HE Update
Transparent Approach to Costing (TRAC)
September 2014

What is TRAC and why is it important?

TRAC is an Activity-Based Costing system which seeks to identify the full cost of key activities in Higher Education Institutions (HEIs). Activities are analysed into "Teaching", "Research" and "Other" (commercial activities, residences etc.). Teaching is further analysed into publicly funded and non-publicly funded and Research according to the main sponsor types.

TRAC calculates the full cost of an institution's activities by taking the income and expenditure from the annual published accounts and adjusting for two sustainability factors. The first adjusts the depreciation charge on buildings to an insurance-based replacement value to better reflect the full cost of maintaining the current infrastructure. The second sustainability adjustment covers the surpluses required for rationalisation, updating and development of future productive capacity.

This data is submitted annually to HEFCE in a return (TRAC return) and is used for the cost-based pricing of research projects (full economic costing – fEC) for the Research Councils and other public funders of research. Further analysis of the teaching costs are submitted in a separate return (TRAC (T)).

There are two different schools of thought across the sector concerning the usefulness of TRAC – some consider it to be bureaucracy, others an under-utilised tool. The new Guidance discussed below does not alter TRAC fundamentally and so is unlikely to sway opinion either way.

Review of TRAC

Following the Government's 2011 Higher Education White Paper, HEFCE consulted with the sector on streamlining the TRAC process and how the data could be used to promote greater transparency. The TRAC Development Group (TDG) was asked by HEFCE, to work with the sector to implement the recommendations arising from the consultation. The TDG completed its work in August 2014 when it published new Guidance.

The new TRAC guidance and suggested actions

The new Guidance has been designed to streamline and simplify the previous version by removing duplication and repetition, reducing the volume and bringing it together in a single document with a consistent structure. It will apply to TRAC returns for the 2014/15 year (i.e. year ended 31st July 2015). Early adoption is permitted, but is not required. The main differences and suggested actions are:-

- Dispensation threshold was immediately raised from £0.5m to £3m - this will have released a significant number of HEIs from the full requirements of TRAC.

- Response rate requirements for the time allocation process have been lowered to 50% or 38 returns (whichever is greater) for academic departments of more than 50 staff. A response rate of 75% is required for smaller departments.
- Requirements for the treatment of public areas have been removed.
- Costing of facilities and equipment has been simplified by having a single method of costing.
- The opportunity to take advantage of the simplifications and streamline TRAC processes. The TRAC Regional Groups have published a "TRAC: The Easier Way" guide available from the HEFCE website which contains good practice.
- Remove excessive complexity in the TRAC model if the effect is not material.
- Consider whether TRAC cost information can be used for other internal purposes.

Future developments

- The new Guidance does not reflect the implications of FRS 102 - the Financial Reporting Standard which will affect the sector for the financial year ended 31st July 2016. This will be considered by the TDG this autumn and the guidance will be updated for 2015/16
- The Margin for Sustainability and Investment (MSI) has been piloted and the results of the pilots are being reviewed by the Financial Sustainability Strategy Group. This is an institutionally derived level of cash generation required for sustainability. Depending on the results of this review, the MSI may be incorporated into the main TRAC reporting.

Next Steps

For more information or an informal conversation on TRAC and fEC in general, please get in touch:

Ralph Beale

Senior Auditor

Tel: 0161 247 2858

Email: rbeale@uniac.co.uk