

Planning for Sustainability

TRAC for Planners

10 February 2017

With you today...

Olivia Kew-Fickus

University of Birmingham / TRAC Development Group

Andrew Dicken

KPMG / TRAC Support Unit

Session objective

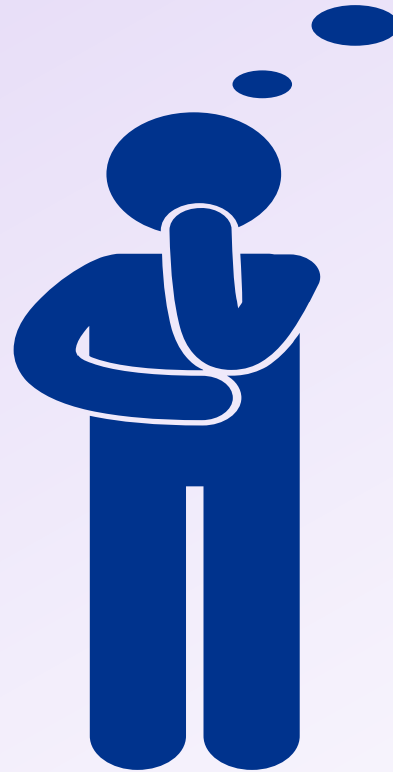
“To increase your knowledge of TRAC and how this can support your work in your institutions”

Introduction

- What is TRAC?
- Some TRAC basics ...
- So, how can TRAC be useful to planners?
- The University of Birmingham Experience

What is TRAC?

Who knows what about TRAC?



What is TRAC? Common Perceptions ...

It doesn't mean anything

- Based on audited financial information
- Teaching, Research and Other are what a University does
- Provides the starting point for better understanding costs
- Flexibility for institutions to adapt to their needs

Nobody trusts the information

- BIS and Treasury use the information – more than ever before
- Funding Councils and Research Councils use the information
- VC sign off
- Subject to audit
- In an institution's gift to increase credibility

It has these adjustments in it that are a nonsense

- Economic adjustments that are based on an MoD profit formula for long term contracts
- Do not reflect an institution's appetite for risk
- Are not wholly institution specific
- Likely to be replaced (Margin for sustainability and Investment)
- Pilot of MSI

Nobody uses the information

- See later slide

Some TRAC basics...

So why TRAC?

- Important to count all activities to get a representative picture of the costs of each activity (i.e. not just calculate the cost of teaching in isolation)
- Any methodology would require an activity based costing method

Do we need TRAC?

- HEFCE Review of TRAC 2013:
 - No alternative
 - No other data held of academic staff time on a consistent basis
- TRAC Development Group review of time allocation methods:
 - Fundamentally no better option for the collection of academic staff time

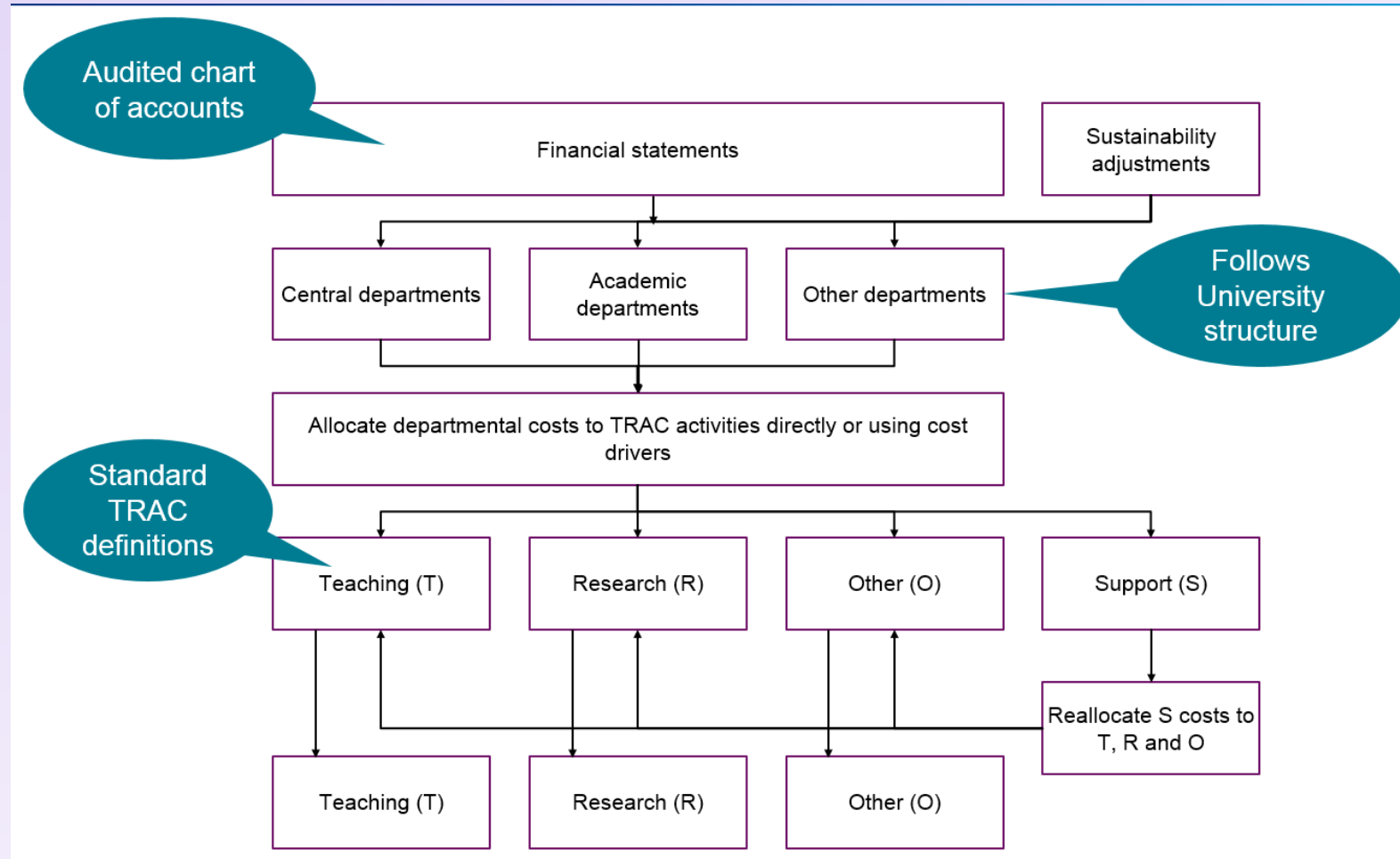
Some TRAC basics...

- TRAC standards
- TRAC definitions
- Use of existing standard data sets encouraged
- Reconciliation of cost driver data to recognised source data

Some TRAC basics ...

- Inputs and Outputs of TRAC
- TRAC Adjustments
- TRAC(T)
- Timescales and availability of data
- What is TRAC fEC?

The Annual TRAC process



Snapshot of an Annual TRAC return

(A) TRAC income and full economic costs by activity

Data collected for use by the Funding Councils

	Teaching		Research	Other	Total
	Publicly funded £000	Non-publicly funded £000	£000	£000	£000
Income	0	0	0	0	0
TRAC full economic costs	0	0	0	0	0
Recovery of full economic costs (income as a % of full economic costs)	0.0%	0.0%	0.0%	0.0%	0.0%

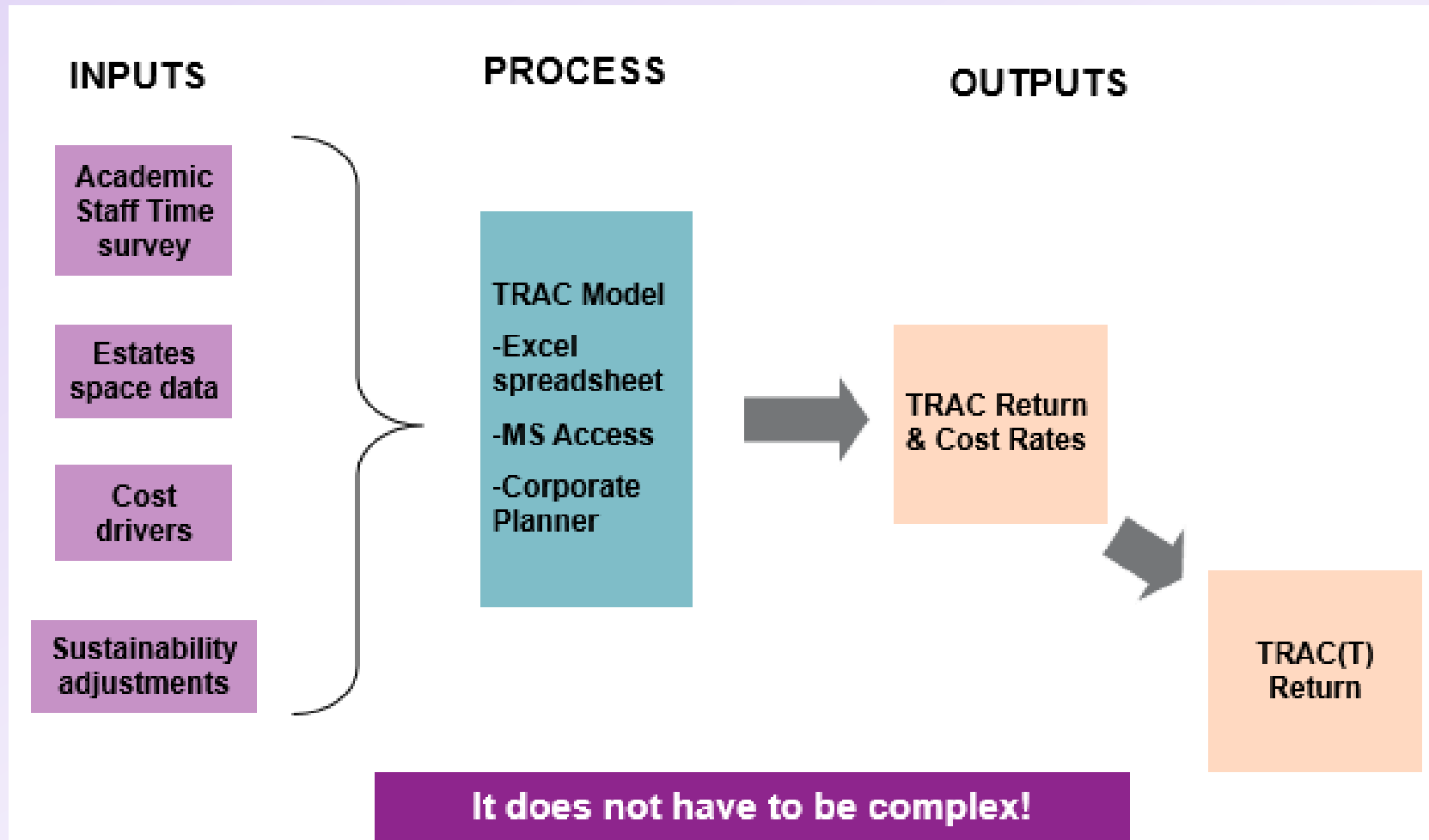
Note: Income allocation guidance is contained in Annex 16 of the TRAC guidance and can be found here: <http://www.icpsg.ac.uk/guidance/annexes.htm>

(C) Research income and full economic costs by research sponsor type

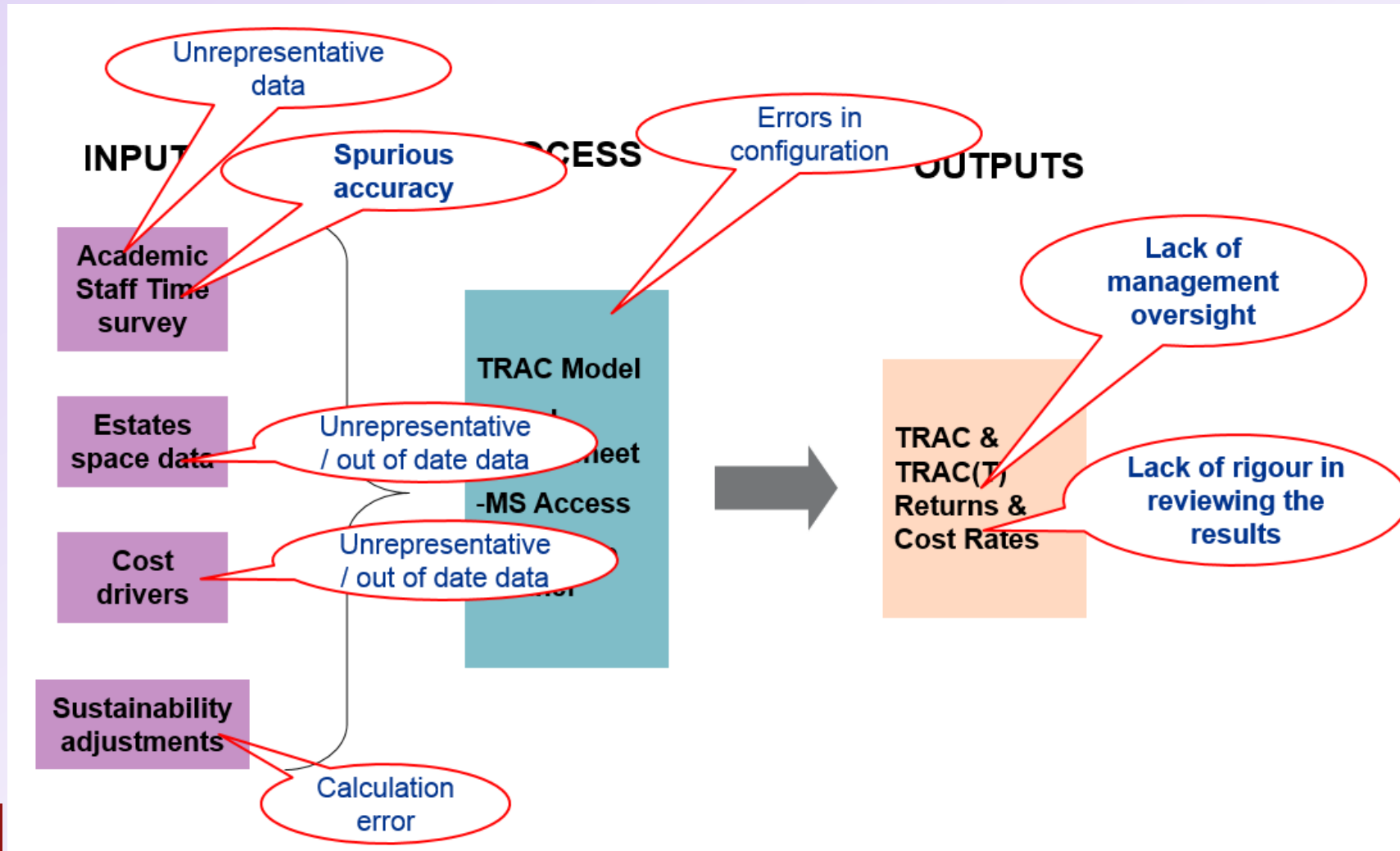
Data collected for use by the Funding Councils and RCUK

	Recurrent research funding from the funding councils £000	Institution-own funded £000	Postgraduate research £000	Research Councils £000	Other govt departments £000	European Union* £000	UK-based Charities £000	Industry** £000	Total Research £000
Income	0	0	0	0	0	0	0	0	0
TRAC full economic costs		0	0	0	0	0	0	0	0
Recovery of full economic costs (income as a % of full economic costs)		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

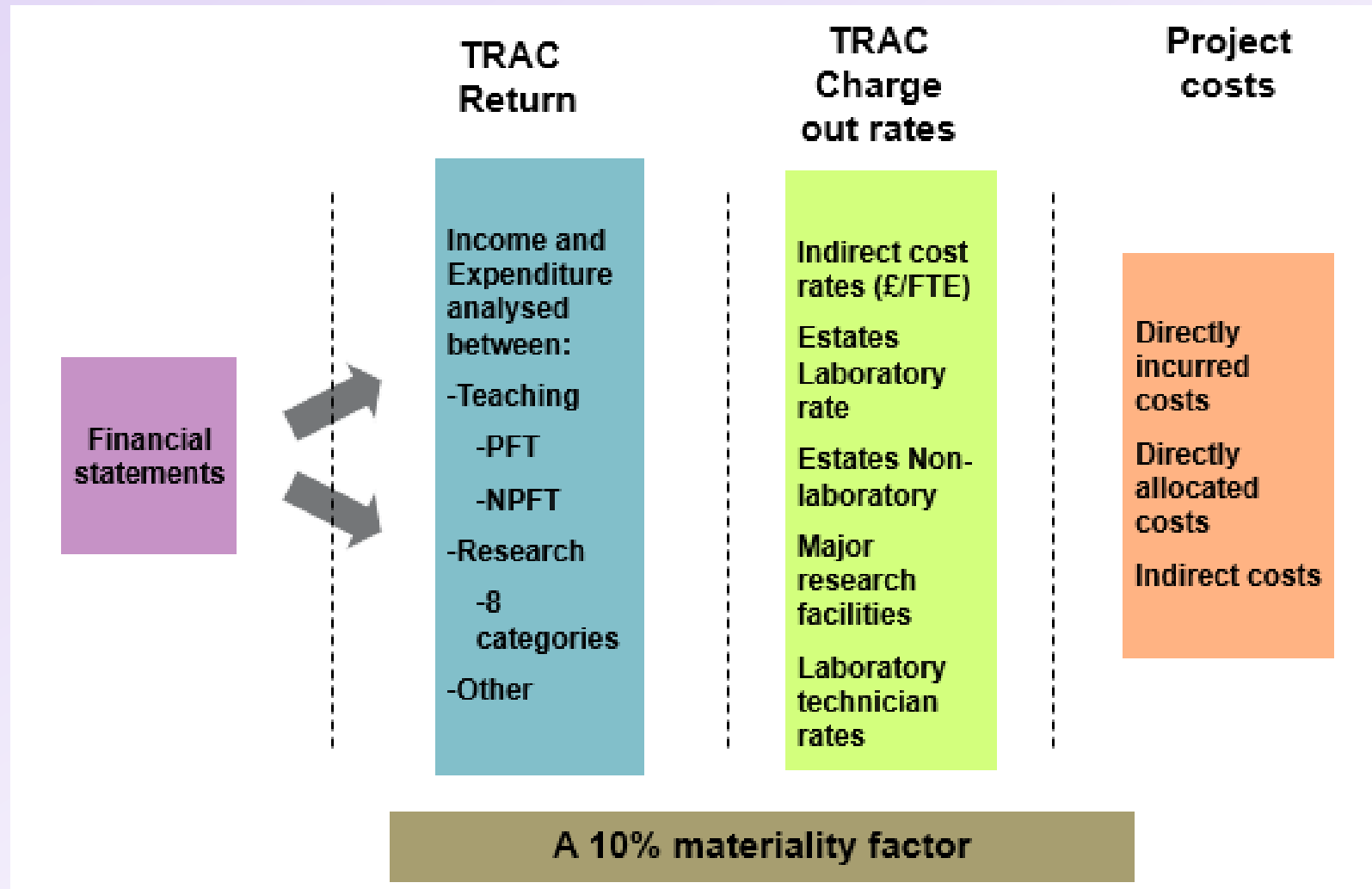
Inputs and Outputs for TRAC



Inputs and Outputs for TRAC - What can go wrong?



What is TRAC fEC?



TRAC(T) – How does it work?

- A process to calculate the cost of provision that HEFCE funds directly
 - *‘Subject related, Average Annual Cost of Teaching a Full Time Equivalent Funding Council Fundable Student’ (Subject FACTS)*
- Adopted by English and Scottish Institutions
- Uses income as a proxy for removing costs that are non funding council fundable, are funded from other sources and subject related

- What TRAC(T) is not:

Benchmarking Data

Institution name:

Institution code:

UKPRN:

Peer group:

Number of institutions applying dispensation

41

Institutional results: Cost adjustments

Cost adjustment as % of total expenditure		Institution	Group A	Group B	Group C	Group D	Group E	Group F	UK Sector
	Number of HEIs		32	24	22	15	18	5	116
Infrastructure adjustment	Average		3.1	3.3	2.4	1.2	3.0	1.3	2.8
	1st Quartile		2.0	1.6	1.1	0.3	1.4	0.9	1.3
	3rd Quartile		4.3	4.8	3.2	1.9	3.8	2.5	3.9
Return for financing and investment adjustment	Average		4.7	5.2	4.8	5.7	5.5	7.3	5.0
	1st Quartile		3.8	4.0	4.4	4.2	4.1	4.2	4.2
	3rd Quartile		5.7	6.0	6.2	6.7	7.0	5.7	6.2
Total cost adjustments	Average		7.9	8.5	7.2	6.9	8.5	8.6	7.8
	1st Quartile		6.4	6.5	6.6	5.2	6.8	6.3	6.3
	3rd Quartile		9.0	10.5	8.8	8.4	10.3	8.4	9.3

Institutional results: Target surplus for sustainable operations and sustainability gap

		Institution	Group A	Group B	Group C	Group D	Group E	Group F	UK Sector
	Number of HEIs		32	24	22	15	18	5	116
Target surplus for sustainable operations (infrastructure adjustment + RFI adjustment)	Average		36,796	14,557	11,623	13,197	8,796	6,293	18,709
	1st Quartile		18,433	9,616	7,847	8,603	5,984	2,471	7,935
	3rd Quartile		47,022	19,307	14,019	16,589	10,388	3,724	20,158
Target surplus for sustainable operations (infrastructure adjustment + RFI adjustment) as % of full economic cost per TRAC	Average		7.3	7.8	6.7	6.5			
	1st Quartile		6.0	6.1					
	3rd Quartile		8.3						
Sustainability gap (difference between target surplus for sustainable operations and operating surplus/(deficit))	Average		18.8						
	1st Quartile								
	3rd Quartile								

Benchmarking Data

Institution name:

Institution code:

Number of institutions applying dispensation 41

Peer Groups for annual TRAC, TRAC FEC and TRAC(T)¹ benchmarking 2015-16

Criteria (references to income are to 2012-13 data)

- Peer group A: Institutions with a medical school and research income* of 20% or more of total income
- Peer group B: All other institutions with research income* of 15% or more of total income
- Peer group C: Institutions with a research income* of between 5% and 15% of total income
- Peer group D: Institutions with a research income* less than 5% of total income and total income greater than £150M
- Peer group E: Institutions with a research income* less than 5% of total income less than or equal to £150M
- Peer group F: Specialist music/arts teaching institutions

Peer Group A

10006840	The University of Birmingham
10007786	University of Bristol
10007788	University of Cambridge
10007792	University of Exeter
10003270	Imperial College London
10003324	The Institute of Cancer Research
10003645	King's College London
10007768	The University of Lancaster
10007795	The University of Leeds
10007796	The University of Leicester
10006842	The University of Liverpool
10003958	Liverpool School of Tropical Medicine

	Group D	Group E	Group F	UK Sector
	15	18	5	116
	1.2	3.0	1.3	2.8
	0.3	1.4	0.9	1.3
	1.9	3.8	2.5	3.9
	5.7	5.5	7.3	5.0
	4.2	4.1	4.2	4.2
	6.7	7.0	5.7	6.2
	6.9	8.5	8.6	7.8
	5.2	6.8	6.3	6.3
	8.4	10.3	8.4	9.3

	Group C	Group D	Group E	Group F	UK Sector
	22	15	18	5	116
	11,623	13,197	8,796	6,293	18,709
	7,847	8,603	5,984	2,471	7,935
	14,019	16,589	10,388	3,724	20,158
	6.7	6.5			

3rd Quartile	8.3
Average	18.9
1st Quartile	
3rd Quartile	

TRAC(T) Data and Benchmarking

Number of institutions who responded to sections A and B			Peer group A		Sector									
			30		146									
B. Subject-related Full Average Costs of Teaching a Student (Subject-FACTS) (£ per student)														
			Peer group A						Sector					
			Average (mean) FTE of FC-fundable of HEIs students		Subject-FACTS				Average (mean) FTE of FC-fundable of HEIs students		Subject-FACTS			
					1st	Median	3rd	1st			Median	3rd		
HESA academic cost centre					Mean	Quartile	value	Quartile			Mean	Quartile	value	Quartile
101	Clinical medicine	A	15	738	18,321	15,435	18,668	20,303	17	687	18,321	15,435	18,668	20,303
		B	14	420	12,716	10,214	12,298	17,627	18	353	12,723	10,214	12,298	15,917
		Total	30	1,034	15,272	12,729	14,569	16,467	38	886	15,252	12,550	14,689	16,744
102	Clinical dentistry	A	9	220	16,293	13,666	14,684	21,479	10	214	16,487	13,666	14,923	21,479
		B	7	62	10,435	6,655	11,677	12,911	8	60	11,536	8,315	12,029	16,895
		Total	14	345	16,629	13,030	15,328	21,333	16	329	17,264	13,371	16,528	21,342
103	Nursing and allied health professions		11	93	7,939	6,876	8,731	9,473	69	203	7,824	6,745	7,517	8,776
	Professional qualifications (Scottish institutions only)		2						8	877	6,700	5,895	6,764	7,445
		Total	13	182	7,134	8,292	8,731	9,473	72	312	7,484	6,751	7,537	8,800
104	Psychology and behavioural sciences		22	497	7,463	6,310	7,318	8,575	105	459	7,133	6,353	7,034	7,985
105	Health and community studies		10	78	10,203	8,813	10,656	13,164	59	226	7,320	6,405	7,640	9,864
106	Anatomy and physiology		11	332	9,783	9,121	10,013	10,737	27	304	9,013	7,228	9,121	10,629
107	Pharmacy and pharmacology		13	257	10,151	9,232	9,862	11,212	39	355	8,738	7,840	8,931	9,745
108	Sports science and leisure studies		3						68	463	6,923	6,218	6,972	8,099
109	Veterinary science	A	3						4					

Benchmarking Data – current developments

TDG Management Information Project (MIP) regarding access to enhanced benchmarking data published on HEFCE web pages.

Discussions ongoing with the Funding Councils, HESA, Planners and other stakeholders regarding the inclusion of TRAC benchmarking data in HEIDI plus.

Timescales and Availability of Data

- Annual TRAC return current due the end of January the year following the close of the financial year.
- TRAC(T) return due one month afterwards.
- Data availability drives the timescales – needs to be expedited:
 - Financial Statements / FR
 - HESA data (Staff and Students) *
 - Estates space data

Timescales and Availability of Data – links to HESA

- HESA student, estates, Finance and staff data are used widely in TRAC – consistency of data!
- Differences to TRAC
 - Is not on a full economic cost basis
 - Different definitions
 - Less prescriptive definitions
 - Institutions do not manage on the basis of HESA Cost Centres
 - Burden

What information is available from TRAC for Planners?

- Insight into national policymakers' view of HE costs including cross-subsidisation (T to R)
- Benchmarked institutional data and by research funders
- TRAC for teaching – relative cost per student / HESA cost centre
- Departmental view – relative volumes of activity



Cross-subsidisation

	Teaching						
	Publicly funded	Non-publicly funded	Research	Research excluding RDEC	Other	Total	Total excluding RDEC
Income	£11,127M	£3,941M	£7,466M	£7,129M	£4,868M	£27,402M	£27,065M
Full economic costs	£10,847M	£2,837M	£9,935M	£9,935M	£4,306M	£27,924M	£27,924M
Surplus (deficit)	£281M	£1,104M	(£2,469M)	(£2,806M)	£562M	(£522M)	(£860M)
Surplus (deficit) as % of income	2.5%	28.0%	(33.1%)	(39.4%)	11.5%	(1.9%)	(3.2%)
Cost recovery % 2014-15	102.6%	138.9%	75.2%	71.8%	113.1%	98.1%	96.9%
Cost recovery % 2013-14	102.1%	136.6%		73.9%	108.1%		96.6%

TRAC, Planning and Financial Management at the University of Birmingham

*Olivia Kew-Fickus, Director of Strategic Planning
University of Birmingham*



Overview

- Why we use TRAC at Birmingham
- What we share and use
- How we embed TRAC in broader discussions
- Acceptance and uptake
- Challenges



A spot of history...

- TRAC was developed at Birmingham
- In 2008 we got rid of historic resource allocation model
 - Too much focus on perceived bottom line positions
 - Too little understanding of real bottom line
 - Need to focus on more rounded view of performance (i.e. not just financial)
 - Budgets should support delivery of institutional strategic objectives

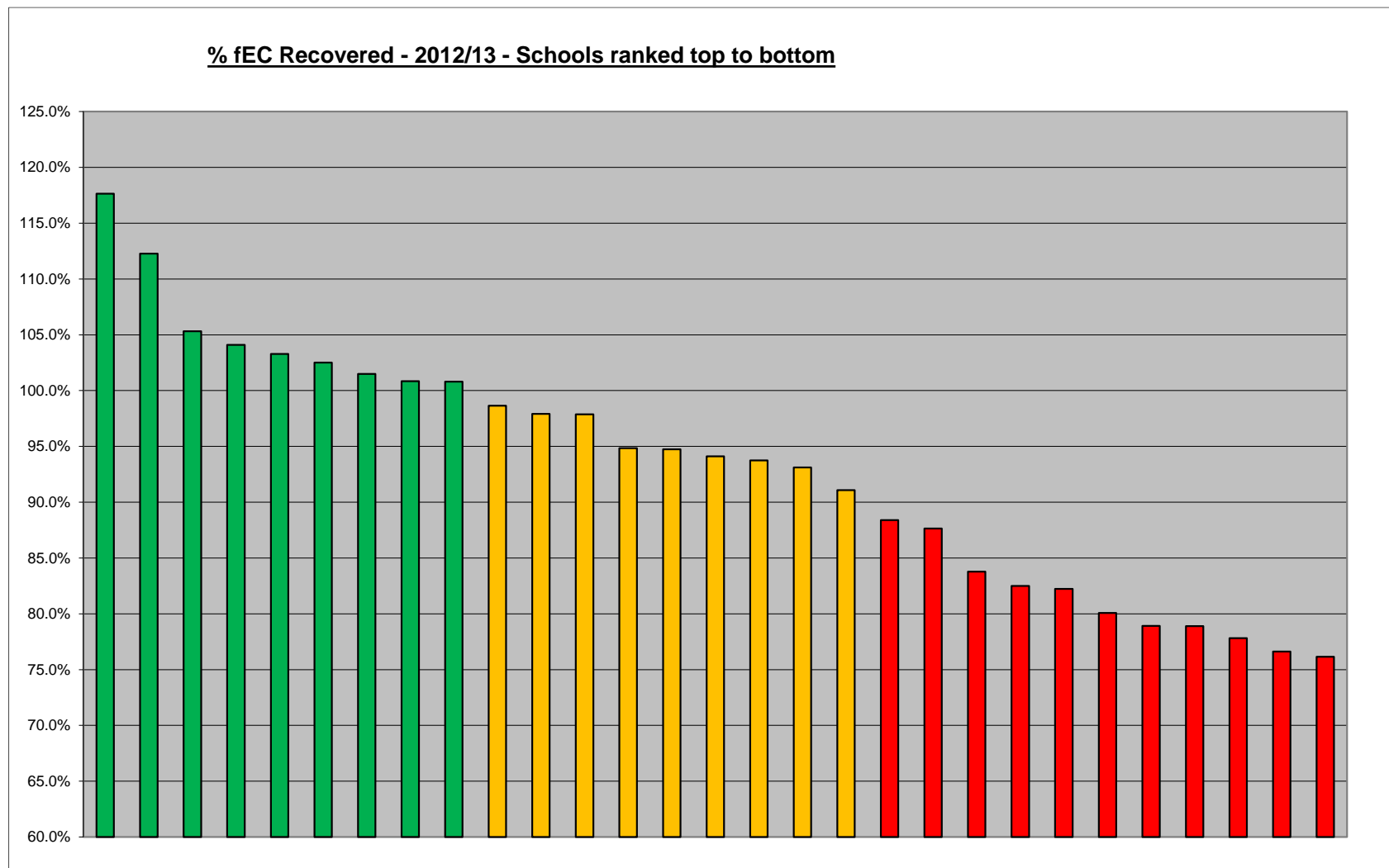


Budget Model

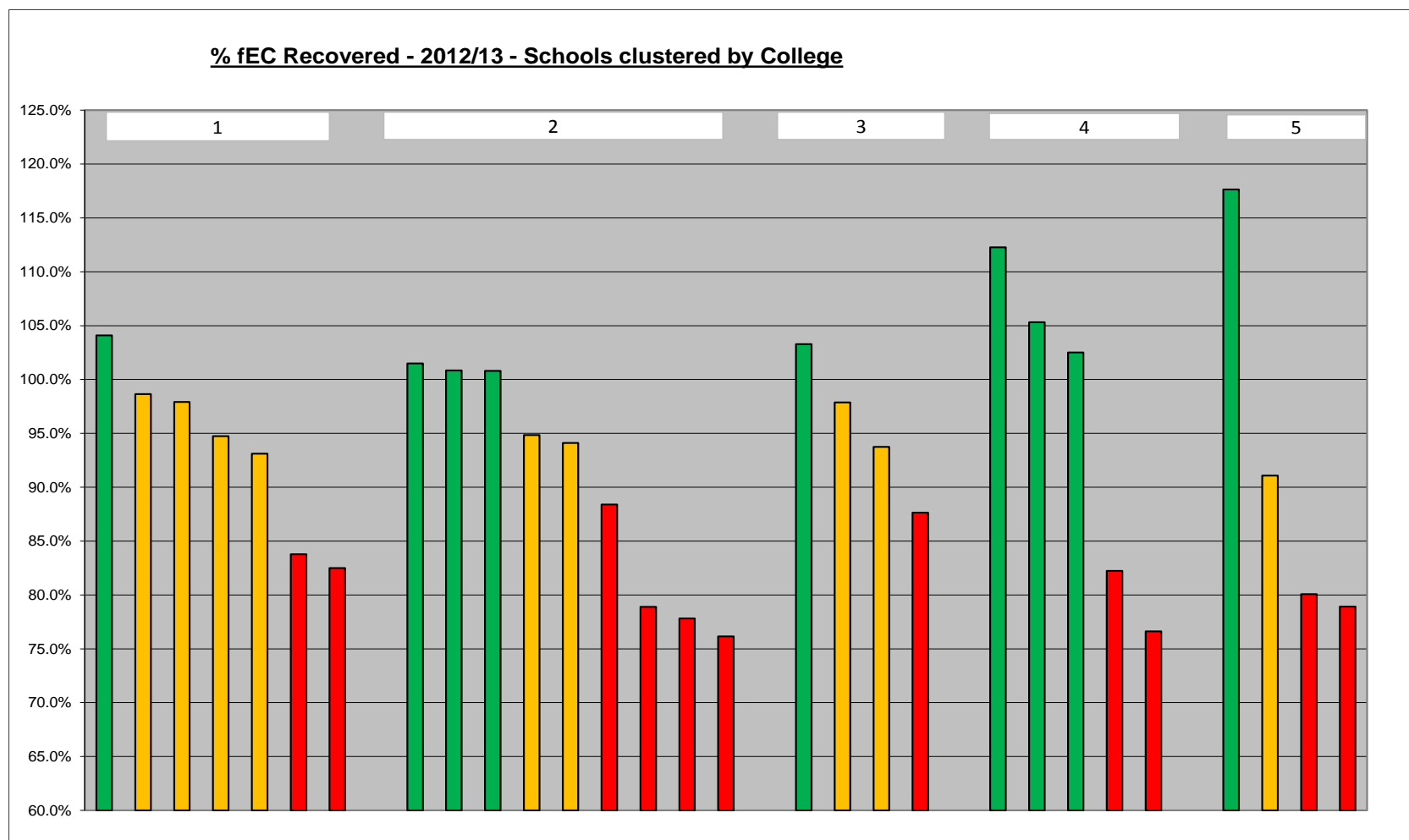
- Key Focus on:
 - Activity targets for income generation
 - Control of “base” expenditure budgets
 - Creating headroom for investment
- Management Dilemmas
 - Where should we invest/divest – becomes a political discussion because not formulaic
 - Need financial performance measures



Priority 1 – Get Some Attention



Focus the attention – Accountability!

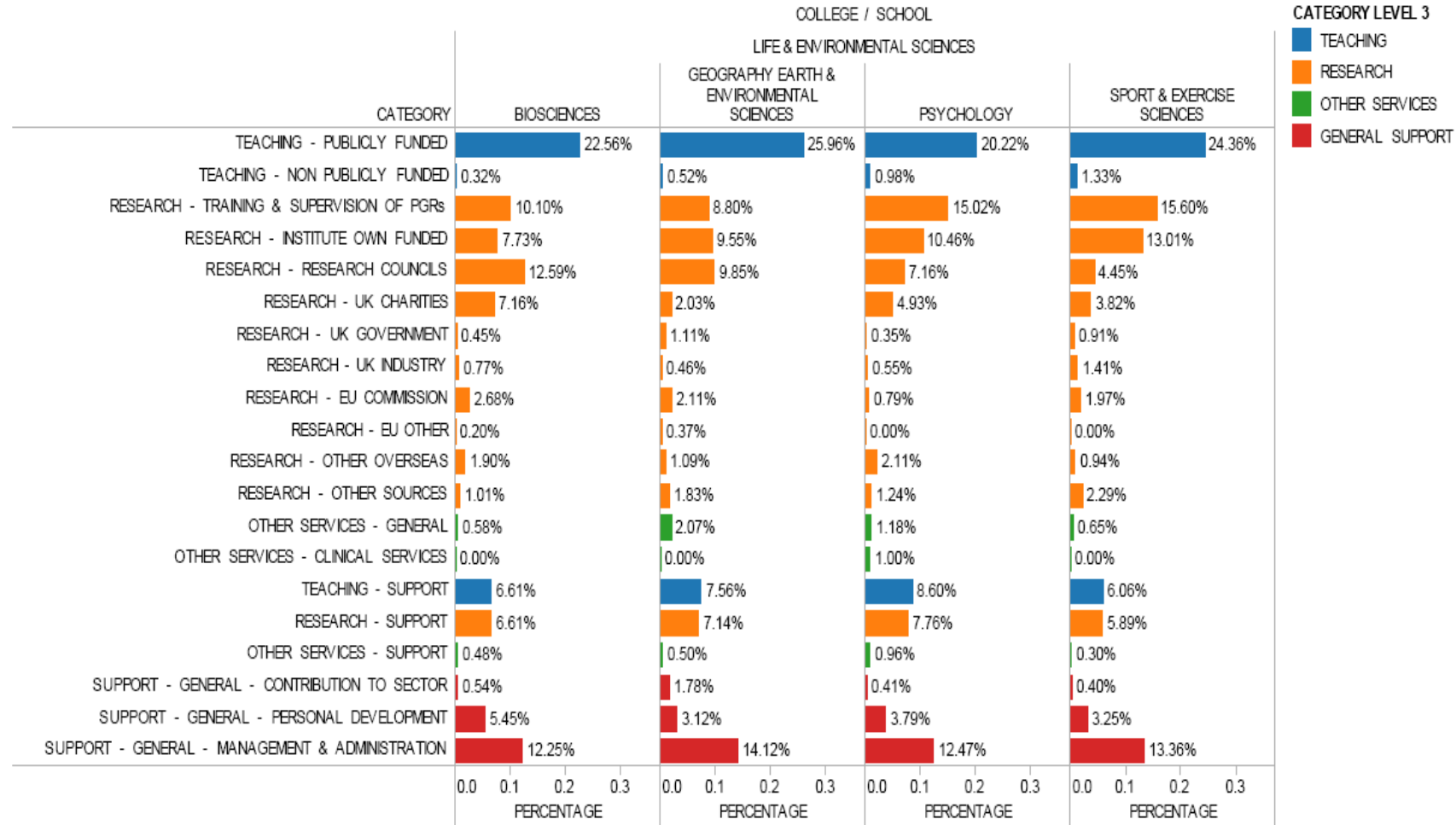


Compare and Contrast – KFI's

School Name	FULL COST FINANCIAL POSITION					COLLEGE ONLY FINANCIAL POSITION					FINANCIAL INDICATORS 2012-13									
	Income	fEC	Surplus/ (Deficit)	% fEC		Income	College Costs	Contributio n	% Income		Income / Core Academic Staff FTE	Mainstream QR Income / Core Academic FTE	Research Grant Income / Core Academic Staff FTE	Contribution / Core Academic Staff FTE	Total Student SSR	UG Derived SSR	PGT Derived SSR	PGR Derived SSR	Overseas Derived SSR	Weighted m2 / Total Staff FTE
	£000	£000	£000			£000	£000	£000			£000	£000	£000	£000	FTE	FTE	FTE	FTE	FTE	m2
School 1	9,119	9,042	77	100.9%		9,119	5,463	3,656	40.1%		271	21	46	109	14.3	6.7	5.5	2.0	6.6	63
School 2	16,218	15,980	238	101.5%		16,218	10,367	5,851	36.1%		418	25	99	151	17.1	10.8	2.7	3.6	5.1	77
School 3	8,720	8,650	70	100.8%		8,720	4,893	3,827	43.9%		180	18	19	79	15.5	13.6	0.8	1.1	2.1	23
School 4	11,827	12,470	(643)	94.8%		11,827	7,129	4,698	39.7%		333	22	99	132	13.9	10.0	1.3	2.6	8.7	111
School 5	10,226	10,865	(639)	94.1%		10,226	6,827	3,399	33.2%		202	29	54	67	10.3	6.5	2.7	1.2	3.4	49
School 6	17,986	20,349	(2,363)	88.4%		17,986	12,147	5,839	32.5%		315	28	111	102	12.2	9.6	0.8	1.7	0.8	94
School 7	9,435	11,960	(2,525)	78.9%		9,435	4,925	4,510	47.8%		411	32	74	197	19.8	15.2	1.2	3.4	8.4	287
School 8	14,188	18,233	(4,045)	77.8%		14,188	10,419	3,769	26.6%		535	38	228	142	11.7	5.9	0.7	5.1	3.5	175
School 9	10,619	13,943	(3,324)	76.2%		10,619	7,111	3,508	33.0%		336	19	67	111	17.9	13.6	0.0	4.3	1.2	201
College 2	108,338	121,492	(13,154)	89.2%		108,338	69,281	39,057	36.1%		311	25	83	112	14.2	9.9	1.7	2.5	3.9	110
School 1	36,624	31,130	5,494	117.6%		36,624	16,268	20,356	55.6%		239	7	4	133	22.3	13.4	8.2	0.6	10.3	32
School 2	14,115	17,887	(3,772)	78.9%		14,115	10,230	3,885	27.5%		180	8	27	50	20.9	7.5	11.4	1.9	1.3	30
School 3	13,325	14,629	(1,304)	91.1%		13,325	8,507	4,818	36.2%		153	10	15	55	14.9	9.7	4.2	1.0	2.7	20
School 4	9,877	12,333	(2,456)	80.1%		9,877	7,950	1,927	19.5%		173	7	34	34	13.7	6.1	7.1	0.6	1.1	23
College 5	73,941	75,979	(2,038)	97.3%		73,941	42,955	30,986	41.9%		195	8	16	82	18.9	10.1	7.7	1.0	5.2	30

Time Allocation – It's better to be vaguely right than precisely wrong!

Appendix 4 - Life & Environmental Sciences



Embedding TRAC

- Planning process – “Compact”
 - Look at TRAC and TRAC data (esp FEC recovery, contribution, SSRs, income/FTE) as part of discussions about ... capacity, investment, performance
 - Not a target but an indicator
- College management
 - Provost focus, HoC focus
 - Clear understanding of cross-subsidisation
- Vice-Chancellor’s Reviews
- Financial management
 - TRAC informs budgetary decisions, it does **NOT** make them, people do!



Active usage?

- Varies... but at least one Head of College claims to have TRAC tattooed to the back of his eyelids!
- Regularly raised (not just by Finance) in strategic discussions
- Newcomers to Birmingham start sceptical and become converts
- TDG has attracted Birmingham “alumni” convinced of its use and wanting to prosthelytise!



Financial Performance Measurement (TRAC)

- TRAC data provides backward looking view of financial performance
- Informs thinking on forward looking targets/cost control/efficiency etc.
- Embeds understanding of the business
- Delivers more informed decision making
- School by school data



Challenges

- Our model encourages tight financial management – but challenged to incentivise new activity
- Space issues can be demotivating, if left unresolved for many years
- The scale of the deficit on Research!
- TRAC levers quite remote, dampened by TRAC adjustments
- Very clear how much central costs are!



Discussion

HEIDI+ - would this be useful?

How should HESPA members continue to engage with TRAC?

What would be useful for HESPA to get more from TRAC?

What messages do you have for the TRAC Development Group?

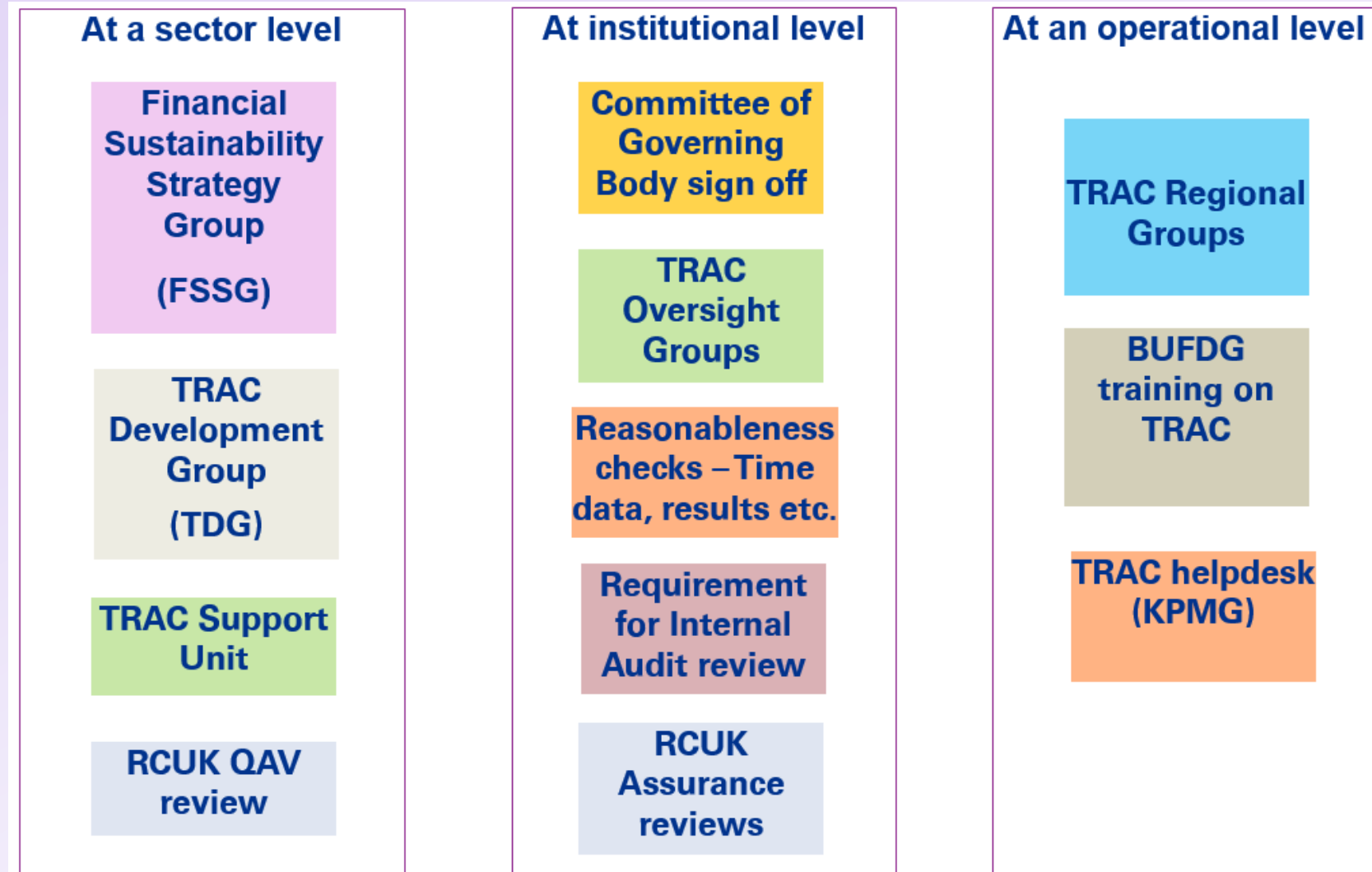
Any Questions – Please contact us at the TRAC
Helpdesk:

E-Mail: trachelpdesk@kpmg.co.uk

Telephone: 0115 935 3400

***Some Further Reading and
Historical Context on the
following slides***

TRAC Governance



Historical Context

1998 CSR – requirement from Government - Multiple agenda

- accountability for public funds (Government)
- satisfy research sponsors (RCs, MoD etc)
- institution own management (JCPSG)
- fundamental review of research
- review of dual support
- long-term under-funding of grants and contracts

Treasury interest in value for money from public funding of Research and Teaching future funding of HE sector

Historical Context

- TRAC(T) - data were first collected from 2008 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
- Principles based
 - The costing should be transparent and materially robust;
 - The process should minimise the scope for the manipulation and bias of the costings;
 - The process should provide a consistent and fair basis for institutions to cost activities;
 - The process should provide comparability in costings and facilitate collaborative research projects;
 - The process should be auditable and promote accountability;
 - The output data should provide utility to the institution.

Evolution of TRAC

- TRAC
 - TRAC(T)
 - Full Economic costing
 - TRAC EU Framework 7
 - Wakeham review of the sustainability of full economic costing of research
 - TRAC enabled RCs to apply an 'efficiency factor' to research funding
 - New streamlined TRAC requirements and Guidance
 - Margin for Sustainability and Investment

The Purpose of TRAC – Regulatory View

BIS grant letter to HEFCE March 16

“We would like you to develop further ways to monitor and measure the financial sustainability of institutions and the provision they offer. We would expect this to include work on enhancing metrics to monitor sustainability at both sector and institutional level.”

HEFCE Memorandum of Assurance and Accountability

‘Must be effective arrangements to assure Governing bodies that the institution plans and manages its activities to remain sustainable and financially viable.’

The Purpose of TRAC – Regulatory View

Committee of University Chairs - Code of Governance

“the governing body ensures institutional sustainability by working with the Executive to set the institutional mission and strategy”

“the governing body “must rigorously assess all aspects of the institution’s sustainability in the broadest sense, using an appropriate range of mechanisms”. It goes on to note that “the governing body must be in a position to explain the processes and the types of evidence used and provide any assurances required by funders”

The Purpose of TRAC – Direction of travel

- Government's use of the TRAC information is increasing (CSR etc.)
- Timeliness of the TRAC data is becoming more important – TRAC(T) could become available earlier
- HEFCE review of its teaching funding method
- Workload planning is growing in popularity

- In Short:

“TRAC is a tool that provides management information as to an institution's cost of activities on a full economic cost basis, following a consistent, rules based method which is subject to governance and oversight”

TRAC Adjustments

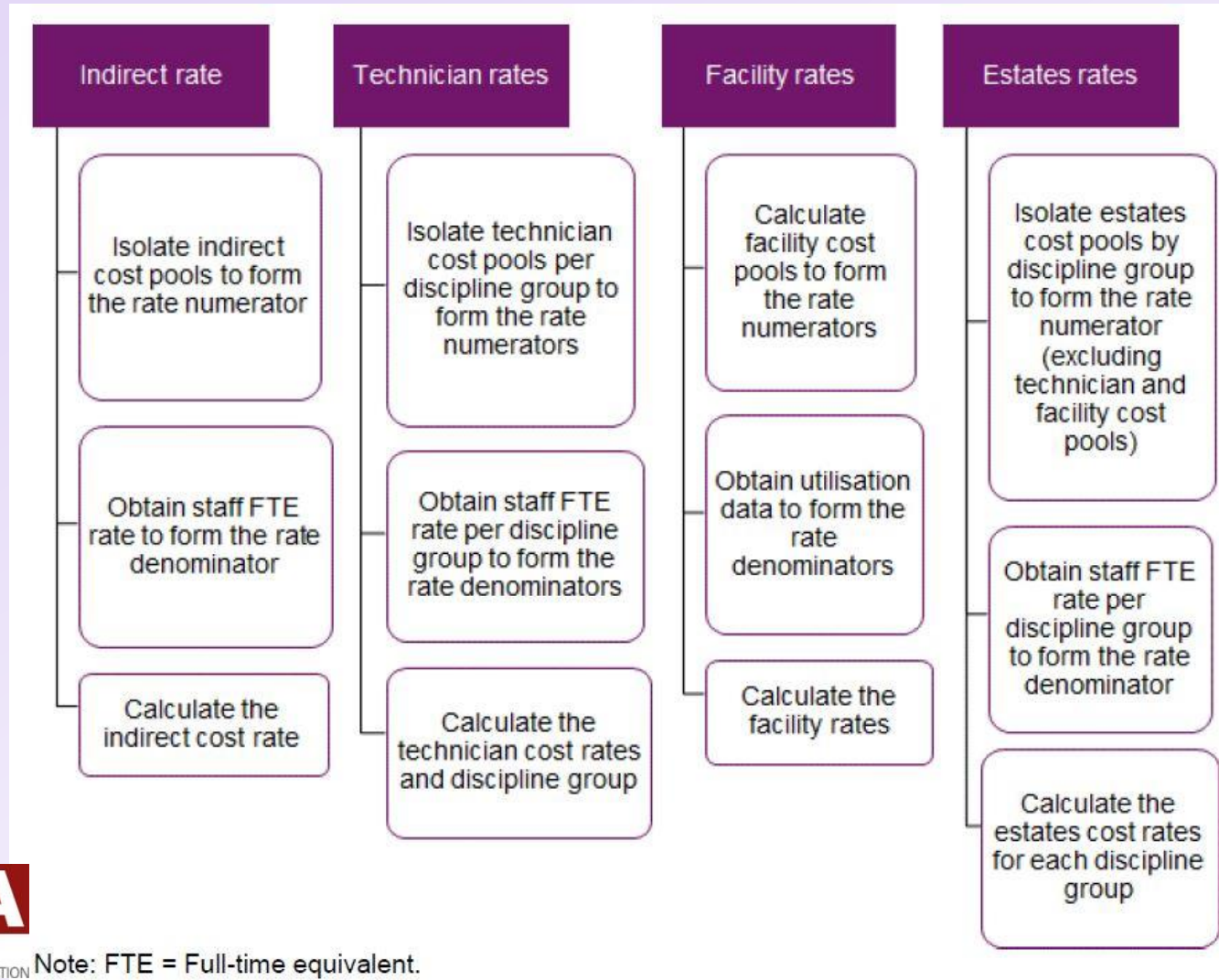
Are they real and why are they necessary?

- To support the continued development of an organisation, cash and surpluses need to be generated to enable re-investment and to mitigate prevailing risks
- Currently have two adjustments – Infrastructure Adjustment (IA) and a Return for Financing and Investment (RFI)
 - replacement cost of the HEI's infrastructure (IA).
 - cost of investment in infrastructure and future productive capacity (RFI).
- Based on Government accepted profit formula used by the MoD for commercial contracts (adjusted for HE)

Are they changing?

- Work concluding on the replacement of the current adjustments with a cash based Margin for Sustainability and Investment (MSI)

What is TRAC fEC? Rate calculations



The TRAC(T) Process

