to inform the calculation of the institution's indexation value.</p>
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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
<ul style="list-style-type: none"> • When following an in-year retrospective method for academic staff time allocation, a sample of staff (rather than <u>all</u> staff) and/or a sample of weeks of the year (rather than returns covering the <u>whole</u> year) are used within an in-year time allocation survey collection.
<ul style="list-style-type: none"> • A statistical approach is used to collect academic time allocation data but is not completed every year.
<ul style="list-style-type: none"> • The additional requirements detailed in annex 1.1b, in relation to the impact on operational arrangements during the coronavirus (COVID-19) pandemic, have not been complied with.
<ul style="list-style-type: none"> • Income has been used as a cost driver within TRAC models.
<ul style="list-style-type: none"> • The share of operating surplus/deficit in joint ventures and associates have not been allocated to TRAC activities, and have not been included in TRAC income or costs.
<ul style="list-style-type: none"> • The share of operating deficits in joint ventures and associates is included in the indirect cost rates (or estates rates) for Research.
<ul style="list-style-type: none"> • PGR FTEs are double counted by being included in both staff and student FTE.
<ul style="list-style-type: none"> • PGRs on writing up assignments are not excluded from FTE counts.

What could go wrong / areas of non-compliance
<ul style="list-style-type: none"> • TRAC definitions are not used and Estates Management Return (EMR) activity definitions are used instead.
<ul style="list-style-type: none"> • Cost drivers are not refreshed in line with the TRAC requirements.
<ul style="list-style-type: none"> • Coding errors in the TRAC model misalign cost drivers and costs.
<ul style="list-style-type: none"> • Cost driver data are incomplete and do not match to the source data.
<ul style="list-style-type: none"> • Technician cost pools are not excluded from facility, estates or indirect rates.
<ul style="list-style-type: none"> • 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.
<ul style="list-style-type: none"> • Apprenticeship levy costs are not allocated in line with staff costs in the TRAC model.
<ul style="list-style-type: none"> • The institution's TRAC model still uses the Infrastructure and Return for Finance and Investment adjustments instead of the new Margin for Sustainability and Investment.
<ul style="list-style-type: none"> • Indexation is unlikely to be correct if it is close to zero.
<ul style="list-style-type: none"> • Personal Information collected during the time allocation survey is not securely stored, is used for purposes other than academic time cost drivers or is retained longer than necessary in contravention of the requirements of GDPR.
<ul style="list-style-type: none"> • TRAC expenditure includes an adjustment to the expenditure included in the statement of comprehensive income for LGPS, institution own defined benefit scheme, or defined contribution pension scheme.
<ul style="list-style-type: none"> • Adjustments to the expenditure included in the statement of comprehensive income for the USS, SAUL or OSPS are not made using the pension costs adjustment calculator.
<ul style="list-style-type: none"> • Actuarial gains or losses included in the statement of comprehensive income are included in TRAC income or expenditure.
<ul style="list-style-type: none"> • Investment gains and losses are not included in TRAC using the net gain or loss as recorded in the statement of comprehensive income, but instead gains and losses are separated with gains included in income and losses in expenditure.

3.1.7 Annexes

Annex reference	Document title
3.1a	Academic time allocation survey form
3.1b	Pension cost adjustment calculator
3.1c	Indexation calculation worksheet
3.1d	Worked example of how to complete table A1 of the TRAC return

The annex is located on the following web page: www.trac.ac.uk/tracguidance/

3.1.8 Associated good practice and other relevant reference material

- TRAC, the Easier Way Guide:
www.trac.ac.uk/publications
- Research Councils UK press release on the Apprenticeship Levy:
webarchive.nationalarchives.gov.uk/20180327093339/http://www.rcuk.ac.uk/media/news/170313/
- Pensions briefing note:
www.trac.ac.uk/wp-content/uploads/2018/08/Pensions-accounting-under-FRS102.pdf

3.2 Sustainability adjustment – Margin for Sustainability and Investment (MSI)

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.

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. 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 a margin for sustainability and investment (MSI) is added to the costs reported in the consolidated financial statements to present a full economic cost. The MSI provides an institution-specific margin that is based on an average of past financial performance and forecast performance. This will reflect each institution's own financial strategy and is based on an agreed definition of the 'Earnings Before Interest, Taxation, Depreciation and Amortisation' (EBITDA).²⁷ This adjustment is applied to the TRAC model in line with the guidance below to represent the fEC of delivering core institutional activities.

The background to the introduction of the MSI included the recommendations made through the Wakeham report²⁸ on sustainability assessment which were further reinforced in the 2012 HEFCE Review of TRAC²⁹ which recommended that higher education institutions' (HEIs') governing bodies should make formal annual assessments to assure themselves about the sustainability of the institution's strategy, and that the Funding Councils should consider how a consistent set of metrics could be incorporated into their accountability reviews.

FSSG led on developing an approach to the Wakeham recommendations in respect of sustainability, and subsequent developments, and following an initial pilot exercise, FSSG recommended that all HEIs took part in a pilot year implementation in 2013 and submitted sustainability assessments to their respective Funding Councils.

In addition, the FSSG sub-group worked with HEIs to propose a financial metric – the MSI – as a consistent indicator that could provide a replacement for the previous proxy for sustainability, the

²⁷ FSSG, *Report on the implementation of the Margin for Sustainability and Investment* (November 2017)

²⁸ Research Councils UK (RCUK) and Universities UK, *Financial Sustainability and Efficiency in Full Economic Costing of Research in UK Higher Education Institutions* (June 2010)

²⁹ HEFCE, *Review of TRAC: Consultation on streamlining requirements and increasing transparency of the Transparent Approach to Costing* (October 2012)

RFI (and, in addition, the infrastructure adjustment). This reflected the 2011 report to the FSSG on assessing the sustainability of HEIs³⁰ which recommended that a replacement for the RFI should be 'based on institutions' own individual required sustainability margins as reported in the annual sustainability assurance report from the governing body to the funding council. These should be aggregated to provide either one sector-wide margin or a small number of mission-group margins for use in calculating full Economic Cost prices and in policy formulation.'

The original FSSG intention was that each institution should consider for itself the level of cash it needs to generate in order to deliver the programme of investment required to deliver its sustainable academic strategies: thus the MSI should be based on the level of surplus/cash generation 'required for sustainability'. The definition of the MSI was changed in the summer of 2013 following discussion with the Committee of University Chairs. It was agreed to change the requirement from reporting the 'surplus required for sustainability' (or 'target' surplus) to reporting the 'expected surplus'.

Section 4.1 provides guidance on how the Annual TRAC return presents the MSI, and recognises how it influences costing of research activity.

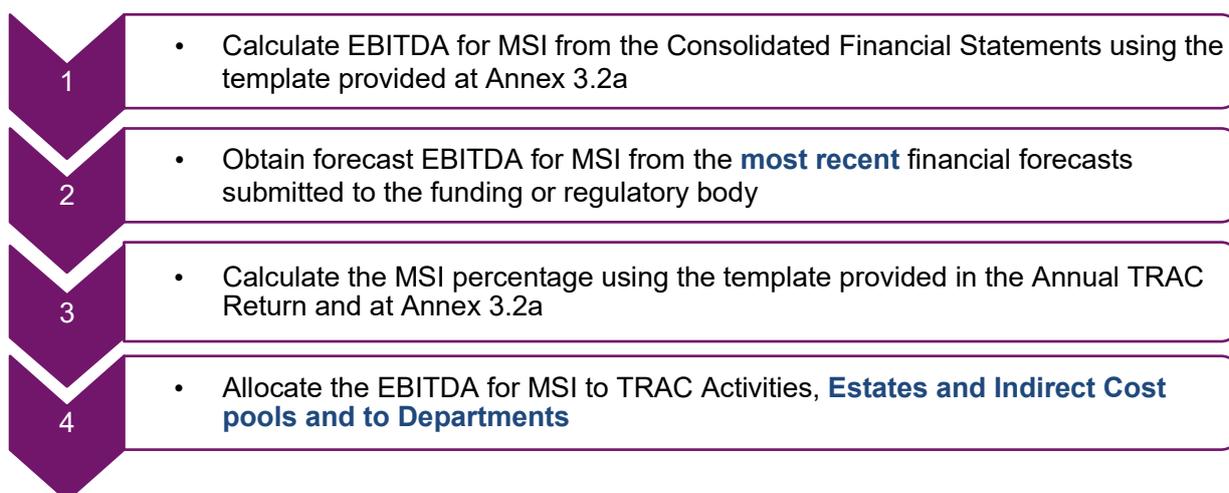
3.2.2 The aim – What are we trying to achieve with the MSI?

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 MSI to be included in deriving the full economic costs of institutional activities and to allocate the MSI to the TRAC activity categories.

3.2.3 Process workflow

Figure 3.2 sets out the TRAC process for calculating the MSI.

Figure 3.2: MSI



³⁰ J M Consulting, *Assessing the sustainability of higher education institutions*, a report prepared for the Financial Sustainability Strategy Group (June 2011)

3.2.4 The requirements

3.2.4.1	Institutions should calculate the EBITDA for MSI and the MSI percentage using the template included in the Annual TRAC return and at Annex 3.2a, noting the specific treatment for deducting Gross RDEC income from the surplus/(deficit) figures entered in Table C.1 of the Annual TRAC Return (line 16 of Annex 3.2a).
3.2.4.2	All data used in the calculation of the EBITDA for MSI should be taken from the audited financial statements and the most recent financial forecast as approved by the governing body and submitted to the respective funding or regulatory body.
3.2.4.3	The EBITDA for MSI should be set to zero if the calculated values are negative.
3.2.4.4	The EBITDA for MSI should be allocated to the TRAC categories in line with the guidance detailed in sub-sections 3.2.5.4.
3.2.4.5	Institutions may be required to provide the OfS or relevant Funding Councils, UKRI and Research Councils with an explanation for MSI values that are above or below predetermined thresholds.

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 MSI. 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.

3.2.5.1	Use the guidance template provided in the Annual TRAC return to calculate the EBITDA for MSI and the MSI percentage as follows: <ul style="list-style-type: none"> • Derive the six-year cash generation figure from EBITDA for MSI using the template provided in the Annual TRAC return; and • Divide the average six-year cash generation figure by adjusted total income for the current year. Adjusted total income is calculated using the template provided in the Annual TRAC return.
3.2.5.2	Use the guidance template provided in the Annual TRAC return to calculate the six-year average EBITDA for MSI.
3.2.5.3	If (unusually) the EBITDA for MSI is negative, it should be set to zero.
3.2.5.4	The EBITDA for MSI should be attributed to TRAC activities in two stages, as follows:

	<ul style="list-style-type: none"> the EBITDA for MSI adjustment should be attributed to T,R and O and to academic departments in proportion to the total of all costs in TRAC, before the addition of the EBITDA for MSI; and the EBITDA for MSI for T, R and O should be allocated between the indirect and estates cost pools in proportion to the numerator of each charge-out rate [and for each activity category]. E.g. if £5m of MSI was allocated to Research, this £5m should be shared between the Estates and Indirect cost pools for Research in proportion to the costs allocated to these two cost pools before adding the share of MSI.
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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
<ul style="list-style-type: none"> The MSI is not calculated in accordance with the template provided in the Annual TRAC return.
<ul style="list-style-type: none"> The result is negative but the EBITDA for MSI is not set to zero.
<ul style="list-style-type: none"> Income is not adjusted to remove new capital grants, deferred capital grants and new permanent endowments.
<ul style="list-style-type: none"> The EBITDA for MSI is not allocated to TRAC categories based on the total of all other costs in TRAC, before addition of EBIDTA for MSI.
<ul style="list-style-type: none"> The EBITDA for MSI is not split between the indirect and estates cost pools.
<ul style="list-style-type: none"> The MSI allocated to the indirect and estates cost pools for each TRAC activity does not agree to the total value of MSI allocated to each TRAC activity (i.e. Teaching, Research, Other (income-generating) and Other (non-commercial)).
<ul style="list-style-type: none"> The MSI percentage is applied to indirect and estates cost pools, rather than allocating the EBITDA for MSI value.
<ul style="list-style-type: none"> Gross RDEC income has not been deducted from the surplus/(deficit) figures entered into Table C.1 of the Annual TRAC return.

3.2.7 Annex and external links

Annex reference	Document title
3.2a	MSI calculation template

Annexes are located on the following web page: www.trac.ac.uk/tracguidance

3.2.8 Associated good practice and other relevant reference material

- Report on the on the implementation of the Margin for Sustainability and Investment (November 2017)

<http://webarchive.nationalarchives.gov.uk/20180405125234/http://www.hefce.ac.uk/funding/finsustain/projects/msi/>

- Report on the evaluation of the 2014-15 Annual Sustainability Assurance Report pilot (September 2016)

<http://webarchive.nationalarchives.gov.uk/20180405131806/http://www.hefce.ac.uk/funding/finsustain/pubs/assurmsi201415/>

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

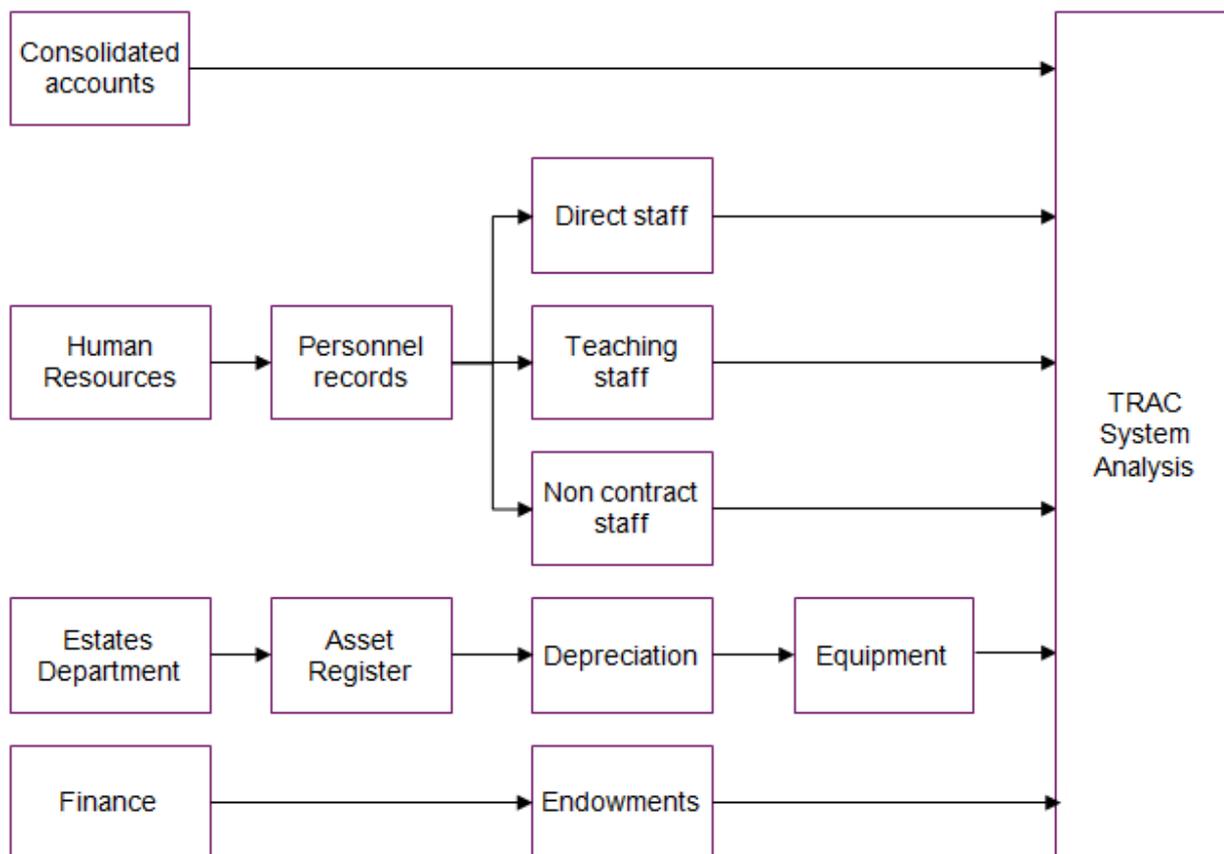
Costs are classified as either direct or support.

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	<p>Costs directly allocated to Other (clinical services), should be reattributed to TRAC activities by:</p> <ul style="list-style-type: none"> 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’³¹ costs to Other (income-generating activity); c) Allocating the remaining costs based on or using the time allocation schedule data;

³¹ ‘Distinction awards, payments for Additional doctors’ hours, intensity payments, etc.

	<p>d) 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;</p> <p>e) Allocating the balance on the basis of the services being received from the NHS under the knock-for-knock arrangements.</p>
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).

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	<p>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).</p> <p>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:</p> <ul style="list-style-type: none"> • academic departments; • central departments (support); • commercial departments.
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Identify cost pools to directly allocate to TRAC categories

3.3.5.2	<p>Where material and possible to do so, the following cost types should be attributed directly to academic departments and then to Research:</p> <ul style="list-style-type: none"> • 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 mainly³²) 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; • tax charges on research activity (including charges relating to Research and Development Expenditure Credits, for example).
3.3.5.3	<p>Where material and possible to do so, the following cost types should be attributed directly to academic departments and then to Teaching:</p> <ul style="list-style-type: none"> • 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 activity³³ has been carried out; • tax charges on teaching activity (including overseas taxes relating to teaching activity overseas).
3.3.5.4	<p>Where material and possible to do so, the following cost types should be attributed directly to academic departments and then to Other (income-generating activity)³⁴:</p> <ul style="list-style-type: none"> • 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;

³² Materially (as defined at annex 1.2a) dedicated to research activity.

³³ Trading activities in commercial companies and spin-outs (subsidiaries) where teaching is being delivered.

³⁴ 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.

	<ul style="list-style-type: none"> • academic and departmental staff wholly (or mainly) working on commercial activity; • trading companies where commercial activity has been carried out; • service concession arrangements for residences; • tax charges related to commercial activity. <p>Catering facilities (where operated for commercial purposes), conferences and residences costs should be allocated directly to Other (income-generating activity), or through academic and central departments first if preferred.</p>
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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.
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	<p>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.</p> <p>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.</p>
3.3.5.8	<p>Where material and possible to do so, attribute 'clinical services' time to TRAC activities by:</p> <ul style="list-style-type: none"> • identifying the total staff costs for each academic department or group of academic departments; • allocating the total costs of reimbursed 'agency'³⁵ costs to Other (income-generating activity); • allocating the remaining costs as per the time allocation schedule data;

³⁵ Distinction awards, payments for Additional doctors' hours, intensity payments, etc.

	<ul style="list-style-type: none"> • 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.
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Allocating costs relating to ‘Other (non-commercial activity)’

3.3.5.9	<p>The sub-category of ‘Other (non-commercial activity)’ should contain any costs that meet this definition, as set out in section 1.3.3.3. Where material, costs should be directly allocated to this TRAC category. It is expected that items in this category will represent expenditure funded by income from investments, new endowments and donations, and possibly new capital grants that have been allocated to this category in either the current or previous years. It may also be the case that income and costs allocated to this category do not match, as the accounting requirements of FRS102 may mean that the income is recognised and therefore allocated to this category (see sections 3.5.5.20 – 3.5.5.23) before any associated expenditure is incurred. Losses from investments will also be included in this category where they do not relate to Teaching or Research.</p>
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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
<ul style="list-style-type: none"> • The additional requirements detailed in annex 1.1b, in relation to the impact on operational arrangements during the coronavirus (COVID-19) pandemic, have not been complied with.
<ul style="list-style-type: none"> • Direct allocation based on an activity type description in the account coding structure that is unclear, leading to incorrect allocation.
<ul style="list-style-type: none"> • 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.
<ul style="list-style-type: none"> • 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.
<ul style="list-style-type: none"> • Inappropriate allocation to Other when activity type should be Teaching or Research (Note: administration and support activity is not Other).
<ul style="list-style-type: none"> • Costs funded from donations and endowment income that have been allocated to ‘Other (non-commercial activity)’ are not allocated to the same category.

What could go wrong / areas of non-compliance
<ul style="list-style-type: none">• Allocation of cost in future years to Teaching or Research, when the income was treated as 'Other (non-commercial activity)'.
<ul style="list-style-type: none">• The cost of services to students that may be loss making/subsidised by the institution are allocated in TRAC to Other (non-commercial activity).

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.trac.ac.uk/contact/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

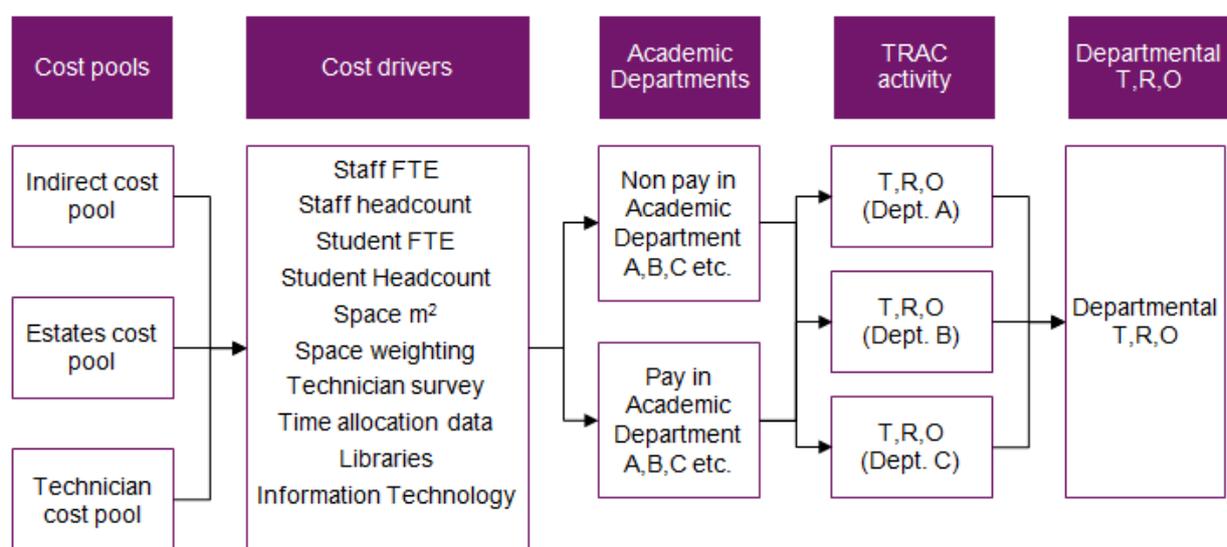
Costs are classified as either direct, or indirect:

- 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, less costs charged directly to an activity, before the addition of the relevant share of the Margin for Sustainability and Investment (MSI) 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	<p>Whilst acknowledging that institutional coding structures will vary, the total indirect cost pool is expected to contain the following identifiable components:</p> <ul style="list-style-type: none"> • 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 costs³⁶; • registry; • finance;
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³⁶ The former FRS 3 requirement to show separately on the face of the income and expenditure account the costs of a fundamental reorganisation materially affecting the operation and profits of the entity has not been included in FRS 102 and such costs are included in the main income and expenditure headings (and disclosed where material) rather than included 'below the line'.

	<ul style="list-style-type: none"> • human resources; • libraries and learning resources; • an element of non-pension related interest costs; • the estates costs attributable to central service departments; • pay and non-pay costs in other central service departments; • tax charges (except where directly allocated in accordance with 3.3.5.2 to 3.3.5.4).
3.4.5.2	<p>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:</p> <ul style="list-style-type: none"> • including the estates cost apportioned to central support departments; • including the relevant proportion of the MSI adjustment (see 3.2.5.4); • including the support time of academics (see 3.4.5.4); excluding the cost charged directly to an activity. <p>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.</p>
3.4.5.3	<p>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.</p>

Identifying the support costs in academic departments

3.4.5.4	<p>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.</p> <p>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.</p>
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Identify estate cost pools to apportion

3.4.5.5	<p>Whilst acknowledging that institutional coding structures will vary, the total estates cost pool is expected to contain the following directly identifiable components:</p> <ul style="list-style-type: none"> • repairs and maintenance; • utilities; • rates;
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	<ul style="list-style-type: none"> • estates personnel costs; • rental costs; • an element of non-pension related interest costs; • gross buildings depreciation; • building impairment costs; • 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	<p>The TRAC Manager could perform and retain a reconciliation between the estates cost pool total for TRAC and the value reported to HESA:</p> <ul style="list-style-type: none"> • plus the MSI (see 3.2.5.4); • less the cost of technicians, equipment and facilities that are charged separately (see section 4.2).
3.4.5.7	<p>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).</p> <p>There are two approaches for obtaining space usage data for TRAC:</p> <ul style="list-style-type: none"> • 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. <p>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).</p> <p>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).</p>

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	<p>The institution should observe the order in which support costs are attributed to other central support and academic departments, as follows:</p> <ol style="list-style-type: none">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	<p>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.</p> <p>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).</p>
3.4.5.12	<p>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.</p> <p>No costs are attributed to the eighth research sponsor type 'Funding Council/Research England recurrent funding for Research'.</p>

3.4.5.13	Costs relating to Other (income-generating activity) and Other (non-commercial activity) should be directly allocated to these categories, as set out in 3.3.5.9.
3.4.5.14	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.
3.4.5.15	<p>Non-pension related interest costs should be allocated to the TRAC activities, relative to how the loans/debt instruments have been used. For example, loans/debt instruments may have been used to fund the acquisition or development of buildings, IT or other activities. It is therefore suggested that:</p> <ul style="list-style-type: none"> • the proportion of non-pension related interest costs relating to buildings is allocated either directly to academic departments and TRAC activities where possible or to the estates cost pool, and allocated to TRAC activities using the estates cost driver; • non-pension related interest costs relating to residences, catering and commercial activities is allocated to Other (income-generating activity); • the proportion of non-pension related interest costs relating to IT (where material) is allocated to the IT indirect cost pool and allocated to academic departments and TRAC categories using the IT cost driver; and • non-pension related interest costs arising from loans, bond or private placements that are unspent should be allocated to Other (non-commercial activity) category; • non-pension related interest costs relating to short-term finance and/or revolving credit facilities that are not supporting specific capital projects should be allocated to academic departments and TRAC activities in line with total expenditure; and • the balance of non-pension related interest costs not allocated through the methods above should be allocated to academic departments and TRAC activities in line with total expenditure. <p>Where an institution has incurred loan breakage costs or re-financing costs, these should be allocated within the TRAC model in line with how non-pension related interest costs have been allocated (see above).</p>

Aggregation of department level data to institution level data

3.4.5.16	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.
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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
<ul style="list-style-type: none"> • The additional requirements detailed in annex 1.1b, in relation to the impact on operational arrangements during the coronavirus (COVID-19) pandemic, have not been complied with.
<ul style="list-style-type: none"> • 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).
<ul style="list-style-type: none"> • Cost drivers for libraries and learning resources are not robust and have not been confirmed as reasonable by the Head of Service.
<ul style="list-style-type: none"> • 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.)
<ul style="list-style-type: none"> • Estates data used to inform TRAC apportionment are not based upon the 'proportionate' use of space.
<ul style="list-style-type: none"> • Support costs are not separately identifiable at academic department level.
<ul style="list-style-type: none"> • 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.
<ul style="list-style-type: none"> • Estates and Indirect costs are allocated without their share of the MSI adjustment (chapter 3.2).
<ul style="list-style-type: none"> • Loan breakage costs or re-financing costs are allocated within the TRAC model to Other (non-commercial), rather than in line with how non-pension related interest costs have been allocated (3.4.5.15).
<ul style="list-style-type: none"> • Costs relating to the following are allocated to Other (non-commercial) in error: <ul style="list-style-type: none"> • pension costs; • impairment write-downs; • COVID-related costs/ bursaries

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.trac.ac.uk/contact/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 and the surplus/(deficit) 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 the OfS/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:

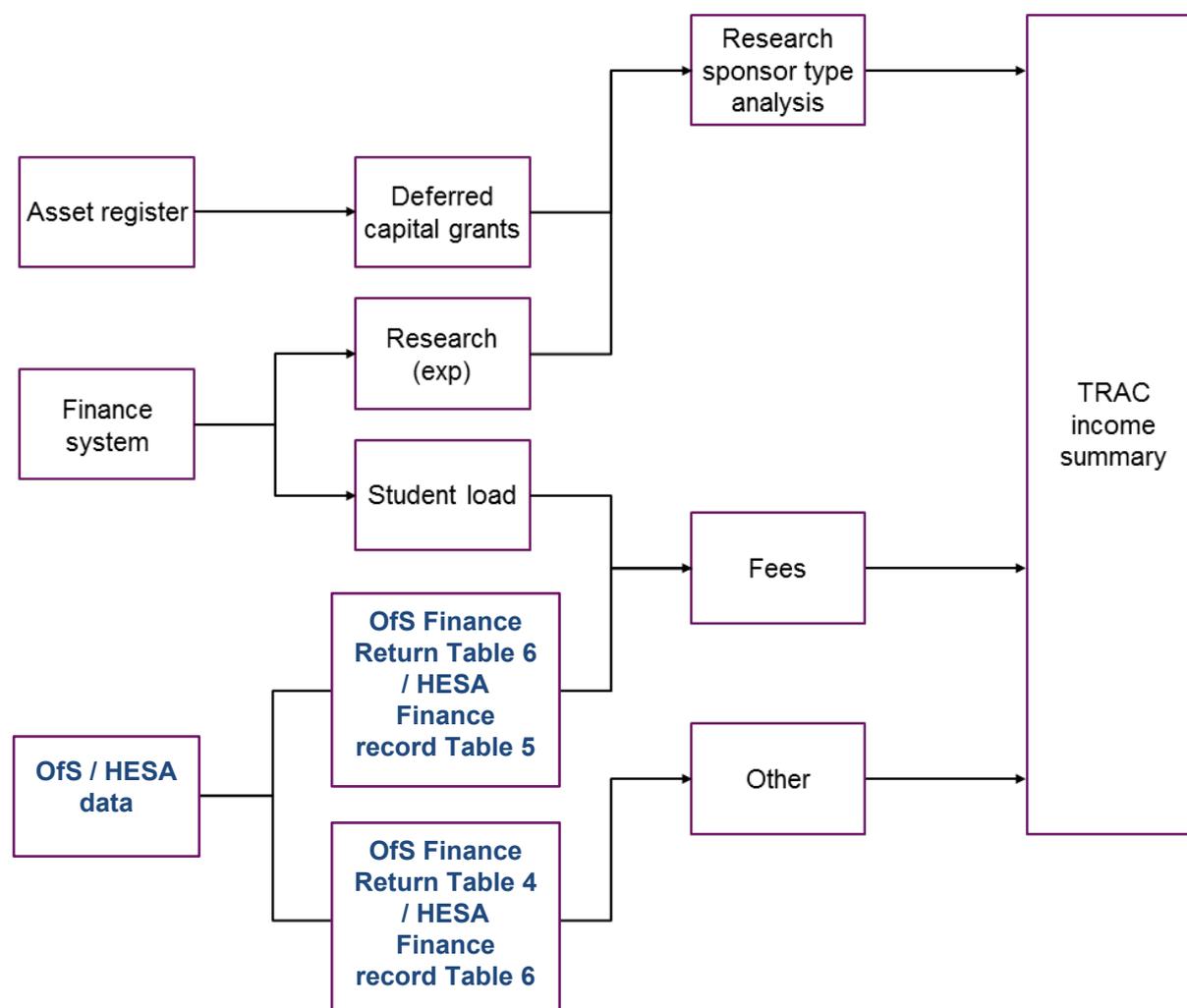
- provide accountability for public funds;
- monitor the financial sustainability of core TRAC activities;
- inform funding policy.

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 the TRAC surplus or deficit 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. Further adjustments are made in TRAC for gains on disposal of fixed assets, gains on investments ³⁷ , operating surpluses from joint ventures and associates, and taxation credits (see 3.1.5.3a 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:

³⁷ This includes both realised and unrealised gains.

	<p>(a) the purpose of the funding (what was it provided for, irrespective of how it might actually have been employed by the institution); or</p> <p>(b) what it was used for (i.e. where the costs are allocated); and</p> <p>(c) the source of the funds – the type of organisation providing the income (which dictates PFT or NPFT).</p> <p>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.</p>
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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	<p>In the October following the closure of each financial reporting period, the OfS/ 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.</p>
3.5.5.2	<p>The income allocation table (annex 3.5a) includes two sections:</p> <ul style="list-style-type: none"> • The left side of the workbook provides a copy of the OfS Finance Return Table 4³⁸ / HESA Finance record Table 6 template³⁹. This template is provided for institutions to populate with their own OfS/ HESA Finance return 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. <p>When completed, both sides of the workbook reconcile against each other.</p>

³⁸ OfS Financial return guidance, see <https://www.officeforstudents.org.uk/publications/regulatory-advice-14-guidance-for-providers-for-the-annual-financial-return/>

³⁹ HESA Finance record guidance, see <https://www.hesa.ac.uk/collection/> (When released by HESA)

Funding body grants allocation

3.5.5.3	<p>Allocate income for 'Funding Body Grants' as follows:</p> <ul style="list-style-type: none">• Grants for Teaching should be allocated to publicly funded teaching (PFT).• Grants for Research should be allocated to 'recurrent research grant from Funding Councils/Research England'.• 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. <p>Where grants cannot be allocated in accordance with the above, they should be allocated in the same proportion as the OfS/Funding Council/Research England mainstream Teaching and Research grants.</p> <p>Annex 3.5b provides a list of grants currently made available by the OfS/ Funding Councils/Research England, 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.</p> <p>Note: The allocation approach is the same whether the accrual model or performance model is adopted for government revenue grants.</p>
3.5.5.4	<p>Income for 'Teaching grants' from Other Government Departments and other funding bodies (e.g. Scottish Government, and the Education and Skills Funding Agency) should be allocated to PFT.</p> <p>Funds received from the apprenticeship service account should be allocated as follows:</p> <ul style="list-style-type: none">• To Publicly Funded Teaching – where the institution is on the Register of Apprenticeship Providers as a 'Main Provider' and income is received for courses taken by students as part of an apprenticeship• To Teaching, Research or Other, based on the allocation of the staff costs for income received in respect of the institution's own staff who are taking courses as part of an apprenticeship. <p>Note: The allocation approach is the same whether the accrual model or performance model is adopted for government revenue grants.</p>
3.5.5.5	<p>Allocate income from capital grants as follows:</p> <ul style="list-style-type: none">• Where the asset is designated for use on a particular activity (Teaching or Research) associated income 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 income should be allocated to all categories in the same proportion as the allocation of estates costs in academic departments. <p>Note: The allocation approach is the same whether the accrual model or performance model is adopted for government capital grants:</p>

	<ul style="list-style-type: none"> • Where the accrual model is adopted for government capital grants, income relates to the release of capital grants from deferred income • Where the performance model is adopted for government capital grants, income relates to new capital grants received in the year in which the performance conditions have been met.
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Tuition fees and education contracts allocation

3.5.5.6	<p>Allocate income for tuition fees and education contracts (for each type of income in OfS Finance Return guidance Table 6 (Analysis of income – course fees and education contracts analysed by domicile, mode, level and source)/ HESA Finance Coding Manual Table 5 (Tuition fees and education contracts analysed by domicile, mode, level and HESA cost centre): allocate higher education course fees for Teaching to PFT (or non-publicly funded teaching (NPFT) for overseas students);</p> <ul style="list-style-type: none"> • 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	<p>Allocate all other fees and support grants between Teaching and Research:</p> <ul style="list-style-type: none"> • 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	<p>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.</p>

Research grants and contracts allocation

3.5.5.9	<p>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).</p> <p>Note: The allocation approach is the same whether the accrual model or performance model is adopted for government revenue grants.</p>
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3.5.5.9a	<p>Allocate income from capital grants to Research. Its source should determine its allocation to research sponsor type.</p> <p>Note: The allocation approach is the same whether the accrual model or performance model is adopted for government capital grants:</p> <ul style="list-style-type: none"> • Where the accrual model is adopted for government capital grants, income relates to the release of capital grants from deferred income. • Where the performance model is adopted for government capital grants, income relates to new capital grants received in the year where the performance conditions have been met.
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Other income allocation

3.5.5.10	<p>All other income (that is not Teaching or Research) 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. 'Other' is divided into two sub-categories:</p> <ul style="list-style-type: none"> • Other (income-generating activity); and • Other (non-commercial activity). <p>This split is to enable better presentation and interpretation of 'Other' activity where the financial reporting under FRS102 could have a distorting effect in a reporting period due to income recognition from investments, endowments and capital grants.</p>
3.5.5.11	<p>Allocate income for 'Other Services Rendered' received from UK central government bodies, local authorities, health and hospital authorities:</p> <p>If any income category is not material (as defined at annex 1.2a), allocate to Other (income-generating activity), otherwise for:</p> <ul style="list-style-type: none"> • routine testing to Other (income-generating activity); • enterprise activities to Other (income-generating activity); • teaching to PFT where specifically designated for Teaching; • clinical trials to Research only if considered by the NHS to be Research, otherwise to Other (income-generating activity); • estates charges to activities in the same proportion as the allocation of their costs under TRAC.
3.5.5.12	<p>Allocate income for 'Other Services Rendered' received from EU government bodies:</p> <p>If any income category is not material (as defined at annex 1.2a), allocate to Other (income-generating activity), otherwise for:</p> <ul style="list-style-type: none"> • European Commission funding programmes to Teaching, Research or Other (income-generating activity).
3.5.5.13	<p>Allocate income for 'Other Services Rendered' received from other bodies:</p>

	<p>If any income category is not material (as defined at annex 1.24a), allocate to Other, otherwise for:</p> <ul style="list-style-type: none"> • 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 (income-generating activity).
3.5.5.15	Allocate the income from local authorities to PFT when related to Teaching, or to Other (income-generating activity).
3.5.5.16	<p>Allocate income from health or hospital authorities:</p> <ul style="list-style-type: none"> • agency payments and distinction awards to Other (income-generating activity); • reimbursed salaries / national tariff to Other (income-generating activity); • other income to Teaching (when related to Teaching), Research (Other UK Government Departments sponsor type) or Other (income-generating activity) depending on the activity being undertaken.
3.5.5.17	<p>Allocate income from capital grants to the activity for which the asset being funded is used.</p> <p>If not known, allocate across all activity types in relation to TRAC estates cost allocations.</p> <p>Note: The allocation approach is the same whether the accrual model or performance model is adopted for government capital grants:</p> <ul style="list-style-type: none"> • Where the accrual model is adopted for government capital grants, income relates to the release of capital grants from deferred income • Where the performance model is adopted for government capital grants, income relates to new capital grants received in the year where the performance conditions have been met.
3.5.5.18	Allocate the income from intellectual property rights to Other (income-generating activity).
3.5.5.19	<p>Allocate income for 'Other Operating Income':</p> <p>If any income category is not material (as defined at annex 1.2a), allocate to Other, otherwise for:</p> <ul style="list-style-type: none"> • Erasmus and Tempus to Teaching (PFT); • dividends and royalties to Other (income-generating activity); • sale of 'spin-outs' to Other (income-generating activity); • subsidiary trading companies to be allocated (in relation to TRAC costs) to PFT or NPFT where related to Teaching, to Research (EU other; UK

	<p>Industry; other overseas sponsor type) or to Other (income-generating activity);</p> <ul style="list-style-type: none"> • shops to Other (income-generating activity); • external sales of goods and services to Other (income-generating activity); • gain on disposal of fixed assets to T, R, Other (non-commercial activity) in proportion to the allocations of academic departments' estates costs being made for the TRAC year; • 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 (income-generating activity); • taxation credits to the activities to which they relate.
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Investment income allocation

3.5.5.20	<p>Allocate investment income:</p> <ul style="list-style-type: none"> • income from endowments investments to Other (non-commercial activity), unless it relates to an endowment that was given for a specific activity related to Teaching or Research; • income from investment of short-term funds to Other (non-commercial activity); • realisation of investments held as long-term funds to Other (non-commercial activity); • other interest receivable to Other (non-commercial activity).
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Donations and endowments allocation

3.5.5.21	<p>Allocate endowment income, both from new endowments and from permanent endowments to the activity for which the endowment is given:</p> <ul style="list-style-type: none"> • to NPFT when related to Teaching; • to one or a combination of Institution own-funded Research, Postgraduate or EU other; UK industry; other overseas Research when related to Research; or • to Other (non-commercial activity). <p>Where an endowment is given for a particular activity and is not allocated as set out above, the TRAC Support Unit should be contacted to seek advice on the most appropriate method of allocation.</p>
3.5.5.22	<p>Allocate donations to the activity for which the donation is given: to NPFT when related to Teaching, to Institution own-funded Research, or to Other (non-commercial activity).</p>

3.5.5.23	Allocate income value attributed to donated heritage assets to Other (non-commercial activity).
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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
<ul style="list-style-type: none"> The additional requirements detailed in annex 1.1b, in relation to the impact on operational arrangements during the coronavirus (COVID-19) pandemic, have not been complied with.
<ul style="list-style-type: none"> Failure to access the most recent income allocation template (annex 3.5a or annex 3.5b); relying on a prior year version instead.
<ul style="list-style-type: none"> Failure to allocate ELQ student income to NPFT.
<ul style="list-style-type: none"> Where donations are received, they have not been matched to the specific activity that donation was made for.
<ul style="list-style-type: none"> Failure to allocate other income to the correct sub-category of Other, e.g. allocating income from endowments, donations, new capital grants, and profits / losses on the sale of fixed assets to Other (income-generating activity), instead of Other (non-commercial activity).

3.5.7 Annexes

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

Annexes are located on the following web page: www.trac.ac.uk/tracguidance

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.trac.ac.uk/contact/regional