TRAC Return 2021/22

Outcome requested:	FIC and ARC invited to **note** the Transparent Approach to Costing (TRAC) return for 2021/22.
Executive Summary:	The annual TRAC return is the costing methodology for the HE sector. The TRAC return for 2021/22 was submitted to OFS on 31st January 2023. The TRAC (Teaching) return detailing publicly funded teaching costs by subject was suspended by the OfS for the 2019/20 and has not been reintroduced. The key results from the 2021/21 TRAC return are summarised as follows:
QMUL Strategy: strategic aim reference and sub-strategies [e.g., SA1.1]	Financial sustainability
Internal/External regulatory/statutory reference points:	OfS and Research England regulatory requirements
Strategic Risks:	KPI 12 – Cash generation
Equality Impact Assessment:	Not applicable
Subject to prior and onward consideration by:	FIC, ARC
Confidential paper under FOIA/DPA	No
Timing:	
Author:	Andrew Gladin Deputy Director of Finance
Date:	FIC 7th March 2023 ARC 13th March 2023
Senior Management/External Sponsor	Karen Kröger, Chief Financial Officer

Recovery of full economic cost (income as % of costs)	2020/21	**2021/22**
Total	98.3%	**104.2%**
Research	62.8%	62.1%
Publicly Funded (PFT)	105.0%	95.7%
Non-Publicly Funded Teaching	187.8%	224.2%

Analysis of TRAC (Transparent Approach to Costing) 2021-22

Purpose of TRAC

TRAC is a standard method used to allocate total costs to all of a university's income generating activities so it can determine the full cost of these activities.

TRAC is a mandatory return for all HE institutions, submitted annually to the Office for Students. The process was introduced in 1999 and is used by government departments to inform policy and funding of teaching and research by providing information about the costs and the financial sustainability of activities, institutions and higher education provision.

TRAC is also used to calculate the overhead rates that are used when costing research proposals.

TRAC Methodology

The TRAC return is compiled using an activity-based costing methodology allocating expenditure between Research, Teaching and Other activities. Time allocation surveys (TAS) are used for two faculties (S&E and H&SS). SMD provided updated information using the SWARM workload-planning tool for the third successive year.

Where TAS are used, a full survey is required to be carried out every three years, and this was undertaken for H&SS and S&E during 2019/20. In non-survey years, time allocations are reviewed by school managers for reasonableness.

Review and procedure for sign-off of TRAC Return

The compilation of the return incorporates a number of robust data checks including:

1. Reconciliation to the annual financial statements.
2. Completion of a number of built-in validation checks before for the return can be submitted.
3. Compliance with the TRAC guidance supplied by OFS.
4. Year on year comparisons to check the integrity of the return.
5. Detailed review by the Deputy Director of Finance.
6. Review of the first draft of the return in December by the President & Principal.
7. Review by internal TRAC Oversight Group (last meeting October 2022)
8. Periodic Internal Audit review (last review 2021)
9. Review and approval by Principal

Summary of TRAC Return for 2021/22

The TRAC return is based upon the annual financial statements, to which the TRAC guidance sets out a number of adjustments to reach a surplus for TRAC purposes. The most notable adjustments are:

- The exclusion of movements in pension deficit provisions and gains or losses on investments
- The inclusion of a derived "Margin for Sustainable Investment". This measure is calculated as a six-year average EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) and is included as a "cost" to enable comparison of income with a cost base that would generate the institution's average EBITDA (which in turn funds investment in capital, or the repayment of borrowings).

The tables below show the TRAC income and costs by activity for 2021/22 and the benchmark comparators for 2020/21.

Table A: TRAC income and full economic costs by activity Data collected for use by the OfS, HEFCW, SFC, DfE (NI) and UKRI		2021-22 Teaching		Research	Other		Total
		Publicly funded £000	Non-publicly funded £000	£000	Income generating activity £000	Non-commercial activity £000	£000
A.1	Income	182,315	198,878	172,554	77,162	3,618	**634,527**
A.2	TRAC full economic costs	190,516	88,723	277,725	47,768	4,230	**608,962**
A.3	TRAC surplus/deficit	-8,201	110,155	-105,171	29,394	-612	**25,565**
A.4	Recovery of full economic costs (income as a % of full economic costs)	95.7%	224.2%	62.1%	161.5%	85.5%	**104.2%**

TRAC income and full economic costs by activity Source: Section A	2018-19	2019-20	2020-21	2021-22
Recovery of full economic costs (income as a % of cost				
Publicly funded Teaching	103.6%	104.1%	105.0%	95.7%
Non-publicly funded Teaching	172.2%	188.2%	187.8%	224.2%
Research	61.1%	62.3%	62.8%	62.1%
Other income generating activity	142.0%	114.5%	134.3%	161.5%
Other non commercial activity	30.3%	179.4%	133.2%	85.5%
Total	**94.2%**	**96.2%**	**98.3%**	**104.2%**

The most significant change in our recovery of full economic costs (FEC) is the decrease in recovery of FEC on Publicly Funded Teaching, which decreased to 95.7% from 105.0% in 2020/21. This is a result of a number of factors: the removal of the London weighting element of the OfS teaching grant; the impact of inflation on our cost base; costs associated with increase to more typical campus based teaching post-pandemic; a 1.2% increase in the mix of students studying in London who are Publicly Funded students (Home UG's) whilst the home tuition fee income per student remains fixed.

Research

As in previous years, the TRAC return clearly shows how Research is subsidised by non-publicly funded teaching. This is a common pattern across the sector.

The recovery of research FEC decreased slightly to 62.1% in the year. This was expected, as the indirect element of our cost base increased year on year, particularly inflationary costs in utilities, which will be reflected in our indirect rate going forward.

Research Grants Overhead Rates

In addition to providing a fully costed income & expenditure for key activities, the other key outputs, which have a direct financial impact on the university, are the charge-out rates for indirect costs and estates, which are included in UKRI research grant applications.

The rates generated in the 2021/22 return will be used for research grant applications from 1 March 2023 onwards but are unlikely to be reflected in income until 2024 due to the time taken for awards to be made and then activated. Income recognised in any year, will include grants resulting from applications of a number of previous years.

The table below shows the indirect, estates and laboratory technician charge out rates for QMUL in 2021/22.

Charge-out rates for research (indexed year 1 rate) Source: Section D	2018-19	2019-20	2020-21	2021-22	% difference 2018-19 to 2019-20	% difference 2019-20 to 2020-21	% difference 2020-21 to 2021-22
Indirect	52,579	61,412	63,548	68,193	16.8%	3.5%	7.3%
Estates non-laboratory	4,457	4,945	5,522	7,187	10.9%	11.7%	30.2%
Estates laboratory	12,535	15,000	16,296	20,397	19.7%	8.6%	25.2%
Indirect and Estates non-laboratory combined	**57,036**	**66,357**	**69,070**	**75,380**	**16.3%**	**4.1%**	**9.1%**
Indirect and Estates laboratory combined	**65,114**	**76,412**	**79,844**	**88,590**	**17.4%**	**4.5%**	**11.0%**

Process and Governance

A requirement of the TRAC methodology is for a TRAC oversight group. Membership and the terms of reference for this group will be reviewed during the 2nd quarter of 2023, with the updated membership and terms of reference used from that point. The group will be chaired by the Chief Financial Officer.

One of the tasks of the group will be to agree a rolling programme of review of key assumptions and parameters. In line with the guidance, we will be reviewing our estates data (which analyses our estate by room, use and level of servicing) in advance of the 2022/23 return as this data is now three years old.