

Office for
Students



Annual Financial Return workbook 2021

**Annex A: Additional guidance
on research income and
HESA cost centres**

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Introduction

1. This annex gives additional guidance to help providers complete Table 5 (Analysis of income – Research grants and contracts) of the Annual Financial Return workbook 2021, as well as providing additional information about HESA cost centres.

Conventions relating to research grants and contracts

2. Research income recorded in Table 5 of the Annual Financial Return workbook should be income relating to research and experimental development (R&D) and should conform to the conventions set out in the 2015 Frascati Manual.¹
3. The Frascati Manual is the internationally recognised methodology for collecting and using R&D statistics.
4. The term R&D covers three types of activity:
 - a. **Basic research** is experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundations of phenomena and observable facts, without any particular application or use in view.
 - b. **Applied research** is original investigation undertaken in order to acquire new knowledge. It is, however, directed primarily towards a specific practical aim or objective.
 - c. **Experimental development** is systematic work, which draws on knowledge gained from research, practical experience, and producing additional knowledge, which is directed to producing new products or processes or to improving existing products or processes.
5. The Frascati Manual lists situations where certain activities are to be excluded from R&D except when carried out solely or primarily for the purposes of an R&D project. These include: routine testing and analysis of materials, components, products and processes; feasibility studies; routine software development; and general purpose data collection. The later stages of some clinical drug trials may be more akin to routine testing, particularly in cases where the original research has been done by a drug company or other contractor.
6. For further details on the activities that should be included in (or excluded from) R&D, see Chapters 2.4, 2.7 and 2.8 of the Frascati Manual 2015.
7. In some cases, the classification between ‘research grants and contracts’ and ‘other services rendered’ may be borderline. In such situations, the Frascati Manual should be referred to in order to determine the correct classification.
8. Evidence that the project accords with the Frascati definition of research should be retained for all research projects for which associated income is reported in Table 5.

¹ See 2015 Frascati Manual (ISBN: 9789264239012 – available from OECD via <http://www.oecd-ilibrary.org/>).

Research income from charities for providers eligible to receive recurrent funds for research from Research England

9. The following notes of guidance are to assist all Research England-funded providers (eligible to receive recurrent funds for research) in completing information on research income from charitable foundations and trusts for the following columns on Table 5:
- UK-based charities (open competitive process)
 - EU-based charities (open competitive process)
 - Non-EU-based charities (open competitive process).
10. Research England will be using research income from charities collected in the OfS Annual Financial Return workbook to inform the charity support element of its quality-related research (QR) allocations.

Eligibility criteria

11. Two main eligibility criteria apply to the income underpinning these allocations:
- a. The research income which is awarded through open competition, excellence and priority using a method of external peer review.
 - b. The research income which is awarded by a charity registered in the UK or an overseas body with exclusively charitable purposes.

Open competition and external peer review

12. For income to be treated as awarded through open competition and peer review, there needs to be evidence that a particular income stream or grant was available to more than one provider through direct competition, within a process where no credible candidate was excluded, and awarded to the provider which demonstrated the highest-quality research proposal according to external peer review. However, grants will also be accepted as complying with open competition and external peer review in circumstances where it can be shown that the charity took external expert advice on its choice of provider to receive a grant, and either:
- a. The charity had made it known that it was open to grant applications from other providers and these would present a competing call on the funds, even though the charity did not issue an open invitation to bid for the particular grant in question.
 - b. The charity restricted the funding opportunity to two or more higher education providers on a reasoned basis that there were particular requirements of the project that could only be met by a limited number of providers. This could arise, for example, where a project required highly specialist expertise or facilities, or a specific regional focus. Where the

funding opportunity is restricted to only one provider then income should not be treated as awarded through open competition.

13. A long-term grant or funded programme awarded in open competition will be eligible under these columns for a maximum of seven years. Thereafter, it will only continue to be eligible under these columns if the grant competes with other demands on the charity's funds and is subject to external peer review at intervals of no more than five years.
14. Where the length of a research grant or contract awarded in open competition is extended by more than a year part way through the project, the following criteria should be met at the point at which the contract is extended for the grant to continue to be eligible under these columns:
 - Any extra funding awarded for that project should compete with other demands on the charity's funds, and there should be an external peer review process to agree that the project can be extended.
 - Where no additional funding is awarded, there should be an external peer review process to agree that the project can be extended.
15. For income from endowments given to a provider for the purpose of research to be treated as awarded through open competition and peer review, there needs to be evidence that the donation was made following some reasonably rigorous process, taking expert advice and comparing the merits of the receiving provider to others.
16. In all cases where income is treated as awarded through open competition and peer review, providers should maintain evidence that the criteria have been met.

Charitable purposes

17. Only research income which is awarded by a charity registered in the UK or an overseas body with exclusively charitable purposes, consistent with the definition set out in the Charities Act 2011 and which exists for the public benefit in a manner which is consistent with the Public Benefit Guidance published by the Charity Commission for England and Wales, is eligible. The former are either charities registered with the Charity Commission for England and Wales, Scottish charities registered with the Office of the Scottish Charity Regulator or charities in Northern Ireland recognised as having charitable status by HM Revenue and Customs or registered with the Charity Commission for Northern Ireland.
18. In practice, determining whether each and every grant from an overseas body satisfies this test may be unduly burdensome. It is therefore recommended that providers begin by identifying whether the awarding body has charitable status in its home jurisdiction. In most cases this will serve as an adequate proxy for the criteria described above. However, providers should pay close attention to any bodies which seem to be in danger of not satisfying the test of eligibility in England and Wales, either because their objectives appear to be on the margins of the definition described above (for example, groups campaigning for political change) or because they are based in a jurisdiction where the definition of charity may be significantly different to that which prevails in England.
19. Providers should keep an audit trail recording the basis on which they have assessed any overseas bodies to have charitable status.

Charity funding derived from government sources

20. The charity support element of Research England funding is not intended to support research that is already funded from public sources. Where a charity exists to allocate public funds, or where a charity allocates funds which come wholly or mainly from public sources, this income is not eligible.
21. So, income awarded by the Royal Society and the British Academy from grants made to them by the UK government to be disbursed on its behalf should be returned under Table 5 Column 1i (BEIS Research Councils (other)). However, income awarded by these bodies and funded from non-government sources should be returned under Table 5 Column 2 ('UK-based charities (open competitive process)') or Column 3 ('UK-based charities (other)') where the provider has received confirmation from the awarding body that the grant or contract was not government-funded. Similarly, income awarded by the Education Endowment Foundation, from grants made to them by the UK government to be disbursed on its behalf should be returned under Table 5 Column 4 ('UK central government bodies/local authorities, health & hospital authorities'). However, income awarded by this body and funded from non-government sources should be returned under Table 5 Column 2 ('UK-based charities (open competitive process)') or 3 ('UK-based charities (other)') where the provider has received confirmation from the Education Endowment Foundation that the grant or contract was not government-funded.

Other factors

22. Where a grant or contract is held across more than one HESA cost centre, its value should be divided in proportion to the number of grant or contract holders.
23. Though providers in the UK have charitable status, they should not be regarded as charities here. Likewise, overseas providers should also not be regarded as charities. Research income from other UK higher education providers should be returned under Column 7 ('UK other sources') in Table 5. Research income from overseas higher education providers should be returned under one of the following columns in Table 5: Column 11 ('EU (excluding UK) other') and Column 14 ('Non-EU other').
24. Income awarded through initiatives funded jointly by Research England and UK-based charities, such as the UK Research Partnership Investment Fund (UKRPIF), should not attract additional financial support from Research England's charity support element of research funding. Research England decides its level of contribution to these initiatives at the time of their establishment, taking sustainability into account. In order to identify the co-investment from charities that should be deducted from the calculation of Research England charity support funding, providers should return any co-investment from charities on these projects, (that has been included in Heads 1 to 4 of Table 5), under Head 5 ('Co-investment from external sources on funding council-funded projects') of Table 5.
25. The charities listed below provide very substantial amounts of research funding across a number of providers and their grants were found in all Research England's audited cases to have met the eligibility criteria:
 - Bloodwise
 - British Heart Foundation

- Cancer Research UK
- Diabetes UK
- The Health Foundation
- The Leverhulme Trust
- Versus Arthritis.

26. Research England will seek assurances directly from these charities that their grants generally continue to meet the criteria for open competition and external peer review, and that they will make known any potential exceptions to this. In order to improve the efficiency of administering the charity element of Research England research funding, and the associated data audits, providers should generally regard income from these charities to meet the criteria for open competition and external peer review. Providers will remain responsible for ensuring that all returned income is eligible.

27. This is not intended to be an exhaustive list of charities whose grants generally meet the criteria of open competition and external peer review, and Research England would normally expect that members of the Association of Medical Research Charities would meet these criteria.

HESA cost centres

28. Tables 5 and 8 break down income and expenditure by HESA cost centre.
29. HESA cost centres represent a group of activities or operations having similar characteristics and broadly similar patterns of costs.
30. To complete Tables 5 and 8, providers will need to map their own organisational structure on to the HESA cost centres. Guidance on how to do this is available on the HESA website:
<https://www.hesa.ac.uk/collection/c20041/coverage>.
31. Where a department is split across cost centres, then, wherever possible, expenditure should be directly assigned to the cost centre incurring the costs. In cases where the recording of this information would be highly burdensome, then there are three possible approaches to assigning the costs in the Annual Financial Return:
- The costs for a department may be split into cost centres in proportion to staff effort. For example, if an electrical engineering department includes staff who undertake teaching or research in mathematics, the proportion of effort in mathematics would need to be estimated. For example, if it was 20 per cent, then 80 per cent of the expenditure (academic staff costs, other staff costs and other operating expenses) would be returned under cost centre 119 Electrical, electronic and computer engineering, and 20 per cent under cost centre 122 Mathematics. This approach is the same as applying the proportion recorded in the PROPACC (the proportion of the Department in the academic HESA cost centre) field in your HESA Provider profile record.
 - Different categories of costs may be split into cost centres in differing proportions. For example, staff costs may be allocated according to estimated staff effort, and non-staff costs according to student numbers. Using the above example, this might result in an allocation of 20 per cent of staff costs and 15 per cent of non-staff costs to the Mathematics cost centre.
 - Within the department, individual academic staff costs, other staff costs and other operating costs may be assigned to a specific cost centre. All such expenditure within the department would then be summed, and any faculty costs which could not be directly allocated to cost centres would be apportioned, to arrive at expenditure figures allocated to each cost centre.
32. Where staff have duties in both academic departments and central non-academic cost centres, the basis on which the costs are apportioned will depend on the contract for each member of staff. If someone is contracted to perform 80 per cent of their duties in academic departments and 20 per cent in non-academic departments, then the costs should be split accordingly between the academic and non-academic cost centre(s). If they are not contracted to perform non-academic duties and their primary function is teaching and/or research, then all costs should be attributed to the academic cost centre(s), regardless of any other functions they may perform.



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