

ITEM FOR FINANCE COMMITTEE

HEAD 190 – UNIVERSITY GRANTS COMMITTEE Subhead 492 Grants to UGC-funded institutions

Members are invited to –

- (a) accept the total recurrent funding requirement of the University Grants Committee-funded institutions for the 2001/02 to 2003/04 triennium estimated at \$36,269.5 million;
- (b) approve supplementary provision of \$522.4 million to meet the shortfall in the assumed tuition fee income of the institutions in the 2000/01 academic year; and
- (c) approve the arrangement for the institutions to carry up to 20% of their respective recurrent grant in a triennium to the next as reserves.

PROBLEM

The eight institutions funded by the University Grants Committee (UGC)⁽¹⁾ have to finalise their budgets and academic programmes for the 2001/02 to 2003/04 triennium, which will start on 1 July 2001. They need confirmation of the level of recurrent grants they will receive for that period and the amount of funds they will be allowed to carry over from the current triennium (i.e. 1998/99 to 2000/01) in order to finalise their programmes. Also, the UGC needs

/supplementary

⁽¹⁾ They are City University of Hong Kong, Hong Kong Baptist University, Lingnan University, The Chinese University of Hong Kong, The Hong Kong Institute of Education (HKIEd), The Hong Kong Polytechnic University, The Hong Kong University of Science and Technology and The University of Hong Kong.

supplementary provision to meet the institutions' shortfall in tuition fee income due to the freeze of the tuition fee levels in the 2000/01 academic year.

PROPOSAL

2. The Secretary for Education and Manpower proposes that Members -
 - (a) accept the total recurrent funding for the eight institutions for the 2001/02 to 2003/04 triennium estimated at \$36,269.5 million;
 - (b) approve a supplementary provision of \$522.4 million to meet the institutions' shortfall in tuition fee income in the 2000/01 academic year; and
 - (c) allow the institutions to carry up to 20% of their recurrent grants in a triennium to the next as reserves.

JUSTIFICATION

Recurrent funding requirements for the 2001/02 to 2003/04 triennium

Encl. 1

3. Based on the established method, the UGC has assessed the recurrent funding requirements of the eight institutions under its aegis for the 2001/02 to 2003/04 triennium, having regard to the indicative student number targets as shown at Enclosure 1, as well as the Academic Development Proposals of respective institutions. Paragraphs 4 and 5 below explain how we have arrived at the funding requirements, and paragraphs 6 and 7 below explain how we have arrived at the recommended level of government grants.

4. As agreed in 1996 between the UGC and the Administration and as reported to Members vide FCR(97-98)111, there has been a 10% point-to-point reduction in average student unit cost by the end of the 1998/99 to 2000/01 triennium⁽²⁾, with half of the savings ploughed back to the UGC for redistribution to the institutions to meet new developments such as Areas of Excellence Scheme. In effect, this works out to be a 5% net reduction in the overall average student unit cost. This reduced unit cost has formed the basis for determining the total funding requirements of the UGC for the 2001/02 to 2003/04 triennium. The Administration has not requested further reduction in the unit cost beyond the above agreed target.

/5.

⁽²⁾ The reduction in student unit cost does not apply to the HKIEd.

5. Adopting the reduced unit cost in calculating the funding requirements for the next triennium results in the total requirements for the coming triennium being smaller than that for the current one. A diagrammatic presentation is at Enclosure 2. As a result of the full triennial effect of the unit cost reduction, deflation during the current triennium and changes in student number targets for the next triennium, the recurrent funds required by the UGC-funded sector in the 2001/02 to 2003/04 triennium will be about 3.9% less than that in the 1998/99 to 2000/01 triennium⁽³⁾. The recurrent funding requirements and student number targets for the next triennium, compared with the current one, are shown at Enclosure 3.

Specific recommendations on the level of Government grants

6. Government determines the level of recurrent grants to the UGC-funded institutions by deducting from the institutions' total funding requirements an assumed income of the institutions which includes tuition fees⁽⁴⁾ (please also see paragraph 9 below). In the light of Government grants available, the UGC has determined the level of specific recurrent grants for the individual institutions and for other earmarked purposes in the 2001/02 to 2003/04 triennium. The recommendations are shown below –

	Academic year (July to June)			
	2001/02	2002/03	2003/04	Total
	\$ million	\$ million	\$ million	\$ million
City University of Hong Kong	1,555.0	1,503.8	1,502.5	4,561.3
Hong Kong Baptist University	595.7	589.4	594.1	1,779.2
Lingnan University	211.8	205.0	205.2	622.0
The Chinese University of Hong Kong	2,481.8	2,437.5	2,452.9	7,372.2
The Hong Kong Institute of Education	768.3	764.1	770.1	2,302.5
The Hong Kong Polytechnic University	1,799.8	1,739.7	1,735.7	5,275.2
The Hong Kong University of Science and Technology	1,380.7	1,353.9	1,358.0	4,092.6
The University of Hong Kong	2,409.0	2,330.4	2,328.0	7,067.4
Performance- and mission-related funding	-	349.4	350.6	700.0
Sub-total	11,202.1	11,273.2	11,297.1	33,772.4
Earmarked Research Grants	510.8	543.3	577.9	1,632.0

/Teaching

⁽³⁾ This includes additional funding to HKIEd in the course of the 1998/99 to 2000/01 triennium for the progressive upgrading of the sub-degree teacher education places to degree and above levels.

⁽⁴⁾ In determining the recurrent funding to institutions for the 2001/02 to 2003/04 triennium, we have assumed that the tuition fee will continue to be frozen at the current level.

Academic year (July to June)

	2001/02 \$ million	2002/03 \$ million	2003/04 \$ million	Total \$ million
Teaching Development Grants	38.3	38.3	38.4	115.0
Language Enhancement Grants	72.5	72.5	72.5	217.5
Central Allocation Vote	140.5	175.2	209.9	525.6
Recurrent Grants to the UGC-funded institutions	11,964.2	12,102.5	12,195.8	36,262.5
Sum to be retained by UGC for administering inter-institutional projects	2.3	2.3	2.4	7.0
Total	11,966.5	12,104.8	12,198.2	36,269.5

Encl. 4

7. The UGC's methodology for determining the levels of triennial recurrent grants to the individual institutions is detailed at Enclosure 4. The formula gives a reasonably rigorous and precise assessment of the resources required to meet the teaching and research requirements of each institution, and includes an element of funding specifically related to the recent performance of the individual institutions in the research area. We will continue to monitor the operation of the funding methodology and encourage the UGC to refine it to meet changing and new circumstances.

8. In assessing the recurrent funding requirements of the institutions, we have not taken into account the financial implications of introducing the UGC Home Financing Scheme (HFS) since 1998, lest the initial additional cashflow expenditure for the UGC HFS would lead to unnecessary fluctuations in the student unit cost and tuition fees. The financial implications of HFS are therefore not reflected in the level of Government grants recommended above. In accordance with the established practice, we shall adjust the grants to the UGC-funded institutions in the course of the triennium to reflect Government's additional provision to the institutions for HFS, Government's share of the rental income arising from surplus staff quarters and the institutions' savings in non-HFS housing-related expenses.

/Tuition

Tuition fee shortfall in the 2000/01 academic year

9. As explained in paragraph 6 above, Government's total recurrent grant to the UGC-funded institutions is the estimated total funding requirement net of the institutions' assumed income from tuition fees and from other sources. The assumed tuition income is an estimate that has to be reconciled when the actual fee levels are known. This means that if the actual fee levels subsequently approved by the Administration for a certain academic year are lower than that assumed in determining the recurrent grant, the Government will normally provide additional funds to meet the shortfall. Conversely, if there is a surplus income as a result of the actual tuition fee level being higher than that assumed, the excess in recurrent grant will be clawed back by the Government.

10. In June 2000, the Administration decided to freeze the tuition fees for the 2000/01 academic year at their then prevailing (1999/2000) levels, that is,

Degree and above programmes	\$42,100
Sub-degree programmes (except those offered by the HKIEd)	\$31,575
Sub-degree programmes offered by the HKIEd ⁽⁵⁾	\$15,040

11. As a result of the freeze, the tuition fee income received by the UGC-funded institutions in the 2000/01 academic year is \$522.4 million less than the amount assumed when the funding level for the 1998/99 to 2000/01 triennium was determined in 1998. Following the principle in paragraph 9 above, supplementary provision from the Government is required.

Carrying over of unspent funds across triennia

12. At present, there is limited scope for the UGC-funded institutions to carry unspent funds from one triennium to another. They are not allowed to do so except by making allocations to the three purpose-specific reserve funds⁽⁶⁾ to cater for bulges in expenditure across the funding period. We consider there is a case to allow the institutions to replace these reserve funds with a bigger general reserve facility so as to –

/(a)

⁽⁵⁾ Sub-degree programmes of HKIEd are subject to a different scale of tuition fees. The bulk of HKIEd's sub-degree programme tuition fees comes from the Certificate in Education courses which are currently charged at \$15,040.

⁽⁶⁾ The three reserve funds are building-related reserve to cover maintenance and redecoration of premises, and replacement of premises-related equipment, non-building-related reserve to cover replacement of vehicles and equipment, and staff-related reserve to cover various types of staff payments.

- (a) encourage longer-term planning and prudent financial management. Increased flexibility provides an incentive to save money for future use. Such flexibility is given to a number of subvented organisations including aided schools, the Hospital Authority (HA), and more recently the Vocational Training Council (VTC); and
- (b) encourage the UGC-funded institutions to save up for the implementation of new initiatives arising from the education reform.

13. We therefore recommend that the UGC-funded institutions should each be allowed to carry unspent funds up to 20% of their respective institutional recurrent grants in a triennium to the next triennium as reserves. For Members' reference, the reserve ceilings for the HA and the VTC are 5% and 15% respectively. As regards aided schools, they are allowed to keep a reserve up to 100% of their respective annual Operating Expenses Block Grant and 500% of their Composite Furniture and Equipment Grant.

14. We recommend a maximum reserve level of 20% for the UGC-funded institutions for the following reasons –

- (a) the education reform package has presented tremendous challenges to the higher education sector. For instance, there will be discussions on credit unit transfer and the normative length of an undergraduate programme. As higher education already takes up about one-third of the total government resources allocated to education, the recurrent subsidy to the UGC-funded sector is not expected to increase substantially in the short-term. By allowing a 20% reserve facility, we would encourage and facilitate the institutions to make more effective and flexible use of their existing resources;
- (b) unlike the HA, aided schools and the VTC which are funded on an annual basis, the UGC-funded institutions' recurrent grants are determined based on a broadbrush formula on a triennial basis. In particular, the non-salary related expenditure is calculated at the price level one year before the beginning of the triennium. While this mode of funding allows greater flexibility, institutions are expected to absorb the effect of inflation and deflation for non-salary related expenditure during the triennium and hence bear a higher financial risk. The UGC sector therefore needs a bigger reserve; and
- (c) the life cycle for some research infrastructure investment varies. Added flexibility is required as expenditure may straddle two or even more triennia.

15. The reserve will operate according to the following principles –
- (a) the institutions will be required to notify the UGC of the amount of their reserves as at the end of each triennium;
 - (b) the reserve funds must be spent within the ambit of the original grant. Windfall savings to the institutions may not be kept as reserves⁽⁷⁾;
 - (c) the interest income generated by the reserve funds will be treated as part of the assumed income in determining the recurrent grants to the UGC-funded institutions; and
 - (d) the reserve will not affect the calculation of student unit cost for the purpose of determining the recurrent funding requirements of the institutions and the tuition fee levels.
16. Based on the amount of recurrent grants to the individual institutions in the 1998/99 to 2000/01 triennium, the maximum amount of reserve that the institutions may carry over to the next triennium will be around \$7 billion in total.

FINANCIAL IMPLICATIONS

Recurrent funding proposal for the 2001/02 to 2003/04 triennium

17. The estimated total cost for implementing the UGC's recurrent funding recommendations for the 2001/02 to 2003/04 triennium is \$36,269.5 million at the 2001-02 Estimates price levels. In line with the normal arrangement governing triennium funding, once this amount is determined, it will not be adjusted during the triennium except for adjustments to take into account the civil service salary adjustment and the difference between the estimated and actual tuition fee income.
18. Compared to the 1998/99 to 2000/01 triennium, the 2001/02 to 2003/04 triennium will provide less sub-degree places and more places at degree and above levels. As more students will pay a higher tuition fee, we estimate that the requirement for means-tested grants under the existing Local Student Finance Scheme in the next triennium will on average increase by about \$19 million a year.
19. Subject to Members' agreement, we will include the necessary provision for the first nine months of the 2001/02 academic year in the 2001-02 draft Estimates. For the expenditure in the remainder of the 2001/02 to 2003/04 triennium, we will include sufficient provision in the annual Estimates of the relevant financial years.

/Supplementary

⁽⁷⁾ Examples are surplus in tuition fee income as a result of the Administration approving a higher level of tuition fee than that assumed in the calculation of the Cash Limit, or across-the-board adjustment to the terms and conditions of the civil service such as the lowering of entry salary.

Supplementary provision for the 2000/01 academic year

20. If Members approve the proposal to provide supplementary provision of \$522.4 million to meet the institutions' shortfall in tuition fee income in the 2000/01 academic year, we shall offset the supplementary provision by reserving an equivalent amount under Head 106 Miscellaneous Services Subhead 251 Additional commitments.

21. As a result of the freeze in the tuition fee levels, the estimated requirement for grants to students under the Local Student Finance Scheme will be reduced by about \$38.6 million for the 2000/01 academic year or the 2000-01 financial year.

BACKGROUND INFORMATION

22. We submit the recurrent funding requirements of the UGC-funded institutions to Finance Committee for consideration on a triennial basis. Recurrent funding to the institutions for the 1998/99 to 2000/01 triennium was considered by the Finance Committee in March 1998 (ref. FCR(97-98)111). Members accepted the financial implications for recurrent grants totalling \$35,399.4 million for the eight institutions.

23. As a result of the Government's decision to freeze the tuition fee levels for the 1998/99 and 1999/2000 academic years at the 1997/98 levels, Members approved supplementary provision of \$129.5 million and \$329.7 million to the UGC-funded institutions in 1998-99 and 1999-2000 respectively to meet their shortfall in tuition fee income (ref. FCR(98-99)70 and FCR(1999-2000)39). In view of the current economic situation, the Chief Executive in Council decided that the tuition fees for the UGC-funded institutions in the 2000/01 and 2001/02 academic years should continue to be frozen.

24. Expenditure on tertiary education accounts for about one-third of Government's education budget. We are pleased that the cost containment measure as recommended by the UGC and accepted by the Administration has been gradually achieved over the 1998/99 to 2000/01 triennium without detriment to the quality of education.

25. We briefed the Legislative Council Panel on Education at its meeting on 15 January 2001.

Enclosure 1 to FCR(2000-01)72

Indicative Student Number Targets for the 2001/02 to 2003/04 Triennium

Institutions	Target Undergraduate Places			
	2001/02	2002/03	2003/04	Total
CityU	7,134	7,134	7,134	21,402
HKBU	3,964	4,038	4,068	12,070
LU	2,043	2,037	2,037	6,117
CUHK	9,284	9,291	9,259	27,834
HKIEd	1,787	2,453	2,919	7,159
PolyU	7,396	7,361	7,311	22,068
HKUST	5,524	5,483	5,457	16,464
HKU	9,103	9,025	8,972	27,100
Total	46,235	46,822	47,157	140,214

Institutions	Target Taught Postgraduate Places			
	2001/02	2002/03	2003/04	Total
CityU	914	896	853	2,663
HKBU	336	346	353	1,035
LU	-	-	-	-
CUHK	1,015	1,009	1,005	3,029
HKIEd	474	508	561	1,543
PolyU	847	831	814	2,492
HKUST	540	493	456	1,489
HKU	1,510	1,435	1,375	4,320
Total	5,636	5,518	5,417	16,571

Institutions	Target Research Postgraduate Places			
	2001/02	2002/03	2003/04	Total
CityU	370	373	378	1,121
HKBU	137	138	139	414
LU	17	17	17	51
CUHK	1,193	1,235	1,275	3,703
HKIEd	-	-	-	-
PolyU	351	364	381	1,096
HKUST	774	813	850	2,437
HKU	1,193	1,235	1,275	3,703
Total	4,035	4,175	4,315	12,525

Institutions	Target Sub-degree Places			
	2001/02	2002/03	2003/04	Total
CityU	4,725	4,725	4,725	14,175
HKIEd	3,135	2,517	2,003	7,655
PolyU	4,725	4,725	4,725	14,175
Total	12,585	11,967	11,453	36,005

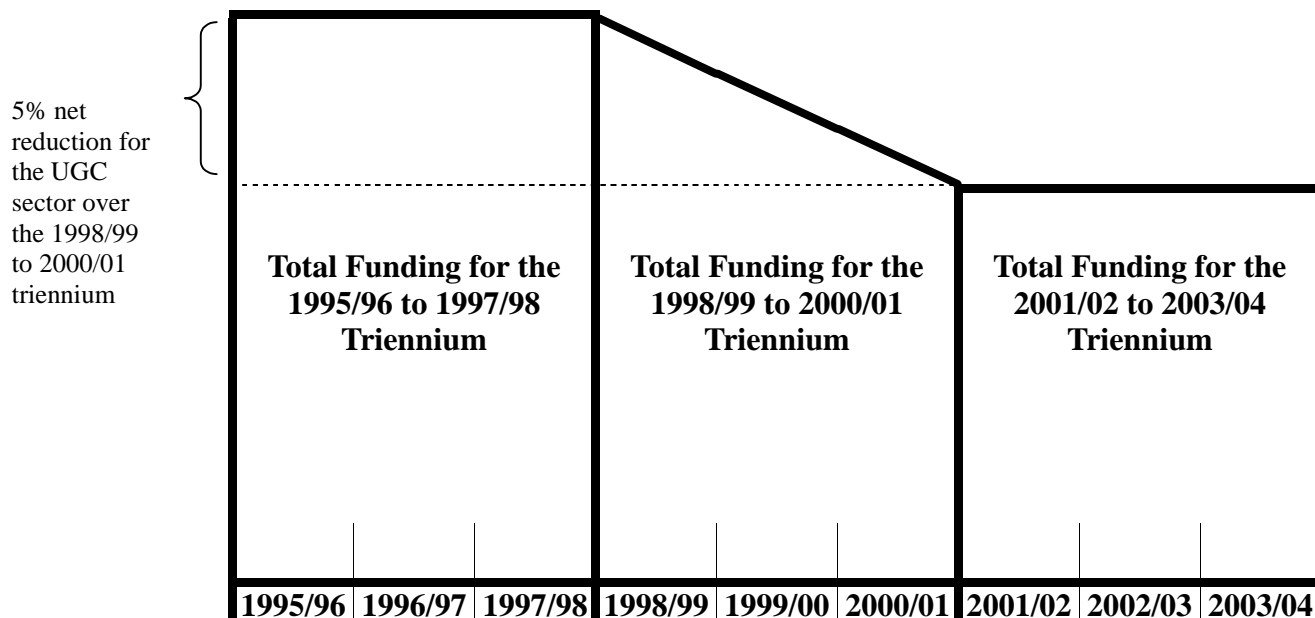
Institutions	Grand Total			
	2001/02	2002/03	2003/04	Total
CityU	13,143	13,128	13,090	39,361
HKBU	4,437	4,522	4,560	13,519
LU	2,060	2,054	2,054	6,168
CUHK	11,492	11,535	11,539	34,566
HKIEd	5,396	5,478	5,483	16,357
PolyU	13,319	13,281	13,231	39,831
HKUST	6,838	6,789	6,763	20,390
HKU	11,806	11,695	11,622	35,123
Total	68,491	68,482	68,342	205,315

Note

The above figures are indicative only. There may be minor redistribution among institutions in the course of the triennium.

Diagram to Illustrate the Effect of Reduction in Average Student Unit Cost

Average Student Unit Cost



Note

For simple illustration, it is assumed that the student number is maintained at the same level over the three triennia.

Enclosure 3 to FCR(2000-01)72

**Table 1 : Student Number Targets
1998/99 to 2000/01 Vs 2001/02 to 2003/04 Triennia**

Target Undergraduate (Ug) Number				
Institutions	1998-2001 Triennium¹	2001-04 Triennium	Difference	
			No.	%
CityU	22,225	21,402	-823	-3.7%
HKBU	12,045	12,070	25	0.2%
LU	6,210	6,117	-93	-1.5%
CUHK	27,626	27,834	208	0.8%
HKIEd	324	7,159	6,835	2109.6%
PolyU	22,625	22,068	-557	-2.5%
HKUST	17,024	16,464	-560	-3.3%
HKU	27,098	27,100	2	0.0%
Total	135,177	140,214	5,037	3.7%
Ug as % of Total	65.8%	68.3%		
Target Taught Postgraduate (TPg) Number				
Institutions	1998-2001 Triennium¹	2001-04 Triennium	Difference	
			No.	%
CityU	2,805	2,663	-142	-5.1%
HKBU	615	1,035	420	68.3%
LU	-	-	-	-
CUHK	3,012	3,029	17	0.6%
HKIEd	180	1,543	1,363	757.2%
PolyU	2,562	2,492	-70	-2.7%
HKUST	1,680	1,489	-191	-11.4%
HKU	4,656	4,320	-336	-7.2%
TPg held in reserve ²	180	-	-180	-100.0%
Total	15,690	16,571	881	5.6%
TPg as % of Total	7.6%	8.1%		
Target Research Postgraduate (RPg) Number				
Institutions	1998-2001 Triennium¹	2001-04 Triennium	Difference	
			No.	%
CityU	705	1,121	416	59.0%
HKBU	192	414	222	115.6%
LU	45	51	6	13.3%
CUHK	2,394	3,703	1,309	54.7%
HKIEd	-	-	-	-

PolyU	630	1,096	466	74.0%
HKUST	1,530	2,437	907	59.3%
HKU	2,604	3,703	1,099	42.2%
RPg held in reserve ²	2,685	-	-2,685	-100.0%
Total	10,785	12,525	1,740	16.1%
RPg as % of Total	5.3%	6.1%		
Target Sub-degree (SD) Number				
Institutions	1998-2001 Triennium ¹	2001-04 Triennium	Difference	
			No.	%
CityU	14,175	14,175	0	0.0%
HKIED	15,380	7,655	-7,725	-50.2%
PolyU	14,175	14,175	0	0.0%
Total	43,730	36,005	-7,725	-17.7%
SD as % of Total	21.3%	17.5%		
Grand Total				
Institutions	1998-2001 Triennium ¹	2001-04 Triennium	Difference	
			No.	%
CityU	39,910	39,361	-549	-1.4%
HKBU	12,852	13,519	667	5.2%
LU	6,255	6,168	-87	-1.4%
CUHK	33,032	34,566	1,534	4.6%
HKIED	15,884	16,357	473	3.0%
PolyU	39,992	39,831	-161	-0.4%
HKUST	20,234	20,390	156	0.8%
HKU	34,358	35,123	765	2.2%
TPg held in reserve ²	180	-	-180	-100.0%
RPg held in reserve ²	2,685	-	-2,685	-100.0%
Total	205,382	205,315	-67	0.0%

Notes

1. The column reflects the planning targets for the 1998/99 to 2000/01 triennium, and does not include subsequent variations such as the upgrading of HKIED's sub-degree teacher education places to degree and above levels.
2. At the beginning of the 1998/99 to 2000/01 triennium, some TPg and RPg numbers were held in reserve by the UGC for distribution to the institutions during the triennium.

**Table 2 : Recurrent Funding
1998/99 to 2000/01 as compared to 2001/02 to 2003/04**

	(A) 1998-2001 Triennium \$ million	(B) 2001-04 Triennium \$ million	Difference (B - A)/(A)	
			\$ million	%
Funding for eight UGC-funded Institutions				
<i>Government grant</i>	36,148.1	33,772.4	-2,376	-6.5%
<i>Assumed income</i>	10,052.3	10,212.7	160	1.6%
<i>Total Funds</i>	46,200.4	43,985.1	-2,215	-4.8%
Earmarked Research Grants (ERG)	1,286.0	1,632.0	346	26.9%
Teaching Development Grants	172.5	115.0	-58	-33.3%
Language Enhancement Grants	217.5	217.5	0	0.0%
Central Allocation Vote (CAV) including Areas of Excellence, etc.	489.0	525.6	37	7.5%
Grand Total to the UGC-funded Institutions				
<i>Government grant</i>	38,313.1	36,262.5	-2,051	-5.4%
<i>Assumed income</i>	10,052.3	10,212.7	160	1.6%
<i>Total Funds</i>	48,365.4	46,475.2	-1,890	-3.9%

Notes:

- 1 UGC will retain some money to administer inter-institutional projects, which amount to \$2.3 million, \$2.3 million and \$2.4 million for 2001/02, 2002/03 and 2003/04 respectively.
- 2 Funding for the 1998/99 to 2000/01 triennium includes \$522.4 million supplementary provision as proposed under paragraph 2(b) of the Finance Committee Agenda Item for approval by the Finance Committee.
- 3 Some of the provision originally approved for CAV in the 1998/99 to 2000/01 triennium has been reclassified under the institutional grant and ERG in accordance with the classification for the 2001/02 to 2003/04 triennium.

**Methodology for Determining the Levels of Recurrent Grants
to the UGC-funded Institutions**

The recurrent grants for the UGC-funded institutions are largely determined based on a methodology developed by the UGC in 1994 and improved over the years. In short, the amount of grant comprises three elements:

- (a) Teaching – about 75%
- (b) Research – about 23%
- (c) Professional Activity – about 2%

Teaching Element

2. The **Teaching** element is based on the student numbers, their levels (i.e. sub-degree, first degree, taught postgraduate and research postgraduate), mode of study (i.e. part-time and full-time) and disciplines of study. Some subjects are more expensive than others because they require special equipment, laboratory or more staff time, etc. Relative weighting by broad academic programme categories (APC) is shown in the following table:

	APC	Relative cost weightings		
1.	Medicine	4.0	-	5.0
2.	Dentistry	3.5	-	5.0
3.	Studies Allied to Medicine & Health	1.4	-	2.4
4.	Biological Sciences	1.3	-	3.8
5.	Physical Sciences	1.3	-	3.2
6.	Mathematical Sciences	0.9	-	1.5
7.	Computer Science & IT	0.9	-	1.5
8.	Engineering & Technology	1.2	-	2.3
9.	Architecture & Town Planning	1	-	1.6
10.	Business & Management Studies	0.8	-	1.6
11.	Social Sciences	1	-	1.6
12.	Law	1	-	1.6
13.	Mass Communication & Documentation	1	-	1.6
14.	Languages & Related Studies	0.8	-	1.5
15.	Humanities	0.9	-	1.2
16.	Arts, Design & Performing Arts	1.3	-	1.8
17.	Education	0.9	-	1.4

Research Element

3. The **Research** element is primarily related to the number of active research workers and the cost of research in respective fields. The number of active research workers in each cost centre was identified in the context of the Research Assessment Exercise last conducted in 1999 which assessed the research performance of different institutions and different cost centres within an institution.

Professional Activity Element

4. This element of funding is associated with professional (non-research) activities which should be undertaken by all members of academic staff. It is calculated based on the number of academic staff.

Allocation within Institutions

5. The UGC formula only serves as a basis for determining the allocation to the UGC-funded institutions. Once allocations are approved, institutions have a high degree of freedom and responsibility for determining the best use of the resources vested in them.