

Transparent Approach to Costing

Annual TRAC 2019-20

TRAC data is collected annually from Higher Education Institutions (HEIs). 2019-20 is the fifth 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 | | 2019/20 | |
|-----------------------------|----------|--------|----------|---------|----------|---------|----------|---------|----------|---------|
| | Scotland | UK | Scotland | UK | Scotland | UK | Scotland | UK | Scotland | UK |
| Sustainability Gap | £106m | £217m | £54m | £1,179m | £173m | £1,730m | £96m | £1,677m | £201m | £3,193m |
| Full Economic Cost Recovery | | | | | | | | | | |
| PFT | 93.1% | 101.4% | 92.4% | 99.3% | 91.1% | 97.7% | 89.5% | 96.2% | 88.8% | 96.1% |
| NPFT | 135% | 141.2% | 138.2% | 137.1% | 140.4% | 139.8% | 143.4% | 143.4% | 148.5% | 146.6% |
| Teaching Overall | 102.7% | 109.5% | 103.4% | 107.2% | 103.3% | 106.5% | 103.2% | 106.5% | 105.1% | 107.9% |

The TRAC sustainability gap¹ reported for the Scottish HE sector in 2019-20 was £201 million or 4.9% of total income (2018-19: £96 million, 2.3% of income). For the UK sector overall, the sustainability gap was £3,193 million or 7.8% of income (2018-19: £1,677 million, 4.1% of income). The deterioration since 2018-19 can probably be ascribed to the impacts of the pandemic and lockdown.

Income and full economic costs by activity 2019-20²

Table 2 shows a detailed breakdown of the TRAC figures across all activities with the UK recovery rate shown as a comparator. The 2019-20 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.

¹ Total Expenditure + Margin for Sustainability and Investment (MSI) minus Total Income

² 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 2019-20**

| £'000s | Teaching Publicly Funded | Teaching Non Publicly Funded | Teaching Total | Research | Other (income generating) | Other (Non-commercial) | Total Other | Overall Total |
|---------------------------------------|--------------------------|------------------------------|----------------|-----------------|---------------------------|------------------------|-------------|-----------------|
| Income | 1,345,712 | 843,479 | 2,189,191 | 1,315,120 | 537,566 | 72,383 | 609,949 | 4,114,260 |
| TRAC Full Economic Costs (FEC) | 1,515,272 | 568,174 | 2,083,446 | 1,693,691 | 479,691 | 58,606 | 538,297 | 4,315,434 |
| Surplus/Deficit | -169,560 | 275,305 | 105,745 | -378,571 | 57,875 | 13,777 | 71,652 | -201,174 |
| Surplus Deficit as % of income | -12.6% | 32.6% | 4.8% | -28.8% | 10.8% | 19.0% | 11.7% | -4.9% |
| Recovery of FEC | 88.8% | 148.5% | 105.1% | 77.6% | 112.1% | 123.5% | 113.3% | 95.3% |
| Recovery of FEC (UK) | 96.1% | 146.6% | 107.9% | 69.6% | 88.4% | 168.7% | 96.2% | 92.8% |

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.

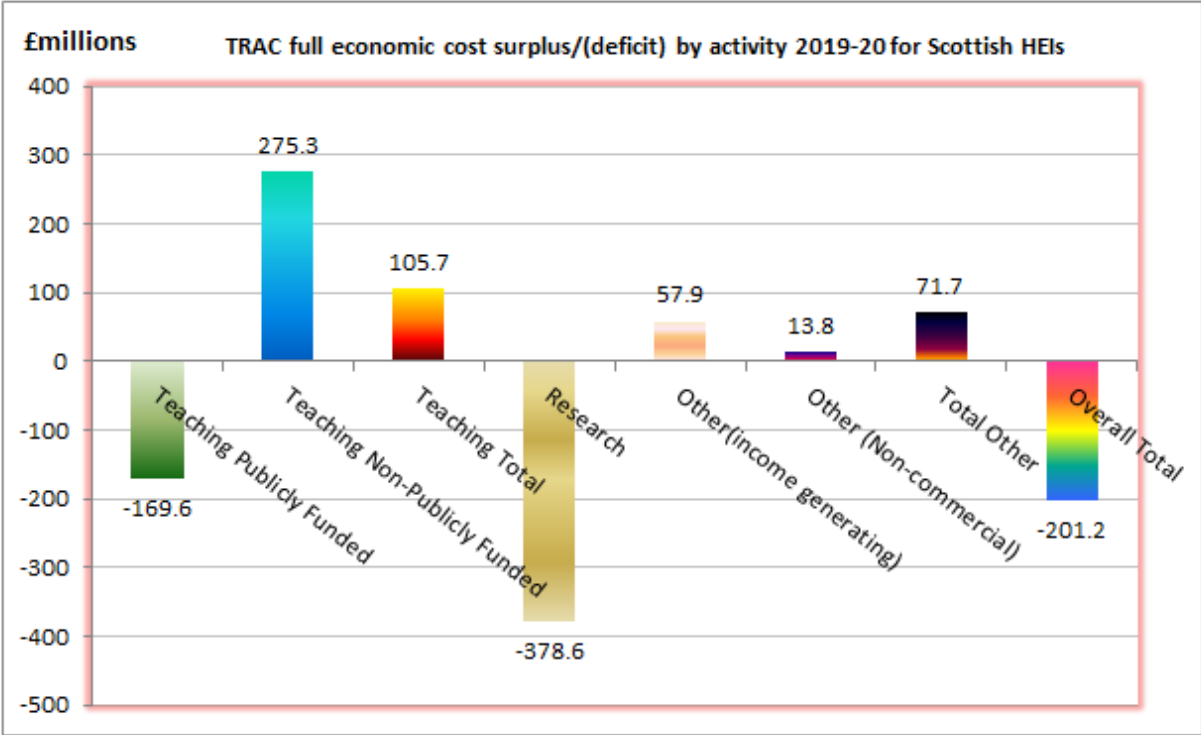
Non-publicly funded teaching: Teaching of students from outside the UK and EU; self-funded Home and EU students and other commissioned courses (such as employer specific 'closed' courses).

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 2019-20 is also shown in graphical format in figure 1 below.

Fig. 1



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 | 14 | 3 |
| 90% - 100% | 6 | 2 | 10 |
| <90% | 9 | 2 | 5 |

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). 2019-20 is the fourth 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% to 9.8%. The MSI adds £222.7 million to the reported costs

representing 5.41% of expenditure (2018-19: £241.7 million, 6.1% 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 has been the focus of a detailed review being undertaken by a major accountancy firm as was planned when it was introduced. Publication of the final report has been delayed pending a further report following a review of the whole TRAC process.

Table 4: Scottish Institutional Results 2019-20
£'000s

| | 2019-20 Total £000s | % of income |
|--|--------------------------------|--------------------|
| Total income per audited financial statements for 2019-20 (a) | 4,114,260 | |
| Total expenditure per audited financial statements for 2019-20 (b) | 4,092,760 | |
| Operating surplus/(deficit) per financial statements | 21,500 | 0.52% |
| Margin for Sustainability and Investment (c) | 222,674 | 5.41% |
| Full Economic Cost per TRAC (b) + (c) | 4,315,434 | |
| Surplus (deficit) per TRAC | -201,174 | -4.89% |

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 77.6% (2018-19: 80.1%). The comparative UK recovery figure is 69.6% (2018-19: 70.6%).

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-2019-20>

Table 5
Research income and costs by sponsor type: Scottish HEIs 2019-20
£'000s

| | Recurrent research funding from the funding council | Institution own funded | Postgraduate research | Research Councils | Other government departments | European Community | UK Charities | Industry | Totals |
|----------------------------------|---|---------------------------|--------------------------|----------------------|------------------------------------|-----------------------|--------------|----------|-----------|
| Income | 273,589 | 51,397 | 144,550 | 285,351 | 169,617 | 93,613 | 161,831 | 135,171 | 1,315,118 |
| TRAC full economic cost (FEC) | | 208,899 | 302,581 | 389,677 | 183,128 | 139,385 | 273,355 | 196,666 | 1,693,690 |
| Surplus/deficit | 273,589 | -157,503 | -158,031 | -104,326 | -13,510 | -45,772 | -111,524 | -61,495 | -378,572 |
| Surplus/deficit as a % of income | | -306.4% | -109.3% | -36.6% | -8.0% | -48.9% | -68.9% | -45.5% | -28.8% |
| Recovery of FEC | | 24.6% | 47.8% | 73.2% | 92.6% | 67.2% | 59.2% | 68.7% | 77.6% |