

# TRAC and FULL ECONOMIC COSTING

Presentation to: **Annual Conference**  
**Professors and Heads of**  
**Electrical Engineering, and**  
**Mechanical & Manufacturing Engineering**

**12<sup>th</sup> January 2011**

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## Wakeham Review



Financial Sustainability and Efficiency  
in Full Economic Costing of Research  
in UK Higher Education Institutions

Report of RCUK/UUK Task Group  
Chair: Sir William Wakeham

June 2010

## **Wakeham Review**

### **UUK/RCUK Task Group:**

**Sir William Wakeham – Chair**

**Roger Louth – Head Policy & Resources; Science & Research Group; Dept Business, Innovation & Skills**

**Steve Egan – Director (Finance & Corporate Resources) and Deputy Chief Executive, HEFCE**

**Stuart Ward – Director Corporate Services, EPSRC**

**Gill Ball – Director of Finance, University of Birmingham**

**Andy Walker – Vice-Principal, Heriot-Watt University**

**Peter Hazell – Chairman, Argent Group and member of NERC Council**

**Malcolm Skingle – Director, Academic Liaison, Worldwide Business Development, GlaxoSmithKline**

**Simon Denegri – Chief Executive, Association of Medical Research Charities**

### **Consider:**

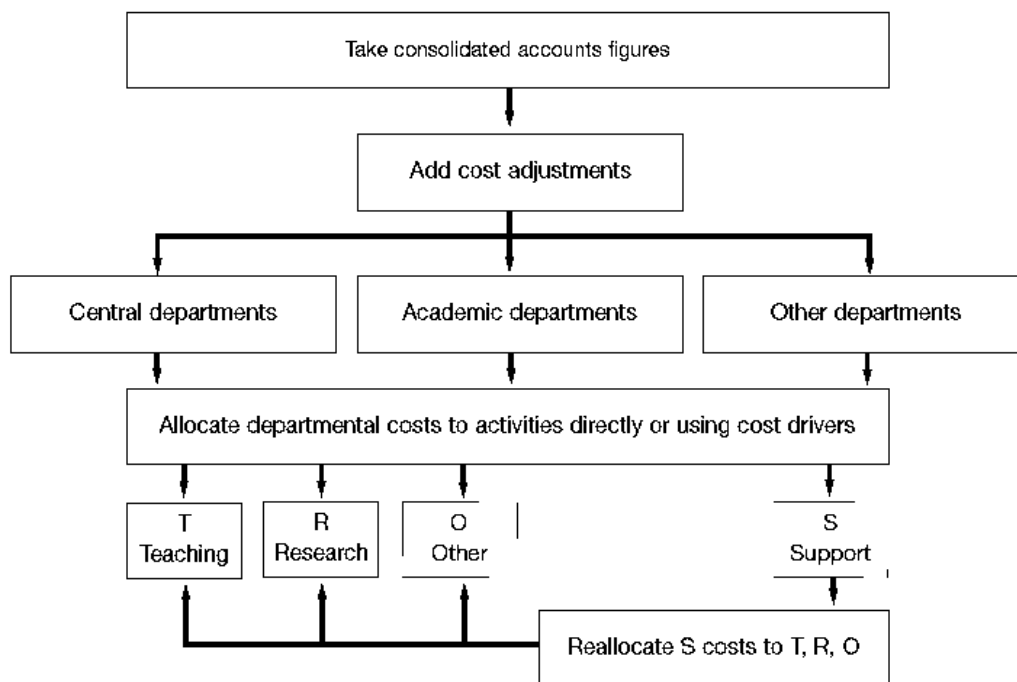
- **How to enhance and incentivise the optimal and effective use of resources provided through fEC within HEIs**
  - **The provision of information and metrics to demonstrate how fEC funding is being used and how it contributes to the financial sustainability of the whole sector in order to provide reassurance to government and research funders**
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## **TRAC – Transparent Approach to Costing**

**TRAC was introduced across all universities in 1999**

**It is an Activity-Based Costing system designed to provide universities and funding bodies with a breakdown of costs (and income)**

## TRAC – Transparent Approach to Costing



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## TRAC – Transparent Approach to Costing

### Economic Cost Adjustments

“Full economic costs (fEC)” refers to inclusion of two adjustments:

#### Infrastructure Adjustment

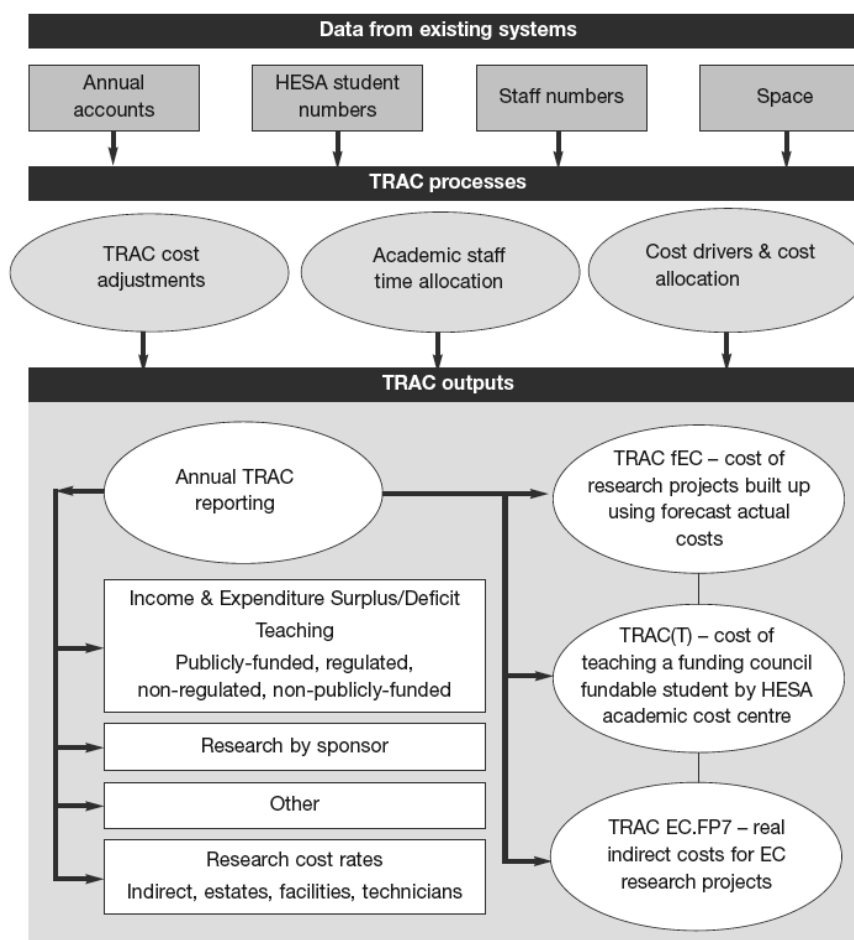
- covers the difference between historic-cost depreciation of capital assets and their current replacement costs

#### Return on Finance and Investment

- an element to ensure a small surplus of the scale required for necessary continuing investment

## TRAC – Transparent Approach to Costing

### TRAC processes & outputs



## TRAC – Transparent Approach to Costing

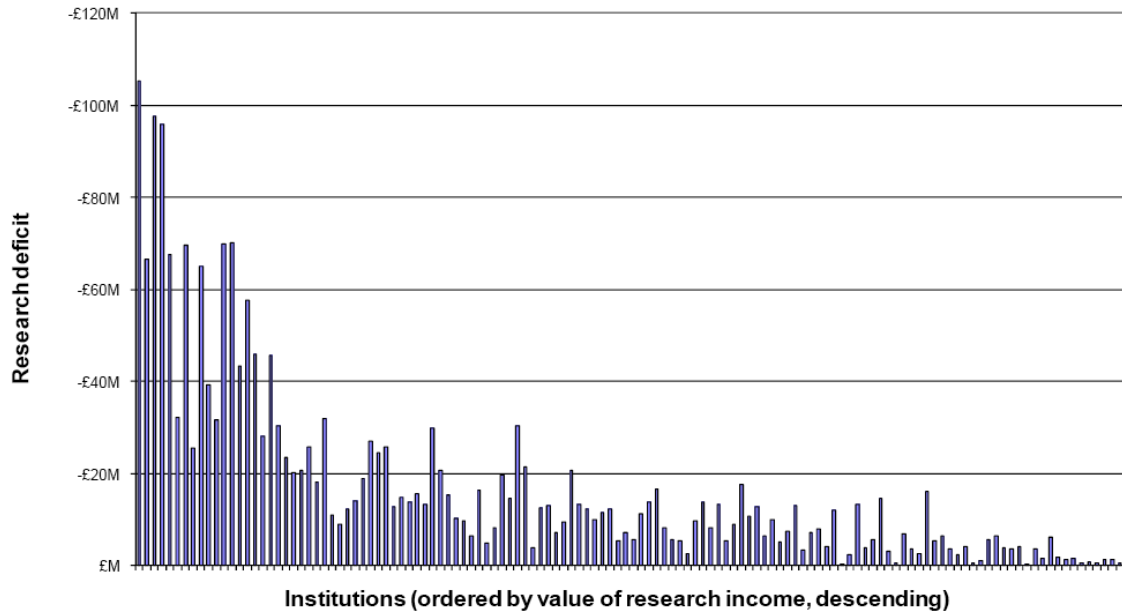
Every university across the UK submits its Annual TRAC Return at the end of January each year to the Funding Councils

### TRAC data for 2007-08 for all UK Higher Education Institutes

£ million	Publicly Funded Teaching	Non-publicly Funded Teaching	Research	Other	Total
Income	10,033	2,113	6,438	4,367	22,952
Costs	10,304	1,607	8,453	3,864	24,228
Surplus/(deficit)	(271)	506	(2,015)	503	(1,276)
Surplus/(deficit) as % of income	(2.7%)	24.0%	(31.3%)	11.5%	(5.6%)

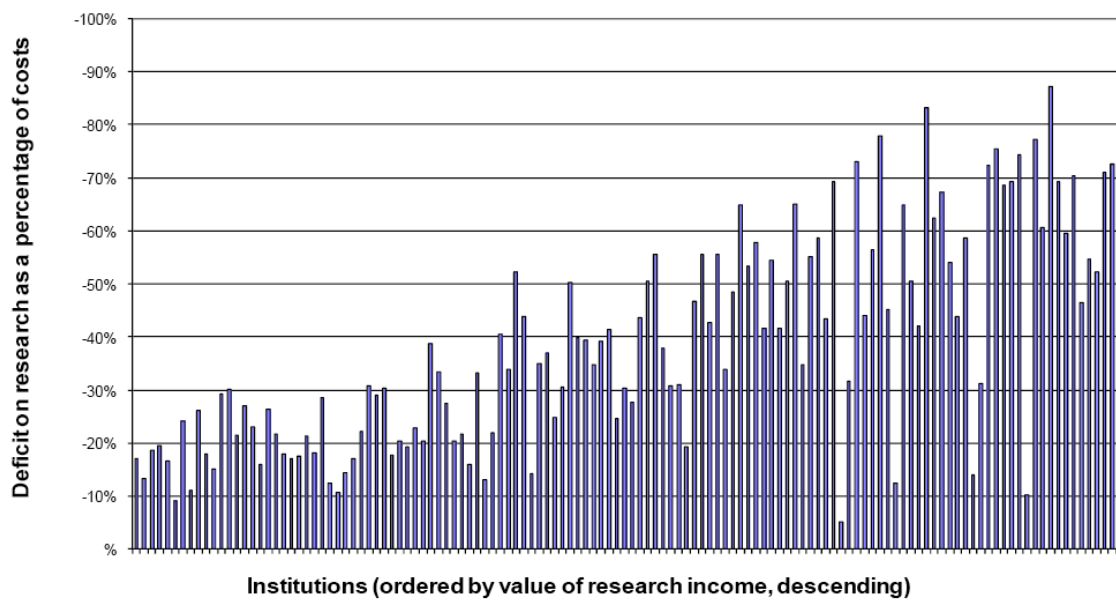
## Wakeham Review

Figure 3: Deficit on research (£M), 2008-09 data



## Wakeham Review

Figure 4: Deficit on research as a percentage of total research costs, 2008-09 data



## **Wakeham Review**

### **High level TRAC trends:**

- a) **The academic staff effort devoted to research (the TRAC direct research FTE) has fallen by approximately 5% from 23,480 in 2006-07 to 22,350 in 2008-09.**
  - b) **The numbers of dedicated research staff (RAs/Fellows) and of Postgraduate Research students (PGRs) have both increased by approximately 5%.**
  - c) **The expenditure on estates allocated to research increased by approximately 17% over this period.**
  - d) **Indirect expenditure allocated to research increased by approximately 12% over this period.**
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## **Wakeham Review**

### **Full Economic Costing (fEC) funding of research – sustainability & efficiency**

#### **Report June 2010**

##### **Selected Recommendations:**

- **“HEI governing bodies should take a more proactive role in assuring themselves that there is an institution-wide strategy for financial sustainability and that the HEI has developed measures that assess the extent to which this is being achieved.”**
- **“The Funding Councils should each produce an annual summary report for the Funders Forum outlining headline information on the overall financial sustainability of institutions and specific information on the sustainability of the research base.”**
- **“The provision for Indirect Costs (in real terms) on grants awarded by the Research Councils should be reduced by an annual 5% efficiency factor.”**
- **“Institutions should provide to their Finance, or appropriate governance Board/Committee, an analysis of the year-on-year changes in their annual TRAC returns (including the fEC rates) as part of their compliance.”**

## **Wakeham Review**

### **- conclusions**

“We estimate that the measures set out above will reduce the cost of research as funded by the Research Councils by about £5 million a year in 2011-12 growing to some £40 million by 2013-14.

There are also likely to be reductions in the costs of other funders of research in HEIs which might amount to a further £40 million.

We believe that, in the current financial climate, HEIs can and should be expected to make every effort to deliver these economies.”

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## **Spending Review 2010**

**Department of Business, Innovation and Skills:**

**“2.50 Adopting the Wakeham Review recommendations, and applying them across research council institutes and universities, will deliver efficiencies worth £162 million a year by 2012-15”**

## **Wakeham Review**

### **Impact**

**HE sector (with the Research Councils) initiated the review**

- seeking ways by which efficiency may be improved, while maintaining financial sustainability**

**The sector demonstrated that it takes these issues seriously and is willing to work towards improving value for money within its government-funded research programmes.**

**As a result, the report appears to have contributed towards the favourable decision made in the Spending Review:**

- to maintain the science budget in cash terms**

**Critical to this outcome has been the existence of the TRAC processes as a basis by which universities demonstrate an understanding of their costs.**

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