

## Annex A

### The annual TRAC return: guidance on the allocation of income

Issued by HEFCE for reporting from academic year 2004-05 onwards  
May 2005

1. This document sets out guidance on the methods that **should** be used to allocate income across the Transparent Approach to Costing (TRAC) activity categories. TRAC guidance<sup>1</sup> has previously covered the allocation and reporting of costs. Income **should** now be allocated to the five TRAC activity categories and reported to the HE funding bodies in the annual TRAC return. (The word **should** in bold text indicates mandatory guidance which needs to be met by institutions.)
2. The annual TRAC return will now include the data shown on Figure 1.
3. Costs, and the analysis of the TRAC adjustments, will continue to be reported as currently. Costs are allocated to each of five activity categories: Publicly Funded Teaching (PFT), Non-publicly Funded Teaching (NPFT), Publicly Funded Research (PFR), Non-publicly Funded Research (NPFR), and Other (O).
4. Income is now also to be reported against each of the five activity categories; leading to the calculation of a surplus/deficit on each activity.
5. The methods used for allocating income are designed to produce a fair and reasonable representation of the real financial outcome of each activity, in a way that provides useful data to all stakeholders. However, in order to do this, it is necessary to report some non-publicly funded income against the publicly-funded activity categories (for example, some tuition fees). Therefore a further analysis of income **should** be provided on the annual TRAC return which will give a breakdown of income on publicly funded activity between publicly funded sources and non-publicly funded sources.
6. This additional data on income is to be first reported on 2004-05 data, with the return due by 31 January 2006.
7. The income data will be published along with the TRAC cost data, at a sector level for each country, every year. Data for individual institutions will not be published.
8. An update to this guidance will be issued by October each year, to reflect changes in income (such as grants from the funding bodies).
9. It should be noted that this guidance on the allocation of income is different from the guidance used in previous TRAC benchmarking, including the quality assurance process carried out in 2004. That was an informal process and did not have the level of detailed guidance given here. This guidance is mandatory.

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<sup>1</sup> Transparent Approach to Costing, Volumes I to III, issued July 2000 to February 2004 by the Joint Costing and Pricing Steering Group. <http://www.jcpsg.ac.uk/transpar/manual/index.htm>

## Background and purpose

10. The report of the Financial Reporting and Activity Costing Group<sup>2</sup> recommended that the funding councils should consider expanding the annual Transparency Review reporting return to include both income and full costs across the five activity categories for TRAC reporting. This recommendation was accepted.

11. The purpose of reporting income is to provide information on financial performance on a basis that informs stakeholders and other interested parties; with the aim of helping to:

- influence funding policy
- satisfy accountability for public funds
- monitor the financial sustainability of activities.

## The principles

12. The methods were designed to give as fair a reflection as possible of the purpose for which the income was provided. However, subject to any funding condition surrounding a particular type of income, it is an internal matter for institutions as to how the income is actually used.

13. The main principles applied to the design of the methods were:

- fair and reasonable representation of the real financial outcome of each activity
- useful to funding bodies and to the sector
- light-touch.

14. The following TRAC principles were also adhered to:

- materiality
- practical/pragmatic
- no complex analysis or investigation
- avoiding misinterpretation
- building on existing work
- consistency
- can be developed over time
- robustness.

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

- i. The purpose of the funding (what was it provided for, irrespective of how it might actually have been employed by the institution); or
- ii. What it was used for (ie where the costs are being allocated); and
- iii. The source of the funds – the type of organisation providing the income (which dictates NPF or PF).

16. Method (i) generally takes precedence over (ii).

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<sup>2</sup> Review of Financial Reporting and Activity Costing, HEFCE Circular letter 26/2003 dated 26 November 2003.

17. Where (iii) is in conflict with (i) or (ii) – for example, tuition fees on PFT students provided from a NPF source such as parents – then the allocation is made on the basis of (i) or (ii) as appropriate, but with a supplementary analysis showing income from NPF sources that has been allocated to PFT or PFR.

### **Allocation of different income types**

18. Research income is to be allocated to each of the seven research sponsor types before it is allocated to PFR or NPFR. These are defined under TRAC and are: institution own-funded, Research Councils, OGDs (other UK government departments), EU, PGRs (training and supervision of postgraduate research students), UK-based charities, and Other (EU government bodies/UK industry/other overseas).

19. The excel spreadsheet 'Income allocation: further detailed guidance' forms part of this guidance. 'Table 5 allocation' sets out how each type of income **should** be allocated: this is mandatory and must be followed. It is based on the headings and descriptions given in the HESA Finance Record Coding Manual (2003-04). The second workbook 'FC grants' gives more detail on the allocation of funding council recurrent grants and special funding. This spreadsheet is for internal use only and will not form part of the return to the funding councils.