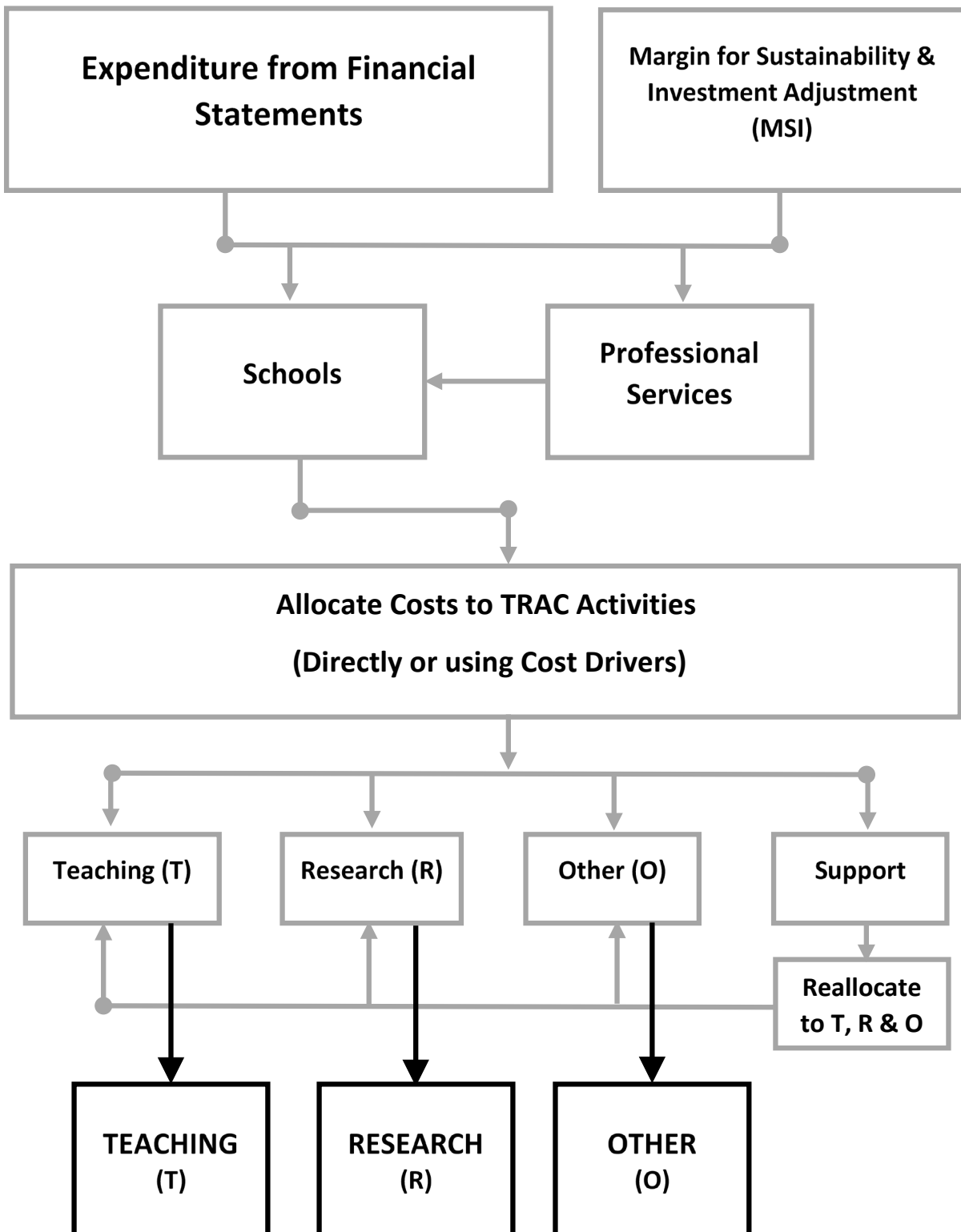


1. Introduction to TRAC

- 1.1. TRAC is an activity-based costing system which meets the needs of higher education institutions (HEIs) and the main public funders of higher education. TRAC is based on some important principles that provide flexibility to accommodate the diverse range of institutions in the sector.
- 1.2. TRAC was introduced across the UK higher education sector in 1999 as a government requirement and to allow a better understanding of costs incurred within individual institutions.
- 1.3. TRAC takes institutional expenditure information from the consolidated financial statements, adds a 'sustainability adjustment' to represent the full 'sustainable' cost of delivery, and applies cost drivers (such as academic staff time allocation and space usage) to allocate these costs to academic departments and to specific activities.
- 1.4. Income is analysed through a separate TRAC process, so that the gap between the full cost of activities and the income attributed can be determined for each main institutional activity.
- 1.5. 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. Because of the confidence that stakeholders have in the process, TRAC has also enabled the sector to avoid other burdensome accountability requirements.
- 1.6. 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 such as Research Councils, Government Departments, Charities, European Commission bodies etc;
 - Other (O) – the other primary income-generating activities such as commercial activities, residences and conferences;
 - Support activities (S) – such as preparation, proposal-writing and administration, which are costed separately but are attributed to the three core activities above (Teaching, Research and Other).

An overview of this process is provided on the following page.

Overview of TRAC Process



2. TRAC Returns

2.1. Annual TRAC Return

- 2.1.1.** The Annual TRAC return is submitted to the Funding Councils by 31 January each year. This Annual TRAC return reports the cost of teaching, research and other activities, outlined above, together with various sub-analyses of the costs.
- 2.1.2.** Procedures require that the return is reviewed at an appropriate level (TRAC Steering Group) prior to being approved for submission by the Audit and Risk Committee. The TRAC return and University processes in place to complete the return may be subject to an external audit.
- 2.1.3.** The information provided by institutions in the annual TRAC return is used by the funding councils to understand the financial position of HEIs across the sector, and in particular the financial sustainability of teaching, research and other activities. It is also used by research councils to gain insight into the full economic cost of research, especially the impact that indirect and estates costs have on the overall cost of funded research projects.
- 2.1.4.** The information is also used by institutions to establish the full economic cost of research projects, which is required when submitting applications for funding to the research councils and some other public funding agencies.
- 2.1.5.** An example TRAC return has been provided in Appendix 1

2.2. Full Economic Costing (fEC) & Sustainability

- 2.2.1.** Full economic costing (fEC) is the element of the TRAC methodology that encompasses the forecasting of and accounting for the full economic cost of individual research projects on a reliable, comprehensive and consistent basis. It is used by institutions to identify the full economic cost of research projects when preparing funding applications to the research councils and to other public funding agencies. It is then used by funders to determine the level of funding awarded to successful projects.
- 2.2.2.** TRAC requires that the full economic cost includes an adjustment is made to recognise a measure of the cash that we need to generate in order to sustain our future plans for investment. This uplift is the Margin for Sustainability and Investment (MSI) and is based on the average of our actual financial performance over the previous three years and our forecast performance over the next three years.
- 2.2.3. Determining the full economic cost of research projects**
- 2.2.4.** Using the TRAC methodology, the full economic cost of a research project is made up of directly incurred costs, directly allocated costs and indirect costs.
- 2.2.5.** Directly incurred costs relate to staff, goods or services that are hired or purchased specifically for that project. Direct costs should be easily identifiable and are charged at actual cost. Staff costs include research assistants and dedicated technicians.
- 2.2.6.** Directly allocated costs relate to staff, facilities or services that are shared across a number of activities or projects. Common directly allocated costs are investigators' time, shared lab technicians, major research facilities, and estates costs (from the TRAC return).
- 2.2.7.** Indirect costs are costs that are not related directly to any one project or activity but are a necessary part of the costs of undertaking an activity, i.e. overheads. These include the costs of professional services, libraries, support staff in academic departments and the adjustment in respect of the sustainability (MSI).
- 2.2.8.** Directly incurred costs are attributed to research projects on the basis of forecast expenditure. Directly allocated costs are attributed using an appropriate charge-out rate for each category of expenditure. Indirect costs are attributed to projects using a standard institutional or departmental cost-rate, calculated on the basis of research FTE staff working on the project.

2.2.9. The TRAC process includes a process to calculate indirect charge out rate per staff member on a full time equivalent (fte) basis. Rates are calculated for indirect costs, estates laboratory and non-laboratory costs and are used when costing projects for the next year (February to January).

2.2.10. Relevant costs are collected for each area and divided by the staff number (fte) that relate to research activity. For academic staff, the percentage is derived from the data collected within the Time Allocation Schedule (section 2.4). Research assistants, fellows and PGR are also used within the calculation. The calculation provides a rate based on the financial year that the TRAC return covers, an inflationary index is applied to arrive at the rates to be used for the following year.

2.3. How is full economic costing used?

2.3.1. Institutions use full economic costing to determine the cost of research projects when submitting funding proposals to the research councils and certain other public sector funding agencies. Many also use the fEC of projects as a basis for negotiation with other funders. Some HEIs specify that any funded research project must make a minimum level of contribution towards the 'overhead' costs associated with that project.

2.4. Staff Costs

2.4.1. Staffing represents the largest element of costs incurred by the University.

2.4.2. Using the TRAC methodology, all staff costs should be attributed to the three core activities (teaching, research, other) or support activities. In some cases, staff costs are also attributed to appropriate sub-categories. This includes not just academic and research staff, but also non-academic staff in academic departments and staff in professional service directorates.

2.4.3. Where possible, staff time (cost) should be allocated directly to a specific core activity or appropriate sub-category. For example, teaching fellows can be allocated directly to teaching and research assistants can be allocated directly to research. Professional services staff can be allocated directly to support.

2.4.4. Within academic departments, however, members of academic and non-academic staff are likely to spend their time on a range of different activities. Academics will usually spend time on a mixture of teaching, research, other and support activities. And while members of non-academic staff will probably spend much of their time on support, this will be a mixture of support for teaching, support for research, etc.

2.4.5. For academic staff, time allocation data must be collected and maintained.

2.4.6. Non-academic staff can be allocated to activities by the Head of School/Directorate or an appropriate manager, using their judgement as to the most suitable allocation.

2.5. Time Allocation Schedule (TAS)

2.5.1. In order to be able to calculate the cost of activities we need to understand how staff spend time over the range of these activities.

2.5.2. An on-line diary (TAS) is used to record activities in order to gain robust estimates of the time spent on Teaching, Research, and Other activities and to allocate costs to these.

2.5.3. TAS is also used as a driver to allocate other costs to these activities and TRAC data is also used to calculate:

- a) Indirect rates for Research projects
- b) The costs for funding each Scottish Funding Council (SFC) Teaching Subject Group in TRAC (T).

2.5.4. Inaccurate recording of staff time will result in costs may be allocated incorrectly between activities.

2.5.5. As TRAC data is also used to calculate charge out rates for indirect research cost rates, these will be inaccurate and will accurately reflect the full economic cost of undertaking research. For example:

- The reported surplus or deficit for each category (Teaching, Research & Other) within the TRAC return will not be accurate. For example, incorrectly allocating high levels of time to teaching activities will reduce surpluses or increase losses for teaching (as a higher level of staff time will be charged to teaching).
- Charge out rates for research (section 2.2.9) derived from TRAC will not accurately reflect the full economic cost of performing research, for example:
- Incorrectly recording high levels of time to research will artificially reduce the rates as indirect/estates costs will be divided by a higher staff fte value. As a result of lower rates, costings for future research projects will be lower, which will in turn lead to future losses for research activities.
- In addition to reducing charge out rates for the next year, a higher level of staff time will have been allocated to research in the current year which, based on our usual return, increase the loss attributed to research activity.

2.6. Completing a TAS Diary

2.6.1. Each permanent core funded member of academic staff is required to complete a 7-day, 24 hours, timesheet (in 15-minute intervals) for a randomly allocated week.

2.6.2. All technicians (excluding those in IT & Estates) are required to complete TAS diaries. The method of data collection samples small group of technicians each week. The data collected will be used at an aggregated level so we are looking for a representative sample across the whole group rather than at individual level. Currently each technician is allocated with 3 weeks (one week in term, exam and non-term periods) in each financial year.

2.6.3. **Only activities relating to University business should be recorded in the diary. You do not need to enter non-work time on the timesheet.**

2.6.4. Data entered should represent the activity you have carried out in the week allocated. If you are on leave all week, for example, please allocate all your time to holiday. The data collected will be used at an aggregated level so we are looking for a representative sample across the whole group rather than at an individual level.

2.6.5. Data entered by an individual will not be available to the others. However, in order to provide some data validation, heads of school will be asked to confirm the data entered by an individual are reasonable, and a small number of DIT and finance staff will have access to the data. All Institutional and external use of the data will be aggregated and individuals will not be separately identifiable.

2.6.6. Web-based diaries are used to collect the data, there are two diaries, one for academic staff and one for technicians which can be found at:

Academic: <https://w3.abdn.ac.uk/clsm/trac/login.aspx?ReturnUrl=%2fclsm%2ftrac%2f>

Technician: <https://w3.abdn.ac.uk/clsm/TASTech/login.aspx?ReturnUrl=%2fclsm%2ftastech>

2.6.7. Guidance as to how to complete the timesheet can be found in the TAS section of the TRAC web pages.

TRAC (T)

- 2.6.8.** The TRAC for Teaching return (TRAC(T)) should be submitted in late February each year and provides a cost by academic cost centre, as defined by the Higher Education Statistics Agency. The cost is derived from the Annual TRAC data for Teaching and is used to inform Funding Councils' funding of teaching.
- 2.6.9.** The information provided by institutions in the TRAC (T) return is used by the funding councils to understand the cost of teaching provision. It is also used by the funding councils to obtain information on the relative costs of different subjects when reviewing price group weightings within the teaching funding mechanism.
- 2.6.10.** Benchmarking data is subsequently provided to all institutions on the Annual TRAC and TRAC(T) returns. This groups institutions into peer groups in order to provide relevant benchmarks, as well as sector-level data.

3. TRAC and the University Community

3.1. Roles & Responsibilities

- 3.1.1.** In order for TRAC data to be meaningful there are a number of groups that have an important role to play in completing in the process.
- 3.1.2.** The TRAC Development Group, which was established to understand the requirements of stakeholders, to embed the principles of TRAC within the HE sector and to support institutions to do this, expect that the roles of the various groups are as follows:

Group	Role	Benefit
Court	To ensure that appropriate processes are in place and information is received in order to discharge the requirement for ensuring that the institution has sustainable plans. This is required by the Committee of University Chairs.	<ul style="list-style-type: none">• Ensures that plans balance aspiration with the need to be financially sustainable.• Secures the long-term future of the institution
Audit and Risk Committee	To ensure that the TRAC process used to generate the TRAC results has complied in all material respects with the TRAC requirements.	<ul style="list-style-type: none">• Enables grants to be costed appropriately.• Mitigates the risk of financial loss in respect of Research Council funding.• Provides reassurance to the Governing Body and Head of Institution that compliance with TRAC requirements has been achieved.• Provides assurance to funders on the institution's understanding of its costs, financial sustainability and risks
TRAC Steering Group and VP(Research)	To raise the profile and importance of sustainability and TRAC across the institution.	<ul style="list-style-type: none">• Increases cooperation from academic and support staff, which will improve the quality of data and reduce the burden of compliance.• Increased capacity for innovation and improved performance through effective pricing and cost control.• Improves morale for staff involved in operating the TRAC process.

<p>Academic Staff</p>	<p>To ensure that the time allocation requirements are understood and that the time allocation data returned is representative and accurate.</p>	<ul style="list-style-type: none"> • Increases the reliability of the TRAC information. • Secures optimal and appropriate funding from Research Councils and Funding Councils • Reduces the effort and resources required to comply with the TRAC requirements is reduced.
<p>Finance</p>	<p>At a senior level, to provide oversight, support and guidance to staff developing the TRAC model and producing the TRAC data, and to ensure resilience in the TRAC process.</p> <p>For staff operating the TRAC model, to ensure good relationships and understanding among the other support functions generating data that is used in the TRAC model:</p> <p>To have effective lines of communication with academic departments and academic staff concerning the impact of TRAC on the institution;</p> <p>To ensure that the TRAC model complies with TRAC requirements and that additional resource is not consumed in operating the model if it does not have a material impact on the results;</p> <p>To consider how the TRAC model can be developed to enable it to meet internal management information needs.</p>	<ul style="list-style-type: none"> • Increases the reliability of the TRAC information. • Secures optimal and appropriate funding from Research Councils and Funding Councils and ensures that cross-subsidies are understood. • Increases efficiency and timeliness in producing management information. • Improves processes and understanding of management information.
<p>Research Finance</p>	<p>To ensure that research bids are appropriately costed in line with funders' requirements.</p>	<ul style="list-style-type: none"> • Mitigates the risk of research projects being undertaken at a financial loss or without identified income sources • Promotes the effective use of resources.

Appendix 1

Example Annual TRAC Return

(Note: Figures for indicative purposes only)

Institutional results

Total income* (derived from audited financial statements)	230,000	
Total expenditure* (derived from audited financial statements)	233,000	
Operating surplus/(deficit)	(3,000)	-1.3%
Sustainability adjustment (EBITDA for MSI)	15,500	6.7%
Full economic cost (total expenditure + sustainability adjustments)	248,500	106.7%
TRAC surplus/(deficit)	(18,500)	

£000	As a % of expenditure
230,000	
233,000	
(3,000)	-1.3%
15,500	6.7%
248,500	106.7%
(18,500)	

Analysis of TRAC results

TRAC income and full economic costs (fEC) by activity

	Teaching		Research	Other		Total
	Publicly funded £000	Non-publicly funded £000	£000	Income generating activity £000	Non- commercial activity £000	£000
Income	82,000	27,000	87,000	30,000	4,000	230,000
TRAC full economic costs	86,000	19,000	115,000	28,500	0	248,500
TRAC surplus/(deficit)	(4,000)	8,000	(28,000)	1,500	4,000	(18,500)
Recovery of full economic costs (income as a % of full economic costs)	95.3%	142.1%	75.7%	105.3%	0.0%	92.6%

Research income and fEC by research sponsor type

	Recurrent research funding from the funding councils £000	Institution-own funded £000	Training and supervision of PGR students £000	Research Councils £000	Other govt departments £000	European Union £000	UK-based Charities £000	Industry £000	Total Research £000
Income	23,000	0	8,000	11,000	18,000	4,000	10,000	13,000	87,000
TRAC full economic costs		23,000	14,250	15,250	19,500	7,000	16,750	19,250	115,000
TRAC surplus/(deficit)		(23,000)	(6,250)	(4,250)	(1,500)	(3,000)	(6,750)	(6,250)	(28,000)
Recovery of full economic costs (income as a % of full economic costs)		0.0%	56.1%	72.1%	92.3%	57.1%	59.7%	67.5%	75.7%