

Classification and Management of Research Funding Guidance & Process Flowchart

1. Background

- 1.1 Prior to Financial Year 2014/15, research funding was managed via both P codes (administered by Research Services/Joint Research Office) and N codes (administered by Faculty/Department).
- 1.2 As a result of important changes to HEFCE guidance and Financial Reporting Standards (FRS102), additional checks must be undertaken to ensure the accounting treatment is consistently applied in the College's systems.
- 1.3 To determine the correct classification of external research funding, an assessment of the following will be required:
 - purpose of funding
 - conditions attached to the funding
 - existence of a 'project scope'
- 1.4 In particular, these changes mean that N codes can only be used if the funding meets specific criteria.

2. Funding Classifications

2.1 The funding classifications are summarised below:

a) Research Grants and Contracts

- funding which meets the definition of research (see [Appendix 3](#))
- funding with agreed project scope* (see [Appendix 4](#))
- funding with performance related conditions**
- managed via P Codes **OR** N Codes only if specific criteria is met (see [Appendix 5](#))

* **Project Scope** – HEFCE guidance states that externally sponsored research funding should meet the following criteria: "research project scope has been agreed with the sponsor at the outset in the grant or contract" OR "research project scope has been agreed in a forum where collaborating external organisations are represented and able to influence the direction of the project, and be involved in decisions on the particular research projects to be undertaken".

** **Performance Related Condition (PRC)** – defined as a condition that requires performance of a particular level of service or units of output to be delivered, and where payment, or entitlement to the resources, is conditional on that performance.

b) Other Research

- funding with restrictions*** but without performance related conditions
- managed via N Codes

*** **Restriction** – defined as a requirement that limits or directs the purposes for which a resource may be used that does not meet the definition of a PRC, e.g. funding awarded to a particular PI, Department or area of research.

c) Unrestricted Funding

- funding without performance related conditions or restrictions
- managed via F or G codes

3. Management of Research Funding

TYPE OF FUNDING	ACCOUNT CODE
Research - Performance Related Conditions (PRCs)	P code
Research - PRCs (type of funding meets specific criteria)	N code
Research - Restricted	N code
Non-Research - PRCs or Restricted	I code
Unrestricted	F or G code

4. Financial Reporting of Research Funding

TYPE OF RESEARCH FUNDING	Annual Report & Accounts (<i>College Financial Statements</i>)	HEFCE Finance Statistics Return (FSR)
Performance Related Conditions (PRCs)	Reported as "Research Grants & Contracts"	Reported as "Research Grants & Contracts"
Restricted	Reported as "Research Donations" (within 'Other Income')	From 1 August 2015, "Restricted Donations" and "Research Income from Endowments" can no longer be reported as research which is eligible for QR funding

5. Determining the Classification of Research Funding

To determine whether research funding is classified as either a 'P' code or 'N' code, the following guidance should be read in conjunction with the **Decision Flowchart** (see [Appendix 1](#)). A **Summary Flowchart** is also available in [Appendix 2](#).

Process Step		Guidance
1	Review Offer to determine purpose of funding	<ul style="list-style-type: none"> • Department to undertake an initial review of the 'offer' to determine the purpose of the funding.
2	Forward Offer to Research Services for review	<ul style="list-style-type: none"> • If offer of funding is accepted, Department to forward supporting information to Research Services/Joint Research Office (RS/JRO) for review.
3	Check if there is written supporting documentation	<ul style="list-style-type: none"> • RS/JRO to determine if there is any written supporting documentation.
3(a)	Supporting documentation exists?	<ul style="list-style-type: none"> • If supporting documentation is available, RS/JRO to check if funding is for research purposes - Go to Step 4 • If there is no supporting documentation (e.g. only a cheque or bank transfer), it is considered to be unrestricted income, i.e. there are 'no strings' attached - Go to Step 13

4	Check if funding is for research purposes	<ul style="list-style-type: none"> • RS/JRO to check if funding is for research purposes - Go to Step 4(a) • The purpose of the funding should meet both the Frascati definition of research and HEFCE guidance on the 'public benefit test' (see Appendix 3): <ul style="list-style-type: none"> a) Frascati definition of research – “creative work undertaken to increase the stock of knowledge, and the use of the stock of knowledge to devise new applications”. b) HEFCE Guidance on Charitable status for HEIs - research must further the charitable purposes of Imperial and pass the 'public benefit' test, i.e. results of research should be published within a reasonable timeframe.
4(a)	Funding for research purposes?	<ul style="list-style-type: none"> • If funding is for research purposes - Go to Step 5 • If funding is not for research purposes (e.g. consultancy; service provision; other externally funded activity), then it is not managed via P or N codes - Go to Step 13
5	Check if there is documented project scope	<ul style="list-style-type: none"> • RS/JRO to check whether the 'project scope' is in line with HEFCE guidance (see Appendix 4) - Go to Step 5(a) • Project Scope - HEFCE state that externally sponsored research funding should meet the following criteria: <ul style="list-style-type: none"> a) “research project scope has been agreed with the funder at the outset in the grant or contract”; OR b) “research project scope has been agreed in a forum where collaborating external organisations are represented and able to influence the direction of the project, and be involved in decisions on the particular research projects to be undertaken”. • ‘Scope’ is not explicitly defined by HEFCE, but there should be reference to a defined area of research. Evidence that the funder has an ongoing association or interest in the research area is also helpful. • Self-restriction is not permissible - it is not sufficient justification for a HoD or PI to determine and document the research activity that will be undertaken, e.g. unfettered donations could be used for research purposes, but the “research” classification in the Financial Statements is exclusively for externally funded research, the direction of which is (to a greater or lesser extent) determined by the funder. Use of the “research” classification is not determined by the activity the funds are spent on.

5(a)	Scope documented?	<ul style="list-style-type: none"> • If there is documented project scope, RS/JRO to check if there are Performance Related Conditions (PRCs) – Go to Step 6 • If there is no documented project scope, RS/JRO to check if use of funding has any Restrictions – Go to Step 11
6	Check if there are Performance Related Conditions	<ul style="list-style-type: none"> • RS/JRO to check if there are Performance Related Conditions (PRCs) – Go to Step 6(a) • Performance Related Condition (PRC) - defined as a condition that requires performance of a particular level of service or units of output to be delivered. Payment, or entitlement to the resources, is conditional on that performance. • NOTE: It is assumed that the existence of PRCs means there is project scope.
6(a)	Performance Related Conditions?	<ul style="list-style-type: none"> • If there are Performance Related Conditions (PRCs), RS/JRO to check if the funding meets the criteria for a 'PRC N code' – Go to Step 7 • If there are no Performance Related Conditions (PRCs), RS/JRO to check if use of funding has any Restrictions – Go to Step 11 • <i>Accounting treatment: If there are PRCs, income is deferred, i.e. recognised in line with expenditure.</i>
7	Check if Funding meets criteria for 'PRC N code'	<ul style="list-style-type: none"> • RS/JRO to check if funding meets criteria for 'PRC N code' (see Appendix 5) – Go to Step 7(a)
7(a)	Meets criteria for N Code?	<ul style="list-style-type: none"> • If funding meets criteria for a 'PRC N code' – Go to Step 10 • If funding does not meet criteria for 'PRC N code' – Go to Step 8
8	Classify as "P Code"	<ul style="list-style-type: none"> • RS/JRO to classify funding as 'P Code' – Go to Step 9 • NOTE: Also includes funding dedicated to research buildings (or refurbishment) which is managed via P codes (or by Estates Department using cost centre ESCOR/ESCPR and C code) • <i>Accounting treatment: Income is deferred, i.e. recognised in line with expenditure.</i>
9	Award Review & Set Up	<ul style="list-style-type: none"> • RS/JRO to follow Award Review process • P code is set up on Oracle Grants

10	Classify as “PRC N Code”	<ul style="list-style-type: none"> • RS/JRO to classify funding as ‘PRC N Code’ – Go to Step 13
11	Check if use of funding is Restricted	<ul style="list-style-type: none"> • RS/JRO to check if use of funding is restricted – Go to Step 11(a) • Restriction – defined as a requirement that limits or directs the way in which the funds may be spent that does not meet the definition of PRC, e.g. funding is awarded to a particular PI, Department or area of research. Typically, there is no agreed scope of work and no deliverables are owed to the funder.
11(a)	Funding Restricted?	<ul style="list-style-type: none"> • If use of funding is restricted – Go to Step 12 • If use of funding is not restricted – Go to Step 13
12	Classify as “Restricted N Code”	<ul style="list-style-type: none"> • Funding meets criteria for a ‘Restricted N code’ - Go to Step 13 • <i>Accounting treatment: If there are Restrictions, income is recognised once received or receivable.</i>
13	Notify Faculty Finance Officer (FFO)	<ul style="list-style-type: none"> • If funding is not for research purposes; OR • There is no supporting documentation; OR • There are no restrictions; ➢ then RS/JRO to notify FFO - Go to Step 17 • If funding is classified as ‘PRC N code’ OR ‘Restricted N Code’, RS/JRO to notify FFO – Go to Step 14
14	Review funding in line with College N Code criteria	<ul style="list-style-type: none"> • Faculty Finance Officer (FFO) to review if funding is in line with College N Code criteria – Go to Step 14(a)
14(a)	Meets N Code Criteria?	<ul style="list-style-type: none"> • If funding is in line with College criteria – Go to Step 15 • If funding is not in line with College criteria – Go to Step 17
15	Allocate N Code and notify Department	<ul style="list-style-type: none"> • Faculty Finance Officer (FFO) to allocate N Code and notify Department of the account code - Go to Step 16
16	Manage funding using N Code	<ul style="list-style-type: none"> • Department to manage N code in accordance with Faculty guidelines and funder conditions or restrictions • FFO to periodically review the management of N codes to support good governance of the process.

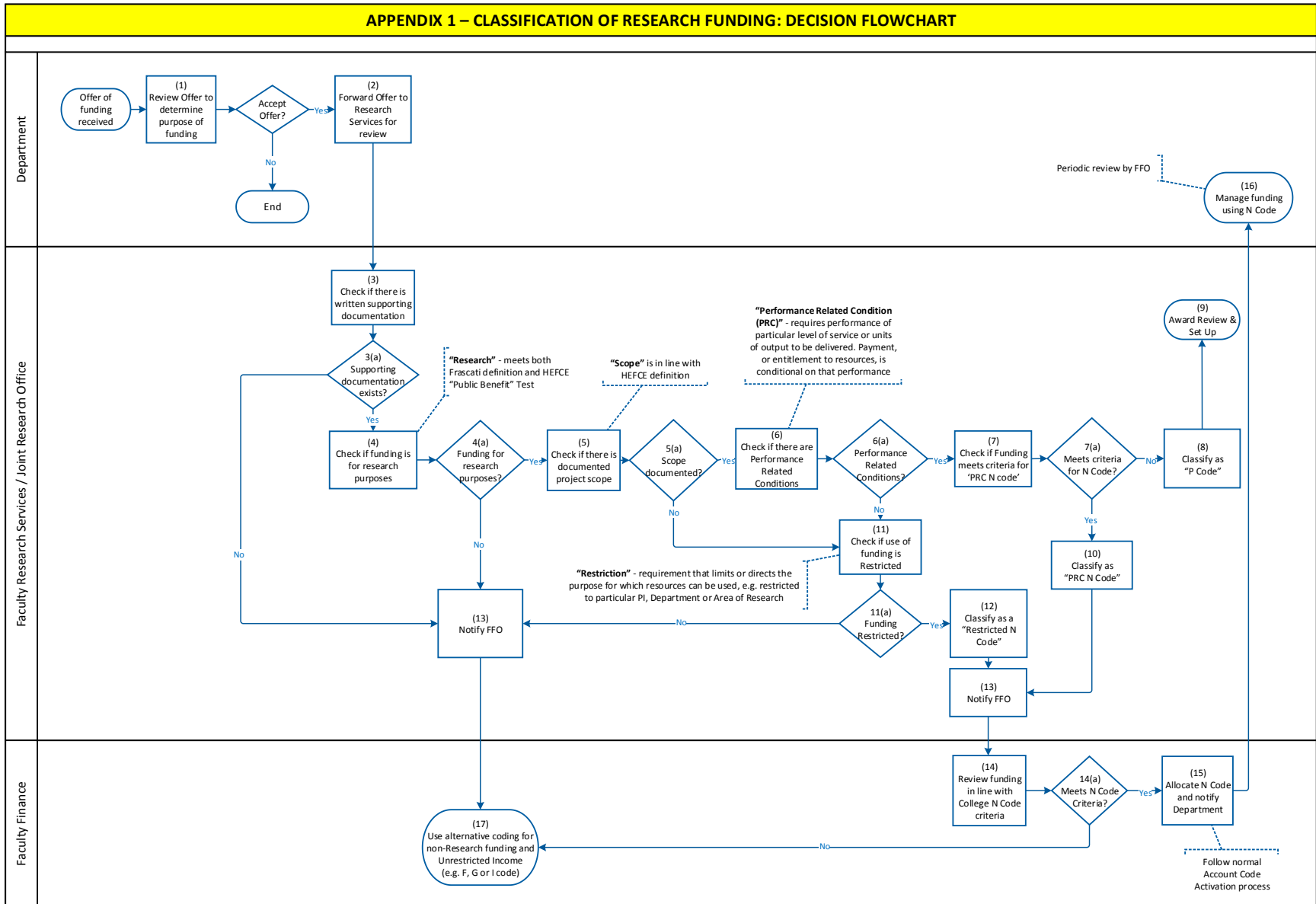
17	Use alternative coding for non-Research funding and Unrestricted Income (e.g. F, G or I code)	<ul style="list-style-type: none"> • Faculty Finance Officer (FFO) to determine the appropriate coding for non-Research Income and Unrestricted Income (e.g. F, G or I code) • NOTE: Funding is NOT classified as “Research” in the College’s Financial Statements or for HEFCE reporting purposes. • <i>Accounting treatment: Income is recognised once received or receivable.</i>
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6. Accountability and Responsibility

- 6.1 Research Services/Joint Research Office (RS/JRO) (or Research Contracts teams) are the operational gatekeepers of ‘Research Grants & Contracts’ income that is managed via **P codes**. As such, they are responsible for determining whether funding meets the definition of research, and for referring other types of funding to the relevant Faculty Finance Officer in line with agreed criteria.
- 6.2 Faculty Finance Officers (FFOs) and Academic Departments are responsible for managing **PRC N codes** which must meet specific criteria (see [Appendix 5](#)). This funding is reported in the College Financial Statements and to HEFCE as ‘Research Grants & Contracts’ income.
- 6.3 Faculty Finance Officers (FFOs) and Academic Departments are responsible for managing **Restricted N codes**. This funding is not reported to HEFCE as ‘Research Grants & Contracts’ income (effective from 1st August 2015), but is reported in the College Financial Statements as “Research Donations” (within “Other Income”).

7. Queries and Escalation

- 7.1 The Research Office is responsible for developing research classification criteria and process guidance in consultation with FFOs, RS/JRO and Finance. The criteria used for classifying research funding will evolve as this process matures and unusual examples are encountered, therefore classification queries should be directed to the Research Office in the first instance so that guidance can be amended if appropriate.
- 7.2 In cases where the classification of research income is unclear and/or a decision cannot be reached by RS/JRO and FFO, the issue should be escalated to the Head of Research Support Services (or Director of Research Office) and Director of Financial Management for a final decision.



APPENDIX 2 - CLASSIFICATION OF RESEARCH FUNDING: SUMMARY FLOWCHART

Frascati definition of research –
 “creative work undertaken to increase the stock of knowledge, and the use of the stock of knowledge to devise new applications”.

HEFCE Guidance on Charitable status for HEIs – research must further the charitable purposes of Imperial and pass the ‘public benefit’ test, i.e. results of research should be published within a reasonable timeframe.

Project Scope – HEFCE state that ‘Research Grants & Contracts (RGC)’ should include all income in respect of externally sponsored research where:

- (a) “research project scope has been agreed with the funder at the outset”; OR
- (b) “research project scope has been agreed in a forum where collaborating external organisations are represented and able to influence the direction of the project, and be involved in decisions on the particular research projects to be undertaken”.

NB: Scope is not explicitly defined by HEFCE, but there should be a defined area of research, or evidence that the funder has an ongoing association or interest in the research area.

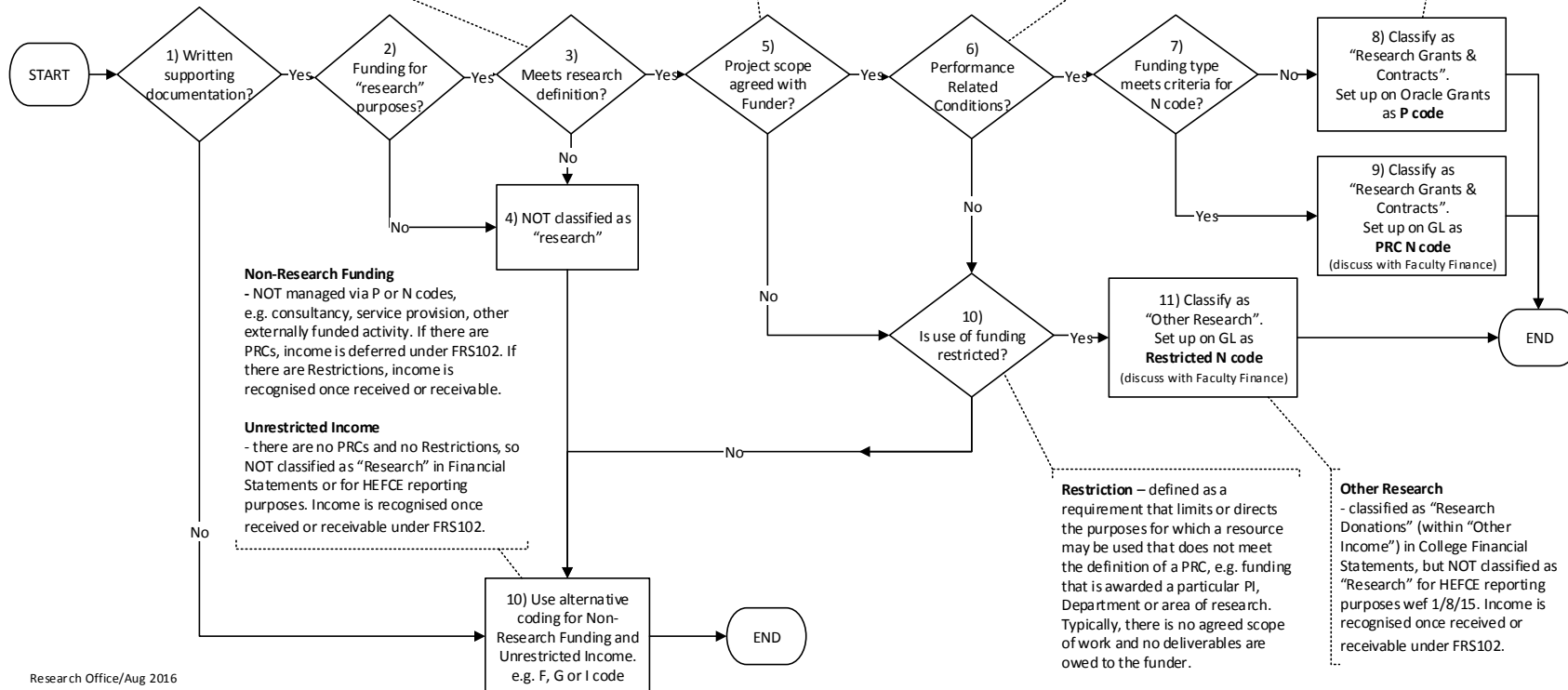
Self-restriction is NOT permissible. It is not sufficient justification for a HoD or PI to determine and document the research activity that will be undertaken with the funding, e.g. unfettered donations could be used for research purposes, but the “research” classification in the Financial Statements is reserved exclusively for externally funded research, the direction of which is, to a greater or lesser extent, determined by the funder. Use of the “research” classification is NOT determined by the activity the funds are spent on.

Performance Related Condition (PRC) – defined as a condition that requires performance of a particular level of service or units of output to be delivered. Payment, or entitlement to the resources, is conditional on that performance.

NB: It is assumed that existence of PRCs means there is scope.

Research Grants & Contracts (RGC) – classified as RGC in Financial Statements and for HEFCE reporting purposes. Income is deferred under FRS102, i.e. recognised in line with expenditure.

NB: Includes funding dedicated to research buildings (or refurbishment) which is managed via P codes or by Estates Dept using cost centre ‘ESCOR/ESCPR’ and C code.



APPENDIX 3

Definition of Research and HEFCE Guidance on Charitable status

1. At its simplest, (University) research is understood as original investigation undertaken in order to gain knowledge and understanding for the public benefit. Universities are required to ensure only appropriate activity is classified as research in their statistical returns and such activity provides public benefit (therefore exempt from corporation tax).

As such, there are three important definitions of research:

- [Frascati Definition of Research](#)
- [REF2014 Definition of Research](#)
- [HEFCE Guidance on Charitable status for Higher Education Institutions](#)

However, deciding whether an activity is research (or not) is often not straightforward, as the context of the activity must be considered together with the content. The Frascati Manual (the internationally recognised methodology for collecting and using R&D statistics) provides the founding definition, and is also used for the purpose of various statutory returns. HEFCE's definition for REF2014 provides clarification on specific points of eligibility, such as exclusion of routine testing (which does not generate new insights or advance the research discipline) and teaching materials that do not contain research. The consequences of incorrectly stating activity and income as research could include the College becoming liable for tax, being ineligible to apply for funding from certain research organisations and subsequent reputational damage.

2. Frascati Definition of Research

"Research and experimental development (R&D) comprise creative work undertaken on a systematic basis in order to increase the stock of knowledge, including knowledge of man, culture and society, and the use of the stock of knowledge to devise new applications."

"R&D is a term covering three activities: basic research, applied research and experimental development.

Basic research is experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundation of phenomena and observable facts, without any particular application or use in view.

Applied research is also original investigation undertaken in order to acquire new knowledge. It is, however, directed primarily towards a specific practical aim or objective.

Experimental development is systematic work, drawing on existing knowledge gained from research and/or practical experience, which is directed to producing new materials, products or devices, to installing new processes, systems and services, or to improving substantially those already produced or installed."

3. Definition of Research for REF2014

For the purposes of the REF, research is defined as a process of investigation leading to new insights, effectively shared. It **includes** work of direct relevance to the needs of commerce, industry, and to the public and voluntary sectors; scholarship; the invention and generation of ideas, images, performances, and artefacts including design, where these lead to new or substantially improved insights; and the use of existing knowledge in experimental development to produce new or substantially improved materials, devices, products and processes, including design and construction. It **excludes** routine testing and routine analysis of materials, components and processes such as for the maintenance of national standards, as distinct from the development of new analytical techniques. It also **excludes** the development of teaching materials that do not embody original research.

APPENDIX 3 (continued)

4. HEFCE Guidance on Charitable status for Higher Education Institutions (HEIs)

Imperial is an exempt charity (not a registered charity) by virtue of the Exempt Charities Order 1962 and the Second Schedule to the Charities Act 1993. As such, it must comply with the principles of charity law, and must fulfil certain criteria in order for its research activity to be classed as charitable (irrespective of funding source) and for such activity to remain tax exempt.

HEFCE is the principal regulator of HEIs as charities, and together with The Charity Commission, provides guidance to HEIs on what constitutes research.

For research to be charitable:

- the research must further the charitable purposes of the HEI and be conducted for the public benefit;
- there are two aspects of public benefit:
 - the 'benefit aspect'. The purpose must be beneficial and any detriment or harm that results from the purpose must not outweigh the benefit
 - the 'public aspect'. The purpose must benefit the public, or a sufficient section of the public and any personal benefits must be incidental to achieving charitable purposes, that is, reasonable, necessary and in the interests of the charity.

HEFCE provide guidance on the Charities Act 2011 as well as good guidance for institutions as charitable organisations: <http://www.hefce.ac.uk/reg/charityreg/>. In adherence to the Charities Act and this guidance, the College applies a 'public benefit test', wherein it is expected that results of research should be published within a reasonable timeframe, and that such results will continue to be available for ongoing research use by the College.

APPENDIX 4

Research Grants & Contracts Income – “Project Scope” Guidance from Higher Education Statistics Agency (HESA)

1. Finance Statistics Return (FSR) FSR Tables 5a and 5b - Research Grants and Contracts

These tables should include all income in respect of externally sponsored research:

- where the research **project scope** has been agreed with the sponsor at the outset in the grant or contract awarded to the higher education provider (HEP)

AND/OR

- where the research **project scope** has been agreed in a forum where collaborating external organisations are represented and able to influence the direction of the project, and be involved in decisions on the particular research projects to be undertaken by the HEP. In such an arrangement, the income (and income-in-kind) from external organisations for membership fees necessary to be part of the collaboration will be regarded as research income, provided all other criteria for that income to be returned to the FSR as research income are satisfied.

The research specified should be carried out by the HEP, or its subsidiary undertakings, and should conform to the conventions of the Frascati definition of research (see section 'Conventions to be used in the FSR' in the 'Coverage of the record'). The income returned should be that for which directly related expenditure has been incurred and should be stated at the full value, including any recovery of indirect costs whether retained by the HEP, a department, or at the disposal of an individual within a department.

Where a research grant or contract is made for a number of different purposes including research (for example research, training and clinical work), only that portion of the grant or contract against which research has been conducted should be returned as research income. The overall total should be the same as that recorded in the financial statements and should include income attributable to a share in joint venture(s).

APPENDIX 5

Use of N Codes for Research Funding with Performance Related Conditions ('PRC N Codes')

1. Research income that is administered under standard funder terms and conditions is likely to meet HEFCE's 'project scope' condition. The vast majority of these awards are administered via P codes using the Oracle Grants system.
2. For ease of administration, it is agreed that specific types of research funding can be managed outside the Oracle Grants system via PRC N codes.

The funding must meet **one** of the following criteria specified below:

a) Maximum Threshold

Funding up to a maximum limit of £15,000 can be set up using PRC N codes.

OR

b) Collaborative Awards in Science and Engineering (CASE) Awards

- Industrial 'top up' funding for research work only (***NB: of any value***)

The Research Council contribution cannot be classified as research as it is a Research Council grant for training of research students, and these are specifically excluded from the definition of research activity. It is coded to a G code.

The **Industrial contribution** is paid to the institution to cover costs incurred by the institution. Some of it can be distributed to a student as a bursary, but there are some additional elements which are incurred on related research work and supervision. No grants related to the *training* of postgraduate research students should be reported as research.

Only the funding related to **research work** can be set up on a PRC N code.

NOTE: *Funding in respect of Research Studentships (or Fellowships) awarded as part of a research grant/contract should be managed via P codes (see [Appendix 6](#)).*

OR

c) Travel Grants – funding for research purposes only (*NB: of any value***)**

Travel grants are usually awarded for small amounts and short durations.

Only funding which is used for **research purposes** can be set up on a PRC N code.

3. Unspent Balances

It is no longer acceptable for unspent balances to be managed via N codes if there are no further deliverables owed to the original funder of the work, and a scope extension has not been formally agreed with the funder.

Provided that expenditure has been incurred and claimed in accordance with the terms and conditions of award, **and** there is no obligation to return unspent funds to the funder, it is permissible for any unspent balances on fixed price awards to be treated as overheads.

APPENDIX 6

Treatment of PhD Studentships

1. Block grants specifically for “training” with no project scope at the outset or named students

Example: Research Council Doctoral Training Partnerships.

Accounting Treatment: Non-research code (commonly G code).

HESA Guidance: *Sub-head 4b Other research training support grants:* Should include all grants made by Research Councils and other bodies in support of the training of research students. It should include bench fees and Collaborative Awards in Science and Engineering (CASE) awards. It should also include Doctoral Training Centres, Doctoral Training Grants and Collaborative Training Accounts, (or similar postgraduate grants), including the tuition fee element. The student stipend or bursary element that is passed on by the HEP should be excluded if it has been accounted for as an agency arrangement.

2. Other PhD Studentship Awards

All funding specifically for PhD studentship awards is treated as research, but should also be checked for evidence of project scope and performance related conditions (PRCs)* in line with this guidance document. However, it should be noted that where a student is named in the award, this is considered to be a PRC.

Accounting Treatment: See table below:

Scenario	Named student?	Project scope?	Other PRCs exist?	Accounting Treatment
1	Yes	Yes	Yes	P Code
2	Yes	Yes	No	P Code
3	Yes	No	Yes	PRC I Code**
4	Yes	No	No	PRC I Code**
5	No	Yes	Yes	P Code
6	No	Yes	No	Restricted N Code
7	No	No	Yes	PRC I Code**
8	No	No	No	Restricted N Code

* **Performance Related Condition (PRC)** – defined as a condition that requires performance of a particular level of service or units of output to be delivered, and where payment, or entitlement to the resources, is conditional on that performance.

** **I Code** – Externally funded non-research activities which can have PRCs or Restrictions.

Scenarios 3 and 4 – For these scenarios, the lack of scope means that funding cannot be reported to HESA and therefore cannot be managed through P Codes or PRC N Codes. The presence of PRCs means that the funding cannot be managed through Restricted N Codes, so the most appropriate accounting treatment is a PRC I Code.

Scenarios 6 and 8 – For these scenarios, the lack of PRCs means that funding cannot be managed through P Codes or PRC N Codes. Since the purpose is to fund a PhD studentship (rather than general research), this is a restriction, so the most appropriate accounting treatment is a Restricted N Code.

Finance Guidance: Grants with performance related conditions include education contracts and annual grants from funding bodies which stipulate the particular academic year and/or students to which the grant relates.

HESA Guidance: Table 5 should include all research grants and contracts income (including tuition fees for research studentships and fellowships) associated with the contract. Grants for research studentships or fellowships that are associated with a research grant or contract should be returned under the same column as the grant or contract.