

## Transparent Approach to Costing

### Annual TRAC 2018-19

TRAC data is collected annually from Higher Education Institutions (HEIs). 2018-19 is the fourth year in which TRAC reporting has been prepared under the FE/HE Statement of Recommended Practice (SORP), applying Financial Reporting Standard 102 (FRS 102). This standard introduced some significant changes in the way financial performance is reported, making comparison difficult between the latest results and historical TRAC data prior to 2015-16 because of changes to the timing when some income is recognised in the accounts. The adoption of FRS 102 has led to greater volatility in reported surpluses or deficits and so it will be necessary to take a multi-year view when assessing TRAC results. It is important to look at trends over a four/five year period rather than one year's results in isolation. Data for 2015-16 therefore formed the baseline for the start of a new time series of TRAC data. (See Table 1).

Table 1	2015/16		2016/17		2017/18		2018/19	
	Scotland	UK	Scotland	UK	Scotland	UK	Scotland	UK
<b>Sustainability Gap</b>	£106m	£217m	£54m	£1,179m	£173m	£1,730m	£96m	£1,677m
<b>Full Economic Cost Recovery</b>								
PFT	93.1%	101.4%	92.4%	99.3%	91.1%	97.7%	89.5%	96.2%
NPFT	135%	141.2%	138.2%	137.1%	140.4%	139.8%	143.4%	143.4%
<b>Teaching Overall</b>	102.7%	109.5%	103.4%	107.2%	103.3%	106.5%	103.2%	106.5%

The TRAC sustainability gap<sup>1</sup> reported for the Scottish HE sector in 2018-19 was £96 million or 2.3% of total income (2017-18: £173 million, 4.5% of income). For the UK sector overall, the sustainability gap was £1,677 million or 4.1% of income (2017-18: £1,730 million, 4.5% of income).

### Income and full economic costs by activity 2018-19<sup>2</sup>

Table 2 shows a detailed breakdown of the TRAC figures across all activities with the UK recovery rate shown as a comparator. The 2018-19 outturns are consistent with those of previous years with Total Teaching recovery of FEC again being in excess of 100%. Scotland performs well in "Other" activity (non-commercial and income-generating) and has, for several years, out-performed the rest of the UK in relation to FEC recovery in research.

<sup>1</sup> Total Expenditure + Margin for Sustainability and Investment (MSI) minus Total Income

<sup>2</sup> For the purposes of TRAC, income and expenditure totals were adjusted to exclude items not representative of that year's activities, such as pension provisions.

Table 2

## TRAC income and full economic costs by activity for Scottish HEIs 2018-19

£'000	Teaching Publicly Funded	Teaching Non Publicly Funded	Teaching Total	Research	Other (Income generating)	Other (Non-commercial)	Total Other	Overall Total
Income	1,339,784	734,920	2,074,704	1,374,266	572,838	111,172	684,010	4,132,980
TRAC Full Economic Costs (FEC)	1,496,988	512,431	2,009,420	1,714,716	472,467	31,981	504,449	4,228,584
Surplus/(Deficit)	(157,204)	222,489	65,284	(340,450)	100,371	79,190	179,561	(95,604)
Surplus/(Deficit) as % of income	(11.7%)	30.3%	3.1%	(24.8%)	17.5%	71.2%	26.3%	(2.3%)
Recovery of FEC	89.5%	143.4%	103.2%	80.1%	121.2%	347.6%	135.6%	97.7%
Recovery of FEC (UK)	96.2%	143.4%	106.5%	70.6%	104.3%	343.5%	120.0%	96.1%

**Definitions:**

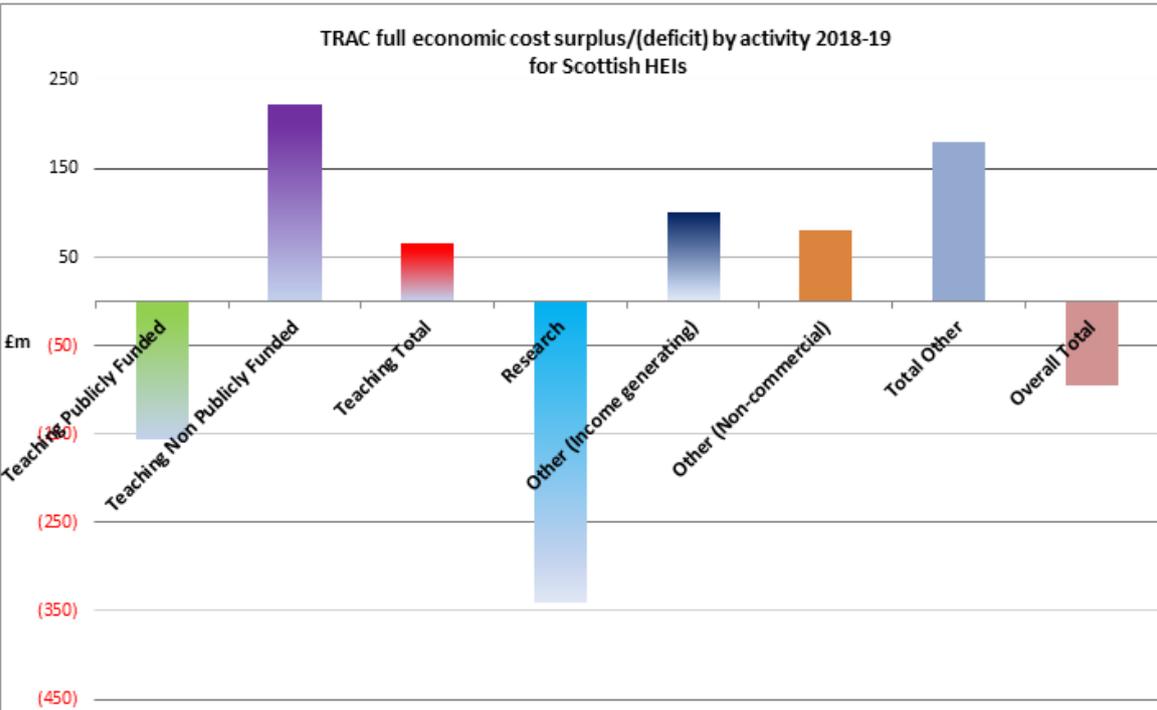
**Publicly funded teaching:** Teaching of higher and further education courses to Home and European (EU) students which is funded by SFC, Skills Development Scotland (SDS) or by the NHS. This includes Rest of UK student fees.

**Non-publicly funded teaching:** Teaching of students from outside the UK and EU; self-funded Home and EU students and other commissioned courses (such as employer specific 'closed' courses).

**Research:** All research activity (but not scholarship and staff development) commissioned and funded by external sponsors, or the institution's own-funded research activity. Public sponsors of research include UK Research Councils and Other Government Departments. Other sponsors include UK charities, the EU, overseas governments, overseas charities and research carried out for commercial or industrial sponsors.

**Other:** 'Other income' has been split between 'Other (Income generating)' – (commercial activities such as catering and conferences, commercially let facilities and residences; activities carried out through subsidiary companies such as publishing or commercial consultancy; knowledge transfer activity), and 'Other (Non-commercial)' – (non-commercial activity such as investments and donations or endowments; and, for HEIs with medical and dental schools, services provided to the NHS).

The FEC surplus /(deficit) position by activity for Scotland’s HEIs for 2018-19 is also shown in graphical format below.



In considering the sector recovery of FEC on teaching, there will be variation in recovery rates between institutions. The spread of FEC recovery is shown in the table below.

**Table 3: Number of Scottish HEIs falling in FEC recovery bands**

% FEC recovery	PFT	NPFT	Total activity (inc teaching, research and other)
	No. of institutions	No. of institutions	No. of institutions
>100%	3	12	5
90% - 100%	8	2	9
<90%	7	4	4

**Margin for Sustainability and Investment**

Table 4 shows the build-up of full economic costs with the inclusion of a “Margin for Sustainability and Adjustment” (MSI). 2018-19 is the third year this adjustment has been used, replacing two previous adjustments reflecting the costs of maintaining infrastructure and the return required for finance and investment. The MSI was developed to reflect more closely an institution’s own circumstances and to be more forward looking by including forecast information in the calculation. The range of MSI at Scottish institutions is 0.6% to 9.8%. The MSI adds £241.7 million to the reported costs representing 6.1% of expenditure (2017-18: £243.3 million, 6.5% of expenditure).

It is important to note that the MSI adjustment calculates the surplus an institution needs to achieve in order to reinvest and achieve the growth ambitions laid out in forecasts, in addition to maintaining sustainability. The rationale and calculation of this adjustment is currently the focus of a detailed review being undertaken by a major accountancy firm as was planned when it was introduced.

**Table 4: Scottish Institutional Results 2018-19**  
**£'000s**

	<b>2018-19 Total £000s</b>	<b>% of income</b>
Total income per audited financial statements for 2018-19 (a)	4,132,980	
Total expenditure per audited financial statements for 2018-19 (b)	3,986,858	
Operating surplus/(deficit) per financial statements	<b>146,122</b>	<b>3.54%</b>
Margin for Sustainability and Investment (c)	<b>241,726</b>	<b>5.85%</b>
Full Economic Cost per TRAC (b) + (c)	<b>4,228,584</b>	
Surplus/(deficit) per TRAC	<b>(95,604)</b>	<b>(2.3%)</b>

### Research income and costs by sponsor type

Table 5 analyses the recovery of Full Economic Cost by research sponsor type. Again, these figures are subject to volatility in the surplus/deficit results introduced by FRS 102. Overall, the recovery of FEC on research is 80.1% (2017-18: 77.8%). The comparative UK recovery figure is 70.6% (2017-18: 70%).

### UK Analysis

The UK sector tables for TRAC income and full economic cost by activity can be found on the Office for Students website at the following link:

<https://www.officeforstudents.org.uk/publications/annual-trac-2018-19/>

**Table 5**  
**Research income and costs by sponsor type Scottish HEIs 2018-19**  
**£'000s**

	Recurrent research funding from the funding councils	Institution own funded	Postgraduate research	Research Councils	Other government departments	European Community	UK Charities	Industry	Total
Income	277,767	55,038	144,509	313,897	145,275	105,043	187,830	144,907	<b>1,374,266</b>
TRAC full economic costs (FEC)		210,186	282,649	406,619	181,008	148,318	290,754	195,181	<b>1,714,716</b>
Surplus/(deficit)	<b>277,767</b>	<b>(155,148)</b>	<b>(138,141)</b>	<b>(92,722)</b>	<b>(35,733)</b>	<b>(43,275)</b>	<b>(102,924)</b>	<b>(50,275)</b>	<b>(340,450)</b>
Surplus/(deficit) as % of income		<b>(281.9%)</b>	<b>(95.6%)</b>	<b>(29.5%)</b>	<b>(24.6%)</b>	<b>(41.2%)</b>	<b>(54.8%)</b>	<b>(34.7%)</b>	<b>(24.8%)</b>
Recovery of FEC		<b>26.2%</b>	<b>51.1%</b>	<b>77.2%</b>	<b>80.3%</b>	<b>70.8%</b>	<b>64.6%</b>	<b>74.2%</b>	<b>80.1%</b>