TRAC guidance

The Transparent Approach to Costing for UK higher education institutions

Version 2.8, July 2023
Table of contents

1 Introduction ........................................................................................................................ 2
1.1 Introduction ..................................................................................................................... 3
1.2 Principles and standards ................................................................................................. 12
1.3 TRAC activity definitions ............................................................................................... 15
2 Governance and quality assurance .................................................................................. 26
2.1 Governance and quality assurance of TRAC ................................................................. 27
3 TRAC process .................................................................................................................. 41
3.1 Data required for TRAC .................................................................................................. 42
3.2 Sustainability Adjustment – Margin for Sustainability and Investment (MSI) ............ 66
3.3 Direct cost attribution ..................................................................................................... 71
3.4 Allocating academic department and central costs ....................................................... 78
3.5 Income allocation .......................................................................................................... 87
4 TRAC reporting ................................................................................................................ 97
4.1 Annual TRAC return ..................................................................................................... 98
4.2 Research charge-out rates ............................................................................................. 107
4.3 TRAC for Teaching return – TRAC(T) ......................................................................... 119
5 Calculation of research project costs ............................................................................. 120
5.1 Calculation of research project costs ............................................................................. 121
6 Glossary of terms ............................................................................................................ 130
6.1 Glossary of terms .......................................................................................................... 131

Annexes All annexes are online at: www.trac.ac.uk/tracguidance
Chapter 1 contains three sections:

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Introduction</td>
<td>3</td>
</tr>
<tr>
<td>1.2 Principles and standards</td>
<td>12</td>
</tr>
<tr>
<td>1.3 TRAC activity definitions</td>
<td>15</td>
</tr>
</tbody>
</table>
1.1 Introduction

1.1.1 About this guide

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

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

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

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

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

---

1 For the purposes of this publication, higher education institutions are those institutions that were previously funded by the Higher Education Funding Council for England (HEFCE) and are required to submit annual TRAC returns for 2022-23; and higher education institutions funded by the Scottish Funding Council, Higher Education Funding Council for Wales and the Department for the Economy, Northern Ireland.

2 www.trac.ac.uk/about/tdg
A set of TRAC definitions and glossary of terms are included at sections 1.3 and 6.1 respectively. Materiality for TRAC is defined at annex 1.2a. The TRAC guidance is structured as follows:

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Subject</th>
<th>Ref</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Introduction</td>
<td>1.1</td>
<td>Introduction</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.2</td>
<td>Principles and standards</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.3</td>
<td>TRAC activity definitions</td>
</tr>
<tr>
<td>2</td>
<td>Governance and quality assurance</td>
<td>2.1</td>
<td>Governance and quality assurance of TRAC</td>
</tr>
<tr>
<td>3</td>
<td>TRAC process</td>
<td>3.1</td>
<td>Data required for TRAC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.2</td>
<td>Sustainability adjustment – Margin for</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Sustainability and Investment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.3</td>
<td>Direct cost attribution</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.4</td>
<td>Allocating academic department and</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>central support costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.5</td>
<td>Income allocation</td>
</tr>
<tr>
<td>4</td>
<td>TRAC reporting</td>
<td>4.1</td>
<td>Annual TRAC return</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.2</td>
<td>Research charge-out rates</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.3</td>
<td>TRAC for Teaching return – (TRAC(T))</td>
</tr>
<tr>
<td>5</td>
<td>Calculation of research project costs</td>
<td>5.1</td>
<td>Calculation of research project costs</td>
</tr>
<tr>
<td>6</td>
<td>Glossary of terms</td>
<td>6.1</td>
<td>Glossary of terms</td>
</tr>
</tbody>
</table>

Annexes

1.1a    TRAC guidance change log
1.2a    Materiality
1.2b    Dispensation
2.1a    Requirements and processes for changes in compliance status or institutional status
2.1b    TRAC assurance reminders checklist
2.1c    Timeline for Committee of governing body approving TRAC process
3.1a    Academic time allocation survey form
3.1b    Pension costs adjustment calculator
3.1c    Worksheet for calculating the indexation rate
3.2a    Margin for Sustainability and Investment template
3.5a    Income allocation table
3.5b    Guidance on the allocation of OfS/Funding Council/Research England grants
1.1.2 How to use the TRAC guidance

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

Green shading in tables

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

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

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

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

All updates to TRAC guidance are hosted on the TRAC website; no guidance hosted elsewhere forms part of the TRAC requirements.

Additional reference materials are provided to illustrate good practice and practical application of the TRAC requirements, but these do not contain requirements in their own right.

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

---

3 www.trac.ac.uk/tracguidance
• TRAC Managers and management accountants with responsibility for producing the TRAC data and maintaining TRAC systems;
• senior managers with responsibility for overseeing the TRAC processes, e.g. the Chair of the TRAC Oversight Group;
• research project administrators and managers;
• auditors and other assurance providers;
• the OfS or relevant Funding Councils/Research England/UKRI and the Research Councils and other public funders of higher education.

Additional reference material is accessible from the TRAC website4 which may be of more relevance to:

• Directors of Finance, Pro Vice-Chancellors of Research, Directors of Research Support Offices, and other senior managers with either lead, or significant functional, responsibility for elements of TRAC within the institution;
• individual academics and other institutional professionals (e.g. estates, planning, registry); officers responsible for funding on a fEC (full Economic Cost) basis in Research Councils and other public bodies.

1.1.3 Background to TRAC

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

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

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

TRAC is a process of taking institutional expenditure information from consolidated financial statements, adding a margin for sustainability and investment5 to represent the full ‘sustainable’ cost of delivery, and then applying cost drivers (such as academic staff time allocation and space usage) to allocate these costs to academic departments and to specific activities.

The main activities to which TRAC allocates costs are:
• Teaching (T) – analysed between publicly and non-publicly funded activity;
• Research (R) – analysed between the main sponsor types: Research Councils, Government Departments, charities, European Commission bodies, etc.;

4 www.trac.ac.uk
5 See section 3.2, ‘Margin for Sustainability and Investment’.
• Other (O) – analysed between the other primary income-generating activities such as commercial activities, residences, conferences, etc, and non-commercial activities such as gains and losses on investments;

• Support activities (S) – such as preparation, proposal-writing and administration, which are costed separately but are attributed, as appropriate, to the three core activities – Teaching, Research and Other.

The cost attribution process overview is illustrated in Figure 1.1:

**Figure 1.1: Process overview**

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

These data, at institutional level, are reported annually to the OfS/Funding Councils along with calculated charge-out rates for the research-related elements of indirect costs, estates costs, facilities and equipment, and technicians. These rates are used by institutions in forecasting the full costs of research projects and informing pricing.
TRAC has evolved significantly since its inception and now provides greater utility to institutions by providing a basis for activity costing. Examples of how TRAC can be and is used include: HMRC accepted method for VAT partial recovery, informing teaching funding models, Research Council funding of projects, resource allocation models and course costing. In addition institutions have found benefit in using TRAC data and good practice examples to support other internal processes and to assess financial sustainability.

Significant milestones for TRAC are:

- **1999** – The full economic cost concept was established. TRAC principles and costing standards were created for costing and reporting the full economic costs of Teaching, Research and Other activities in HEIs.

- **2003** – Lord Sainsbury letter to all vice-chancellors and principals. Alan Johnson, Minister of State for Lifelong Learning, Further and Higher Education, and Lord Sainsbury, Minister for Science and Innovation, reaffirmed their commitment to the dual support system for funding research. They also announced that the new procedures for applying for Research Council grants would come into effect from September 2005, with funding based on the full economic cost methodology from April 2006.

- **2004** – HM Treasury letter to the Office of Science and Technology confirming the basic principle that Government Departments should expect to pay 100% of the full economic cost of the research that they commission from UK universities.

- **2005** – TRAC fEC for research project costing was introduced for institutions to identify the full economic cost of carrying out individual research projects, including an appropriate share of infrastructure and financing costs.

- **2008** – TRAC(T) data was first collected to allow institutions to determine subject-related costs of teaching, which are used to inform subject price group and funding subject group weightings in the funding methodologies for England and Scotland.

- **2008** – TRAC EC-FP7 was introduced to allow institutions to adapt the TRAC-based project costing methodology for use with European Commission Framework Programme 7 (EC-FP7).

- **2009** – The Financial Sustainability Strategy Group (FSSG) and TRAC Development Group (TDG) worked with more than 80 institutions in a UK-wide project to increase the use of accessible management information.

- **2011** – The Government White Paper in June 2011, ‘Students at the Heart of the System’, challenged the Funding Councils to undertake a review of TRAC in order to ‘radically streamline’ the reporting requirements and reduce the burden of TRAC on institutions. HEFCE consulted the sector between October 2012 and January 2013; one outcome was the commitment to redevelop the TRAC guidance.

- **2014** – The streamlined TRAC guidance was released.

- **2016** – Version 2 of the TRAC guidance was released, following the implementation of the new accounting standard 'The Financial Reporting Standard applicable in the UK and Ireland' (FRS 102) and the 2015 ‘Statement of Recommended Practice: Accounting for
Further and Higher Education’ (FEHE SORP) (together known as UK Generally Accepted Accounting Practice (UK GAAP)).

- **2017** – The adoption of the Margin for Sustainability and Investment (MSI) as a replacement for the Return for Financing and Investment and the Infrastructure Adjustment in version 2.2 of the TRAC guidance.

- **2018** – The Office for Students (OfS) was established to regulate English higher education providers. UK Research and Innovation (UKRI) was established to bring together the seven Research Councils, Innovate UK and Research England.


- **2021** – TRAC(T) data collection suspended for 2020-21 collection. The Review of TRAC commissioned by the Regulators and Funders Group (RFG) was published.


- **2023** – The OfS confirms it has no plans to collect data or reform the TRAC(T) methodology at this point in time. TRAC(T) data collection is removed as a regulatory reporting requirement for OfS regulated providers. Consequently, SFC and DfE (Northern Ireland) have confirmed they will not collect TRAC(T) data from institutions in Scotland and Northern Ireland, and HEFCW will not proceed with implementation of TRAC(T) in Wales.

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

- **2010** – The ‘Wakeham’ review: ‘Financial sustainability and efficiency in full economic costing of research in UK higher education institutions’.  

- **2012** – The HEFCE ‘Review of clinical subject weightings’.

The introduction of new accounting standards for 2015-16 required a reconsideration of the need for adjustments to or analysis of institutions’ results to ensure that the process established by this guidance was able to provide continued comparability and consistency. The existing set of principles and costing standards (see section 1.2) were reaffirmed, with full agreement that TRAC should follow the financial accounting.

The TRAC Development Group is responsible for the development of TRAC and supporting the use of TRAC by the sector to understand and manage financial sustainability. The TRAC

---

6 [www.universitiesuk.ac.uk/policy-and-analysis/reports/Pages/financial-sustainability-efficiency-full-economic-costing-of-research-uk-he.aspx](http://www.universitiesuk.ac.uk/policy-and-analysis/reports/Pages/financial-sustainability-efficiency-full-economic-costing-of-research-uk-he.aspx)


8 [www.trac.ac.uk/about/tdg](http://www.trac.ac.uk/about/tdg)
1.1.4 TRAC activities

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

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

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

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

Other activities are ultimately analysed between Other (income-generating) (O(IG)) and Other (non-commercial) (O(NC)) categories. This categorisation refers to the activities undertaken, such as conferences, student accommodation and catering under O(IG). O(NC) is reserved for specific sources of income and corresponding expenditure (arising primarily due to impact of FRS102 on timing of income recognition). All other activities that are not T or R, should be reported under Other (income-generating).

Income is also allocated to Teaching, Research or Other. Teaching income is analysed into PFT and NPFT in line with the costs. Research income is analysed into the seven research sponsor types, plus an eighth research sponsor type: Funding Councils/Research England recurrent funding for research. Other income is analysed between O(IG), O(CS) and O(NC) depending on the source of funding.

A further sub-category of ‘Other’ is Other (clinical services) (O(CS)). O(CS) is only relevant to Schools of Medicine or Dentistry. There is a further re-allocation of income and costs from O(CS) to Teaching or Research where the primary purpose of the clinical services undertaken is either
Teaching or Research with the balance allocated to Other (income-generating) but it is not allocated to Other (non-commercial).

### 1.1.5 Annexes

<table>
<thead>
<tr>
<th>Annex reference</th>
<th>Document title</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1a</td>
<td>TRAC guidance change log</td>
</tr>
</tbody>
</table>

Annexes are located on the following web page: [www.trac.ac.uk/tracguidance](http://www.trac.ac.uk/tracguidance)

### 1.1.6 Other sources of reference and assistance

There are two principal sources of further reference:

TRAC Regional Groups, through which colleagues can be reached and questions asked. Details of the TRAC Regional Groups can be found at [www.trac.ac.uk/contact/regional](http://www.trac.ac.uk/contact/regional).

The TRAC Support Unit, which can be reached on 0115 935 3400, [trachelpdesk@kpmg.co.uk](mailto:trachelpdesk@kpmg.co.uk).
1.2 Principles and standards

1.2.1 Introduction

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

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

The TRAC guidance is based on:

a) A set of Principles;

b) Costing Standards.

1.2.2 TRAC Principles

Detailed below are the Principles:

a) The costing should be transparent and materially robust;

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

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

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

e) The process should be auditable and promote accountability;

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

1.2.3 Costing standards

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

- the TRAC report includes the total gross costs (not net of income) of institutional activity on Teaching, Research, Other, as defined under TRAC (see section 1.3 for TRAC definitions);
- the TRAC data are calculated by a method that meets the TRAC requirements and agrees with the consolidated financial statements plus the Margin for Sustainability and Investment;
- the TRAC return is signed off by the Accountable Officer as representing a fair and reasonable view of the actual costs incurred on the TRAC activities.

1.2.3.2 Costing for internal purposes and to inform pricing by:

- calculating the cost of Teaching, Research and Other activities by academic department and research sponsor type;
- calculating the cost of Teaching by publicly funded and non-publicly funded activity.

1.2.3.3 Attribution of academic staff costs to activities:

- as Direct or Support;
- to Teaching, Research and Other;
- using in-year time allocation, statistical sampling or academic workload planning.

1.2.3.4 Attribution of other costs to activities:

- costs should be directly allocated to activities where possible;
- otherwise, allocated using a cost-driver model with robust and relevant drivers.

1.2.3.5 Calculation of the full economic costs of activity by including an adjustment for:

- the Margin for Sustainability and Investment;
- but includes no other adjustments to gross costs.

1.2.3.6 Costs in medical and dental schools:

- attribute time on clinical services to Teaching, Research, Other and Support, on the primary purpose with the balance on the basis of the services received from the NHS under ‘knock-for-knock’ arrangements.

---

9 The Accountable Officer is a person, normally the head of institution, who reports to the OfS/Funding Council on behalf of the institution. The OfS definition of Accountable Officer is provided in the ‘Regulatory framework for higher education in England’. The HEFCW definition of Accountable Officer is provided in the ‘Financial Management Code’. The SFC refers to the Chief Executive Officer, rather than the Accountable Officer, in the ‘Financial Memorandum with Higher Education Institutions’. The DfE definition of Accountable Officer is provided in the ‘Financial Memorandum between the Department for the Economy (DfE) and the Northern Ireland Universities’. Links to each document are provided in the glossary at section 6.1.
### 1.2.3.7 Review and development of the institution’s TRAC model:
- time allocation and space usage collected on a rolling three-year basis;
- annual review or update of other numbers-driven cost driver information; other cost drivers to be updated on a three-year basis;
- annual calculation of costs reported under TRAC;
- research charge-out rates recalculated every year.

### 1.2.3.8 Quality assurance:
- management involvement, including appropriate institutional Committee of the Governing Body confirming compliance with requirements;
- systems integrity;
- tests for reasonableness.

### 1.2.3.9 Materiality:
- TRAC requirements need not be met if they do not lead to material impact on the data produced;
- institutions with low volumes of Research are eligible for dispensation from complying with certain TRAC requirements (see annex 1.2b for further detail);
- TRAC materiality threshold is set at 10% on a cumulative net basis. Materiality for TRAC is defined fully at annex 1.2a.

### 1.2.3.10 Rate calculation:
- institutions should calculate indirect cost rates using the cost information calculated under 1.2.3.1 as a base.

### 1.2.4 Annexes

<table>
<thead>
<tr>
<th>Annex reference</th>
<th>Document title</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.2a</td>
<td>Materiality</td>
</tr>
<tr>
<td>1.2b</td>
<td>Dispensation</td>
</tr>
</tbody>
</table>

Annexes are located on the following web page: [www.trac.ac.uk/tracguidance](http://www.trac.ac.uk/tracguidance)
1.3 TRAC activity definitions

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

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

1.3.1 Teaching

1.3.1.1 Teaching (T) is a core activity.

It includes all costs and activities that provide or support the teaching of undergraduate and postgraduate taught students, including those studying through an apprenticeship route. It also includes further education provision, where applicable.

It comprises:

a) The costs of academic staff time directly attributable to teaching. The annual TRAC academic staff time survey includes:

- holding lectures, seminars and tutorials;
- project, workshop and laboratory supervision;
- preparing materials for lectures, tutorials and laboratory classes;
- preparing materials for an agreed new course;
- editing and updating course materials;
- organising and visiting placements, fieldwork;
- supervision / contact time relating to projects and dissertations, and their assessment;
- other student contact time relating to educational matters, including remedial classes;
- preparing and marking examination papers, including resits;
- oral examinations / viva;
- reading and assessing student dissertations, reading and marking essays and other student work;
- invigilation of examinations including external examining (both at own and other institutions);
- mentee meetings.

b) Outreach where teaching is the underlying activity (i.e. Teaching funded through a Teaching Company Scheme or Knowledge Transfer Partnership). Other directly attributed costs include:

- the full pay costs of staff who work 100% on Teaching;
• pay costs of secretarial and administrative staff who support Teaching;
• non-staff costs directly attributed to Teaching, which includes placements, projects etc.;
• the scholarships and bursaries of taught students.

c) A relevant share of Support costs, incurred both in the academic department and in the institution's central departments, are also attributed to Teaching. This includes the costs of the support time of academics (scholarship, administration, and management) and other Support costs.

All teaching costs are further categorised into publicly funded teaching and non-publicly funded teaching.

1.3.1.2 Publicly funded teaching (PFT) activity is generally considered across the sector as a whole to be fundable, at least in part from public funds. This includes the costs of:

- UK award/credit bearing courses;
- all teaching activities like European Social Fund (ESF), Erasmus, Turing and Tempus;
- all levels of teaching – sub-degree, degree, PGT (but not PGR);
- higher education, further education, teacher training, NHS (nursing) etc.;
- students studying for an equivalent or lower qualification (ELQ), but are exempt e.g. medicine, dentistry or social work.¹⁰ Note that this is only applicable to institutions in England;

- all courses fundable by public bodies.

For HEIs in England, Wales and Northern Ireland, publicly funded loans and grants administered by the Student Loans Company to meet the cost of tuition fees should be classified as PFT.

There is a change in the eligibility of certain types of EU students for Student Loan Company funding for new courses commencing on or after 1 August 2021.¹¹ From 1 August 2021, students from the EU who do not have settled or pre-settled status and are commencing study on a new course in the UK will no longer be classed as PFT. Continuing students will still be classed as PFT. This will affect the classification of income and associated costs away from publicly funded teaching to non-publicly funded teaching for these students.

Students from Crown dependencies (Channel Islands and the Isle of Man) will be treated the same as home students (new entrants and continuing students). This applies from 1 August 2021 for English institutions and from 1 August 2022 for institutions in Wales and Scotland.

¹⁰ ELQ and Previous study (slc.co.uk)
¹¹ Studying in the UK: guidance for EU students - GOV.UK (www.gov.uk)
Please refer to the guidance on eligibility rules for home fee status and student finance for the 2021-22 academic year onwards for the full list of rules and requirements.\(^\text{12}\)

### 1.3.1.3 Non-publicly funded teaching (NPFT)

Activity is generally considered, across the sector as whole, to be funded wholly from non-public funds. This includes the costs of:

- short courses;
- non-award or non-credit bearing courses run in the UK for overseas or NPF students;
- non-credit/award-bearing courses run overseas (overseas courses);
- other NPF commercial teaching;
- part of the costs of award-bearing courses in the UK attended by overseas and self-funded students\(^\text{13}\) (where the numbers involved are material);
- students studying for equivalent or lower qualifications (ELQs) **unless studying for a qualification which is exempt** e.g. medicine, dentistry or social work.\(^\text{14}\) **Note that this is only applicable to institutions in England.**
- teaching carried out through trading units / commercial companies;
- all students from the EU who do not have settled or pre-settled status and commence a new course on or after 1 August 2021.\(^\text{15}\)

### 1.3.2 Research

#### 1.3.2.1 Research (R) is a core activity.

It comprises:

- research – refer to the definitions in the Frascati Manual\(^\text{16}\);
- fieldwork, laboratory, studio, desk/library work;
- management of projects, informal discussions, progress reports etc.;
- recruitment and supervision of research staff;
- attendance at conferences, seminars and society meetings that are directly connected with specific research projects;

---

12 New eligibility rules for home fee status and student finance for the 2021-22 academic year (publishing.service.gov.uk)

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

14 **ELQ and Previous study** (elc.co.uk)

15 New eligibility rules for home fee status and student finance for the 2021/22 academic year (publishing.service.gov.uk)

- production of research reports, papers, books;
- training and supervision of PGR students including training in research methodology, review of drafts and preparation of thesis, and external examining;
- collaboration with other academic departments or institutions in any of the above;
- outreach where research is the underlying activity (i.e. research carried out through a Teaching Company Scheme or Knowledge Transfer Partnership);

TRAC follows the definition used by the Higher Education Statistics Agency (HESA) in the HESA Finance record guidance:

- Research is to include research and experimental development. The definition of research, below, is taken from the 2015 Frascati Manual.

  ‘Research and Experimental Development (R&D) comprise creative and systematic work undertaken in order to increase the stock of knowledge, including knowledge of humankind, culture and society - and to devise new applications of available knowledge. R&D is a term covering three activities: basic research, applied research and experimental development.’

Research can be a specific project, or blue skies / speculative in nature, but for TRAC, research has an external sponsor or is expected to lead to some research output (or PGR training / supervision). For TRAC, research:

a) can include clinical trials. Where clinical trials are considered by the NHS to be research then the time spent on them is allocated to research, otherwise they are Other (income-generating);

b) does not include routine testing (this should be reported as Other (income-generating));

c) includes institutions’ own-funded research. Research work or projects that are solely funded by the institution (including through the Funding Council/Research England block grants), and that are not directed by an external sponsor, are still Research activity. They come under the research sponsor category of ‘institution own-funded’ research. However, in the time allocation data, time spent on research (or teaching) that is not considered by the institutions to be necessary for its mission or research strategy should not be recorded;

d) does not include scholarship activity; this can form part of the Support activity for Research, but could equally be Support for Teaching.

### 1.3.2.2

Research is categorised into eight research sponsor types, summarised below (sub-sections 1.3.2.3 to 1.3.2.6). A research sponsor type is a group of sponsors that are similar in nature. It is not an individual research sponsor organisation. The word ‘sponsor’ is used in TRAC to denote the funder – external or internal.
Where a Research project is funded by a consortium of organisations (public and non-public) the costs will need to be attributed proportionally between research sponsor types. Proxies could be used, e.g. attribution pro rata to the direct costs funded by each sponsor.

However, where a research project is only partially funded by a sponsor and the remainder is institution own-funded, all of the academic time is attributed to the research sponsor type represented by the external sponsor through the time allocation process. However, the costs are allocated pro-rata to the external sponsor and institution own-funded categories. Academic time is only attributed to institution own-funded if there is no external sponsor of that project.

| 1.3.2.3 | **Institution own-funded** – This covers work that is not carried out to the direction of an external sponsor (the work may or may not be on specific research projects). The work could be funded through Funding Council/Research England block grant or other initiatives, or from an institution’s general income (e.g. interest, endowments, or surpluses from other activities).
It could include speculative ‘blue skies’ research undertaken to investigate the potential of ideas before preparing grant or contract bids; or for publication. It must be expected to lead to an external research output (publication, conference presentation, etc.). If this research is done primarily in support of teaching, it is classified as CPD/Scholarship and is allocated to support for teaching.

| 1.3.2.4 | **Postgraduate research (PGR)** – This covers the training and supervision of PGR students including training in research methodology, review of drafts and preparation of these, and external examining. The costs include:
- scholarships and bursaries (a direct cost of Research);
- any other direct costs incurred by the institution on behalf of PGR students (e.g. travel and subsistence, consumables, stipends);
- the indirect costs and estates costs associated with the PGRs themselves;
- the time of the supervisor in PGR training and development
- the indirect costs and estates costs associated with this supervision time.

The reallocation of income and costs relating to PGR activity away from the external research sponsor type to the PGR category is not a TRAC requirement, but the current direction of travel for policy development suggests that this could become mandatory, at least for research intensive institutions (defined as being institutions in TRAC Peer Groups A and B).

Noting that this is not a current TRAC requirement, and acknowledging that the burden of undertaking this reallocation needs to be balanced with the utility provided by the data, research intensive institutions are encouraged to report PGR income and costs under the PGR research sponsor type:

a) Where costs can be readily identified and reallocated, all income (except Research England, Higher Education Funding Council for Wales (HEFCW) and Department for the Economy, Northern Ireland (DfE Northern Ireland))
quality-related research funding and SFC’s research excellence grants and research postgraduate grant) and costs relating to PGR activity should be recorded under the PGR sponsor type, not the external research grant or contract sponsor type;

b) Where costs can not readily be identified and reallocated (i.e. they are not separately recorded in an institution’s statement of comprehensive income and expenditure, or they are an inseparable part of salaries) then the costs of stipends and scholarships / bursaries are reported against the same research sponsor type as the income that is covering them.

If neither of the allocations described above can be done without (in the view of the institution’s TRAC Steering Group) significant burden being added to that institution, then, at the least, the institution improves its understanding of the recovery relating to research students.

Institutions should indicate on the Annual TRAC return (see section 4.1) whether this reallocation has been undertaken or not.

1.3.2.5 External research grants and contracts:
- Research Councils, as defined in the OfS Finance Return guidance/ HESA Finance record guidance.
- OGDs: UK central government bodies / local authorities, health and hospital authorities, as defined in the OfS Finance Return guidance/ HESA Finance record guidance.
- European Union (EU) government bodies: research grant and contract income from all government bodies operating in the EU, including the European Commission, as defined under Column 8 in Table 5 of the OfS Finance Return and Column 8 in Table 4 of the HESA Finance record guidance (this reference may change on publication of the HESA Finance record guidance).
- Charities: UK-based charities. (This is irrespective of their classification or recognition in any Research funding method operated by the Funding Councils/Research England.)
- Industry: all other organisations, including (as defined in the OfS Finance Return guidance/HESA Finance record guidance):
  - EU-based charities, EU industry and EU other;
  - UK industry, commerce and public corporations;
  - other overseas – non-EU-charities, non-EU-industry and non-EU-other (other than those specifically mentioned above);
  - other sources.

1.3.2.6 Recurrent research income from Funding Councils/Research England – the eighth category.
No costs are recorded against this category.
### 1.3.3 Other

<table>
<thead>
<tr>
<th>1.3.3.1 Other (income-generating activity) (O)</th>
<th>is a core activity. It relates to activities that generate income or could potentially generate income. It comprises:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• consultancy that is contracted to the institution and carried out during institution time, including advisory work, journal editing and feasibility studies;</td>
<td>• other services rendered, including routine testing and non-research clinical trials (i.e. activities not covered under the definition of Research in the Frascati Manual);</td>
</tr>
<tr>
<td>• work carried out through trading/commercial companies that is not teaching or research;</td>
<td>• technology transfer work if remunerated through the institution (e.g. directorships of start-up companies and/or consultancy contracts for the companies) – if it is not remunerated then it should be categorised as Support to Other;</td>
</tr>
<tr>
<td>• outreach (where the outreach activity is not teaching or research).</td>
<td></td>
</tr>
</tbody>
</table>

As well as the costs of academic time, costs attributable to Other (income-generating) activities include:

- residences, catering and conferences;
- goods or services sold to students, staff or external customers. These might include printing or reprographics;
- trading activities including non-Teaching and non-Research activities in commercial companies, spin-outs (subsidiaries), retail services such as shops.

Unfunded research activity, which satisfies the definition of Research, as set out in 1.3.2 should not be allocated to Other (income-generating) or Other (non-commercial).

| 1.3.3.2 Other (clinical services) (O(CS)) | a sub-category of Other used by institutions with medical or dental schools. It includes services provided to the NHS under knock-for-knock arrangements by academic departments of clinical medicine and dentistry (to be reattributed to T, R, O and S). |
### 1.3.3.3 Other (non-commercial activity)

Other (non-commercial activity) – a sub-category of Other used to separate income and associated costs that are allocated to Other, but are not Other (income-generating activities) or Other clinical services. This category was introduced alongside the implementation of Financial Reporting Standard 102 to prevent the changes in accounting treatment, predominantly in respect of endowments, donations and investment gains and losses, from distorting the reporting of Teaching, Research and Other (income-generating) activities. This context is important in considering whether income and costs should be reported under the ‘Other (non-commercial)’ category. It is not expected that routine activities are reported under this heading.

This category should enable the Other (income-generating activity) category to be free from items that distort the reporting of that activity. Items that will typically be included in this sub-category include:

- Investment income including gains and losses on investments\(^{17}\) (that is not allocated to Teaching or Research); and
- New endowments and donations (that are not allocated to Teaching or Research).

This category is not to be used for the following:

- subsidies or loss-making services provided to students, such as catering or sports facilities. These activities should be allocated to Other (income-generating activity);
- pension costs;
- impairment write-down (of assets in operational use);
- COVID-related costs/ bursaries to students;
- costs relating to academic staff based on their time allocation survey / Workload plan should not be allocated to Other (non-commercial) unless it is clear that the activities the staff are undertaking are funded by endowments which have been allocated to this heading;
- cost of academic staff time classified as ‘Support for Other’ should not be allocated to Other (non-commercial) heading as part of the allocation process unless it is clear that the activities the staff are undertaking are funded by endowments which have been allocated to this heading.

Anything unusual which may fall under this heading should be discussed with Funders via the TRAC Support Unit.

\(^{17}\) This includes both realised and unrealised gains or losses.
### 1.3.4 Support

#### 1.3.4.1 Support (S) is not a core activity. It is carried out in support of the three core activities of T, R and O.

Support time is often categorised into several areas to assist both in the recording of the academic staff time and its subsequent allocation (as part of indirect costs) to T, R and O.

Five areas of Support are described below: Support for Teaching, Support for Research, Support for Other, general management or institutional Support, and scholarship-professional development.

#### 1.3.4.2 Support for Teaching includes:
- timetabling;
- examination boards;
- preparing prospectuses;
- interviewing taught students, admissions and induction;
- committees related to teaching;
- careers advice for taught students;
- schools liaison;
- academic mentoring (outside timetabled tutorials), counselling;
- initial course development (where the future of the course is not certain; preparing materials for an agreed new course is T);
- module reviews (but subsequent updates and editing etc. is T);
- quality assurance (e.g. Quality Assurance Agency for Higher Education reviews);
- publicity for teaching facilities and opportunities;
- student wellbeing and support services.

Institutions might also wish to include here scholarship/professional development and other Support (covered below) such as:
- writing books and other publications for teaching purposes;
- advancement of knowledge and skills related to teaching;
- secondment to / academic exchanges with other institutions for teaching activities.

#### 1.3.4.3 Support for Research includes:
- drafting and redrafting proposals for new work and supporting bids to external bodies (where bids involve a significant amount of speculative research, that element can be attributed to institution own-funded Research);
- quality assurance;
- peer review;
- refereeing papers;
- publicity for research facilities and opportunities;
- **student wellbeing and support services for postgraduate research students.**

Again this might also include scholarship/professional development and other Support to Research (which are covered below) such as:
- advancement of knowledge and related skills which directly contribute to the academic’s research work;
- unpaid work advising government departments or committees;
- unpaid work for professional bodies or agencies in relation to research matters;
- institute and academic department committee work supporting Research;
- blocks of time in other institutions on research exchange schemes.

### 1.3.4.4 Support for Other includes:
- drafting and re-drafting proposals for new work and supporting bids to external bodies for consultancy and other services rendered (where bids involve a significant amount of speculative research, that element can be attributed to institution own-funded Research);
- negotiating contract terms and conditions with external bodies;
- technology transfer work that is not private, nor undertaken commercially by the institution (e.g. supporting patent applications, licence negotiations, formation of start-up companies).

Support costs for Other should NOT be allocated to Other (non-commercial). The definition of Other (non-commercial) does not permit this.

### 1.3.4.5 General Support includes:
- management and administration not specifically related to Teaching, Research or Other;
- membership of / participation at faculty boards, senate, institution committees etc. (where these relate to Teaching or Research this time could alternatively be recorded as Support for Teaching or Support for Research);
- management duties such as deans, head of admissions, assistant deans;
- staff management; appraisal etc.;
- publicity; representative work on behalf of the institution or academic department;
- careers advice;
- information returns;
• quality assurance contribution to sector e.g. on (unpaid) committees or secondments to panels (where the quality assurance activity relates to teaching or research, then it should be charged to Support for Teaching and Support for Research, respectively);
• secondments, exchanges, all other tasks not attributable to other categories.

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

Chapter 2 contains one section:

<table>
<thead>
<tr>
<th>Section</th>
<th>Governance and quality assurance of TRAC</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td></td>
<td>27</td>
</tr>
</tbody>
</table>
2.1 Governance and quality assurance of TRAC

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

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

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

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

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

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

- The Annual TRAC and TRAC(T) results should be aligned with broad expectations for the institution, taking account of the additional volatility in the financial accounts introduced by the implementation of the accounting standard FRS 102 for 2015-16 and future periods, e.g. through the inclusion of certain capital and investment related items in TRAC income and the inclusion of pension charges, restructuring costs and other material costs in TRAC expenditure.

- TRAC-related benchmarking (Annual TRAC and TRAC(T)) should be used to gain assurance over the reasonableness of the results when compared to similar institutions.

- High-level adjustments should be rationalised and underpinned with appropriate evidence. It is not expected that such adjustments should recur in subsequent years as corrective action should be taken to avoid the need for further adjustments, unless required for consistency under FRS 102.

- If any of the charge-out rates are outside the upper quartile or lower quartile for the sector, then there is a reasonable explanation.

- Materiality is set at 10% on a cumulative net basis. The materiality threshold applies to the following elements of the TRAC data:
  
  i. any individual charge-out rate for Research, i.e. the indirect cost rate, the laboratory estates rate, the non-laboratory estates rate, a facility rate, or a laboratory technician rate;

  ii. the total income or costs of any one of the following – Publicly Funded Teaching; Non-Publicly Funded Teaching; Research in total and Research at research sponsor level (institution/own-funded Research, Postgraduate Research students, Research Councils UK, other Government departments, European Commission, Charities, and Industry); Other (income-generating activity); or Other (non-commercial activity).

- Material errors should be subject to corrective action. If these are identified after submission, resubmission of the TRAC return should be agreed with UKRI and the OfS or the respective Funding Council, or for the TRAC(T) return, with the OfS or relevant Funding Council only.

### 2.1.4.3 Quality assurance:

- The TRAC model should comply with the costing principles and standards detailed in section 1.2.

- The TRAC process should comply with the materiality concept, and the TRAC returns and charge-out rates should be free from material error. The materiality of issues or judgements that have been made should be assessed in aggregate in line with annex 1.2a.
• An audit trail should be maintained of all decisions and judgements made on the basis of them not being material.

• Controls should be in place to prevent errors in system formulae, errors in data entry and transposition, and double counting in cost allocations. Details of the apportionment formulae used in the TRAC model should be understood by the TRAC Manager, tested for accuracy, and retained for review by funders upon request.

• All data used in the TRAC model should agree with source data.

• The TRAC process and any changes to the process as detailed in 2.1.5.22 should be approved by the Committee of the governing body before submission of the TRAC return. A Committee of the governing body is a formal committee reporting to the governing body that has lay membership. It should be chaired by a member of the governing body.

• There should be an annual self-assessment against the TRAC requirements (Statement of Requirements), the TRAC assurance reminders checklist (annex 2.1b) and ‘what could go wrong’ statements (at the end of each chapter) before submission of the TRAC return.

• The Annual TRAC return and charge-out rates should be subject to approval by the TRAC Oversight Group prior to approval and sign-off by the Accountable Officer, before submission.

• There should be evidence of annual reconsideration of assumptions and rationales for key treatments by the TRAC Oversight Group.

• The TRAC process should be subject to a periodic assurance review, the frequency of which should be determined according to the risk posed to the institution. For a research-intensive institution (defined as being institutions in TRAC Peer Groups A and B), an assurance review undertaken at least every three years would be expected.

• Any issue arising from audit or review that could materially affect the cost allocations or charge-out rate calculations should be addressed.

• TRAC data are classed as ‘accounting information’ and should be retained for the current financial year and the subsequent six years (unless contractual terms and conditions require a longer retention period for specific grants).
2.1.4.4 Institutions eligible for and claiming dispensation:

- Do not have to obtain time allocation data robustly from academics (for example, heads of academic departments could provide this information).
- Do not need to identify space usage robustly across the whole institution.
- Do not need to take into account the type of space when allocating space costs.
- Are not permitted to calculate and apply laboratory technicians and research facility charge-out rates.
- Do not need to calculate staff FTEs robustly.
- Should apply the lower of their own indirect charge-out rate, or the dispensation indirect charge-out rate\(^\text{18}\) to Research Council and Other Government Department (OGD) cost-based research projects.
- Should apply the lower of their own estates charge-out rate, or the dispensation estates rate to Research Council and OGD cost-based research projects.

2.1.5 Process

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

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

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

Roles, responsibilities and governance established

2.1.5.1 A hierarchy of roles and responsibilities for TRAC should be established. Typically this will include the following, adapted appropriately to reflect the size and type of institution:

- An academic champion. This individual will typically be the Chair for the Oversight Group and will play a critical role in engaging the academic community, and in particular being part of the communication process with the academic community about TRAC.
- A Committee of the governing body (e.g. Audit Committee, Finance and Resources Committee) is responsible for ensuring that the processes used to

produce the TRAC return comply with the TRAC requirements. The Committee is no longer required to approve the TRAC return prior to submission.

- A TRAC Oversight Group (e.g. Financial Sustainability Group, Executive Board, TRAC Costing and Sustainability Steering Group, etc.) led by an executive member (ideally an academic) and which has representation from the different parts of the institution that are involved with and/or benefit from the TRAC information. The group could stand alone for the purposes of TRAC and sustainability oversight, or, depending on how embedded TRAC and sustainability is in the institution, the role could be performed by a pre-existing group. The group will be responsible for:
  - the design of the TRAC process and the various judgements and decisions that are taken in designing the model;
  - reviewing and challenging the TRAC and charge-out data in order for any errors or changes to the process to be identified;
  - reviewing the sector benchmark data, understanding the institution’s data and identifying whether further development or changes to the TRAC model are required. It will then report on these activities to the Committee of the governing body, prior to review of compliance by the Committee of the governing body;
  - reviewing the final TRAC return and rates and recommend them for approval and sign-off by the Accountable Officer in the institution.

- One or more individuals (TRAC Managers), typically from the Finance Team, having responsibility for the development, maintenance and operation of the TRAC model and associated processes (e.g. time allocation process). This person / these people will operate and populate the TRAC model, liaising with other parts of the institution as appropriate, and provide the outputs for discussion and review.

- The Director of Finance or Deputy Director of Finance will provide support and oversight of the above individual(s). In undertaking this role, it is very important that the broader knowledge of the institution is used to consider and agree the most appropriate inputs to the TRAC process.

2.1.5.2 The TRAC methods and systems are documented in a way that will assist someone who is sufficiently qualified but unfamiliar with TRAC to understand the process. These documented procedures should be actively maintained and reflect the current process that is in operation.

2.1.5.3 Wherever possible the detailed knowledge of TRAC and associated processes should not reside only with one person.

2.1.5.4 TRAC systems (and input data) are subject to periodic assurance reviews (e.g. by internal audit), the frequency of which should be informed by an assessment of the risk that TRAC poses to the institution. The TDG published a good practice guide in
March 2018 using the ‘three lines of defence’ model to help institutions establish an assurance framework for TRAC.\(^{19}\)

Review on a three-yearly cycle is not uncommon.

Where assurance reviews are undertaken, the **findings results** should be reviewed by both senior management, the Oversight Group (2.1.5.1) and the Committee of the governing body to inform improvements to TRAC processes and to enable progress in implementing any recommendations.

### Management sign-off on the TRAC model design

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1.5.5</td>
<td>There are numerous approaches to constructing the TRAC model, including spreadsheets, databases, commercial software packages and other financial reporting tools. The institution can select the tool that is most appropriate for its needs, or in some cases expand the use of an existing tool.</td>
</tr>
<tr>
<td>2.1.5.6</td>
<td>The TRAC model enables the allocation of costs to the various services, then academic areas, before allocating these to the TRAC categories. The Director and Deputy Director of Finance will be valuable sources of reference and challenge in the development of the TRAC model.</td>
</tr>
</tbody>
</table>
| 2.1.5.7 | The TRAC process requires different datasets that are used to allocate cost pools to activities. Such data will typically be provided by:
  - finance department;
  - academic staff time survey or academic workload planning data;
  - estates office;
  - human resources;
  - registry (or equivalent);
  - academic schools / academic departments;
  - research office.

Other chapters in the guidance outline the requirements for different elements of the TRAC process and these describe the different datasets and how these should be used in the model. Staff from the departments listed above, together with some Heads of Service, will also be helpful in advising on the most appropriate basis for allocating costs and/or cost drivers and their weightings.

A key success factor in the above is an effective engagement with the relevant staff in these areas so they have a clear understanding of the information required and its use.

Developing a plan of work each year is advisable as this will provide a basis for ensuring sufficient resource is available at the appropriate times to enable the Director of Finance and Oversight Group to monitor progress.

\(^{19}\) [www.trac.ac.uk/publications/an-assurance-framework-for-trac](http://www.trac.ac.uk/publications/an-assurance-framework-for-trac)
2.1.5.8 Institutional activities and balance thereof can change between years, and this could have an impact on the TRAC model for allocating costs and income to the TRAC activities appropriately. Therefore the design of the TRAC model and the various judgements and key decisions taken are reviewed, and if necessary revised annually, to ensure that the TRAC model remains appropriate. These decisions should be approved by the Oversight Group.

2.1.5.9 The TRAC Manager should maintain a clear audit trail for the TRAC process so the data feeds can be agreed to source, and the reasoning behind key decisions and judgements can be verified.

2.1.5.10 As outlined in 2.1.5.7 the administration of TRAC and its associated processes can be aided by effective communication with those affected by the process. Therefore the annual TRAC timetable for the year incorporates engagement and feedback of the TRAC results to academic staff learning from experience and improvement opportunities identified in the last cycle, whether that is through academic area meetings or other forums. This engagement has been found to ease the burden of obtaining the time allocation returns.

**Reasonableness reviews on TRAC outputs**

2.1.5.11 Reasonableness checking of the TRAC data is undertaken to ensure that they reflect the institution’s activity profile and are in line with broad expectations. Reasonableness checks should be undertaken by management throughout the whole TRAC cycle (keeping TRAC materiality in mind) to identify and understand unexpected results at academic department and institutional level. Reasons for unexpected results could be due to:

- incomplete or inaccurate data inputs;
- calculation errors in the TRAC model;
- inappropriate use of certain cost drivers;
- incorrect assumptions in the weighting of cost drivers.

Areas of interest for detailed reasonableness checking could include, but not be limited to:

- staff time allocation data;
- allocations of cost to Teaching, Research and Other;
- deficit/surplus by TRAC activity (and sponsor type);
- research cost rates;
- consistency between certain results and other relevant datasets.

---

20 TRAC ‘The Easier Way’, [www.trac.ac.uk/publications](http://www.trac.ac.uk/publications)
In addition the TRAC return (see section 4.1) itself has a series of validation checks and any exceptions that these checks identify should be reviewed and corrected, or explained.

It is suggested that the Director of Finance and the Oversight Group should undertake reasonableness checks at academic department level. Reviewing data at a more aggregated level could mask errors / anomalies.

Internal benchmarking of the TRAC results against prior year results can identify areas for further review. Also comparing TRAC data with other externally reported datasets can increase the assurance over the TRAC model (e.g. management accounts, student records, Higher Education Statistics Agency datasets).

Unexpected results that are not understood and accepted as reasonable should be addressed prior to submission of the TRAC returns.

2.1.5.12 Annual TRAC and TRAC(T) benchmarking data are provided by the OfS annually and can be accessed via the OfS portal; the publication date of the benchmarking is based around the data being released as an official statistic. The release dates for official statistics can be found at https://www.officeforstudents.org.uk/data-and-analysis/official-statistics/release-schedules/.

Unexpected outliers in sector benchmarking data should be investigated and addressed if necessary; less material variances should be addressed during the next TRAC submission cycle.

Material errors (defined at annex 1.2a) should be subject to corrective action. Should these be identified after submission, resubmission of the TRAC return should be agreed with the OfS or relevant Funding Councils and UKRI.

Materiality is set at 10% on a cumulative net basis. The materiality threshold applies to the following elements of the TRAC data:

i. any individual charge-out rate for Research, i.e. the indirect cost rate, the laboratory estates rate, the non-laboratory estates rate, a facility rate, or a laboratory technician rate;

ii. the total income or costs of any one of the following – Publicly Funded Teaching; Non-Publicly Funded Teaching; Research in total and Research at research sponsor level (institution/own funded Research, Postgraduate Research students, Research Councils UK, Other government departments, European Commission, Charities, and Industry); Other (income-generating activity); or Other (non-commercial activity).

Materiality is used in two ways:

i. to consider whether judgements taken in the design of the TRAC process lead to a material difference in the result (e.g. the selection of cost drivers); and

ii. to consider whether compliance issues identified post submission (e.g. through an internal audit or UKRI review) lead to an error that is material.
2.1.5.13 An assessment/check is made against all the TRAC requirements and the ‘What could go wrong’ sub-sections and the results presented to the Oversight Group.

2.1.5.14 High-level adjustments to TRAC data are acceptable provided an action plan is implemented to address data or system weaknesses. It is not expected that there will be more than one high-level adjustment per year or that the same adjustment is made in consecutive years. Action plans established to address areas of material non-compliance (as defined at annex 1.2a) for individual TRAC requirements should be made available to UKRI as follows.

Institutions should report the establishment of an action plan in their commentary document as part of the submission of the annual TRAC return. The commentary document should be uploaded to funders and UKRI via the OfS portal.

The action plan should be provided to UKRI and progress updates should be provided quarterly. Action plan updates should be emailed to ukrifundingassurance@ukri.org.

Action plans should also be available for inspection by funders and auditors upon request.

---

**Review and sign-off of the TRAC return for submission**

2.1.5.15 The TRAC Manager maintains audit trails to support management sign-off on the TRAC results.

2.1.5.16 Irrespective of whether TRAC systems are ‘third party supplied’ or developed ‘in-house’, details of direct coding and apportionment formulae should be understood by the TRAC Manager and tested for accuracy following any system upgrade. These details should be retained and made available for review by funders on request.

2.1.5.17 The Oversight Group receives the results of the reasonableness tests performed, together with the results of any assurance reviews, the TRAC returns and cost rates for review and, eventually, approval. **It is typical practice for draft results to be presented for debate in November.** This allows time for any refinements or changes to be made to the TRAC model before the TRAC return is approved by the TRAC Oversight Group and a Committee of the Governing Body, signed by the Accountable Officer and submitted.

2.1.5.18 The Annual TRAC return and TRAC(T) returns, a summary of the reasonableness checks and any comments and confirmation of compliance with TRAC requirements from the Oversight Group should be available when the Accountable Officer approves the return.

2.1.5.19 The TRAC return is submitted via the OfS portal in line with the instructions provided by the OfS/Funding Councils (see chapter 4).

2.1.5.20 The updated research charge-out rates are communicated to the Research Office/other relevant area(s) of the institution.
2.1.5.21 Benchmarking data are produced by the OfS/Funding Councils annually and are released to institutions to aid self-assessment and peer review.

2.1.5.22 A Committee of the governing body is responsible for ensuring that the TRAC process used to produce the TRAC return complies with the TRAC requirements. A suggested approach to meet this requirement is as follows:

- Receiving a report from management on the TRAC benchmarking and any reasons for the institution having outlying results. Where there are outlying results that require action, the Committee should ensure that this work is part of the plan for compiling the next TRAC return;
- Reviewing the steps undertaken in the previous submission cycle to ensure that:
  - The University updated its process to reflect changes to the TRAC Guidance, noted in Annex 1.1a of the TRAC Guidance;
  - High-level adjustments have not been repeated for more than one year
  - A self-assessment against the TRAC Statement of Requirements was undertaken and where areas of non-compliance were identified an action plan has been developed and will be addressed in the next submission cycle;
  - Any issues identified in Internal Audit and/or UKRI Assurance Reviews have been addressed, or they will be addressed in the next TRAC submission; and
  - Consideration was given to the common areas of non-compliance with TRAC requirements, outlined in the Assurance Reminders document (Annex 2.1b) and the institution is satisfied that it has not made these errors.
- Receiving a report on the plan for producing the next TRAC return to enable the Committee to be assured that the institution will be compliant with TRAC requirements. This report should include, where relevant, identifying any new TRAC requirements and how the institution is responding to these; progress on actions from any action plans to address areas of non-compliance; actions arising from Internal Audit and UKRI Assurance reports; and any changes that are proposed to the institution's TRAC model.

The minimum requirement is that a single report is made to a Committee of the governing body to address the matters detailed in this section (2.1.5.22). The timing of reporting to the Committee of the governing body should be prior to the submission of the TRAC return. However, institutions have discretion to report more frequently to a Committee of the governing body prior to submission, according to specific circumstances. It is no longer a requirement for a Committee of the governing body to be part of the process for approving and submitting the TRAC return.
A timetable of how the report to the Committee of the governing body fits into the TRAC process is at annex 2.1c.

2.1.5.23 Some TRAC data will need to be retained for longer than the period established in 2.1.5.3 where the source data are collected over a longer period, e.g. time allocation data collected over three years. Here, the retention period would be the previous two years (for the time allocation data), the current year and the subsequent six years.

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

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

<table>
<thead>
<tr>
<th>What could go wrong / areas of non-compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The design and rationale for the TRAC process has not been reconsidered annually, increasing the likelihood that the cost driver model and associated judgements become inappropriate.</td>
</tr>
<tr>
<td>• Documentation of the TRAC model and processes does not exist or is incomplete, introducing additional risk upon staff turnover or absence.</td>
</tr>
<tr>
<td>• Performing reasonableness reviews of input data and time allocation / workload planning data during the submission cycle rather than when the data first become available.</td>
</tr>
<tr>
<td>• Reliance on high-level adjustments to TRAC allocations rather than addressing process or data weaknesses. High-level adjustments should not be repeated each year as the underlying cause of the problem should have been addressed.</td>
</tr>
<tr>
<td>• Reasonableness checking performed too late in the TRAC cycle to allow investigation and correction of unexpected data.</td>
</tr>
<tr>
<td>• Materiality assumptions not being aggregated correctly which leads to incorrect results.</td>
</tr>
<tr>
<td>• Lack of senior leadership and engagement in TRAC leading to the TRAC Manager being isolated, which could increase the risk of error or uninformed judgements in the TRAC process.</td>
</tr>
<tr>
<td>• Failing to address actions identified by external reviews / assurance reviews.</td>
</tr>
<tr>
<td>• Errors in the model identified after 1 February that have a material impact on the TRAC charge-out rates are not notified to UKRI, and the OFS or the relevant Funding Councils.</td>
</tr>
<tr>
<td>• The specific methods for compilation of the TRAC(T) return, as outlined in 4.3.4 and 4.3.5 have not been followed.</td>
</tr>
<tr>
<td>• Table A1 in the TRAC return has not been completed correctly and when compared to the financial statement there are omissions.</td>
</tr>
</tbody>
</table>
What could go wrong / areas of non-compliance

- Completion of Table A2 in the TRAC return not completed correctly. This contains the adjustments needed to reflect accounting volatility introduced by FRS 102. These should be considered as part of the reasonableness checks. For example, adjustments that may need to be explained include:
  - New donations and endowments included in total income
  - New capital grants received in the year included in total income
  - Material (exceptional) items included in total income
  - Material (exceptional) items included in total expenditure, including staff restructuring, the costs of fundamental reorganisation or restructuring and other material items.
  - (Gain) or loss of sale or termination of an operation (included in total income or total expenditure as appropriate).

- New and changed TRAC requirements are not implemented in the TRAC model.

- The TRAC(T) return has not been approved by a Committee of the Governing Body.

- Disposal of information that a specific funder requires the institution to retain.

- Income and/or expenditure items are allocated to Other (non-commercial) that do not meet the definition outlined in 1.3.3.1.

- A Committee of the governing body has not taken steps, outlined in 2.1.4.3 and 2.1.5.22 to ensure that the institution complies with TRAC requirements prior to submission of the TRAC return.

- A Committee of the governing body approves the process for producing the TRAC return before the benchmarking data has been published. This is not compliant with TRAC requirements.

2.1.7 Annex

<table>
<thead>
<tr>
<th>Annex reference</th>
<th>Document title</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1a</td>
<td>Requirements and processes for changes in compliance status or institutional status</td>
</tr>
<tr>
<td>2.1b</td>
<td>TRAC assurance reminders checklist</td>
</tr>
<tr>
<td>2.1c</td>
<td>Flowchart of Committee of governing body process</td>
</tr>
</tbody>
</table>

The annexes above are located on the following web page: [www.trac.ac.uk/tracguidance](http://www.trac.ac.uk/tracguidance)
2.1.8 Associated good practice and other relevant reference material

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

- An Assurance Framework for TRAC:
  www.trac.ac.uk/publications/an-assurance-framework-for-trac/

- TRAC ‘The Easier Way’ guide:
  www.trac.ac.uk/publications/trac-the-easier-way-a-trac-regional-groups-resource/

- OfS Regulatory Notices:

- Scottish Funding Council Call for Information:
  www.sfc.ac.uk/publications-statistics/sector-communications.aspx?Search=&Type=Calls%20for%20Information&Sector=University%20Sector&From=dd/mm/yyyy&To=dd/mm/yyyy

(Higher Education Funding Council for Wales (HEFCW) and Department for the Economy, Northern Ireland (DfE for Northern Ireland) send an individual letter to directors of finance at HEIs in autumn each year.)

- TRAC Management Information Projects:
  www.trac.ac.uk/tag/management-information-projects/

2.1.9 Other sources of reference and assistance

There are two principal sources of further reference:

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

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

Chapter 3 contains five sections:

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1  Data required for TRAC</td>
<td>42</td>
</tr>
<tr>
<td>3.2  Margin for Sustainability and Investment</td>
<td>66</td>
</tr>
<tr>
<td>3.3  Direct cost attribution</td>
<td>71</td>
</tr>
<tr>
<td>3.4  Allocating departmental and central costs</td>
<td>78</td>
</tr>
<tr>
<td>3.5  Income allocation</td>
<td>87</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1.4.1</td>
<td>TRAC activity definitions should be followed (as defined at section 1.3).</td>
</tr>
<tr>
<td>3.1.4.2</td>
<td>All input data that feed into the TRAC model should reconcile to source data and an audit trail should be maintained.</td>
</tr>
<tr>
<td>3.1.4.3</td>
<td>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).</td>
</tr>
<tr>
<td>3.1.4.4</td>
<td>The cost drivers selected should reflect the consumption of costs for the cost pools to which they are applied.</td>
</tr>
</tbody>
</table>
3.1.4.5 Costs should be allocated in stages to arrive at the cost of academic departments, then allocate these costs between TRAC categories, as described below:
- the allocation of estates costs to central and academic departments;
- the allocation of central department costs to academic departments;
- the allocation of each cost allocated to academic departments, to the TRAC categories (T, R and O).

3.1.4.6 Income should not be used as a cost driver unless proven (and evidence is retained) to reflect the consumption of cost.

Head of Department (academic department) estimates can be used to allocate academic department general support costs, but these should be refreshed annually and evidence retained of the rationale for the allocation decisions.

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\(^2\), 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.

---

\(^2\) This includes both realised and unrealised gains or losses on investments.
<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1.4.13</td>
<td>Adjustments should be made for long-term absence where material at academic department level.</td>
</tr>
<tr>
<td>3.1.4.14</td>
<td>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.</td>
</tr>
<tr>
<td><strong>TRAC requirements for student data:</strong></td>
<td></td>
</tr>
<tr>
<td>3.1.4.15</td>
<td>Student FTE and headcount data should materially agree with those held on the student records system or the HESA Student record.</td>
</tr>
<tr>
<td>3.1.4.16</td>
<td>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).</td>
</tr>
<tr>
<td><strong>TRAC requirements for time allocation methods:</strong></td>
<td></td>
</tr>
<tr>
<td>3.1.4.17</td>
<td>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).</td>
</tr>
<tr>
<td>3.1.4.18</td>
<td>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). <strong>Institutions claiming dispensation should make an estimate of staff time at least once every three years and update it in line with 3.1.4.22 as required.</strong></td>
</tr>
<tr>
<td>3.1.4.19</td>
<td>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.</td>
</tr>
<tr>
<td>3.1.4.20</td>
<td>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.</td>
</tr>
<tr>
<td>3.1.4.21</td>
<td>Reasonableness of time allocation data and workload planning data should be ensured by a review of the results by the Head of Department (academic department).</td>
</tr>
<tr>
<td>3.1.4.22</td>
<td>Where time allocation data from one year are used as a proxy for the following year, there should be processes which identify material changes</td>
</tr>
</tbody>
</table>
in academic departments. Assessments should be made of the impact of these changes on the allocations of time between activity categories.

Institutions that use the in-year retrospective method of time allocation, and collected time allocation data in 2020-21 that contained a separate category to capture COVID-affected time, will need to consider how this/ these category/(ies) of time should be allocated to Teaching, Research and Other, as it is likely that the category of COVID-affected time is not relevant for reporting TRAC data for 2022-23.

If academic staff time allocation data has been rolled forward and contains time related to COVID-19 activities, this needs to be reviewed to determine whether it is material, and if so, which are the appropriate headings to reallocate this time to.

Two scenarios are outlined below:

- If separate TRAC activities were created in the time allocation survey collection to understand the impact of COVID (e.g. COVID-affected Teaching, COVID-affected Research, COVID-affected Other (income-generating), then allocate this time back into the respective category (e.g. Teaching, Research or Other income-generating); or
- If a single overall category of time was collected for COVID-affected time across all activities, reallocate this to the TRAC activities on the basis of the proportions of time already allocated to each TRAC activity, excluding Other non-commercial.

Institutions may also have used high-level adjustments to adjust academic staff time data over the previous submission cycle. Any high-level adjustments used previously in relation to academic staff time and the COVID-19 pandemic should be reviewed, with a view to reversal or further adjustments due to operational changes. A scenario for high-level adjustment considerations is:

- Time allocation data may have been collected during the period affected by the COVID-19 pandemic; therefore as 2022-23 may not be affected by this, an adjustment may be needed to enable the time allocation data used in the 2022-23 TRAC return to reflect the activities undertaken in 2022-23. If this is not deemed material, such an adjustment may not be required.

- A high level adjustment may have been applied to time allocation data collected during 2019-20 to ensure the data reflected the activities that had been affected by the COVID-19 pandemic. As 2021-22 may not be affected by this, an adjustment may be needed to enable the time allocation data used in the 2021-22 TRAC return to reflect the activities undertaken in 2021-22. If this is not deemed material, such an adjustment may not be required.
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 All academic pay costs should be allocated using one of the following time allocation methods:
   a) In-year data collection
   b) Statistical data collection
   c) Workload planning methods

   The TRAC requirements specified under each method of time allocation should all be complied with.

3.1.4.26a For in-year data collection:
   - The year should be split into at least three periods.
   - 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 eight weeks from the end of the collection period irrespective of the length of the collection period.
   - 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.
   - There is no duplication of costs already directly allocated to a TRAC category (3.1.4.17).
Institutions that use the in-year data collection method, and have collected data during the pandemic, may have adjusted their time allocation survey forms to allow staff to clearly show where their activities had to be realigned due to the pandemic. If this data is rolled forward, because the institution was not due to re-collect the data, consideration should be given to the re-allocation of the time affected by COVID-19 in the previous survey, where material. Further guidance is given in 3.1.4.22.

### 3.1.4.26b
For statistical data collection:
- 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:
  - 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
For workload planning methods:
- 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

The cost of technician support is included in specific research charge-out rates.

The indirect and estates cost pools should be excluded from the technician charge-out rates to avoid double-counting when used for cost-based funding.

### TRAC requirements for space data:

#### 3.1.4.28

Estates data should:
- use the TRAC definitions of activities and not those in the Estates Management Record (EMR);
- be attributed on the basis of proportional, not predominate, usage;
- be categorised to one of at least four space types (which vary by cost);
- use ‘Net Internal Area’ data in the TRAC model;
- classify academic space between laboratory and non-laboratory space;
- allocate academic offices to academic department and TRAC based on an assessment of how the space is used.

Institutions claiming dispensation do not need to allocate estates costs robustly in the TRAC model. Therefore the method above does not need to be followed to allocate estates costs: high-level estimates can be used.

### TRAC requirement for other cost drivers:

#### 3.1.4.29

Selection of cost drivers and any weightings for the allocation of higher cost support activities (e.g. Library, Learning resource centres and Information Technology) should be informed by the relevant director of these areas to ensure that the driver, or combination of drivers and weightings used, reflects the usage/consumption of those resources.

### TRAC requirements for weighting data:

#### 3.1.4.30

- Weighting factors applied to cost drivers within the TRAC model should be both institutionally recognised and utilised, or approved by the TRAC Oversight Group when designed uniquely for the TRAC process.
- Space weighting factors should be determined with input from the Estates / Facilities department – the workings for which should be retained by the TRAC Manager.
• Standard weightings are mandated for use in TRAC for the following analysis:
  - Postgraduate research (PGR) FTEs are weighted 0.2 when included in the indirect cost rate, 0.8 for laboratory estate rates and 0.5 for non-laboratory estates rates.
  - Academic staff time allocations should be weighted for salaries and FTE when calculating the cost of academic time. The weighting by FTE may or may not be relevant, depending on how the institution’s time allocation data are used and applied in the TRAC model.

<table>
<thead>
<tr>
<th>TRAC requirements for indexation:</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1.4.31</td>
</tr>
<tr>
<td>• fEC charge-out rates should be indexed in line with annex 3.1c.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TRAC requirements for overseas operations:</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1.4.32</td>
</tr>
<tr>
<td>• Overseas operations should be treated the same as onshore activities where the costs are included in the consolidated financial statements;</td>
</tr>
<tr>
<td>• Overseas operations that are not included in the consolidated financial statements should not be included in TRAC.</td>
</tr>
</tbody>
</table>

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 Section 2.1.5.8 of the guidance outlines how the TRAC Oversight Group should have agreed the design of the TRAC model, which includes the decisions over which cost drivers should be used and the related rationales for this. From this decision the input data requirements for the TRAC model should be clear.

In selecting relevant cost drivers, there are often a number of options. At this point it is important to consider the ‘relevance of the driver to the costs’, the ‘materiality’ of any difference between the options on the allocation of costs, and whether the level of internal acceptance of the data will be enhanced by choosing a particular cost driver.

Additional cost drivers to those suggested in this section may be used at the institution’s discretion.

3.1.5.2 Agreement of the TRAC model and methodology early in the reporting cycle is necessary to ensure that sufficient time is available to enable the definition of the datasets to be clarified with other colleagues in the institution and the timescales within which the data are required.

The Estates data and time allocation/workload planning data often take the longest time to obtain, so forward planning is essential for these datasets.

In order to progress the TRAC submission process as early as possible, the TRAC Manager is encouraged to populate the TRAC model with input data early in the submission cycle to perform preliminary analysis. The use of draft datasets in advance of final sign-off is encouraged to allow time for reasonableness checking and trend analysis. The availability of early results can provide a valuable opportunity to test the appropriateness of the TRAC model.

Financial input data

3.1.5.3 The full economic cost reported in the Annual TRAC return reconciles to:

- total expenditure 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 net loss on disposal of fixed assets\(^{22}\) (3.1.5.3b);
- plus net loss on investments\(^{23}\) (3.1.5.3c);

---

\(^{22}\) 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.

\(^{23}\) 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.
- plus the net share of operating deficits in joint ventures and associates as reported in the consolidated financial statements\(^{24}\) (3.1.5.4);
- plus net taxation charges\(^{25}\) (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).

**Institutions should include net gains or losses on any financial instrument that are reported as a separate heading below the ‘Surplus/(deficit) before other gains/(losses) and share of operating surplus of joint ventures and associates’ but reported above ‘Surplus/(deficit) for the year’.

Net losses including unrealised net losses on any revaluation of the financial instrument should be added to the expenditure of the institution as part of the TRAC return.\(^{26}\)**

**Institutions that are unclear as to whether to include an entry in their audited financial statements within their TRAC return should contact the TRAC Helpdesk for advice.**

Under FRS 102, items previously classified as exceptional items (as defined by FRS 3) are included in the main income and expenditure headings.\(^{27}\)

Such items should be included in TRAC income or expenditure, and may be separately analysed in the Annual TRAC return.\(^{28}\)

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.

---

\(^{24}\) 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.

\(^{25}\) These adjustments are only made where there is a net taxation charge recorded in the statement of comprehensive income.

\(^{26}\) Net gains including unrealised gains from the revaluation of financial instruments should be added to income.

\(^{27}\) 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 (Devolved nations) or Annual Finance Return Table 1).

\(^{28}\) 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.
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:

i) Defined contribution pension schemes, including the defined contribution section of institution-own pension schemes, other employer-sponsored defined contribution schemes and personal schemes:
   • 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 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.

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:

- 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.

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.

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.

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\(^{29}\) 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.

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\(^{30}\) 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-

---

\(^{29}\) 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.

controlling interests. Guidance may be needed from the university’s financial accounting team on this item.

### 3.1.5.6

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).

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.

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.

### 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 though the income allocation process (see section 3.5).

The total income figure reported under TRAC should reconcile to the consolidated financial statements:

- total income as reported in the consolidated financial statements;
- plus gain on disposal of fixed assets\(^ {31}\) (3.1.5.3b);
- plus gain on investments\(^ {32}\) (3.1.5.3c);
- plus the share of operating surpluses in joint ventures and associates as reported in the consolidated financial statements\(^ {33}\) (3.1.5.4);
- plus taxation credits\(^ {34}\) (3.1.5.4a).

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 in the TRAC income and full economic costs by activity – Further analysis table, and Research income and full economic costs by research sponsor type – Further analysis table for items reported under the Annual Finance Return Table 1 or HESA Finance record Table 10 (Devolved nations).

---

\(^{31}\) These adjustments are made only where there is a net gain on a disposal of fixed assets, net losses are added to expenditure.

\(^{32}\) These adjustments are made where there is a net gain on investments, net losses are added to expenditure.

\(^{33}\) These adjustments are made only where there is a net credit in joint ventures or associates recorded in the statement of comprehensive income. Where there is a net loss in joint ventures or associates, this is added to income.

\(^{34}\) Net taxation credits are added to income, net taxation charges are added to expenditure.
**Institutions** should include net gains or losses on any financial instrument that are reported as a separate heading below the ‘Surplus/(deficit) before other gains/(losses) and share of operating surplus of joint ventures and associates’ but reported above ‘Surplus/(deficit) for the year’.

Net gains including unrealised net gains on any revaluation of the financial instrument should be added to the income of the institution as part of the TRAC return.

Institutions that are unclear as to whether to include an entry in their audited financial statements within their TRAC return should contact the TRAC Helpdesk for advice.

| 3.1.5.7a | The total income figure reported in the consolidated financial statements will include income from capital grants as well as from revenue grants.  
If the accrual model\(^\text{35}\) 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.  
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.  
Through their Annual TRAC return institutions should report their accounting policy for government capital grants and provide a summary of new capital grants.  
There is no accounting policy choice for non-government capital grants, which are recognised as income when performance conditions are met. |
| 3.1.5.8 | 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, but the adjustment can be calculated provisionally, based on the draft financial statements.  
Guidance for producing the Margin for Sustainability and Investment is provided in section 3.2. |
| 3.1.5.9 | Costs of central (professional) services are allocated to academic departments and to TRAC categories (as defined at section 1.3). This is explained further in sections 3.3 and 3.4. |
### Staff FTE and headcount data

**3.1.5.10** Staff FTE data will be more appropriate to drive some cost pools, whereas headcount data will be more appropriate for others. To calculate the academic staff FTE and headcount, the TRAC Manager should obtain internally produced source data that reconcile to the HESA Staff record or the staff numbers reported in the consolidated financial statements at institutional level, ensuring that:

- the FTE / headcount data are consistent with the costs to be apportioned for the year as a whole, either by taking an average of two points in the year or by using the value reported to HESA;
- the Academic staff FTE data for use in the calculation of the research charge-out rates include:
  - academic time attributable to research (unweighted for salaries);
  - postgraduate research students (weighted) excluding those writing up;
  - research assistants and fellows;
  - temporary research staff;
  - visiting research academics; and
  - clinicians (where material and appropriate to be included);
- the FTE included are those that consume and therefore drive costs;
- adjustments for long-term absence should be made only where material at academic departmental level.

### Student FTE and headcount data

**3.1.5.11** The student FTE and headcount data can be used as a pure, weighted or blended cost driver within the TRAC model. The institution will determine that for certain cost pools it is the headcount total that drives the cost, whereas for other costs, the FTE may be a more appropriate representation of the costs. Some costs will be driven by combined cost drivers, e.g. staff and student FTE for library use.

The student FTE and headcount should be obtained from internally produced source data that reconcile to the HESA Student record at institutional level, ensuring that:

- further education students are included;
- where material, non-credit bearing students are included;
- PGR students are included as appropriate but exclude those writing up.
## Time allocation / workload planning data

### 3.1.5.12

Academic and research staff costs should be attributed directly to a core TRAC activity where possible, for example the costs of Research Assistants to Research or Teaching Fellows to Teaching where they are 100% or close to 100% assigned to that activity. All other academic staff costs should be allocated using the percentage of time spent on TRAC activities while employed by the institution, captured through a time allocation or workload planning process.

There are three approaches commonly used in the sector, as follows:

- **In-year time collection** – all staff complete at least three schedules covering the whole year, at least once every three years.

- **Statistical collection** – a statistician has designed a statistically based collection of time allocation returns. The collection process typically requires that either samples of staff or samples of weeks, or a combination are selected each year. The design of the method should provide results that are representative of a 12-month period for the institution as a whole. The results are reviewed by a statistician to ensure that a statistically valid result is achieved that provides results that are representative for the institution as a whole at discipline level.

- **Workload planning / allocation model** – institutions have a proactive planning process for the allocation of staff time to activities during the year. The plan is agreed by each academic member of staff and their line manager, and jointly signed off at the year end.

Whichever approach is adopted, it should be a robust method that provides credible information for use in the attribution of academic staff costs to TRAC activities. It is acceptable to use different time allocation methods across the institution, but only one approach should be used within each academic department.

Reasonableness of time allocation data is ensured by a review of the results by the Head of Department (academic department), but it is not uncommon for the time allocation information to be out of line with the expectations of senior managers. It is therefore important that effort is spent by the TRAC Oversight Group on taking steps to ensure that the time allocation collections provide information that reflects the activities undertaken, to preserve the credibility of the time allocation data, the TRAC data and charge-out rates for publicly funded research projects.

A well designed and tested academic staff time allocation process, whether it be a time allocation survey or Workload Planning model, is integral to ensuring staff costs are accurately allocated to activities, and underpins the credibility of the TRAC model and the TRAC results. It also provides valuable data for other uses in the institution.

### 3.1.5.13

One of the biggest success factors in the time allocation process is the senior sponsorship of the process and the continued communication with academic staff. It is very important that academic staff understand why the time allocation
information is collected, how it is used, and the benefit that the institution receives from the TRAC process. This might be put in terms of the research income received, or the TRAC(T) cost data that inform teaching funding policy in England and Scotland. Having a communications plan that is agreed and owned by the TRAC Oversight Group will contribute to a more successful time allocation collection in the institution.

<table>
<thead>
<tr>
<th>3.1.5.14</th>
<th>All time allocation collection methods should:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• only reflect the staff member’s time that is managed by the institution, irrespective of any ‘standard’ or ‘contracted’ working week;</td>
<td></td>
</tr>
<tr>
<td>• cover periods representative of 12 months;</td>
<td></td>
</tr>
<tr>
<td>• follow TRAC activity definitions (section 1.3);</td>
<td></td>
</tr>
<tr>
<td>• be completed by individual academic staff;</td>
<td></td>
</tr>
<tr>
<td>• be collected from all academic staff to whose employment costs the activity split is to apply;</td>
<td></td>
</tr>
<tr>
<td>• be representative of the grade mix for each academic department.</td>
<td></td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>3.1.5.15</th>
<th>For in-year time allocation:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• the year is split into at least three periods;</td>
<td></td>
</tr>
<tr>
<td>• 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;</td>
<td></td>
</tr>
<tr>
<td>• data are collected from academic departments on a maximum three-year cycle.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3.1.5.16</th>
<th>When time periods or academic staff are sampled using a statistical collection method:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 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;</td>
<td></td>
</tr>
<tr>
<td>• 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;</td>
<td></td>
</tr>
</tbody>
</table>
• the sample size is robust at a lower level (e.g. by academic department, or by type of staff) if institutions are calculating indirect cost or estates rates at these lower levels.

3.1.5.17 When following a workload planning approach:
• A manager or administrator prepares the planned activity data for each year for each academic member of staff. This is based on a formal process, e.g. with plans based on planned modules / courses and students, research projects and activity, other projects and activity, formal leadership and management responsibilities, requirements for scholarship and administrative activity, holiday entitlements, and so on. This process is carried out with all academics in the academic departments covered by this method of time allocation, every year (i.e. there is no sampling). The plan for each academic should be drawn up and agreed with their manager or equivalent at the start of the year, retaining evidence of agreement. 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.

At the end of each year each academic confirms that the plan was delivered, or revises the data to reflect the balance of activities undertaken during that year. This review would be informed by actual modules / courses and students taught, active research grants etc., as well as other events or changes in circumstance during the year that affected workload. Any revisions would be approved jointly by managers and the individual academic.

**Technician survey data**

3.1.5.18 Section 4.2 provides guidance on the calculation of Research charge-out rates, one of which is the charge-out rate for laboratory technicians. The costs of laboratory technicians should be identified separately within the TRAC model and should be Directly Incurred (DI) or Directly Allocated (DA) (see 4.2.5.7).

Attribution to TRAC activities is determined:
• by timesheets for technicians being directly incurred (DI) on grants and contracts; or
• on the basis of a technician activity survey (DA).

3.1.5.19 Laboratory technician time and costs that are included in a specific research facility charge-out rate are excluded from all Laboratory technician charge-out rates (see section 4.2).

3.1.5.20 If there are no directly allocated technicians, or the levels are not material, separate laboratory technician rates do not need to be calculated.
### Space data

| 3.1.5.21 | The space data are used as a pure, weighted or blended cost driver within the TRAC model.  
To calculate the space data, the TRAC Manager should obtain internally produced source data triennially unless required more often due to known material changes to space ownership. The space data should materially reconcile to the latest ‘Net Internal Area’ data reported to HESA at institutional level (i.e. excluding institutional balance space), ensuring that:  
• Space is attributed to academic and central departments on the basis of proportional usage and not on the basis of predominant use.  
• Space types are classified into at least four bands (which are subsequently allocated different weightings to reflect the range / intensity in cost of servicing and maintaining the space).  
A reasonable method is used to calculate a weighted cost for each type of space (see 3.1.5.25 below).  
• Space dedicated to a single TRAC category is directly allocated to the relevant TRAC category, e.g. Catering and Residences to Other (income-generating).  
• Centrally bookable space is allocated to academic department and TRAC categories based on recorded use.  
• Academic department space is attributed to TRAC categories based on proportional usage (i.e. if a room is used 70% of the time for teaching, and 30% research, the space should be allocated in these proportions and not all allocated to teaching). These data can be obtained through surveying the relevant academic departmental staff to understand how the space is used and consequently allocate it to the TRAC categories. Proxies such as academic staff time or staff and student numbers are not sufficiently robust or appropriate.  
• Academic offices are allocated to academic departments and TRAC categories based on an assessment of how the space is used. This generally involves a survey of space usage, as with other areas of the estate.  
• Space occupied by overseas operations and campuses should be treated in the same way as onshore activities where the costs are included in the consolidated financial statements. |
| 3.1.5.22 | Academic department space is classified between laboratory and non-laboratory space. It is suggested that the institution maintains an audit trail to enable an explanation and rationale to be provided for the split, if questioned (see 4.2.5.4). |
### Other cost drivers

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

### Weighting input data

**3.1.5.24** All unweighted input data that feed into TRAC cost drivers should reconcile at institution level to internally recognised or externally reported data. It is common practice to weight some cost drivers where a more representative result could be achieved.

Weighting factors applied to the cost drivers within the TRAC model should be both recognised and used within the institution, or approved by the TRAC Oversight Group when designed uniquely for the TRAC process.

**3.1.5.25** A typical way in which types of space and weightings are determined is to consult and seek input from the Estates / Facilities Department. They should be able to inform or undertake a small exercise to determine what the weightings should be for the different types of space.

The TRAC Manager should ensure that the calculations for the weighting factors applied to academic and central departmental space are retained.

**3.1.5.26** Within the staff and student dataset, FTE and headcount data can be weighted to produce tailored cost drivers.

When tailored cost drivers are designed purely for TRAC purposes, they should be tested for relevance and approved annually by the TRAC Oversight Group. Cost driver weightings which are internally recognised and used do not require additional approval, provided they are applied consistently within TRAC models. It is necessary to retain details of the rationale for the chosen weightings for audit purposes.

**3.1.5.27** Standard weightings are mandated for use in TRAC for the following analysis:

- PGR FTEs are weighted 0.2 when included in the indirect cost rate, 0.8 for laboratory estate rates and 0.5 for non-laboratory estates rates;
- academic staff time allocations should be weighted for salaries when calculating the cost of academic staff time. Depending on the institution’s approach to aggregating the time allocation data, it may be necessary to weight the time allocation percentages for FTE also, to prevent the time allocation percentages over allocating cost to the TRAC categories.

### Indexation

**3.1.5.28** Indexation should be calculated using the worksheet is provided in annex 3.1c.
### 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.

<table>
<thead>
<tr>
<th>What could go wrong / areas of non-compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>When following an in-year retrospective method for academic staff time allocation, a sample of staff (rather than all staff) and/or a sample of weeks of the year (rather than returns covering the whole year) are used within an in-year time allocation survey collection.</td>
</tr>
<tr>
<td>A statistical approach is used to collect academic time allocation data but is not completed every year.</td>
</tr>
<tr>
<td>Income has been used as a cost driver within TRAC models.</td>
</tr>
<tr>
<td>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.</td>
</tr>
<tr>
<td>The share of operating deficits in joint ventures and associates is included in the indirect cost rates (or estates rates) for Research.</td>
</tr>
<tr>
<td>PGR FTEs are double counted by being included in both staff and student FTE.</td>
</tr>
<tr>
<td>PGRs on writing up assignments are not excluded from FTE counts.</td>
</tr>
<tr>
<td>TRAC definitions are not used and Estates Management Return (EMR) activity definitions are used instead.</td>
</tr>
<tr>
<td>Cost drivers are not refreshed in line with the TRAC requirements.</td>
</tr>
<tr>
<td>Coding errors in the TRAC model misalign cost drivers and costs.</td>
</tr>
<tr>
<td>Cost driver data are incomplete and do not match to the source data.</td>
</tr>
<tr>
<td>Technician cost pools are not excluded from facility, estates or indirect rates.</td>
</tr>
<tr>
<td>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.</td>
</tr>
<tr>
<td>Apprenticeship levy costs are not allocated in line with staff costs in the TRAC model.</td>
</tr>
<tr>
<td>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.</td>
</tr>
<tr>
<td>Indexation is unlikely to be correct if it is close to zero.</td>
</tr>
<tr>
<td>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.</td>
</tr>
<tr>
<td>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.</td>
</tr>
</tbody>
</table>
What could go wrong / areas of non-compliance

- 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.

- Actuarial gains or losses included in the statement of comprehensive income are included in TRAC income or expenditure.

- 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

<table>
<thead>
<tr>
<th>Annex reference</th>
<th>Document title</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1a</td>
<td>Academic time allocation survey form</td>
</tr>
<tr>
<td>3.1b</td>
<td>Pension cost adjustment calculator</td>
</tr>
<tr>
<td>3.1c</td>
<td>Indexation calculation worksheet</td>
</tr>
<tr>
<td>3.1d</td>
<td>Worked example of how to complete Table A1 of the TRAC return</td>
</tr>
</tbody>
</table>

The annex is located on the following web page: [www.trac.ac.uk/tracguidance/](http://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](http://www.trac.ac.uk/publications)


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).\(^{36}\) This adjustment is applied to the TRAC model in line with the guidance below to represent the IEC of delivering core institutional activities.

The background to the introduction of the MSI included the recommendations made through the Wakeham report\(^ {37}\) on sustainability assessment which were further reinforced in the 2012 HEFCE Review of TRAC\(^ {38}\) 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

---

\(^{36}\) FSSG, Report on the implementation of the Margin for Sustainability and Investment (November 2017)

\(^{37}\) Research Councils UK (RCUK) and Universities UK, Financial Sustainability and Efficiency in Full Economic Costing of Research in UK Higher Education Institutions (June 2010)

\(^{38}\) HEFCE, Review of TRAC: Consultation on streamlining requirements and increasing transparency of the Transparent Approach to Costing (October 202
RFI (and, in addition, the infrastructure adjustment). This reflected the 2011 report to the FSSG on assessing the sustainability of HEIs\(^{39}\) 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**

1. **1** Calculate EBITDA for MSI from the Consolidated Financial Statements using the template provided at Annex 3.2a
2. **2** Obtain forecast EBITDA for MSI from the most recent financial forecasts submitted to the funding or regulatory body
3. **3** Calculate the MSI percentage using the template provided in the Annual TRAC Return and at Annex 3.2a
4. **4** Allocate the EBITDA for MSI to TRAC Activities, Estates and Indirect Cost pools and to Departments

---

\(^{39}\) 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:

- 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:

- 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.

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:

<table>
<thead>
<tr>
<th>What could go wrong / Areas of non-compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The MSI is not calculated in accordance with the template provided in the Annual TRAC return.</td>
</tr>
<tr>
<td>• The result is negative but the EBITDA for MSI is not set to zero.</td>
</tr>
<tr>
<td>• Income is not adjusted to remove new capital grants, deferred capital grants and new permanent endowments.</td>
</tr>
<tr>
<td>• The EBITDA for MSI is not allocated to TRAC categories based on the total of all other costs in TRAC, before addition of EBITDA for MSI.</td>
</tr>
<tr>
<td>• The EBITDA for MSI is not split between the indirect and estates cost pools.</td>
</tr>
<tr>
<td>• 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)).</td>
</tr>
<tr>
<td>• The MSI percentage is applied to indirect and estates cost pools, rather than allocating the EBITDA for MSI value.</td>
</tr>
<tr>
<td>• Gross RDEC income has not been deducted from the surplus/(deficit) figures entered into Table C.1 of the Annual TRAC return.</td>
</tr>
</tbody>
</table>

3.2.7 Annex and external links

<table>
<thead>
<tr>
<th>Annex reference</th>
<th>Document title</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.2a</td>
<td>MSI calculation template</td>
</tr>
</tbody>
</table>
3.2.8 Associated good practice and other relevant reference material

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

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:
3.3.4 The requirements

3.3.4.1 Wherever appropriate, costs should be directly allocated to the relevant TRAC category (see sections 3.3.5.2 to 3.3.5.4 for costs that should be material and be possible to attribute directly).

3.3.4.2 Direct allocations should be logical and be capable of being substantiated.

3.3.4.3 Costs directly allocated to Other (clinical services), should be reattributed to TRAC activities by:
   a) Identifying the total staff costs for each academic department or group of academic departments;
   b) From this, allocating the total costs of reimbursed ‘agency’\(^{40}\) costs to Other (income-generating activity);
   c) Allocating the remaining costs based on or using the time allocation schedule data;

\(^{40}\) ‘Distinction awards, payments for Additional doctors’ hours, intensity payments, etc.
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;

e) Allocating the balance on the basis of the services being received from the NHS under the knock-for-knock arrangements.

3.3.4.4 Where cost headings are not clearly defined in the account structure, e.g. ‘Miscellaneous’, ‘Other’ the institution should ensure that the allocation is appropriate and defensible.

3.3.4.5 Decisions on the headings to attribute directly should be agreed by the TRAC Oversight Group as part of agreeing the TRAC model (see 2.1.5.1).

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

### 3.3.5 Process

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

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

#### Allocate cost pools to departments

3.3.5.1 The TRAC Oversight Group is responsible for the design of the TRAC process and the judgements and decisions that are needed in designing the TRAC model (see 2.1.5.1).

Management within finance should support the TRAC Manager to identify cost pools appropriate for direct attribution to TRAC categories by analysing costs into, for example:

- academic departments;
- central departments (support);
- commercial departments.
### Identify cost pools to directly allocate to TRAC categories

#### 3.3.5.2
Where material and possible to do so, the following cost types should be attributed directly to academic departments and then to Research:

- directly incurred costs on research grants and contracts, including dedicated technicians and support staff;
- depreciation of equipment funded from a research grant;
- payments to research students such as bursaries, maintenance, stipends and scholarships;
- academic and departmental staff wholly (or mainly\(^{41}\)) 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
Where material and possible to do so, the following cost types should be attributed directly to academic departments and then to Teaching:

- payments to students such as bursaries, maintenance, stipends and scholarships;
- academic and departmental staff wholly (or mainly) working on teaching, including visiting lecturers;
- clinical services which have been undertaken where the primary purpose is teaching (see 3.3.5.8 for further guidance);
- trading companies where teaching activity\(^{42}\) has been carried out;
- tax charges on teaching activity (including overseas taxes relating to teaching activity overseas).

---

#### 3.3.5.4
Where material and possible to do so, the following cost types should be attributed directly to academic departments and then to Other (income-generating activity)\(^{43}\):

- 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;

---

\(^{41}\) Materially (as defined at annex 1.2a) dedicated to research activity.

\(^{42}\) Trading activities in commercial companies and spin-outs (subsidiaries) where teaching is being delivered.

\(^{43}\) 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.
• 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.

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.

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 The activities and costs in medical and dental schools are closely interlinked with the activities and costs in NHS Trusts. There are many complex arrangements in place between institutions and Trusts where costs are borne by institutions and trusts for staff, assets, facilities and equipment that are shared and may not always be recognised in agreements. The phrase ‘knock-for-knock’ is used to describe these arrangements.

The element of time for staff providing clinical services to the NHS should initially be allocated to a separate activity within ‘Other’ called ‘clinical services’ (O(CS)). This should subsequently be reallocated, where material and possible to do so, using the guidance provided at sub-section 3.3.5.8 below.

3.3.5.8 Where material and possible to do so, attribute ‘clinical services’ time to TRAC activities by:
• identifying the total staff costs for each academic department or group of academic departments;
• allocating the total costs of reimbursed ‘agency’\(^{44}\) costs to Other (income-generating activity);
• allocating the remaining costs as per the time allocation schedule data;

---

\(^{44}\) Distinction awards, payments for Additional doctors’ hours, intensity payments, etc.
• 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.

Allocating costs relating to ‘Other (non-commercial activity)’

| 3.3.5.9 | 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. |

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.

<table>
<thead>
<tr>
<th>What could go wrong / areas of non-compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Direct allocation based on an activity type description in the account coding structure that is unclear, leading to incorrect allocation.</td>
</tr>
<tr>
<td>• 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.</td>
</tr>
<tr>
<td>• 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.</td>
</tr>
<tr>
<td>• Inappropriate allocation to Other when activity type should be Teaching or Research (Note: administration and support activity is not Other (income-generating) or Other (non-commercial)).</td>
</tr>
<tr>
<td>• Costs funded from donations and endowment income that have been allocated to ‘Other (non-commercial activity)’ are not allocated to the same category.</td>
</tr>
</tbody>
</table>
What could go wrong / areas of non-compliance

- Allocation of cost in future years to Teaching or Research, when the income was treated as 'Other (non-commercial activity)'.

- 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](http://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 subclassified 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

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.4.4.1</td>
<td>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.</td>
</tr>
<tr>
<td>3.4.4.2</td>
<td>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.</td>
</tr>
<tr>
<td>3.4.4.3</td>
<td>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.</td>
</tr>
<tr>
<td>3.4.4.4</td>
<td>Cost drivers selected should reflect the consumption of resource and do not include bias to achieve a desired allocation of costs.</td>
</tr>
<tr>
<td>3.4.4.5</td>
<td>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.</td>
</tr>
<tr>
<td>3.4.4.6</td>
<td>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.</td>
</tr>
</tbody>
</table>
3.4.4.7 Totals calculated and the basis of apportionment and allocation in the TRAC model should be checked to prevent double-counting of costs.

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

3.4.5 Process

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

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

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

Identify indirect cost pools to apportion

3.4.5.1 Whilst acknowledging that institutional coding structures will vary, the total indirect cost pool is expected to contain the following identifiable components:

- administrative, clerical and technical staff in academic departments who support core TRAC activities but are not directly allocated to the TRAC activities in the TRAC model;
- staff and student facilities;
- non-staff costs in academic departments (except where directly allocated);
- restructuring costs\textsuperscript{45};
- registry;
- finance;
- human resources;
- libraries and learning resources;

\textsuperscript{45} 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’.
• 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 To aid identification of the indirect cost pools to apportion, the TRAC Manager could perform and retain a control check reconciling support cost totals back to the consolidated financial statements:
• including the estates cost apportioned to central support departments;
• including the relevant proportion of the 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.

In performing this reconciliation, the cost pools that make up the indirect cost pool and the estate cost pool are separately identified. Some institutions perform a reconciliation against the support cost pool totals for TRAC and the values reported to HESA.

3.4.5.3 Irrespective of whether TRAC systems are ‘third party supplied’ or ‘in-house developed’, details of direct coding and apportionment formulae should be understood by the TRAC Manager and tested for accuracy following any system upgrade. These details should be retained and made available for review by funders upon request.

Identifying the support costs in academic departments

3.4.5.4 Section 3.1 includes guidance on how to collect and use academic time allocation and/or workload planning data, and includes an example collection schedule to help identify which activities are classified as support rather than direct activities. These support costs are reallocated to the core TRAC activities.

The academic time allocated to support for the main TRAC activities (T, R and O) in the time allocation survey should be reviewed for reasonableness using the guidance set out in chapter 2.

Identify estate cost pools to apportion

3.4.5.5 Whilst acknowledging that institutional coding structures will vary, the total estates cost pool is expected to contain the following directly identifiable components:
• repairs and maintenance;
• utilities;
• rates;
• estates personnel costs;
• rental costs;
• an element of non-pension related interest costs;
• gross buildings depreciation;
• building impairment costs;
• buildings insurance;
• cleaning;
• porters and security;
• equipment and facility costs, including equipment depreciation charges, when not purchased on a research grant or contract;
• part of the central service departments’ costs attributable to the estates department and the costs of all support staff that relate to these areas.

3.4.5.6 The TRAC Manager could perform and retain a reconciliation between the estates cost pool total for TRAC and the value reported to HESA:
• plus the 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 Section 3.1 provides guidance on the space-related data to be collected to input into the TRAC model. The guidance below explains how to attribute the space data robustly to academic departments and to TRAC categories. In performing this calculation, the TRAC Manager should ensure that this is based on measured usage (see 3.1.5.21).

There are two approaches for obtaining space usage data for TRAC:
• The Estates Management Return where this is based on a measured basis, not predominant usage, although care needs to be taken to ensure that the TRAC definitions of activities are applied and not EMR definitions which are different.
• A separate data collection to allocate space to TRAC categories – typically obtained through undertaking a survey of space usage.

The space data are weighted to reflect the relative cost of space before apportioning the cost of space within the TRAC model. Guidance about the weighting of this space to reflect the differential cost of space types is also provided in sub-section 3.1.5.25. The cost of weighted space apportioned to academic departments for Teaching, Research and Other becomes part of the estates charge-out rate calculations (see section 4.2).

The estate costs should be apportioned to both academic and central service departments, according to the weighted space driver. The share allocated to the central service departments becomes part of the indirect cost allocations and charge-out rate calculations (see section 4.2 and section 3.4.5.2 above).
### Robust and relevant cost drivers

**3.4.5.8** Section 3.1 provides guidance on how to compile cost driver input data for the TRAC model. When designing, reviewing and updating cost drivers annually, the TRAC Oversight Group could perform a test to ensure the cost drivers remain relevant for allocating support cost pools before approving the cost drivers for use each year.

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

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

**3.4.5.10** The institution should observe the order in which support costs are attributed to other central support and academic departments, as follows:

1. Estates costs relating to central support departments (e.g. Finance, Information Technology, Human resources, Registry) should be allocated using the estates space data occupied by central functions (weighted space driver) to provide the total cost of the central support department.

2. The balance of estates costs relating to academic departments and other functions in the institution should be allocated through the cost driver model to academic departments where direct costs have been recorded, or apportioned according to the weighted space cost driver. Allocation to the TRAC categories at academic department level will be a secondary allocation using the space usage data.

3. The cost of each central support department (including these reallocated elements) is then allocated to academic departments and TRAC categories at academic department level via the cost driver model.

**3.4.5.11** Costs attributed to Teaching at academic department level are then allocated between PFT and NPFT using student numbers. Depending on any material differences between the costs of delivery between students classified as PFT and NPFT the institution could consider weighting the student numbers to ensure a fair allocation of costs between these categories.

Institutions will find it helpful to refer to steps 4.3.5.3 and 4.3.5.4 in the TRAC(T) section as it will reduce the risk of error and create an efficiency for the institution in having the data prepared ready for TRAC(T).

**3.4.5.12** Costs are attributed robustly to research sponsor types. This is typically achieved through a combination of the costs directly charged to the project in the financial ledger, and the allocation of staff time according to the Research Sponsor categories.

No costs are attributed to the eighth research sponsor type 'Funding Council/Research England recurrent funding for Research'.
| 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 | 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:  
  • 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.  
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). |
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.

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.

<table>
<thead>
<tr>
<th>What could go wrong / areas of non-compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 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).</td>
</tr>
<tr>
<td>• Cost drivers for libraries and learning resources are not robust and have not been confirmed as reasonable by the Head of Service.</td>
</tr>
<tr>
<td>• 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.)</td>
</tr>
<tr>
<td>• Estates data used to inform TRAC apportionment are not based upon the ‘proportionate’ use of space.</td>
</tr>
<tr>
<td>• Support costs are not separately identifiable at academic department level.</td>
</tr>
<tr>
<td>• 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.</td>
</tr>
<tr>
<td>• Estates and Indirect costs are allocated without their share of the MSI adjustment (chapter 3.2).</td>
</tr>
<tr>
<td>• 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).</td>
</tr>
<tr>
<td>• Costs relating to the following are allocated to Other (non-commercial) in error:</td>
</tr>
<tr>
<td>• pension costs;</td>
</tr>
<tr>
<td>• impairment write-downs.</td>
</tr>
</tbody>
</table>

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.
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\(^\text{46}\), operating surpluses from joint ventures and associates, and taxation credits (see 3.1.5.3a to 3.1.5.6).

Institutions should include net gains on any financial instrument that are reported as a separate heading below the ‘Surplus/(deficit) before other’

---

\(^{46}\) This includes both realised and unrealised gains.
gains/(losses) and share of operating surplus of joint ventures and associates’ but reported above ‘Surplus/(deficit) for the year’.

Net gains including unrealised gains on any revaluation of the financial instrument should be added to the income of the institutions as part of the TRAC return.

Institutions that are unclear as to whether to include an entry in their audited financial statements within their TRAC return should contact the TRAC Helpdesk for advice.

3.5.4.3 The approach to income allocation is based on three rules. Allocation should be made according to:

(a) the purpose of the funding (what was it provided for, irrespective of how it might actually have been employed by the institution); or

(b) what it was used for (i.e. where the costs are allocated); and

(c) the source of the funds – the type of organisation providing the income (which dictates PFT or NPFT).

Method (a) generally takes precedence over (b). Where (c) is in conflict with (a) or (b) then the allocation is made on the basis of (a) or (b) as appropriate.

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

3.5.5 Process

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

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

Obtaining the income allocation workbook

3.5.5.1 In the October following the closure of each financial reporting period, the 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.

3.5.5.2 The income allocation table (annex 3.5a) includes two sections:
The left side of the workbook provides a copy of the OfS Finance Return Table 417 / HESA Finance record Table 6 template. 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.

When completed, both sides of the workbook reconcile against each other.

### Funding body grants allocation

#### 3.5.5.3

Allocate income for ‘Funding Body Grants’ as follows:
- 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.

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.

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.

Note: The allocation approach is the same whether the accrual model or performance model is adopted for government revenue grants.

#### 3.5.5.4

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.

Funds received from the apprenticeship service account should be allocated as follows:
- 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

---


48 HESA Finance record guidance, see [https://www.hesa.ac.uk/collection/](https://www.hesa.ac.uk/collection/) (when released by HESA)
• 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.

Note: The allocation approach is the same whether the accrual model or performance model is adopted for government revenue grants.

*3.5.5.5*

Allocate income from capital grants as follows:

• 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.

Note: The allocation approach is the same whether the accrual model or performance model is adopted for government capital grants:

• 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.

**Tuition fees and education contracts allocation**

*3.5.5.6*

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);

• allocate overseas students fees for Teaching to NPFT;

• allocate further education course fees to PFT if they relate to a credit-award-bearing course, otherwise allocate to NPFT;

• allocate higher education course fees for Teaching to PFT (or non-publicly funded teaching (NPFT) for overseas or ELQ students).

*3.5.5.7*

Allocate all other fees and support grants between Teaching and Research:

• home and European Union (EU) domicile students to PFT (irrespective of whether the fees or loans are paid by public bodies or not) or Research (PGR sponsor type);

• overseas (non-EU domicile) students to NPFT or Research (PGR sponsor type);

• non-credit bearing higher education courses to NPFT;
• further education course fees to PFT or NPFT;
• research training support grants to Research (PGR sponsor type).

### 3.5.5.8

Research intensive institutions are encouraged (see sub-section 1.3.2.4) to record income (and costs) related to PGR activity under Research (PGR sponsor type), not the externally funded research sponsor type.

### Research grants and contracts allocation

### 3.5.5.9

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

Note: The allocation approach is the same whether the accrual model or performance model is adopted for government revenue grants.

### 3.5.5.9a

Allocate income from capital grants to Research. Its source should determine its allocation to research sponsor type.

Note: The allocation approach is the same whether the accrual model or performance model is adopted for government capital grants:

- 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.

### Other income allocation

### 3.5.5.10

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:

- Other (income-generating activity); and
- Other (non-commercial activity).

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 and endowments and capital grants.

### 3.5.5.11

Allocate income for ‘Other Services Rendered’ received from UK central government bodies, local authorities, health and hospital authorities:

If any income category is not material (as defined in 2.1.4.2 and at annex 1.2a), allocate to Other (income-generating activity), otherwise for:

- 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 Allocate income for 'Other Services Rendered' received from EU government bodies:
If any income category is not material (as defined in 2.1.4.2 and at annex 1.2a), allocate to Other (income-generating activity), otherwise for:
- European Commission funding programmes to Teaching, Research or Other (income-generating activity).

3.5.5.13 Allocate income for 'Other Services Rendered' received from other bodies:
If any income category is not material (as defined in 2.1.4.2 and annex 1.2a), allocate to Other (income-generating), otherwise for:
- industry to NPFT when related to Teaching;
- EU Other to PFT or NPFT when related to Teaching;
- other overseas to NPFT when related to Teaching;
- other sources to NPFT when related to Teaching.

3.5.5.14 Allocate the income for residences and catering to Other (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 Allocate income from health or hospital authorities:
- 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 Allocate income from capital grants to the activity for which the asset being funded is used.
If not known, allocate across all activity types in relation to TRAC estates cost allocations.
Note: The allocation approach is the same whether the accrual model or performance model is adopted for government capital grants:
- 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
Allocate income for ‘Other operating income’:

If any income category is not material (as defined in 2.1.4.2 and at annex 1.2a), allocate to Other (income-generating), otherwise for:

- Erasmus, Turing 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 Industry; other overseas sponsor type) or to Other (income-generating activity);
- 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.

### Investment income allocation

### 3.5.5.20
Allocate investment income:

- 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).
Donations and endowments allocation

3.5.5.21 Allocate endowment income, both from new endowments and from permanent endowments to the activity for which the endowment is given:
- 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).

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.

3.5.5.22 Allocate donations to the activity for which the donation is given:
- 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
- Other (non-commercial activity) where there is no defined purpose for the donation.

3.5.5.23 Allocate income value attributed to donated heritage assets to Other (non-commercial activity).

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.

<table>
<thead>
<tr>
<th>What could go wrong / areas of non-compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Failure to access the most recent income allocation template (annex 3.5a or annex 3.5b); relying on a prior year version instead.</td>
</tr>
</tbody>
</table>
| - Failure to allocate ELQ student income to NPFT unless students undertaking a degree which is an equivalent or lower qualification (ELQ) are exempt, e.g. medicine, dentistry or social work.  

   

49 ELQ and Previous study (slc.co.uk) |
| - Where donations are received, they have not been matched to the specific activity that donation was made for. |
| - 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

<table>
<thead>
<tr>
<th>Annex reference</th>
<th>Document title</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.5a</td>
<td>Income allocation table</td>
</tr>
<tr>
<td>3.5b</td>
<td>Guidance on the allocation of OfS/Funding Council/Research England grants</td>
</tr>
</tbody>
</table>

Annexes are located on the following web page: [www.trac.ac.uk/tracguidance](http://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](http://www.trac.ac.uk/contact/regional)
Chapter 4 contains three sections:

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>98</td>
</tr>
<tr>
<td>4.2</td>
<td>107</td>
</tr>
<tr>
<td>4.3</td>
<td>119</td>
</tr>
<tr>
<td>Annual TRAC return</td>
<td>98</td>
</tr>
<tr>
<td>Research charge-out rates</td>
<td>107</td>
</tr>
<tr>
<td>TRAC for Teaching return – TRAC(T)</td>
<td>119</td>
</tr>
</tbody>
</table>
4.1 Annual TRAC return

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

4.1.2 The aim – What are we trying to achieve from explaining how to complete and submit the Annual TRAC return?
To ensure that institutions know where to access the Annual TRAC return, how to complete and review the return, the deadlines for submission to the OfS/Funding Councils and where further help can be obtained.

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

*Figure 4.1: Annual TRAC*
4.1.4 The requirements

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1.4.1</td>
<td>All higher education institutions are required to complete an Annual TRAC return, including HEIs applying dispensation.</td>
</tr>
<tr>
<td>4.1.4.2</td>
<td>The template provided to institutions each year by the OfS/Funding Councils should be used (see annex 4.1a) for submitting TRAC data.</td>
</tr>
<tr>
<td>4.1.4.3</td>
<td>Teaching activity is robustly allocated between PFT and NPFT at academic department level as defined at section 1.3 (see 3.4.5.11).</td>
</tr>
<tr>
<td>4.1.4.4</td>
<td>Research activity is robustly allocated to research sponsor types as defined at section 1.3 (see 3.4.5.12).</td>
</tr>
<tr>
<td>4.1.4.5</td>
<td>Other activity is robustly allocated between ‘Other (income-generating activity)’ and ‘Other (non-commercial activity)’ as defined at section 1.3 (see 3.3.5.9).</td>
</tr>
<tr>
<td>4.1.4.6</td>
<td>The TRAC Oversight Group should review the Annual TRAC return for reasonableness before presenting to the Accountable Officer for sign-off.</td>
</tr>
<tr>
<td>4.1.4.7</td>
<td>Once uploaded, the results file should be checked for post-submission validation errors. If errors are generated, the Annual TRAC return should be corrected and uploaded again.</td>
</tr>
<tr>
<td>4.1.4.8</td>
<td>No longer used</td>
</tr>
<tr>
<td>4.1.4.9</td>
<td>The submission deadline for the Annual TRAC return for the year ending 31 July is specified by the OfS/Funding Councils each year.</td>
</tr>
<tr>
<td>4.1.4.10</td>
<td>Post-submission, on receipt of sector benchmarking data, institutions should review their TRAC data again against peer group and sector data to consider whether data outliers appear reasonable. If errors are identified at this stage, the Annual TRAC return should be corrected and uploaded again. A Committee of the governing body should ensure that the institution’s TRAC process complies with the TRAC requirements.</td>
</tr>
</tbody>
</table>

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

4.1.5 Process

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

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

4.1.5.1 Each year the OfS produces the Annual TRAC return template on behalf of all UK Higher Education Funding Councils.

The template is made available as a PDF document for reference (see annex 4.1a), but data should be completed on individualised Excel spreadsheets, accessed and submitted online, via the OfS portal.

For institutions in England: instructions about how to obtain access to the institutional Annual TRAC return template are provided to institutions each autumn.

For institutions in Northern Ireland: the DfE for Northern Ireland writes to the Directors of Finance each autumn with information about the TRAC return process and deadlines, and how to access the OfS portal.

For institutions in Scotland: instructions about how to obtain access to institutional Annual TRAC return forms are provided in the ‘Call for Information’ circular sent to Principals and Directors of Finance each autumn.

For institutions in Wales: the Higher Education Funding Council for Wales (HEFCW) writes to the Directors of Finance each autumn with information about the TRAC return process and deadlines, and how to access the OfS portal.

The instructions include guidance on:

- accessing the OfS portal;
- downloading the Annual TRAC return template;
- uploading the completed Annual TRAC return template;
- uploading an accompanying commentary;
- the sign-off process;
- accessing technical support.

4.1.5.2 The individualised Annual TRAC return template is accessible by all institutions only through the OfS portal.\(^50\)

If the TRAC Manager has not previously used the OfS portal, he or she will need to register using the instructions provided by the OfS/Funding Councils, noting that he or she will need to contact the user administrator at their institution who manages access to the OfS portal.

4.1.5.3 The downloaded Annual TRAC return package contains two files:

- a Microsoft Excel template for completing the return;
- a Microsoft Word document containing further instructions about completing the Annual TRAC return form.

4.1.5.4 The Annual TRAC return template contains the following sections:

---

\(^50\) [https://extranet.officeforstudents.org.uk/data/](https://extranet.officeforstudents.org.uk/data/)
• Sign-off sheet including declaration of compliance by the Accountable Officer: this will not be made available until all validation errors have been resolved;
• Institutional results – for use by the OfS/Funding Councils, UKRI and Research Councils;
• TRAC income and full economic cost by activity – for use by the OfS/Funding Councils, UKRI and Research Councils – including further analysis of certain elements of income and expenditure;
• Research income and full economic costs by sponsor type – for use by the OfS/Funding Councils, UKRI and Research Councils;
• Calculation of the Margin for Sustainability and Investment;
• Calculation of indirect and estates cost charge-out rates for Research (plus Table D(a) for rates calculated separately by academic department) – for use by UKRI, Research Councils, and for benchmarking analysis;
• Calculation of laboratory technicians and research facility charge-out rates for Research (plus Table E(a) for rates calculated separately by academic department) – for use by UKRI, Research Councils, and for benchmarking analysis;
• Analysis of support costs, estates costs and indirect costs – for use by UKRI and Research Councils;
• **Data relating to response rates for time allocation surveys and workload planning** – for use by UKRI and Research Councils.

The Annual TRAC return template may also contain other optional tables or requests for data to support the development of TRAC.

The Annual TRAC return template contains a number of pre-submission validation checks that need to be satisfied before submission. These act as useful checks for the institution.

A summary of the validation tests performed and their status is provided alongside the institutional checklist and commentary section at the end of the Annual TRAC return workbook (see annex 4.1a). The summary sheet also provides a comparison of the current year’s data with previous years to aid data validation prior to submission.

**Important reminders to observe when populating the Annual TRAC return**

**4.1.5.5** Table A1 is used to reconcile TRAC income and expenditure to the consolidated financial statements plus any adjustments required for USS, SAUL and OSPS pension schemes.

**TRAC Income in the Annual TRAC reconciles to the consolidated financial statement for:**
- total income as reported in the consolidated financial statements
- plus net gain on disposal of fixed assets
- plus net gain on investment property
- plus net gain on investments
- plus the share of operating surplus in joint ventures and associates as reported in the consolidated financial statements
- plus net taxation credit.

TRAC full economic costs in the Annual TRAC return reconcile to the consolidated financial statements for:
- total expenditure as reported in the consolidated financial statements;
- minus costs or plus credits attributable to the deficit recovery plan for the USS, SAUL and OSPS pension schemes (calculated as per 3.1.5.3a);
- plus net loss on disposal of fixed assets;
- plus net loss on investment property;
- plus net loss on investments;
- plus the share of operating deficits in joint ventures and associates as reported in the consolidated financial statements;
- plus net taxation charges;
- plus surplus, or minus deficit for the year attributable to non-controlling interests; plus
- the MSI adjustment (see section 3.2).

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 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.

Institutions should include net gains or losses on any financial instrument that are reported as a separate heading below the ‘Surplus/(deficit) before other gains/(losses) and share of operating surplus/deficit of joint ventures and associates’, but reported above ‘Surplus/(deficit) for the year’.

Net losses including unrealised losses on any revaluation of the financial instrument should be added to the expenditure of the institution as part of the TRAC return.

Institutions that are unclear as to whether to include an entry in their financial statement within their TRAC return should contact the TRAC Helpdesk for advice.
4.1.5.7 The annual return shows the TRAC Surplus/(Deficit) (the difference between Income and the full economic cost). The MSI tab shows the Annual Sustainability Gap (the difference between the six-year average EBITDA for MSI and the actual EBITDA for MSI generated in the current year).

4.1.5.8 Costs of all activities are prepared on a full economic cost basis, including a relevant share of Support costs and MSI adjustment.

4.1.5.9 Irrespective of the type of collaborative/joint venture, where the collaborative/joint venture is consolidated in the financial statements, the share of income and share of expenditure from a joint venture are included in TRAC:

- For joint ventures and associates: the net operating surplus or deficit making up the institution’s share of its joint ventures and associates’ operating results are allocated to TRAC activities, and included in TRAC income and costs. The costs are not, however, included in the indirect cost rates (or estates rates) for Research. In the case of both associates, and joint ventures, the share of surpluses / (deficits) included in an institution’s consolidated financial statements is added to income (if in surplus) whereas if it is a deficit it is added to costs.

- 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 related to Support for Research, then the indirect costs (or estates costs) used to calculate the Research charge-out rates are reduced by the total surplus or deficit attributable to non-controlling interests figure.

4.1.5.10 Institutions should ensure that the appropriate proportion of the costs of teaching has been allocated between PFT and NPFT.

4.1.5.11 Institutions should ensure that teaching costs have been fairly and reasonably allocated to NPFT. In doing so the following should be considered:

- Allocating the direct additional costs of overseas students (e.g. the international office, English language courses provided for overseas students) directly to NPFT, where material.

- Academics allocate their time between ‘short/overseas courses’ and ‘all other courses’. Time on short/overseas courses is allocated directly to NPFT. (Academics are unlikely to be able to allocate their time on courses attended by both home and overseas students between PFT and NPFT using their time allocation schedules alone, and this would not be good practice.)

- Splitting the costs of all other courses between PFT and NPFT on the basis of student FTEs in those categories.

- Allocating the bursaries, scholarships and hardship payments for taught students to PFT and NPFT where appropriate (those for Research should already have been allocated to R in the Annual TRAC process). Student FTEs
could be used as a proxy where actual costs related to different student populations cannot easily be established.

- EU students commencing a new course on or after 1 August 2021 and who do not have settled or pre-settled status will be classed as overseas and should be included within NPFT.

4.1.5.12 Costs are attributed robustly to research sponsor types (see 3.4.5.12)

The surplus/(deficit) for each research sponsor type is reasonable and no costs are attributed to the eighth, research sponsor type ‘Funding Council/Research England recurrent funding for Research’.

Note: Unfunded Research activity that fulfils the TRAC definition of Research should not be allocated to Other (income-generating) or Other (non-commercial).

Validating and submitting the Annual TRAC return

4.1.5.13 The TRAC Oversight Group should confirm satisfactory completion of the return, after performing the reasonableness checks outlined in chapter 2, and confirming that the process followed in completion of the TRAC return has complied with the TRAC requirements, as outlined in 2.1.5.22.

Following this, the Annual TRAC return should be printed and the declaration sheet signed by the Accountable Officer and scanned as a signed PDF ready for submission to the OfS/Funding Councils. An electronic signature for the Accountable Officer sign-off is permitted and the OfS/Funding Councils will regard this as formal regulatory declaration in the same way as physical sign off. Where an electronic signature is used, providers should exercise robust control of the use of electronic signatures for regulatory declarations by the Accountable Officer.

Following this, the Accountable Officer will need to sign the declaration sheet. This can be done by either printing off the Annual TRAC return and arranging for the paper copy to be signed. The paper copy will need to be scanned as a signed PDF ready for submission to the OfS/Funding Councils. Alternatively, the declaration sheet should be signed electronically by the Accountable Officer and submitted as a PDF to the OfS/Funding Councils.

4.1.5.14 The completed Annual TRAC return, PDF signed copy and accompanying commentary documents must be uploaded to the OfS/Funding Councils through the OfS portal. The TRAC Manager should retain copies of the submission documents and receipt for review to satisfy assurance arrangements.

Instructions about how to upload the Annual TRAC return documents are provided by the OfS/Funding Councils (sub-section 4.1.5.1).

4.1.5.15 Once uploaded, the results file should be checked for post-submission validation errors.

---

51 [https://extranet.officeforstudents.org.uk/data/](https://extranet.officeforstudents.org.uk/data/)
If errors are generated, the Annual TRAC return should be corrected and uploaded again.

4.1.5.16 Post-submission, upon receipt of sector benchmarking data, institutions should review the TRAC data again against peer group and sector data to consider whether data outliers appear reasonable (sub-section 2.1.5.11 provides guidance around reasonableness checking).

If errors are identified at this stage, the Annual TRAC return should be corrected and uploaded again.

To resubmit, you should contact your OfS or relevant Funding Council representative.

Planning for the next submission cycle

4.1.5.17 When undertaking post-submission analysis against TRAC benchmarking data (see 4.1.5.16 above) institutions are encouraged to review whether opportunities exist for system and process improvement to address weaknesses in the TRAC approach.

Where opportunities exist for system improvement, the TRAC Oversight Group should agree an action plan for implementation.

A Committee of the governing body should ensure that the process that is in place for the generation of the TRAC return is compliant with TRAC requirements. Actions that could be taken to achieve this are detailed in 2.1.5.22.

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

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

<table>
<thead>
<tr>
<th>What could go wrong / areas of non-compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Failure to access the individualised institution-specific template, using the publicly accessible PDF template as a guide instead.</td>
</tr>
<tr>
<td>• Downloading institutional templates too late in the process to inform adjustments required to TRAC process each year.</td>
</tr>
<tr>
<td>• Submitting return documents too late in the submission window to allow for validation queries to be addressed.</td>
</tr>
<tr>
<td>• <strong>Showing both the gain and the loss for the same entry in Table A1.</strong></td>
</tr>
<tr>
<td>• Missing the submission deadline without informing the OfS/Funding Councils of exceptional circumstances.</td>
</tr>
<tr>
<td>• Pre-submission validation failures not addressed prior to submission.</td>
</tr>
<tr>
<td>• Unfunded Research activity that fulfils the TRAC definition is incorrectly allocated to Other (income-generating) or Other (non-commercial).</td>
</tr>
</tbody>
</table>
4.1.7 Annexes

<table>
<thead>
<tr>
<th>Annex reference</th>
<th>Document title</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1a</td>
<td>Annual TRAC return template</td>
</tr>
<tr>
<td>4.1b</td>
<td>Peer groups</td>
</tr>
</tbody>
</table>

Annexes are located on the following web page: [www.trac.ac.uk/tracguidance](http://www.trac.ac.uk/tracguidance)

4.1.8 Associated good practice and other relevant reference material

None specified for section 4.1.
4.2 Research charge-out rates

4.2.1 Introduction

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

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

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

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

For institutions claiming dispensation, the indirect and estates cost rates to be applied are the lower of the dispensation rates published annually by UKRI\(^52\) or the institution’s own rates. Research facility and laboratory technician infrastructure rates are not applicable to institutions claiming dispensation, and their use is not permitted.

4.2.3 Process workflow

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

- Research indirect support costs;
- Research estates costs – (a) for laboratory-based research and (b) for non-laboratory research;
- Research laboratory technicians costs;
- Research facility and equipment access.

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

### 4.2.4 The requirements

**4.2.4.1** Following approval by the Accountable Officer and final submission of the TRAC return, the **Research charge-out rates** should be used from 1 February each year, unless the submission deadline is extended then a revised date will be published.

Note: submission includes the sign-off sheet signed by the Accountable Officer, any commentary document required, as well as any action plan that has been identified as part of the self-assessment process or as a result of any review (internal audit or UKRI).

### TRAC requirements for the indirect cost charge-out rate:

**4.2.4.2** A Research indirect cost charge-out rate should be calculated each year as a rate per research academic staff FTE.

**4.2.4.3** The costs in the numerator of the Research indirect cost charge-out rate should agree with the indirect cost pool in the TRAC model, less a deduction for a proportion of any income received from the Apprenticeship Service Account that is attributable to the...
4.2.4.4 The denominator of the Research indirect cost charge-out rate comprises:
- academic time (FTE) attributable to research (not weighted for salaries);
- postgraduate researchers (FTE) (weighted by 0.2);
- research assistants and fellows (FTE);
- temporary research staff FTE;
- visiting research academics FTE; and
- clinicians FTE (where material and appropriate to be included).

4.2.4.5 Two Research estates cost charge-out rates (for laboratory and non-laboratory academic departments as defined by the institution) are calculated each year as a rate per research academic staff FTE. If no laboratory (or non-laboratory) academic departments exist within an institution, separate estates rates need not be calculated.

4.2.4.6 The costs in the numerator of the Research estates charge-out rates should agree with the Research element of the estates cost pool in the TRAC model (including the relevant proportion of the MSI adjustment), less the cost of technicians, equipment and facilities that are to be charged separately.

4.2.4.7 The denominator of the Research estates charge-out rates should agree with the research academic staff FTE used in the Research indirect cost charge-out rate but should be calculated separately for laboratory and non-laboratory academic departments in the Research estates charge-out rates (weighting postgraduate researcher FTEs by 0.8 and 0.5 respectively).

4.2.4.8 The percentage of research time of academic staff should be calculated separately for laboratory and non-laboratory academic departments. Using the same time allocation percentage in both estates laboratory and estates non-laboratory as a basis for calculating the research FTE is theoretically possible, but unlikely.

4.2.4.9 Research technicians, equipment and facilities costs that are to be charged to projects should be excluded from the estates cost pools and form the basis of separate charge-out rates.

4.2.4.10 The numerator of the Research laboratory technician cost charge-out rate calculations should exclude:
- costs already being charged to projects as Directly Incurred;
- costs that are included in equipment and facilities costs charge-out rates;
- costs of technician support in teaching and non-laboratory academic departments.

4.2.11 An annual figure of 1,650 hours per FTE should be used as the denominator to calculate an hourly rate for the Research technician charge-out rate.

**TRAC requirements for the Research facilities and equipment charge-out rates:**

4.2.12 All biological facilities (operated under a Home Office licence) should be costed as research facilities and charged directly on projects. All TRAC research facilities should be costed in line with TRAC guidance.

4.2.13 Auditable utilisation records covering all activities undertaken should be maintained (at least quarterly) by facility and equipment managers to inform robust rate calculations. Research facilities and equipment without auditable utilisation records should not be recorded as Directly Incurred to research projects.

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

Institutions claiming dispensation from the TRAC requirements are not required to calculate indirect or estates charge-out rates robustly. Institutions claiming dispensation should apply the lower of their own indirect and estates charge-out rates, or the dispensation indirect charge-out rate\(^{53}\) to Research Council and Other Government Department cost-based research projects. Charge-out rates for Research facilities and laboratory technicians cannot be applied if claiming dispensation.

### 4.2.5 Process

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

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

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

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

---

### Calculating the indirect cost charge-out rate

#### 4.2.5.1
A single indirect cost rate is calculated each year for research activity as a rate per research academic staff FTE (detailed below).

The Annual TRAC return template (annex 4.1a) sets out the calculation of the indirect cost rate for research. The research academic FTE is determined by:

- taking the Research time allocation percentage (excluding Support to Research), unweighted for salaries, and multiplying this by the academic staff FTE to provide an academic staff FTE for research;
- plus the FTE of any research assistants and fellows;
- plus the FTE of temporary research staff;
- plus the FTE of visiting research academics;
- plus the FTE of clinicians (where material and appropriate to be included);
- plus the weighted postgraduate research FTE.

#### 4.2.5.2
The TRAC Manager should perform and retain a reconciliation to confirm that the costs in the numerator of the research indirect rates calculations agrees with the indirect cost pool total in the TRAC model, less the proportionate amount of income received from the Apprenticeship Service Account that is equal to the proportion of staff costs attributable to Research activity. The reason for this deduction is to ensure that double funding does not arise from charge-out rates being increased as a result of the 0.5% apprenticeship levy being included in staff costs, and some income being received from both the Apprenticeship Service Account for training of the institution’s staff and through Research funders. (Note: This applies regardless of whether the course is delivered by the institution, or by another provider.) The costs included in the numerator for the research indirect costs charge-out rate calculation include all the elements listed in the cost pools identified in sub-section 3.4.5.1.

#### 4.2.5.3
The TRAC Oversight Group should review and approve the rate calculation. There should be a clear cut-off date and process that ensures that the updated rates replace the previous rates and are applied to project applications no earlier than 1 February of each year, and no later than six months after this date.

Following approval by the Accountable Officer and final submission of the TRAC return, the research charge-out rates should be used from 1 February each year, unless the submission deadline is extended then a revised date will be published.

Note: submission includes the sign-off sheet signed by the Accountable Officer, any commentary document required, as well as any action plan that has been identified as part of the self-assessment process or as a result of any review (internal audit or UKRI).
### Calculating estates cost charge-out rates

#### 4.2.5.4
Two estates cost rates are calculated each year as a rate per research academic staff FTE: one for laboratory-based academic departments and one for non-laboratory academic departments (where both department types exist within an institution).

The Research FTE for academic and other research staff should be allocated between the Laboratory and Non-laboratory academic departments so as to be aligned to the cost pools in order to calculate the estates rates. This is necessary as there is a difference in the intensity with which these categories of activity consume resources and generate costs. There are a variety of ways in which this split can be achieved. For example, where the institution’s department names enable the clear identification of Laboratory and Non-laboratory academic departments, this is an accepted method for allocating academic and other research staff between the two department types. Some institutions have also used the HESA cost centres as a basis for calculating this split. The guiding principle is that the split is made appropriately to reflect these different academic department types. It is suggested that the institution maintains an audit trail to enable an explanation and rationale to be provided for the split, if requested by Research Councils, other assurance providers and funders.

#### 4.2.5.5
The costs included in the numerator for the research estates costs charge-out rate calculation include all the elements listed in the cost pools identified in sub-section 3.4.5.5.

The TRAC Manager should perform and retain a reconciliation, to confirm that the costs in the numerator of the estates laboratory and non-laboratory rates agree with the estates cost pool totals allocated to Research, less technicians, and equipment and facilities that are to be charged as separate Research charge-out rates.

#### 4.2.5.6
The TRAC Oversight Group should review and approve the rate calculation.

*There should be a clear cut-off date and process that ensures that the updated rates replace the previous rates and are applied to project applications no earlier than 1 February of each year, and no later than six months after this date.*

Following approval by the Accountable Officer and final submission of the TRAC return, the fEC charge-out rates for research should be used from 1 February each year, unless the submission deadline is extended then a revised date will be published.

Note: submission includes the sign-off sheet signed by the Accountable Officer, any commentary document required, as well as any action plan that has been identified as part of the self-assessment process or as a result of any review (internal audit or UKRI).
Calculating the laboratory technician charge-out rates

4.2.5.7 Research technicians can be divided into three different categories, directly incurred, directly allocated or pool, and infrastructure. These are defined as:

- **Directly Incurred (DI)** – if the technicians are dedicated to a single project, or if on multiple projects, and/or project timesheets are being completed by the technicians, the costs of these technicians should be charged as DI as they are incurred based on actual salary; or

- **Pool/Directly Allocated (DA)** – if the technicians are shared between projects or are part of a pooled team, and the completion of timesheets would be inappropriate. Where it would be inappropriate for them to complete timesheets, their costs. The cost of these technicians should be Directly Allocated (DA) to projects. This can be done by identifying a technician cost per hour (ensuring that the costs of DI technicians are excluded from the technician cost pool) and charging an appropriate number of technicians’ hours to each project or as a standard charge expressed in £ per research academic staff FTE.

- **Infrastrucre – technicians** who are not working on specific projects but are providing general support services. To General support services covers activities such as health and safety, storeroom/supplies, hazardous materials handling, laboratory equipment maintenance and administration. The cost (the cost of the proportion of their time) should be Directly Allocated (DA) to projects using a lab technician infrastructure rate per research academic staff FTE (based on the Technician Survey data – see sub-section 3.1.5.18). Cost of these technicians should be charged to projects using a laboratory technician infrastructure rate per research academic staff FTE.

The infrastructure technician costs at project level should be allocated in proportion to the sum of the time of Directly Incurred researchers, postgraduate students (weighted) and directly allocated academic staff. Therefore the project direct research staff FTE is the driver for the infrastructure technicians, as for Estates and Indirect costs.

The estimated costs of shared, pooled, or directly allocated staff should be recorded as a cost against each appropriate project periodically throughout the project life.

Only technicians in academic departments need be directly allocated, not those in central support departments such as occupational health, estates, etc.
4.2.5.8 The TRAC Manager should perform and retain a reconciliation to confirm that the costs in the numerator of the research laboratory technician rate calculations exclude:

- costs already being charged to projects as Directly Incurred;
- costs that are included in equipment and facilities charge-out rates;
- the cost of technician support in teaching and non-laboratory academic departments.

To calculate an hourly rate, an annual figure of 1,650 hours per FTE is used as the denominator.

4.2.5.9 The TRAC Oversight Group should review and approve the rate calculation (see 2.1.4.3).

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

Following approval by the Accountable Officer and final submission of the TRAC return, the rates should be used from 1 February each year, unless the submission deadline is extended then a revised date will be published.

Note: submission includes the sign-off sheet signed by the Accountable Officer, any commentary document required, as well as any action plan that has been identified as part of the self-assessment process or as a result of any review (internal audit or UKRI).

### Calculating equipment and facility charge-out rates

4.2.5.10 The TRAC Oversight Group should review research facilities to determine which facilities should be directly charged to projects, retaining evidence of review and, where they are not charged directly, noting the reasons.

When charging research equipment and research facilities separately from the estates charges, the TRAC Manager should calculate and retain equipment and facility calculations based on the costing templates provided at annex 4.2a, ensuring that:

- The original depreciation charge for equipment purchased (partly or fully) through a research grant or contract is directly charged to the core TRAC activity and sponsor, and is included within the charge-out rate calculation only if this amount is subsequently deducted from the estates cost pool.
- Access charges incurred for shared equipment are only allocated to research costs at the host institution when the host is using the equipment to perform research in its own institution.
- All biological facilities (operated under a Home Office licence) should be separately costed and charged directly to projects.
- Actual depreciation charges should be adjusted to reflect the replacement cost for institutionally owned facilities or equipment (based on current market prices for replacing equipment with the capacity to satisfy existing and anticipated demand).

- Auditable utilisation records are maintained for all research facilities that are treated as either directly incurred or directly allocated to projects based on actual usage or estimated usage respectively. Utilisation records should document use for Research, Other and Teaching activities. Calibration down-time and adjustments for less than efficient use should also be recorded to provide more accurate estimate of productive capacity.

- ‘Useful life’ estimates are self-defined by the institution, but should not be less than the lifespan over which the equipment is depreciated in institutional consolidated financial statements.

| 4.2.5.11 | Research facility and equipment charge-out rates should be robustly calculated based on actual costs where known, and forecast costs to run the whole facility for the following academic year. Cost categories may include:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
</table>
|   | actual depreciation charge, adjusted to reflect the replacement cost of equipment and facilities (including VAT, delivery, installation, testing, calibration, etc.);
|   | insurance;
|   | estates charges;
|   | personnel (technicians, administration and management);
|   | access charges;
|   | consumables and spares;
|   | utilities;
|   | use of IT services.

The Wakeham review of 2010\(^54\) encouraged institutions to share access to research facilities and equipment. Where equipment is shared, care should be taken when calculating charge-out rates for research facilities and equipment as part of a collaborative arrangement whereby the supply is correctly classified as ‘Research’ if research is undertaken by the host HEI or where the institution is participating in the research. Where the institution is not participating in the research but is providing access to facilities or equipment this should be classified as ‘Other’. (See the pricing and charging section of ‘N8 Equipment Sharing Toolkit’).\(^55\)

\(^{54}\) [www.universitiesuk.ac.uk/policy-and-analysis/reports/Pages/financial-sustainability-efficiency-full-economic-costing-of-research-uk-he.aspx](http://www.universitiesuk.ac.uk/policy-and-analysis/reports/Pages/financial-sustainability-efficiency-full-economic-costing-of-research-uk-he.aspx)

| 4.2.5.12 | Auditable utilisation records covering all activities undertaken should be maintained (at least quarterly) by facility and equipment managers to inform robust rate calculations. Research facilities and equipment without auditable utilisation records should not be allocated to research projects. Research facility and equipment managers should be able to justify utilisation estimates if asked to do so by Research Councils, other assurance providers and funders. |
| 4.2.5.13 | The estimated annual running costs should be divided by the estimated efficient annual usage for all activities to provide a charge-out rate per unit (per hour or per day) |
| 4.2.5.14 | Where an institution has a new research facility that is to be costed as a TRAC research facility, and is to come into use after 1 February, the institution should consider how material the impact of this is in line with annex 1.2a. Where either the institution wants to treat this as a TRAC research facility, or where the new facility has a material impact, the institution has the following options:  
• It can estimate the cost of the facility and the expected reasonable utilisation as part of the TRAC return submission and deduct the associated costs from the estates cost pool to prevent double counting. The institution then has a charge-out rate it can use in costing research bids; or  
• The institution can re-submit its TRAC return with the new research facility rate included once the facility becomes available, and the associated costs deducted from the estates cost pool. Where the introduction of the new facility does not create a material impact on the charge-out rates, institutions can introduce and use the new facility charge-out rates mid-year without re-submitting the TRAC return. For new TRAC research facilities it is likely that the estimates of utilisation will be refined in the early years. |
| 4.2.5.15 | The TRAC Oversight Group should review and approve the rate calculation. **There should be a clear cut-off date and process that ensures that the updated rates replace the previous rates and are applied to project applications no earlier than 1 February of each year, and no later than six months after this date.** Following approval by the Accountable Officer and final submission of the TRAC return, the Research charge-out rates for Research should be used from 1 February each year, unless the submission deadline is extended then a revised date will be published. Note: submission includes the sign-off sheet signed by the Accountable Officer, any commentary document required, as well as any action plan that has been identified as part of the self-assessment process or as a result of any review (internal audit or UKRI). |
Indexation of charge-out rates

4.2.5.16 Indexation rates should be calculated using the guidance provided at sub-section 3.1.5.28, and applied as follows:

- Indirect cost charge-out rates, estates cost charge-out rates and infrastructure laboratory technician charge-out rates that are used to calculate charges on Research Council projects should incorporate two years’ indexation in accordance with the guidance given in sub-section 3.1.5.28;

- Directly Incurred and Directly Allocated pool laboratory technician, research facility and staff rates should be at current price levels for Research Council funded projects, but those submitted to other sponsors will typically be indexed to derive Year 1 costs.

- Indexation to Year 1 costs is due to costs being included within the calculation as an estimate of costs for the following year, and so require one year less of indexation.

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

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

<table>
<thead>
<tr>
<th>What could go wrong / areas of non-compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analysis of time spent on research for laboratory and non-laboratory departments is not undertaken resulting in the same percentage being used for indirect, estates laboratory and estates non-laboratory rates.</td>
</tr>
<tr>
<td>Utilisation records are not maintained fully by facility managers leading to under/over recovery and possibly less efficient use of facilities.</td>
</tr>
<tr>
<td>Facility and equipment charge-out rates do not include the costs of all resources required to run the facility.</td>
</tr>
<tr>
<td>Costs to be charged via separate facility or laboratory technician charge-out rates are not extracted from the Research Estates rates, leading to double-counting in respect of Facilities and/or Laboratory technician rates.</td>
</tr>
<tr>
<td>Actual depreciation charges are used in facility rate calculations instead of being adjusted to reflect replacement cost depreciation.</td>
</tr>
<tr>
<td>The research academic staff FTE count used as the denominator is incorrect, e.g. the same as the FTE count used for the cost drivers.</td>
</tr>
<tr>
<td>Research charge-out rates are not reviewed for appropriateness by the TRAC Oversight Group.</td>
</tr>
</tbody>
</table>
- No deduction is made from the cost pool in the calculation of the Research indirect cost rate to reflect income received from the Apprenticeship Service Account that relates to the proportion of staff costs allocated to Research.

### 4.2.7 Annexes

<table>
<thead>
<tr>
<th>Annex reference</th>
<th>Document title</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.2a</td>
<td>Facility costing template</td>
</tr>
<tr>
<td>4.2b</td>
<td>Technician survey template</td>
</tr>
<tr>
<td>4.2c</td>
<td>HM Treasury letter – University Research: Costs to Government Departments (13 February 2004)</td>
</tr>
</tbody>
</table>

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

### 4.2.8 Associated good practice and other relevant reference material

- TRAC Development Group facilities and equipment sharing guide: www.trac.ac.uk/publications
- N8 Group Research facility and equipment sharing guidance and research: www.n8research.org.uk/asset-collaboration/n8-est/
4.3 TRAC for Teaching return – TRAC(T)

The OfS confirms it has no plans to collect data or reform the TRAC(T) methodology at this point in time. TRAC(T) data collection is removed as regulatory reporting requirement for OfS-regulated providers. Consequently, SFC and DfE (Northern Ireland) have confirmed they will not collect TRAC(T) data from institutions in Scotland and Northern Ireland, and HEFCW will not proceed with implementation of TRAC(T) in Wales.
Chapter 5 contains one section:

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1 Calculation of research project costs</td>
<td>121</td>
</tr>
</tbody>
</table>
5.1 Calculation of research project costs

5.1.1 Introduction

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

Comprehensive rules and procedures about how institutions should apply costs to research applications are provided by each of the UK Research Councils (UKRI) particularly through the Joint Electronic Submission (Je-S)56 system, and by other sponsors in their respective guidance. The guidance provided in this chapter seeks to complement the UKRI information by clarifying the distinction between Directly Incurred (DI) costs and Directly Allocated (DA) costs, and providing details on the methods used to charge costs to research projects that are funded using TRAC fEC principles, with the primary focus on grant applications submitted to the Research Councils.

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

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

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

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

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

56 je-s.rcuk.ac.uk/
5.1.3 Process workflow

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

*Figure 5.1: Calculation of research project costs*
5.1.4 The requirements

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1.4.1</td>
<td>Institutions should establish procedures for guiding academics in estimating DA research project costs and completing cost-based grant applications.</td>
</tr>
<tr>
<td>5.1.4.2</td>
<td>Institutions should have robust processes to ensure that DA and indirect cost charge-out rates are applied to projects correctly, using the right unit of consumption (days, hours, etc.).</td>
</tr>
<tr>
<td>5.1.4.3</td>
<td>In calculating charge-out rates for academic staff time, there should be adequate control procedures to ensure that staff are classified against the appropriate scale and band and that employment costs (including on costs) are updated correctly.</td>
</tr>
<tr>
<td>5.1.4.4</td>
<td>Institutions should ensure that no more than 1,650 hours are charged to Research Council projects, by each academic or researcher in each year.</td>
</tr>
<tr>
<td>5.1.4.5</td>
<td>Staff record separately the academic staff time spent on supervising and training postgraduate research students (PGRs) when the PGRs are working on projects.</td>
</tr>
</tbody>
</table>

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

5.1.5 Process

This sub-section provides a guide for the application of Directly Incurred (DI) and Directly Allocated (DA) charge-out rates to research projects. The Research Councils also provide guidance on estimating project costs on the Je-S system\(^{57}\). Institutions may find it helpful to refer to this system alongside this guidance.

Directly Incurred and Directly Allocated

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

\(^{57}\) je-s.rcuk.ac.uk/
Calculating Directly Allocated academic staff charge-out rates

5.1.5.2 When calculating charge-out rates for academic staff to be 'Directly Allocated' to projects, the process followed should be robustly calculated for every individual, or for pay groups or bands, or a combination. Within the calculation, the salaries or pay bands should include on-costs, allowances, honoraria and fees paid in lieu of salary, but they should exclude payments that relate solely to clinical work\(^{58}\) or academic paid overtime.

5.1.5.3 The charge-out rates on Research Council funded projects are costed on current staff pay scales adjusted to include average increments for the whole project, but with no indexation to start date. Any likely increases related to pay rises are included. Promotions and performance related pay are included where they are reasonably certain (not 'just in case'). An uplift can be included (when appropriate) to reflect a proportion of additional payments incurred as a result of advancement on an incremental scale.

5.1.5.4 Pay bands are based on the average pay for appropriate staff and are recalculated at least every three years. If pay groups are used, these are described in a way that they will be consistently applied.

5.1.5.5 The annual salary costs are divided by 1,650 hours when calculating hourly rates, and 220 days when calculating daily rates.

Application of Directly Allocated academic staff charge-out rates

5.1.5.6 Academic staff time and academic staff charge-out rates are applied robustly to estimate project costs in preparing the research proposal. Reviews are undertaken to ensure that fair and reasonable techniques are used to estimate the time likely to be required.

5.1.5.7 There are instructions in place for Principal Investigators and staff completing the project costings and/or the methods they should use to ensure that the correct charge-out rates are applied to each academic’s time. Similar procedures may need to be documented for any central teams with responsibility for overseeing project costings.

The academic’s name should be specified and account taken of their:

- grade;
- eligibility (i.e. they are not wholly funded under another research project or fellowship, nor staff for whom there is no cost in the institution's records, but clinical academics whose costs are partially or wholly reimbursed can be included).

---

\(^{58}\) E.g. merit awards/clinical excellence awards.
5.1.5.8 The charging processes should ensure that:

- the latest rates are applied to project costings once they are available, but not before the salary scales apply. This is typically achieved by either using a dedicated costing system with controlled access or through annually updated spreadsheet-based systems. The institution should have a version control system in place for its cost rates;
- staff record separately the academic staff time spent on supervising and training postgraduate research students when the latter are working on projects;
- estimates of staff time are either made in units (e.g. hours or days) that are the same as the charge-out rates, or are converted correctly;
- no more than 1,650 hours are being charged to Research Council projects, by each academic or researcher in each year. If more than 1,650 hours might be charged to projects for any one individual in a year, the institution investigates the case, and if there are no mitigating circumstances the Research Councils are not charged more than 1,650 hours. (The work is still carried out.)

5.1.5.9 There are processes in place that:

- highlight cases where the estimated resource for the project proposal exceeds the time available for the academic staff member, after taking account of other commitments;
- ensure that Principal Investigators are in a position to confirm or otherwise, that, broadly, the amount of time estimated at the start of the project has been spent by the staff on the project.

### Application of Directly Allocated and indirect charge-out rates

5.1.5.10 The training, support and instructions provided to Principal Investigators and other staff preparing project costs and/or the methods they should use ensure that the rates:

- are the correct institutional rates;
- relate to the right time period (i.e. are updated no earlier than 1 February of each year);
- are indexed correctly:
  - indirect cost rates, estates rates and infrastructure laboratory technician rates that are used to calculate charges on Research Council projects

60 ‘Broadly’ in this context means cumulative over the project so far, with reasonable assumptions as to future work on the project, and plus or minus 20%.
incorporate two years’ indexation calculated in accordance with the guidance given in sub-section 3.1.5.28;

- Directly Incurred and Directly Allocated pool laboratory technician, research facility and staff rates are at current price levels for Research Council funded projects, but those submitted to other sponsors are typically indexed to derive Year 1 costs;
- all costs are then further indexed to derive the costs for each subsequent year of the project.

| 5.1.5.11 | The charge-out rates are based on full time equivalent research staff numbers and are applied to:
|          | • the same type of staff as are included in the denominator when calculating the indirect cost, estates, and laboratory technician infrastructure rates;
|          | • postgraduate research student numbers that are weighted (by 0.2 for inclusion in the indirect cost rate, 0.8 for the laboratory estates rate and laboratory technicians infrastructure rate, and 0.5 for the non-laboratory estates rate);
|          | • appropriate staff, irrespective of whether their institution is leading the project.
|          | Charge-out rates are not applied to any researcher or academic whose time has been wholly (100%) charged to another single fellowship or research project funded by the Research Councils, Charities or Other Government Departments.

| 5.1.5.12 | Facility rates that are based on units of consumption, output or process (e.g. hours, runs) are applied to the right output type or process type.
|          | It is clear which facilities are Directly Incurred (charged on actual usage) and which are Directly Allocated (charged on estimated usage).

| 5.1.5.13 | Laboratory technician pool charge-out rates are applied to pool technician estimates based on the same unit of time.
|          | There are instructions to ensure that these estimates do not include any time of staff that is being charged as a Directly Incurred cost or that is considered to cover infrastructure activity.

| 5.1.5.14 | The difference between costing and pricing is clear. E.g. project costs determined on a TRAC-fEC basis include the costs of supervising and training a PGR student who is a member of the project team (the costs include maintenance / stipends / academic time and indirect / estates costs) but funding from the Research Councils comprises only stipends and fees.

| 5.1.5.15 | Rates applied to projects do not change during the life of the project. However, they are reviewed and updated (for latest estimates) if there is a substantial change to the programme of work; or if they apply to rolling programmes more than three years in length (for example) with a mid-term scientific review.
## Charging Directly Incurred and other costs to research projects

### 5.1.5.16 Directly Incurred costs are charged to projects based on actual cost.

Directly Allocated costs cover academic staff costs, indirect costs and estates costs. They are charged to projects on the basis of estimates, and do not change over the life of the project (subject only to major reviews or mid-term reviews on projects of more than three years duration).

### 5.1.5.17 Staff who are charged as Directly Incurred complete timesheets unless they are 100% charged onto one project or are postgraduate research students:

The timesheets are monthly, and for each month that the member of staff works on the project should be completed:

- within two months of period end;
- by the individual and signed by their manager.

Time is recorded against a minimum number of activity categories:

- each research council project (separately);
- all other Research activity/Teaching /Other;
- support (if applicable).

Actual productive hours are recorded, adding to the total of actual productive hours worked for each member of staff covered by the time allocation process. (This is unlikely to equal 1,650 per annum. However, 1,650 is still used to calculate the charge-out rate per hour, or full time equivalent).

### 5.1.5.18 Directly Incurred costs (apart from laboratory technicians and research facilities) could include:

- consumables, travel and subsistence, survey fees, equipment maintenance, purchase of animals;
- directly incurred costs from other institutions working collaboratively on a project;
- maternity or paternity pay, or sick pay of research assistants incurred post-award.

But should not include:

- maternity or paternity pay or sick pay for academics;
- redundancy pay;
- costs of staff providing cover for academics carrying out research;
- costs of disseminating project’s findings;
- a contingency.

Where a research fellow or research assistant is working on a project but 100% of their time has already been included in another single fellowship or externally
funded research project, then no time or cost should be allocated to the new project.

| 5.1.5.19 | The cost of supervising postgraduate research students should not be part of the cost-based price for Research Council projects. Where postgraduate research costs are charged to projects these are shown separately and include:

- the time of the supervisor in postgraduate research training and development (including the time of internal and external examiners, co-supervisors etc.);
- indirect and estates costs associated with the supervisor’s time;
- indirect and estates costs associated with the postgraduate researchers themselves (using the weightings provided at sub-section 3.1.5.27);
- any direct costs incurred by the institution on behalf of postgraduate research students (travel and subsistence, consumables not included in the research project costs, stipends) excluding PGR tuition fee waivers or reductions in tuition fees as these are not costs (they are income or a reduction in income).

| 5.1.5.20 | When costing a project for Research Councils to be funded on a full economic cost basis:

- A realistic estimate of the start date is made.
- There must be a realistic profiling of costs.
- Pay increments for research assistants are included.
- The full economic cost, proposed funding from sponsor, and sustainability margin are calculated.
- No over-costing, discounts or subsidies are built into the proposed funding – they are based on full economic cost. Negotiations with Research Councils are restricted to the type and level of resources.

| 5.1.5.21 | Costs incurred on a project post-award are recorded and audit trails are retained. Directly Incurred costs are recorded as expenditure is incurred (after the date of the award letter).

Directly Allocated and indirect costs are recorded on original estimate, at least annually.
5.1.6 What could go wrong? Common areas of non-compliance

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

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

5.1.7 Annexes

None specified for section 5.1.

5.1.8 Associated good practice and other relevant reference material

Research Council Je-S system guidance: je-s.rcuk.ac.uk/
6  Glossary of terms

Chapter 6 contains one section:

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1 Glossary of terms</td>
<td>131</td>
</tr>
</tbody>
</table>
## 6.1 Glossary of terms

<table>
<thead>
<tr>
<th>Reference</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Academic department</strong></td>
<td>In the context of TRAC guidance this refers to an academic management unit. The costs of academic departments are assumed to include an allocation of central service costs, estates costs and Margin for Sustainability and Investment adjustment unless the context clearly says otherwise. This management unit might actually be a department, school, group of departments with similar patterns of activities, institutional cost centre, subject area, or ‘intermediary operating centre’. Depending on the costs being allocated, it might include research units or trading units.</td>
</tr>
</tbody>
</table>
| **Academic Full Time Equivalent (staff)** | The full time equivalent of academic staff time. Where used as the denominator in the indirect and estate rates calculations, the Research FTE value is calculated as:  
- the proportion of academic staff FTE spent on research (using the percentage research time of academic staff);  
- the staff FTE dedicated to research (research assistants and fellows)  
- a proportion of the postgraduate research student number. |
| **Access charges**   | A fee charged by the host facility to an external user when accessing the facility.                                                                                                                                                                                                                                                     |
| **Accountable Officer** | The Accountable Officer is a person, normally the head of institution, who reports to the OfS/Funding Council on behalf of the institution. The OfS and HEFCW define Accountable Officer in the following documents:  
- [www.hefcw.ac.uk/working_with_he_providers/he_wales_act_2015/financial_management_code.aspx](http://www.hefcw.ac.uk/working_with_he_providers/he_wales_act_2015/financial_management_code.aspx)  
The SFC refers to Chief Executive Officer, rather than Accountable Officer, in the following document:  
- [http://www.sfc.ac.uk/governance/institutional-sustainability-governance/institutional-sustainability-governance.aspx](http://www.sfc.ac.uk/governance/institutional-sustainability-governance/institutional-sustainability-governance.aspx)   
The DfE for Northern Ireland’s definition of Accountable Officer is provided in the Financial Memorandum between the higher education provider and the Department. |
<table>
<thead>
<tr>
<th>Reference</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accredited Apprenticeship course</td>
<td>Courses that are delivered by institutions that are on the Register of Apprenticeship Training Providers, where the course is delivered under an approved apprenticeship standard.</td>
</tr>
</tbody>
</table>
| Accrual model | FRS 102 and the FEHE SORP allow a choice of accounting policy, applying either the accrual model or the performance model when accounting for Government grants (except for capital grants for land). Under the accrual model institutions account for government grants as follows:  
  - Classify each grant as either a capital or a revenue grant.  
  - Revenue government grants are recognised in income on a systematic basis over the periods in which the entity recognises the related costs for which the grant is intended to compensate.  
  - Capital government grants are recognised in income on a systematic basis over the expected useful life of the asset to which the grant relates. The income is recorded within the Statement of Comprehensive Income under the relevant heading of funding body grants, research grants or other income as appropriate to the nature of the grant. |
| Annual TRAC | Submission of an Annual Transparent Approach to Costing (TRAC) return is a requirement for all UK HEIs in receipt of grant funding from the OfS/UK higher education funding bodies. |
| Apprenticeship Levy | The Apprenticeship Levy is a levy on UK employers’ pay bills from April 2017 to fund new apprenticeships. |
| Apprenticeship Service Account | This is an online account to access money paid under the apprenticeship levy by institutions in England to pay for apprenticeship training. |
| Assets in the course of construction | The cost of purchasing, constructing and installing tangible fixed assets ahead of their productive use. |
| Associate | Defined in FRS 102 as an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. |
| Assurance providers | This is a term that refers to an independent organisation (including in-house internal audit functions) that audits or reviews the TRAC model for compliance with TRAC requirements. Assurance providers |

---

61 [https://roatp.apprenticeships.sfa.bis.gov.uk/download](https://roatp.apprenticeships.sfa.bis.gov.uk/download)

<table>
<thead>
<tr>
<th>Reference</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reference</td>
<td>typically include internal audit, external audit, a professional firm with relevant expertise, or the UKRI and OfS/Funding Councils’ assurance teams.</td>
</tr>
<tr>
<td>Audit trail</td>
<td>This refers to the document or sequence of documents that evidences the calculations and/or data that support a particular result/number used in the TRAC model. The term is typically used alongside ‘source data’. The principle is that the audit trail is the evidence that substantiates the numbers used in the TRAC model.</td>
</tr>
<tr>
<td>Building Component</td>
<td>When an asset which comprises two or more major components with substantially different useful economic lives, each component should be accounted for separately for depreciation purposes and depreciated over its individual useful economic life.</td>
</tr>
<tr>
<td>Bursaries</td>
<td>Payments granted to taught students, comprising bursaries, scholarships and hardship funding, provided for whatever reason.</td>
</tr>
<tr>
<td>Central service department</td>
<td>A unit within the non-academic structure. These areas are referred to in various ways, e.g. as administrative services, professional support functions, support directorates.</td>
</tr>
<tr>
<td>Committee of the governing body</td>
<td>A Committee of the governing body is a formal committee reporting to the governing body that has lay membership. It should be chaired by a member of the governing body.</td>
</tr>
<tr>
<td>Cost drivers</td>
<td>Cost drivers are used for allocating those costs that cannot be directly allocated to a department and/or an activity category.</td>
</tr>
<tr>
<td>Cost pools</td>
<td>Costs in any one pool are attributed using the same cost driver. A cost pool may relate to an activity, or a support cost.</td>
</tr>
<tr>
<td>Direct attribution</td>
<td>This refers to the allocation of a cost directly to a department and TRAC activity without needing to use cost drivers.</td>
</tr>
<tr>
<td>Direct cost</td>
<td>This is a cost that is only incurred as a result of undertaking a particular activity and can be wholly attributed to that activity.</td>
</tr>
<tr>
<td>DA (Directly Allocated)</td>
<td>Charged to a project based on estimated expenditure for project related costs, typically including Project Investigator, Estates, Infrastructure Technicians and Research Facilities.</td>
</tr>
<tr>
<td>DI (Directly Incurred)</td>
<td>Charged to a project based on actual expenditure for project specific costs.</td>
</tr>
<tr>
<td>Discipline group</td>
<td>This is one of the cost groupings required under the annual TRAC process. The subject types are:</td>
</tr>
<tr>
<td></td>
<td>• clinical subjects;</td>
</tr>
<tr>
<td>Reference</td>
<td>Definition</td>
</tr>
<tr>
<td>-------------</td>
<td>----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>laboratory-based subjects – including studio, fieldwork, laboratory;</td>
<td></td>
</tr>
<tr>
<td>non-laboratory subjects – also called classroom-based or generic subjects.</td>
<td></td>
</tr>
<tr>
<td>Dispensation</td>
<td>In TRAC terms, removing the need to satisfy certain TRAC requirements robustly. Further detail is provided in 2.1.4.4.</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Earnings Before Interest, Taxation, Depreciation and Amortisation</td>
</tr>
<tr>
<td>EBITDA for MSI</td>
<td>Earnings Before Interest, Taxation, Depreciation and Amortisation, adjusted for MSI. Further detail is given in Annex 3.2.</td>
</tr>
<tr>
<td>Endowment</td>
<td>An endowment fund is a form of charitable trust retained for the benefit of the institution.</td>
</tr>
<tr>
<td>EMR</td>
<td>Estates Management Return as collected by the Higher Education Statistics Agency.</td>
</tr>
<tr>
<td>EO</td>
<td>Experimental Officer</td>
</tr>
<tr>
<td>ESFA</td>
<td>Education and Skills Funding Agency</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FEHE SORP</td>
<td>Statement of Recommended Practice (SORP): Accounting for Further and Higher Education (2015). This SORP reflects the changes to UK GAAP following the issue of FRS 102 and is effective for financial years beginning on or after 1 January 2015. The SORP defines the requirements for both further education institutions and higher education institutions throughout the United Kingdom.</td>
</tr>
<tr>
<td>Financial year</td>
<td>In a higher education context the financial year is the accounting period 1 August to 31 July. It is also referred to as the academic year.</td>
</tr>
<tr>
<td>Franchised-out</td>
<td>Where students are registered in a higher education institution but are (wholly or partially) taught by staff in another institution (of further or higher education) these students are defined in the registering higher education institution as franchised-out.</td>
</tr>
<tr>
<td>FRS 102</td>
<td>The Financial Reporting Standard applicable in the UK and the Republic of Ireland. Applicable for accounting periods commencing on or after 1 January 2015.</td>
</tr>
<tr>
<td>FSSSG</td>
<td>Financial Sustainability Strategy Group</td>
</tr>
</tbody>
</table>
### Reference Definition

<table>
<thead>
<tr>
<th>Reference</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding Councils or FCs</td>
<td>The Higher Education Funding Council for Wales; The Scottish Funding Council; and The Department for the Economy, Northern Ireland (formerly the Department for Employment and Learning) (referred to as a Funding Council in this guidance for ease of reference).</td>
</tr>
<tr>
<td>full Economic Cost or fEC</td>
<td>This term refers to the inclusion of the MSI adjustment (detailed in 3.2) with the expenditure reported in the consolidated financial statements. The fEC principle should be applied to the costing of research grant proposals. The Research Councils pay a fixed percentage (80% for most fund headings) of the fEC, which includes an attribution of the cost of academic staff time, and the institution's facilities, estates and indirect costs. It is important for institutions to understand the full costs of the research they carry out on a sustainable basis, recognising the need for appropriate investment in research infrastructure, including buildings, facilities and staff.</td>
</tr>
<tr>
<td>FTE</td>
<td>Full Time Equivalent</td>
</tr>
<tr>
<td>GDPR</td>
<td>General Data Protection Regulation. See ico.org.uk</td>
</tr>
<tr>
<td>Group Key</td>
<td>Access code obtained from the OfS (on behalf of all Funding Councils) for obtaining the Annual TRAC return template.</td>
</tr>
<tr>
<td>HE</td>
<td>Higher education</td>
</tr>
<tr>
<td>HEFCE</td>
<td>The Higher Education Funding Council for England</td>
</tr>
<tr>
<td>HEI</td>
<td>Higher education institution. In this context this means a university or higher education college previously funded by HEFCE and required to submit annual TRAC returns for 2018-19; and institutions funded by a Funding Council.</td>
</tr>
<tr>
<td>HESA</td>
<td>Higher Education Statistics Agency. HESA collects a range of data every year UK-wide from universities, higher education colleges and other differently funded providers of higher education. These data are then provided to UK governments and higher education funding bodies to support their work in regulating and funding higher education providers. <a href="http://www.hesa.ac.uk">www.hesa.ac.uk</a></td>
</tr>
<tr>
<td>HESA academic cost centres</td>
<td>Cost centres are used to return staff, finance and student numbers to HESA.</td>
</tr>
<tr>
<td>HESA data</td>
<td>Annual statistical returns including Staff, Student, Estates Management and FSR.</td>
</tr>
<tr>
<td>Reference</td>
<td>Definition</td>
</tr>
<tr>
<td>-----------</td>
<td>------------</td>
</tr>
<tr>
<td>Holiday pay accrual</td>
<td>An annual charge to expenditure under FRS 102 reflecting any movement in the liability for holiday pay.</td>
</tr>
<tr>
<td>Indirect costs</td>
<td>Charged to a project based on estimated expenditure for non-project specific costs.</td>
</tr>
<tr>
<td>In-year</td>
<td>This is a term used in relation to the time allocation survey. It is referring to a method of time allocation whereby a minimum of three returns are received from individual academic staff during a year to identify how they have spent their time across the TRAC categories.</td>
</tr>
</tbody>
</table>
| IRV | Insurance Replacement Value:  
- full loss basis including professional fees, debris removal and site clearance;  
- like-for-like – IRV less debris/site clearance plus foundation costs. |
<p>| Je-S | The Joint Electronic Submissions portal for submission of research grants applications. |
| Joint venture | Defined in FRS 102 as a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities. |
| Knock-for-knock | Institutions and teaching hospitals necessarily work very closely together. Apart from sharing premises and support services (such as laboratories), clinical staff of the institution are involved in delivering NHS services to patients, while NHS staff are involved in teaching students. Institutions and the NHS have not usually engaged in quantification and cross-charging when the staff of one perform duties for the other. The staff time involved has usually been treated as part of a ‘knock-for-knock’ or informal cost-sharing arrangement (though payments relating to support services are often apportioned between the parties). |
| Lay membership | A committee that has at least one lay, independent or co-opted member of the Governing Body. |
| LGPS | Local Government Pension Scheme |</p>
<table>
<thead>
<tr>
<th>Reference</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Look-back period</td>
<td>This term is used in the time allocation process (section 3.1). It refers to the amount of time an academic has to recall what they were doing during that period in order to complete their time allocation return. <strong>The maximum look-back period is eight weeks from the end of the collection period irrespective of how long the collection period is.</strong></td>
</tr>
<tr>
<td>Management</td>
<td>The term is used in a number of places in the guidance. Where not explicitly stated, it refers to individuals with authority and accountability that can and should provide leadership and support to enable informed decisions to be taken, where required.</td>
</tr>
<tr>
<td>Margin for Sustainability and Investment (MSI)</td>
<td>An institution-specific margin applied to the TRAC model in line with the guidance in section 3.2 to represent the full economic cost of delivering core TRAC activities. The adjustment is calculated based on the historic and forecast financial information for the institution.</td>
</tr>
<tr>
<td>Material items</td>
<td>Omissions or misstatements of items are material to an institution’s financial statements if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor. HESA Finance record Table 10 (separately disclosed material items) provides additional information in cases where an HE provider has chosen to disclose an item (or items) on a separate line (or lines) on the face of their published statement of comprehensive income and expenditure.</td>
</tr>
<tr>
<td>Materiality</td>
<td>Materiality for TRAC is defined as an impact of 10% or more on the allocation of income or costs to any of the TRAC categories, Research sponsor types, and/or the Research charge-out rates. Materiality is defined further at annex 1.2a.</td>
</tr>
<tr>
<td>Net Internal Area</td>
<td>Net Internal Area (NIA) is the usable area within a building measured to the internal face of the perimeter walls at each floor level. NIA covers all areas which are used for a specific purpose. It does not include those parts of buildings which enable them to function.</td>
</tr>
<tr>
<td>Non-controlling interest</td>
<td>The equity in a subsidiary not attributable, directly or indirectly, to a Parent (i.e. arising where the Parent has a controlling interest (more than 50% but less than 100%) in a consolidated subsidiary.</td>
</tr>
<tr>
<td>Reference</td>
<td>Definition</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Non-OfS/Funding Council-fundable provision</td>
<td>All PFT provision that is not eligible for funding in the OfS/Funding Councils’ teaching funding method. It is part of the provision that is returned in sub-column (b) in HESES Tables 1a, 2 and 3, that is sponsored by other UK public bodies such as the Department of Health, the Department for Education, local authorities. (Some provision in category (b) is NPFT, e.g. closed courses funded by commercial companies.) Provision funded by the Education and Skills Funding Agency is also non-OfS/Funding Council-fundable PFT provision. In the case of HEIs in Scotland, ‘Rest of UK’ (RUK) students paying deregulated fees are non-OfS/Funding Council-fundable.</td>
</tr>
<tr>
<td>Non-subject-related activities</td>
<td>Non-subject-related activities are Teaching activities that affect the costs of Teaching other than those that relate to the subject being taught.</td>
</tr>
<tr>
<td>Non-subject-related costs</td>
<td>The differential costs of non-subject-related activities – i.e. the costs incurred on each activity that are higher or lower than (different from) those that would otherwise have been incurred from subject-related factors alone. OfS/Funding Council-fundable costs are attributed between subject-related and non-subject-related costs.</td>
</tr>
<tr>
<td>NPFT</td>
<td>Non-publicly funded Teaching</td>
</tr>
<tr>
<td>O</td>
<td>For TRAC, ‘Other’ activity category (see section 1.3 for full definitions).</td>
</tr>
<tr>
<td>OfS</td>
<td>Office for Students. <a href="http://www.officeforstudents.org.uk">www.officeforstudents.org.uk</a></td>
</tr>
<tr>
<td>OfS portal</td>
<td>The secure area of the OfS website.</td>
</tr>
<tr>
<td>OfS/Funding Council-fundable provision</td>
<td>Publicly funded teaching (PFT) provision that is eligible for funding in the OfS/Funding Councils’ teaching funding methods.</td>
</tr>
<tr>
<td>OGD</td>
<td>Other Government Departments</td>
</tr>
<tr>
<td>OSPS</td>
<td>Oxford Staff Pension Scheme</td>
</tr>
<tr>
<td>Other (income-generating)</td>
<td>Activities that generate, or could potentially generate, income, but are not teaching or research.</td>
</tr>
<tr>
<td>Other (non-commercial)</td>
<td>For TRAC, the Other (non-commercial) activity category was introduced alongside the implementation of Financial Reporting Standard 102 to prevent the changes in accounting treatment, predominantly in respect of endowments, donations and investment gains and losses, from distorting the reporting of</td>
</tr>
<tr>
<td>Reference</td>
<td>Definition</td>
</tr>
<tr>
<td>-----------</td>
<td>------------</td>
</tr>
<tr>
<td><strong>Reference Definition</strong></td>
<td>Teaching, Research and Other (income-generating) activities. (see section 1.3.3 for full definition).</td>
</tr>
<tr>
<td><strong>Other Services Rendered</strong></td>
<td>Costs recorded as Other Services Rendered in the consolidated financial statements/HESA.</td>
</tr>
<tr>
<td><strong>Performance model</strong></td>
<td>FRS 102 and the FEHE SORP allow a choice of accounting policy, applying either the accrual model or the performance model when accounting for government grants (except for capital grants for land). An institution adopting the performance model must recognise income from government grants within the Statement of Comprehensive Income when performance-related conditions are met.</td>
</tr>
<tr>
<td><strong>PGR</strong></td>
<td>Postgraduate Research student</td>
</tr>
<tr>
<td><strong>PGT</strong></td>
<td>Postgraduate Taught student</td>
</tr>
<tr>
<td><strong>PFT</strong></td>
<td>Publicly Funded Teaching</td>
</tr>
<tr>
<td><strong>Predominant use of space</strong></td>
<td>As defined by HESA for the Estates Management Return: space type determined by the most common use only.</td>
</tr>
<tr>
<td><strong>Principal Investigator</strong></td>
<td>The Principal Investigator is an individual who takes responsibility for the intellectual leadership of the research project and for the overall management of the research or other activities.</td>
</tr>
<tr>
<td><strong>Proportional use of space</strong></td>
<td>As defined by the HESA for the Estates Management Return; space type determined by the percentage of use for different activities.</td>
</tr>
<tr>
<td><strong>QAA</strong></td>
<td>Quality Assurance Agency for Higher Education. <a href="http://www.qaa.ac.uk">www.qaa.ac.uk</a></td>
</tr>
<tr>
<td><strong>QR</strong></td>
<td>Quality Related funding relating to the Research England research funding method.</td>
</tr>
<tr>
<td><strong>R</strong></td>
<td>For TRAC, ‘Research’ activity category (see section 1.3 for full definitions).</td>
</tr>
<tr>
<td><strong>RC</strong></td>
<td>Research Council</td>
</tr>
<tr>
<td><strong>RCUK</strong></td>
<td>Research Councils UK was a non-executive partnership led by the chief executives of the seven research councils. RCUK closed in March 2018 as the Higher Education and Research Act created UKRI which embraces functions previously overseen by RCUK.</td>
</tr>
<tr>
<td><strong>RDEC</strong></td>
<td>Research and Development Expenditure Credit</td>
</tr>
<tr>
<td><strong>Reference</strong></td>
<td><strong>Definition</strong></td>
</tr>
<tr>
<td>-----------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Registering institution</td>
<td>The institution at which students are enrolled, registered on the student records system and reported in data returns to the Funding Council. This term typically applies when students are enrolled at one institution, but where the delivery of the course is undertaken by another organisation (e.g. further education college).</td>
</tr>
<tr>
<td>Research England</td>
<td>Research England was established to take forward the England-only responsibilities of HEFCE in relation to research and knowledge exchange. <a href="https://re.ukri.org">https://re.ukri.org</a></td>
</tr>
<tr>
<td>Research intensive</td>
<td>Defined for TRAC purposes as the 60 institutions that receive the most grant income from UKRI.</td>
</tr>
<tr>
<td>Restructuring costs</td>
<td>Voluntary retirement schemes, redundancy programmes, pension fund top-ups to reflect early retirements.</td>
</tr>
<tr>
<td>S</td>
<td>For TRAC, ‘Support’ activity category (see section 1.3 for full definitions).</td>
</tr>
<tr>
<td>SAUL</td>
<td>Superannuation Arrangements of the University of London</td>
</tr>
<tr>
<td>Service Concessions</td>
<td>An arrangement whereby a public sector body or a public benefit entity (the grantor) contracts with a private sector entity (the operator) to construct (or upgrade), operate and maintain infrastructure assets for a specified period of time (the concession period).</td>
</tr>
<tr>
<td>Statement of Comprehensive Income (SOCI)</td>
<td>Financial statement that presents all items of income and expense recognised in a period, including those items recognised in determining surplus or deficit (which is a subtotal in the Statement of Comprehensive Income) and items of other comprehensive income.</td>
</tr>
<tr>
<td>Source data</td>
<td>Refers to the original data source for a data set. This guidance typically states that different data should reconcile to source data. Institutions are required to provide an audit trail back to the source of the data, e.g. the student records system will provide source data for establishing cost drivers for allocating teaching-related costs.</td>
</tr>
<tr>
<td>Subject-FACTS</td>
<td>‘Subject-related full average costs of teaching a student’, the subject-related average annual cost of teaching a FTE funding council-fundable student in a HESA academic cost centre based on TRAC.</td>
</tr>
<tr>
<td>Subject-related costs</td>
<td>Subject-related costs are the costs of Teaching that are significantly affected by discipline or subject. They exclude the additional (or lower) costs incurred from non-subject-related activities. See non-subject-related costs.</td>
</tr>
<tr>
<td>Subsidiary</td>
<td>An entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).</td>
</tr>
<tr>
<td>Reference</td>
<td>Definition</td>
</tr>
<tr>
<td>-----------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Support cost</td>
<td>This is a cost that is not incurred as a result of undertaking a single activity. It is often referred to as an overhead (see chapter 3.4).</td>
</tr>
<tr>
<td>T</td>
<td>For TRAC, ‘Teaching’ activity category (see section 1.3 for full definitions).</td>
</tr>
<tr>
<td>TRAC</td>
<td>Transparent Approach to Costing</td>
</tr>
<tr>
<td>TRAC(T)</td>
<td><strong>TRAC for Teaching. Submission of a TRAC(T) return is a requirement for all UK higher education institutions in receipt of grant funding from the Funding Councils.</strong></td>
</tr>
<tr>
<td>TRAC Manager</td>
<td>The individual within a higher education institution that operates the TRAC/fEC process.</td>
</tr>
<tr>
<td>TRAC Oversight Group</td>
<td>The management group that oversees the development and implementation of TRAC and approves the TRAC and fEC results annually. Of an institution’s choosing, these groups can also have a wider remit that includes the oversight of financial sustainability, course costing, resource allocation etc. The latter are not TRAC requirements, however.</td>
</tr>
<tr>
<td>Trading companies</td>
<td>Trading activities in commercial companies, spin-outs (subsidiaries of HEIs).</td>
</tr>
<tr>
<td>UK GAAP</td>
<td>UK Generally Accepted Accounting Practice</td>
</tr>
<tr>
<td>UKRI</td>
<td>UK Research and Innovation brings together the seven Research Councils, Innovate UK and Research England.</td>
</tr>
<tr>
<td></td>
<td><a href="http://www.ukri.org/about-us/">www.ukri.org/about-us/</a></td>
</tr>
<tr>
<td>USS</td>
<td>Universities Superannuation Scheme</td>
</tr>
<tr>
<td>Weighted space</td>
<td>Space is categorised into different types to reflect its cost. Each of these space types is given a weighting for each element of estates cost. These space weightings are based on a mixture of experience, comparisons, reasonableness reviews, and meter readings.</td>
</tr>
<tr>
<td>Widening participation</td>
<td>Additional activities undertaken in the recruitment and support of students from disadvantaged and non-traditional backgrounds, and disabled students.</td>
</tr>
</tbody>
</table>