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Understanding universities' costs

What can TRAC tell us?

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1. Introduction

The need for better understanding of universities' costs

The financial challenges facing the UK higher education sector are widely known and frequently discussed in the media. One branch of the University and College Union has listed around 100 instances across the sector of plans being made or implemented in recent years to cut staff costs – for example, through redundancies and moving staff onto fractional contracts.[1] The Office for Students (OfS) reported that 41 per cent of providers in the sector were in deficit in 2023–24 and forecast that this number could nearly double by 2027–28.[2]

For policymakers and sector leaders who must manage these institutions towards stability, understanding the complexity of institutions' finances is essential. There are multiple income streams, both private and public, some prescriptive and some non-prescriptive, income which is stable and predictable, but also income which is precarious and volatile. Some of the highest surpluses come from the most unstable sources, such as educating overseas students, while activities which are more assured, such as educating home students, often do not cover their costs. This means there is a financial balancing act to be performed between maintaining secure revenue streams versus operating in areas that have higher margins but may not provide long-term security.

The key source of sector-wide data available for understanding the cost recovery of the sector's various activities is the Transparent Approach to Costing (TRAC) data. This paper explains and contextualises TRAC data, what it is telling us, and its value and limitations in helping policymakers and institutional leaders to manage higher education towards a more sustainable future.

In this first section, we set out the 'theoretical' model for funding the activities of the nation's higher education institutions – mainly research, teaching and knowledge exchange. Given the different models across the countries of the UK, we focus on England only, although the later points about TRAC and challenges with understanding costs and efficiencies apply more broadly.

We describe the different sources and purposes of public funding. We exclude provision to international students for now, and return to that activity later, since we aim to draw attention to the national resources going into higher education relative to the costs of its activities. That is, we imagine the national system as a self-contained model, where different national funding streams exist to support key national outputs, such as graduates, research and knowledge exchange. After this, we discuss the more complex realities of poor cost recovery for many activities, the role of TRAC in documenting and informing this costing, and the reliance on cross-subsidisation, predominantly from tuition fees charged to international students.

Education

The figures in the following sections come from the 2023/24 Higher Education Statistics Agency (HESA) income data,[3] the Research England funding allocations for 2023/24,[4] and a recent House of Commons Library report on higher education finances.[5]

In 2023/24, tuition fee income from UK-domiciled students amounted to £12.3bn to English higher education providers (all course levels). Around three-quarters of these fees were paid out by public sources, in particular undergraduate tuition fee loans from the Student Loans Company (SLC), which students repay after they have left their institution and earn above an income threshold. (There are also public postgraduate loans delivered by the SLC, but these are paid to the student rather than directly to the institution, and do not necessarily cover the full costs of a course.)

The OfS provides additional funding to support high-cost subjects and specific policy objectives like promoting equal opportunities, amounting to £1.4bn in 2024/25. The sector also receives around £230m for medical training via NHS contracts and around £130m from the Department for Education (DfE) for teacher training.

Research

There are two main funding streams into universities from UK Research and Innovation (UKRI), the UK's research funding body. First is the responsive-mode funding channelled mainly via the seven research councils, worth £2bn to the sector in 2023–24, providing open competitive funding for projects proposed by researchers.

The second funding stream from UKRI comes from Research England, the sector's research oversight body. This totals around £2.7bn. The main bulk of this is the £2bn of quality-related research (QR) funding, which in turn has five elements to it. Table 1 summarises the breakdown of the total £2.7bn of Research England funding, including a breakdown of the five elements of QR funding. As it shows, by far the greatest element is 'QR mainstream' (£1.3bn). This fund is allocated to institutions according to their past performance in the Research Excellence Framework (REF), the national assessment of higher education providers' research.

'QR research degree programme supervision' (£339m), 'QR charity support' (£219m) and 'QR business research element' (£114) are all allocated to providers based on their recent levels of these different types of research activity. Lastly, a smaller amount (£7m) supports national research libraries hosted by universities. Outside of QR funding, Research England also supports research that aligns with its own strategic priorities, amounting to £151m in 2023/24, as well as funding knowledge exchange (£328m) and capital funding (£254m).

Table 1 Research England funding into English higher education providers, 2023–24

Funding stream	£000,000s	
Research Funding (total)		**£2,132**
QR Funding (total)	**£1,981**	
QR Mainstream	£1,303	
QR Research degree programme supervision	£339	
QR Charity support	£219	
QR Business research element	£114	
QR National Research Libraries	£7	
Other strategic funding (non-QR)	**£151**	
Knowledge Exchange		**£328**
Capital funding		**£254**
TOTAL		**£2,714**

Source: Research England funding allocations 2023–24.

QR funding is particularly valuable for universities because they may use these funds flexibly to support research activity in any way they choose and not necessarily to support the type of activity associated with each QR element.

In addition to the above core funding streams, other significant streams of public funding currently going into universities include:

- Around £40m per year (UK-wide) from UKRI for Impact Acceleration Accounts.
- £49m in 2023–24 from Research England via the Regional Innovation Fund.
- Around £130m in 2023–24 by the National Academies, who receive funding from the Department for Science, Technology and Innovation (DSIT).

- £385m in 2023–24 in research training support grants from UKRI. These are funds that some research students (depending on their sponsor) can apply for to cover costs associated with their research or development, such as fieldwork, training and conference attendance.

What is the current financial position of the higher education sector?

Despite the various public revenue streams outlined above, higher education providers now rarely recover the full economic costs (fEC) incurred from their core activities of educating domestic students and undertaking research.

At one point, domestic tuition fees more than covered the costs of education in many courses. In 2018, Universities UK estimated that social science and humanities undergraduate courses cost on average £7,500 per year to provide, creating a per-student surplus for these courses, since most courses in England charged the maximum fee level of £9,000 (raised to £9,250 in 2017/18). The Augar Review described this as an 'overfunding of low cost subjects'.

Surpluses generated from lower-cost courses could, therefore, be used to cross-subsidise higher-cost subjects where the fees and teaching grants may not cover the full costs, as well as to cross-subsidise under-funded research activity. Prior to the increase to £9,535 for the year 2025/26, the tuition fee cap was raised only once since 2012, and frozen at £9,250 since 2017, meaning inflation has eroded its value. The £9,250 fee was calculated as being worth less than £6,000 in 2024/25, using constant 2012/13 prices.[6] This means that the current national model for funding universities' education, research and knowledge exchange activities requires additional revenue sources.

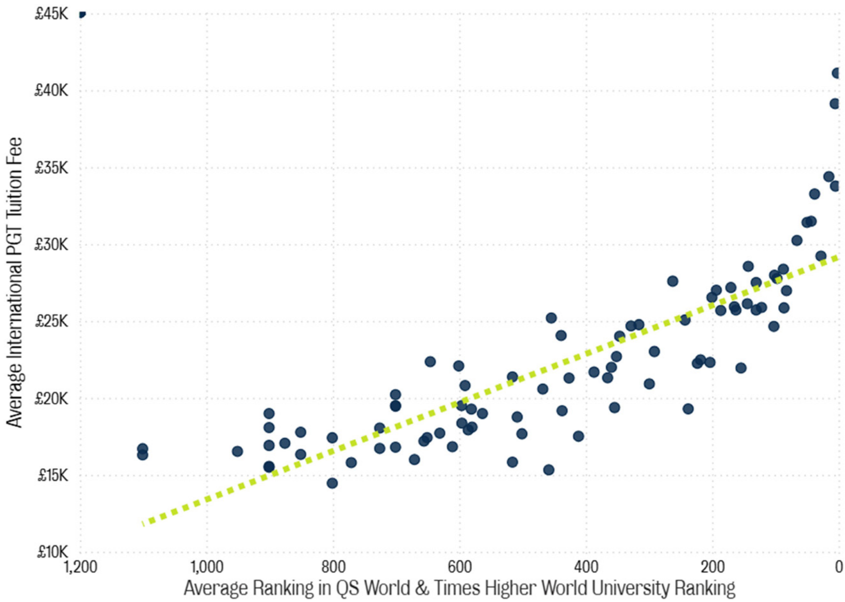
Universities generate other revenue streams not covered above, some of them significant. For example, nearly £1.9bn from residences operation (accommodation), £1.7bn from non-research services rendered to companies and public corporations (eg consultancy activities, and validating courses from other higher education providers), £337m from catering and conference operations, and £245m from intellectual property rights.

However, by far the main additional revenue stream is tuition fees from international students (primarily at postgraduate taught level). At the UK level, international fees were worth £12.1bn in 2023/24, amounting to 23 per cent of the sector's total income.[7] This is not far behind the £13.7bn income from UK students.[8] With this significant revenue stream, the sector as a whole has not (yet) reported a deficit in their financial accounts.

The latest OfS financial report states that, in 2023/24, English providers reported a surplus of £800 million, down from £1.3 billion the previous year.[9] Indeed, the higher education sector has been comparatively fortunate since the financial crash of 2008. The shift to a tuition fee-based funding model, the growth in domestic student numbers and the desirability of the country for international students meant that most universities came through a period of austerity, which severely impacted other public sectors, relatively unscathed. However, recent analysis funded by Universities UK explored three scenarios covering increasing costs and decreasing student demand and showed that even small divergences in any one of these factors relative to providers' forecasts – which many see as overly optimistic – could put the majority of the sector into deficit.[10]

In particular, dependence on international tuition fees to subsidise domestic teaching and research is risky, as this is proving to be a volatile and possibly structurally decreasing source of revenue, as well as opening universities up to criticism in the context of the policy aim to reduce net migration.[11] It is also a source of income that provides uneven benefits across the sector. Achieving a high ranking in international university league tables can significantly increase the teaching income earned by UK universities.[12] Figure 1 shows the strong correlation between universities' ranking on international league tables and the average tuition fee charged to international postgraduate students in 2025.

Figure 1 Correlation in overall rank in world league tables and postgraduate taught international fees for UK higher education providers



Note: the coverage is all UK HE providers with a ranking in both the QS World University Ranking 2025 and Times Higher World University Ranking 2025. The fee is the average course fee for PGT Overseas students in 2024/25. The correlation coefficient between the average ranking and the average fee is 0.84

This also provides one possible partial explanation as to why universities are willing to continue conducting research even at a loss, because loss-making research activity may boost league table rankings and attract more/higher-paying international students. This could also be seen as a signal that the interconnected revenue system in UK universities is 'working', in the sense that it provides a clear motivation for continuing excellence in research – but this motivation is likely to weaken if fee income from overseas students falls, either through changes in the market or UK policy on student visas.

The origins of the Transparent Approach to Costing (TRAC) methodology

Understanding of the income element of universities' financial situation is complicated by the lag in annual financial statements being made public, and by the increasing competitiveness and uncertainty around both domestic and international student recruitment at the start of every new academic year. But understanding costs is more complex still.

Higher education providers tend not to record or assign costs directly to specific activities as a matter of business as usual, and this is particularly true when it comes to the main areas of expenditure, ie staff and space. For some providers, the link between staff/space costs and specific activities are relatively clear – for instance, those with comprehensive academic workload models and space timetabling. However, even in such instances, these only cover some staff and space costs, and it is often not done at a granular level. As such, it might be known that teaching in a specific academic department covers its costs but not necessarily the margin/deficit generated by individual programmes or modules.

It was against this backdrop of needing better financial information that the Joint Costing and Pricing Steering Group (JCPSG) was established in 1997.[13] Its primary aim was that all higher education providers should have embedded costing and pricing processes that are integrated with their financial and academic decision-making. In its own words, the goal was 'a change of paradigm, from approaches based on income allocation to those based on the costing of outputs', and better understanding of 'how resources feed through into providing higher education deliverables'.[14]

There was also a political context to the creation of TRAC. In 1998, the Office for Science and Technology was tasked with leading a transparency review amid questions about the accountability and transparency of university finances. The Transparency Review Steering Group (TRSG) worked with and built upon the work of JCPSG 'to establish an approach to demonstrate the full costs of research and other publicly funded activities in higher education to improve the accountability for the use of public funds'.[15]

The key output from this JCPSG/TRSG activity, was the development of TRAC, an activity-based costing methodology introduced in 1999, which was designed to show the full economic costs of different activities within the UK higher education sector. Early TRAC processes played a valuable role in providing government with data about the sector, and the findings led to government commitments in 2004 for greater research funding support, including a plan to 'enable Research Councils to provide close to the full economic cost of their university-conducted research by early in the next decade'.[16]

The purpose of TRAC has evolved over time, and some of those changes have come and gone – such as TRAC for Teaching, or TRAC(T), which was initially suspended for the 2019–20 collections and then removed as a regulatory requirement in 2023,[17] and TRACT EC-FP7, a non-mandatory system developed for projects funded by the European Commission 7th Framework Programme.[18] Governing bodies and funders continue to use TRAC data to inform spending review advice and education funding decisions among devolved UK nations, and to serve as a basis for calculating charge-out rates for research funding.

2. What is TRAC and what does it tell us?

How TRAC works

At its core, the role of TRAC is to provide robust financial information to providers, governing bodies and funders about the costs and cost recovery of higher education providers' various activities.

The categorisation of activities used in TRAC is:

1. Teaching, split by:
    a. Publicly funded.
    b. Non-publicly funded.

2. Research, split by:
    a. Different types of research sponsor.
    b. The training and supervision of postgraduate research students.

3. Other, split by:
    a. Income-generating activities.
    b. Non-commercial activities.

As a methodology, it has sought to balance burden and benefit. It does not provide highly granular information on the precise costs and income associated with activities. Rather it takes published financial statements and, directly or indirectly, apportions costs to academic departments and activities.

Where possible, costs are directly allocated to appropriate TRAC categories and academic departments – for example, where a cost is only incurred as a result of undertaking a particular activity (say, a UKRI-funded research project) and can be wholly allocated to that activity. The remaining costs are indirectly allocated using a 'cost driver model'. For example, the cost associated with providing centralised student services may be apportioned to activities and academic departments based on the proportion of total student numbers that activity or department represents. The use of cost driver models allows for the overhead costs, such as central professional services, non-earmarked space and costs which are not itemised, including many utilities, to be apportioned to specific activities.

Because the costs of investment in infrastructure and future productive capacity are not necessarily fully reflected in an institution's financial statements, the TRAC methodology includes a 'margin for sustainability and investment' (MSI) – also sometimes referred to as the 'sustainability adjustment' – which is added to the costs reported. The MSI provides an institution-specific margin that is based on an average of past financial performance and forecast performance. This will reflect each institution's own financial strategy and is based on an agreed definition of the 'Earnings Before Interest, Taxation, Depreciation and Amortisation' (EBITDA). This adjustment is applied to the TRAC model to represent the fEC of delivering core institutional activities.[19] It is one of the more contentious elements of the TRAC process and it can lead to some confusion. For instance, the financial statements could show a surplus at the same time as the TRAC data shows a deficit, as the margin represented by MSI is treated as a cost.

Challenges with TRAC data

While TRAC is not the most sophisticated and detailed costing methodology, its standardisation and coverage make it a unique source of intelligence on the financial sustainability of the UK higher education sector. In 2021, the UK nations' sector regulators and funders collectively commissioned KPMG to undertake a review of TRAC. The review found that many institutions made use of TRAC information beyond merely completing the required TRAC return, and that 'a majority of institutions recognise the benefit of having a national TRAC dataset.[20] But before going into detail about what TRAC data actually tells us about university finances, it is important to acknowledge that TRAC is not without its shortcomings and detractors.

One issue preventing TRAC data from being as valuable as it might otherwise be is that, despite the standardisation of the TRAC return, there is scope for variability in how it is completed and used within different institutions. For example, institutions can use their discretion in deciding the most appropriate driver to assign different costs – for example, space usage, staff time apportionment or distribution of student numbers.

Another area of variance is the apportionment of academic pay costs. Where institutions have sufficiently comprehensive academic workload models, this information can be used to assign costs to TRAC categories. Alternatively, information is collected from individual academics about the time spent on different activities, and there are different approaches to this taken by different institutions. For example, some collect this data from all academic staff not directly charged to TRAC categories covering the whole academic year, conducted every three years. In others, it is an annual data collection where a representative sample is used. An example academic time form is included in the annex of this report.

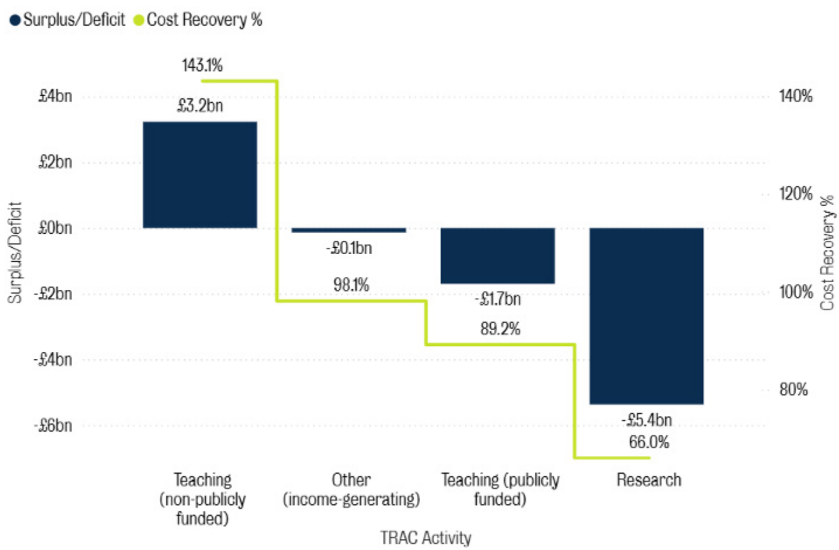
Another factor is the time lag of TRAC data. It is reported six months after year-end and the benchmark data is not available until three months after submission, limiting its use to universities' financial planning.

Given the significant period of time that institutions have been compiling TRAC returns, it might be assumed that there is a high level of understanding and clarity regarding its purpose and role, but this turns out not to be the case. KPMG's review of TRAC found that there was a general lack of understanding of TRAC among higher education staff – an issue we return to in the final section.

What does TRAC data tell us about the financial sustainability of the sector?

The annual TRAC summary makes for uncomfortable reading. In 2023/24, the most recent year for which there is data,[21] the sector's aggregate deficit stood at £2bn for institutions in England and Northern Ireland, which equated to a full economic cost recovery rate of 95.7 per cent. To clarify, this is for the activities included in the TRAC only, and includes the sustainability adjustment, unlike the OfS report referenced earlier, which is based on the university's full financial year statements. Figure 2 breaks this aggregate down by cost category.

Figure 2 Full economic cost by TRAC activity recovery 2023/24 (England and Northern Ireland)



What does TRAC tell us about publicly funded teaching?

The sector's deficit from publicly funded teaching of £1.7bn in 2023/24 represents an increase from the £1.4bn in 2022/23, and £0.9bn in 2021/22. It amounts to an aggregate fEC recovery rate of 89.2 per cent in 2023/24, down from 90.2 per cent the previous year, driven by the well-recognised challenge of fixed fees relative to rising costs.

Despite the steadily declining unit of resource since the introduction of £9,000 fees in 2012/13, English providers continue to enrol new UK-domiciled students on degree courses by the hundreds of thousands, peaking at 469,000 in 2022/23, before falling slightly to 465,000 in 2023/24, which still represents an increase of more than 10 per cent since 2019/20.[22]

It may seem curious that so many institutions sought to grow domestic student numbers even while the income received now fails to recover the costs of provision. Part of the reason lies in the nature of universities' cost bases, which tend to be fixed to a large degree, at least in the short to medium term, mostly in the form of permanent staff and estate costs. Therefore, while an activity as a whole may not cover its costs, the marginal income could be greater than the marginal expenditure. The thinking is that filling those 'empty seats at the back of the lecture theatre' doesn't drive up expenditure very much and the additional income can help improve an organisation's overall financial health.

Improving efficiency through growth, while it is not always described in those terms, has been a core feature of some providers' strategies. Tapping into economies of scale may be entirely sensible for an individual programme, faculty or institution – but at a macro level that has proven challenging and, in some cases, growth could be seen to have resulted in diseconomies of scale. This is in part because providers aren't necessarily able to accurately forecast changes in marginal expenditure, ie a decision might be made on the basis that it will result in income growth, but the impact on expenditure only becomes clear after the event. This can mean that the financial rationale is undermined, due to the subsequent need to employ additional staff and/or lease external space to accommodate this growth.

Less often reported than the stagnant tuition fee cap for domestic undergraduate courses are the effects of the reduction in recurrent teaching grants to support high-cost degrees. Teaching is classified as high-cost based on the price group it is assigned. The price group is either based on teaching being a specific type of course (for example, clinical years of Medicine and Dentistry courses), or more commonly, the subject codes that are assigned. But in many instances, this additional funding fails to reflect the significantly higher costs in delivering this teaching. Recurrent teaching funding provided by the OfS has increased at less than half the rate of inflation in the period of 2018/19 to 2024/25 and, in 2025/26, is even decreasing in cash terms. One further detrimental change for some institutions is the removal of the London weighting element of recurrent teaching grants.

The increase in the domestic undergraduate tuition fee cap of 3.1 per cent for 2025/26 was a below-inflation increase and, for many institutions, will be negated by higher costs resulting from the increase to employer national insurance contributions introduced in April 2025. Nor will the October 2025 announcement that tuition fees will increase in line with projected inflation fill the gap. Recent experience shows that inflation forecasts can be wildly inaccurate when unexpected global shocks occur.[23] And linking fees to inflation does nothing to help the erosion of the value of other funding streams, such as teaching grants. The announcement may slow down the increase in deficits from educating domestic students, but it will not reverse it.

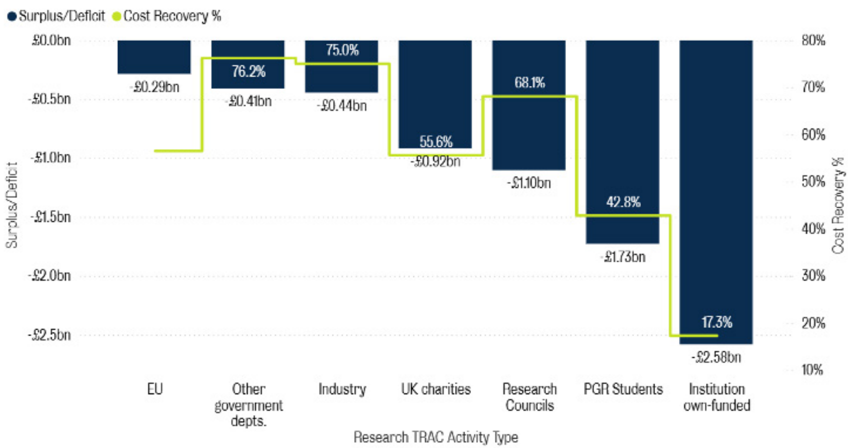
What does TRAC tell us about research?

Externally funded research

The TRAC data demonstrates the substantial deficit in research cost recovery. As with publicly funded teaching, cost recovery has worsened in 2023/24 relative to 2022/23, from 68.5 per cent down to 66 per cent, and with an increase in the annual deficit from £4.6bn to £5.4bn. The fact that universities make a direct financial loss on research is not surprising or new information. Indeed, the need to cross-subsidise research is hardwired into the UK higher education financial model.

As mentioned above, TRAC has a role, some would say its primary role, in the calculation of the fEC of research, with UKRI grants providing 80 per cent fEC and institutions agreeing to provide the balance for the project from other sources. The TRAC data shows a breakdown of cost recovery by research funder and in the training and supervision of postgraduate research students, as shown in Figure 3.

Figure 3 Research activity by sponsor type, full economic cost recovery 2023/24 (England and Northern Ireland)



Strikingly, there are no research funding types for which the full costs come close to being fully recovered. Even industry-sponsored research recovered only 75 per cent. And despite the UKRI funding model being predicated on covering 80 per cent fEC, the TRAC data for research councils showed average cost recovery of only 68 per cent. One reason for this is that the TRAC derived charge-out rates are historic, needing to reconcile with previously published financial accounts, but they are being used to calculate costs for future projects which may not commence for some time.

More generally, recent research funded by UKRI,[24] involving interviews with university chief financial officers, pro vice-chancellors for research, and directors of research, suggests the following as key factors causing under-recovery of the costs of funded research:

- Difficulty in accurately estimating costs of equipment and facilities, especially when needing to allocate costs to different activities that may make use of the same facilities (ie different research projects, or research and teaching).

- Under-costing staff, either simply underestimating time commitment or deliberately under-costing in order to appear more competitive to funders and – it is hoped – to increase chances of success.

- Inflation, not just related to staff costs but also consumables, equipment and energy.

- 'Hidden' costs associated with supporting and administering grants.

- Delays in starting and delivering projects.

While the study was focused on low cost recovery of UKRI projects specifically, these reasons are also likely to apply to other sponsor types.

Cost recovery of UK charity-sponsored research is only 56 per cent, one of the lowest levels of cost recovery of any activity. Research grants funded by charities do not provide for overheads, only the directly allocated costs and, in some cases, do this only partially (with, for example, salary caps applying for staff costs). While Research England allocates a QR charity support fund as part of its recurrent funding (see Table 1, above), the value of this has declined significantly, having increased by less than one per cent per year in cash terms over the past 15 years.[25] As of 2024/25, QR charity support is worth £219m to the sector, compared with a 2023/24 deficit from charity-sponsored research of over £900m.

Own-funded research and the use of quality-rated research (QR) funding

The lowest level of cost recovery for any TRAC activity is from institution own-funded research, with an average cost recovery of 17.3 per cent in 2023/24. This type of research is research work or projects that are not directed by an external sponsor. The reason the cost recovery level is not zero is because institutions use other non-prescribed funds to help support this activity. Institutions directly funding their own research is considered an important counterbalance to the instability and uncertainty around fixed-term grant-based funding. It also enables them to undertake research in new and emerging areas, which might be higher risk or underserved by external sponsors.

Table 2 is an excerpt from the TRAC report's table 'Research income and full economic costs by sponsor type'. The first row, 'Recurrent research grant from the Funding Councils/ Research England', shows an income of £2.1bn. This mainly refers to QR funding, explained earlier in this report. However, the corresponding cost column is blank. The reason for this is that, for the purposes of the TRAC calculation, this income stream is included in the calculation for the overall level of surplus/deficit of research activity, but not in the cost recovery calculation of any specific research or sponsor type.

Table 2 Research income and full economic costs by sponsor type, 2023/24 (higher education institutions in England and Northern Ireland)

Sponsor / activity type	TRAC income (£m)	TRAC full economic costs (£m)
Recurrent research grant from the Funding Councils / Research England	2,103	
Institution own-funded research	538	3,119
Training and supervision of postgraduate research students	1,291	3,019
Research Councils	2,351	3,454
Other government departments	1,309	1,715
EU	372	658
UK charities	1,149	2,068
Industry	1,329	1,773
Total research	10,440	15,807

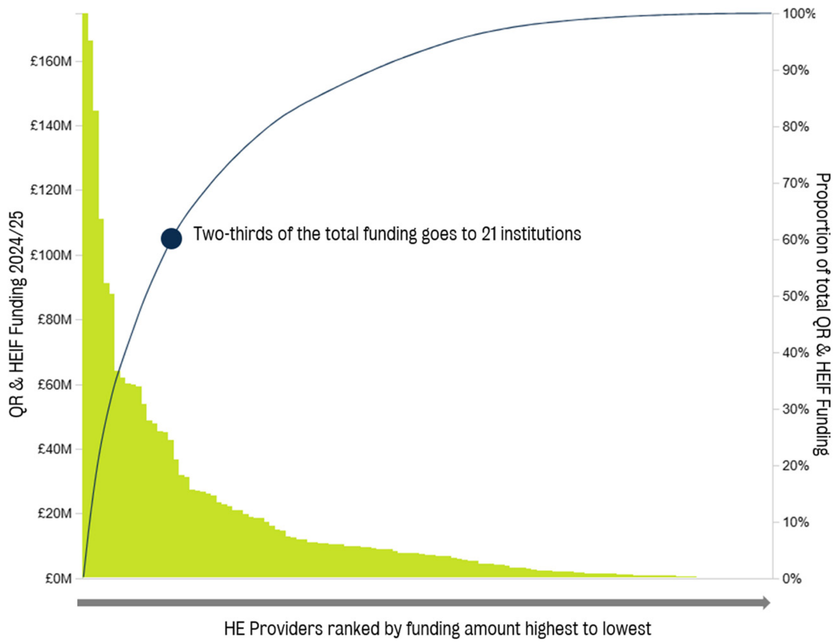
Source: OfS Annual TRAC 2023/24.

There is an argument that QR funding exists, or at least could be used, to plug the deficit in institutions' own-funded research. But there is no formal requirement for universities to use their QR funding in this way. QR funding, even those sub-elements that are allocated based on calculations of specific types of research activity, such as the charity support fund or the business research element (see Table 1 above), is not prescribed.

Universities are free to spend this recurrent funding as they choose, and it does not need to mirror the basis upon which Research England awarded it, provided it is spent on activities related to research and knowledge exchange. The stated purpose of QR funding is to ensure the research base has the capacity to undertake high-quality, innovative research and to contribute towards supporting research infrastructure.

Moreover, in any case, this is not a solution open to all universities, given both the declines in overall QR funding in real terms and the highly concentrated nature of it (see Figure 4). QR funding amounted to almost £2bn in 2024/25, but a report by Universities UK found that QR funding had reduced in real terms by 15 per cent in England since 2010, with steeper declines in the devolved administrations.[26] And this funding goes mainly to a small number of institutions, with 66 per cent of all QR and Higher Education Innovation Fund (HEIF) funding going to just 21 institutions.

Figure 4 QR and HEIF funding by institution pareto (2024/25 allocation)



Research training

The latest TRAC data puts the cost recovery for training and supervision of postgraduate research (PGR) students at just 43 per cent, resulting in a deficit of £1.7bn (ie similar to the deficit for all publicly funded teaching). However, a recent UKRI report cautions that 'interpreting TRAC data on PGR students is not straightforward due to the complexity of the TRAC methodology and the currently unknown extent to which universities utilise TRAC guidance when developing bids for funding to determine doctoral training costs'.[27] It is also important to bear in mind that PGR students often generate significant benefits to universities in ways that the TRAC cannot capture, including contributions to a university's teaching and research outputs.

3. Next steps for TRAC and financial sustainability

The value of TRAC and how to enhance it

TRAC remains one of our only sources of consistent financial information about the HE sector, and has proved its usefulness to the sector in the past. For example, early TRAC findings influenced the government's decision to increase the percentage of fEC that research councils would fund (see 'Origins of TRAC' section above). A 2010 report by the UK research councils and Universities UK led to the introduction of the sustainability adjustment (explained above). And, in 2025, UKRI introduced changes to improve cost recovery, streamline funding processes and ensure fairer access to resources.[28]

But in recent years there have been a number of studies into TRAC, each of which have identified a number of areas needing improvement. Key among these are the TRAC Development Group's 'Enhanced benchmarking' report (2016)[29] and KPMG's 'Review of TRAC' (2021), as well as two more recent studies conducted for UKRI which focus on cost recovery of research – 'Understanding low levels of fEC cost recovery on UKRI grants', by the Innovation & Research Caucus (2025),[30] and 'Understanding the fEC of doctoral training', by Pye Tait Consulting (2025).[31] The government's recent white paper on post-16 education and skills commits to working with the sector to improve the use of the TRAC.[32] We summarise some of the most persistent and pressing of these studies' evidence-based recommendations and reflect on the current opportunities for making progress on them.

Awareness and understanding of TRAC data

In their 2021 'Review of TRAC', KPMG noted the limited understanding and engagement with TRAC data among staff beyond those for whom it is directly related to their roles. The 2025 Innovation & Research Caucus report agreed with this, although found that there was a growing interest in understanding cost recovery at executive levels.

But the financial sustainability of the sector is an issue for all staff. Regulators, funders and institutional leaders have an interest in broadening understanding of TRAC and its uses more widely. Many academics remain unaware of how TRAC data is utilised and even though most interviewed for the above studies are supportive of TRAC overall, there remained a perception that it is unnecessarily burdensome, in part due to a lack of awareness of how TRAC is used by the sector bodies and policymakers beyond the calculation of charge-out rates.

The annual TRAC report published by OfS could be an opportunity to not only present data but to explain the value and purpose of TRAC – for instance, by presenting examples of its uses, including in informing the kinds of policy decision-making referenced above. As KPMG argued, more effective communication from regulatory bodies will in turn enable university leaders to communicate the importance of engaging with TRAC processes internally, increasing buy-in and potentially also the quality of data collected. One specific approach recommended is to increase academic involvement on institutional TRAC oversight boards.

But this point about broadening awareness and understanding among staff also applies to regulatory and policy bodies. Staff across sector bodies and relevant government departments should also have an understanding of TRAC and what it tells us. Annual TRAC reports have the potential to play a bigger role than they currently do in serving as a basis for discussions between universities and policy bodies and funders, not just at the level of formal consultations and policymaking, but more generally. This is only possible if there is a good level of understanding of the TRAC across all parties.

Data quality and usefulness

The above reports provide insights into some of the inconsistencies and imperfections around TRAC data collection. For example, variations in allocating staff time, scepticism among academics that what is reported is accurate, and variation in approaches to apportioning costs and in following TRAC guidance. More work needs to be done to understand the impact of variations in TRAC collection processes and, where possible, to mitigate this impact or reduce the variation.

There are also limitations in terms of the scope of data in the TRAC on its core activities of publicly funded teaching and research. For example, research is the largest source of deficit in the sector. But the TRAC report only breaks down cost recovery data into broad sponsor categories. More granular breakdowns, or additional types of breakdowns, could make the data much more useful to individual institutions in terms of benchmarking and understanding the scope for greater efficiencies. For example, cost recovery data could be broken down by research council, or sub-categories of industry and charity sponsor.

When TRAC(T) was dropped as a requirement, this decision was largely based on the lack of utility of the data – to both institutions and to sector bodies – relative to the burden. The TRAC Development Group and later KPMG identified that, to be useful to institutions, the data needed to be more granular, for example by subject, course level, student status (eg part-time or full-time), and type of cost (eg staff cost, equipment, estate). While the removal of TRAC(T) eradicates the burden, it does not solve this data gap.

Another limitation is the lack of broader contextual data that would be relevant to both sector policy and individual institutions in interpreting the benchmarking data. For example, information on how levels of cost recovery differ across institutions by region, size of estate, student and staff population, could all add to the quality and usefulness of benchmarking data. Improved benchmarking has long been seen as a key tool for efforts to identify opportunities for efficiencies. HESA were commissioned by the OfS's precursor to report on 'Benchmarking to improve efficiency' in 2010, and KPMG's more recent study concluded that 'benchmarking is vital to enable increased efficiency', since quality benchmarking information provides institutions with greater context and insight into the levels of relative spend on key activities. There is also a long-standing commitment to review and potentially expand the peer groups used in TRAC reporting, with OfS noting in the most recent TRAC report that this remains a future objective, although without offering a timeline.

KPMG also suggest performance metrics as relevant contextual information alongside TRAC data, for example REF and National Student Survey performance. This relates to a more general point about relevant performance metrics. OfS demand and use data to a greater extent than any regulator in the past, but while the data may fit their regulatory objectives, this does not necessarily improve the commons of data available to the sector in a way that will benefit institutions' insight into opportunities for efficiencies. Indeed, the sector has lost the performance indicators that HESA had generated for more than two decades until 2021, which provided detailed information on widening participation and non-continuation. While these are not directly related to finances, they could provide meaningful context to TRAC data for the purposes of benchmarking and universities' understanding of their own efficiency.

None of this takes responsibility away from universities. Despite recent evidence that interest and understanding of TRAC is becoming more widespread, it is not clear that this translates into better business models. We challenge all in management or oversight roles at universities to think of TRAC as far more than just a regulatory requirement that needs to be signed off. Engagement with internal data collected for TRAC should become a normal feature of internal accountability processes.

Conclusion: signs of hope from 2025 white paper?

For the higher education sector as a whole, every activity covered by TRAC makes a loss apart from non-publicly funded teaching, which helps to subsidise everything else. As such, it is not surprising that many institutions place particular importance on international student recruitment and are willing to spend large sums through marketing activities or third-party recruitment agents. This has been the recourse of many institutions, to deal with a declining unit of resource elsewhere and/or rising expenditure.

But this option is not available to all providers, whether due to a lack of demand for some subjects or because caps are externally imposed (as in the cases of Medicine and Dentistry). When the London weighting element was removed from the OfS teaching grant, the message to providers was that London institutions are highly attractive to overseas students, so they are well placed to compensate for the loss of income. While that may be true for some institutions, it is not for all – and it is inherently risky for the sector's overall financial sustainability to be so heavily dependent on non-publicly funded teaching, which is driven by a small number of large markets. Those concerns have been exacerbated by the recent decline in student visa application levels.

On 20 October, the government published its long-awaited post-16 education and skills white paper.[33] The paper strongly asserts that 'the diversity of the sector underpins its strengths' and that the government aims to 'recognise each provider's unique contributions and encourage them to capitalise on their comparative advantage', while acknowledging its vision 'requires a change of approach from the government'. This is an important recognition of the risks of the current system, which incentivises providers to compete on those metrics which will boost performance on international league tables, as this directly correlates to the ability to generate income from international students (as shown in Figure 1). This inevitably leads to converging behaviours and tends towards a more homogenous sector.

In the past, when a higher proportion of universities' income came through direct public funding, the higher education market as a whole was relatively stable and predictable. The last few years have seen income becoming much more volatile and variable. There is very little room for manoeuvre in domestic funding, with the government facing severe fiscal constraints and English graduates now the most indebted in the world.[34] That the government's recent white paper announced inflation-linked increases to tuition fees shows a genuine concern for the sector. But as explained earlier, this alone will not have a significant impact on the £1.7bn deficit that the sector runs up from educating domestic students each year.

Taken together, this means difficult choices for both government and institutions, and it is imperative that there is robust financial information to inform those decisions. The government has already acted on some of the sector's concerns, including increasing UKRI's funding of equipment, clarifying that matched funding from higher education providers is not required for UKRI grants and recognising the issue of the sustainability of PhD programmes.

Perhaps most significantly, the white paper sets out plans to consult on funding a lower volume of research but at a more sustainable level. It also calls on institutions to improve their own costing processes, to improve its cost recovery from industry-funded research and to only carry out self-funded research that they can afford. As a general principle, deciding research activities purely on the basis of their financial impact sits uneasily with universities' status as charities, and could result in the neglect of some of their most valued economic, civic and societal roles, such as research for charitable organisations. The government plans to partner with the charity sector to address the sustainability of charity-funded research.

The combined impact of the long-term plans and consultations set out in the white paper may be significant. But in the more immediate future, the specific changes announced, including the increased funding for equipment and the plan to link fee rises to inflation, will have little impact on the total annual deficit of core activities covered in the TRAC that has now run at or above £2bn for three consecutive years. Moreover, the proposed six per cent levy on international students will reduce the sector's income by £735 million in 2026–27 according to Universities UK modelling.[35]

The OfS, too, is being rightly proactive. In December 2024, it suspended some of its functions to dedicate more staff time to working closely with providers facing the most pressing financial challenges. In May 2025, the most recent regulator's report on the sector's finances noted that, despite a third consecutive annual decline in the overall surplus for the financial year, its engagement with the sector, and some more strategic cost reduction plans, had a positive effect, resulting in a better-than-forecast aggregate financial performance.

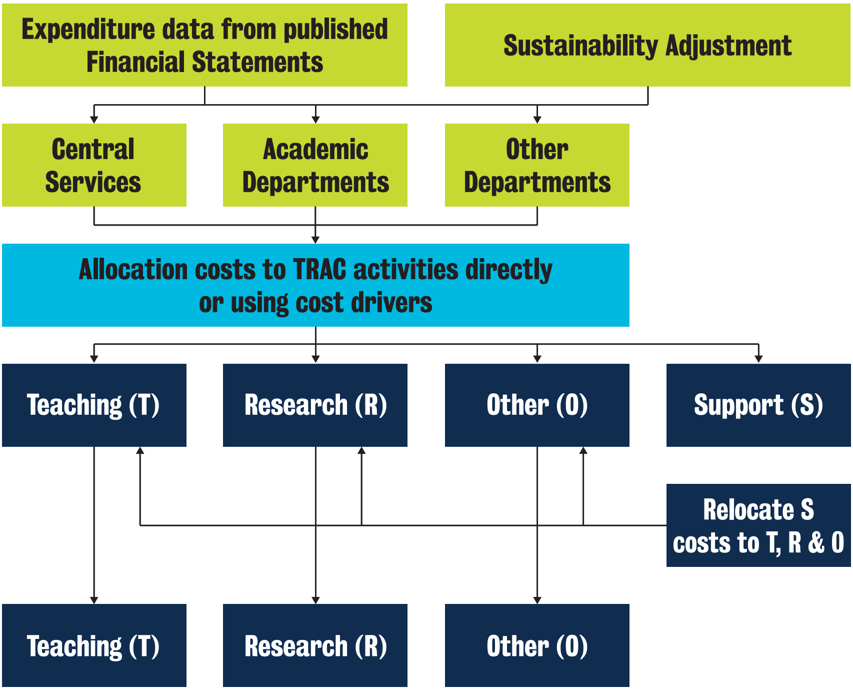
The Policy Institute's own research on international higher education models, involving convening of higher education leaders from around the world, makes it very clear that all are facing real and diverse challenges – and there are no magic answers to the overall issue of financial sustainability in the sector.[36]

However, there are pockets of good practice on individual elements of the problem in the UK and beyond. For example, in Canada, Ontario universities have agreed with the province's Ministry of Colleges and Universities to adhere to minimum thresholds on an agreed set of financial health indicators, as well as committing to posting key financial information on websites.[37] Such agreements aim to increase trust and transparency between institutions and public bodies – another challenge that the recent white paper acknowledges..

While the scale of the UK system may make such sector-wide agreements less feasible, the lesson about creating trust between the sector and the key regulatory and funding bodies should be taken. Neither universities nor the regulator can solve the financial sustainability challenges alone and the actions of the one need to be in step with the actions of the other if a lasting sustainable model is to be found.

Annex

Overview of the TRAC process



Example academic workload form

Academic time allocation survey form

Week			
Identifier			
Staff role			
Pay band			
	Full Time Equivalent percentage		
Activity (with reference to TRAC guidance section 1.3)	Category	Total hours worked	%
Teaching (1.3.1)	**Including Publicly funded teaching (1.3.1.2) and Non-publicly funded teacing (1.3.1.3)**		
	Teaching total	0	
Research (1.3.2)	Institution own-funded (1.3.2.3)		
	Postgraduate research supervision (1.3.2.4)		
	Research Councils (1.3.2.5)		
	Other government departments (1.3.2.5)		
	European Union (1.3.2.5)		
	Charities (UK based) (1.3.2.5)		
	Industry (1.3.2.5)		
	Research total	0	
Other (1.3.3)	Other income-generating activity (1.3.3.1)		
	Other (clinical services) (1.3.3.2)		
	Other total	0	
Support (1.3.4)	Support for Teaching (1.3.4.2)		
	Support for Research (1.3.4.3)		
	Support for Other (1.3.4.4)		
	General Support (1.3.4.5)		
	Scholarship and CPD (1.3.4.6)		
	Support total	0	
	Total hours	0	
	Total percentage	0	

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