

URGENT

16 February 2001

Ms. Flora Tai
Panel on Education
Legislative Council
Legislative Council Building
8 Jackson Road
Central, Hong Kong

Fax No.: 2509 9055

Dear Ms. Tai,

**Legco Panel on Education
Meeting on 19 February 2001**

Please be informed that we shall not send any representative to your meeting on 19 February 2001 as the UGC will be speaking on our behalf as a UGC-funded institution. However, we wish to clarify some misunderstanding about the statement in our last letter to your Panel that “funding cuts will lead to reduction in staff numbers”. I understand that your Panel has a particular concern about the funding cut to the higher education sector in the 2001-2004 Triennium in respect of the impact on staff employment/establishment.

At present, staff costs generally amount to about 65-85% of the expenditures, depending on the size and scale of the institutions. Owing to our small size and lack of economies of scale, Lingnan’s percentage of staff costs in total expenditure is relatively high, though over the past years we have made every effort to contain or reduce staff costs. In the current 1998-2001 Triennium, through the academic and administrative

restructuring and reengineering exercises, we have managed to reduce our staff costs from about 83% of the expenditures to about 80% — approximately 50% on academic staff costs and 30% on non-academic staff costs. The percentage reduction would have been larger if not for the fact that the funding cut in this Triennium has also led to significant reduction of non-staff costs. In a small institution like Lingnan, a reduction of total funds by 8.3% (compared with the average of 3.9% for all eight institutions) will result in a projected deficit of an absolute sum of about \$80 million, almost 9% of our budget. Such reduction in funding will inevitably lead to a reduction in staff numbers. Even if institutions manage to reduce the spending of the budget on the General (Non-staff) Expenses, the cost reduced is very limited and will only have minimal impact on the total budget.

We therefore would like to reiterate that the proposed reduction in Lingnan's total funds by 8.3% will be detrimental to our development. My proposal on staff reduction is a statement of fact and should not be regarded as alarmism (危言聳聽). As far as Lingnan is concerned, in this Triennium, we have already reduced the number of senior non-academic staff (equivalent to Lecturer or above) from 52 to 42. Your Panel will appreciate that further reduction in such minimal administrative support is almost impossible. By that admission, the only choice we are left with is to reduce the number of our academic staff. Panel members may wish to know that in our last letter to the Education Panel, we did not mention our intention to lay off staff or make staff redundant. There are various possible measures that we can undertake to reduce staff costs, apart from laying off staff:

- a. To “freeze” some positions when they become vacant as a result of natural attrition, e.g. resignation, retirement, or staff not seeking contract renewal, and to “refreeze” some positions for which we have already started the recruitment exercise.
- b. To replace senior posts by junior staff whenever the positions become available.
- c. To impose an across-the-board pay cut on every staff.
- d. To “freeze” staff increments for those who are entitled to them.

Your Panel would probably be aware that measures (a) & (b) will have direct and adverse impact on the quality of our academic programmes, and our cherished staff-student relationship. As regards measures (c) & (d), no one will doubt the detrimental effects on staff morale and thus academic excellence. Lingnan, and perhaps other institutions as well, is now considering very seriously the above options. Laying off staff is only our last resort.

Reference has been made to the second round of allocation by the UGC. It is however to be pointed out that only \$700 million or 1.9% of the total grants already allocated will be made available to the institutions in the second round of allocation. Even if the allocation to Lingnan is proportional to its budget size, we shall be given no more than \$12 million or 15% of our projected deficit.

All the institutions, including Lingnan, may in the end be able to deal with the reduction in recurrent grant in the next Triennium with few or even no lay-offs by adopting one or more of the above-mentioned measures. Nevertheless, the budget cut will certainly lead to reduction in facilities, equipment, and staff numbers, and therefore sacrifice educational quality for cost saving. The organization of Lingnan has always been lean. If there were any fat, it would have been burnt out in this Triennium as a result of the 10% funding cut. Universities are not factories. There is a limit to the cost that can be saved without compromising quality. Legco's concern should not be confined to the immediate effect of staff lay-off, but also the more important, far reaching impact on Hong Kong's human capital. Insufficient funding to the universities will definitely have an adverse impact on the quality of academic programmes provided, and the competitiveness of Hong Kong as a world-class city will inevitably and regrettably be compromised.

I would also like to take this opportunity to inform Legco that the deficit situation in Lingnan is genuine, despite our surpluses in this Triennium. Surpluses, in any case, are not meant for financing the deficit in recurrent grant but are earmarked for specific developmental purposes. Also, surpluses should be used for extra-ordinary items not usually provided in the recurrent grant such as building and equipment upgrade and maintenance, as well as cash compensation for accumulated leave and others.

We do have a small surplus in Lingnan, although the surplus is proportionately much smaller than the other institutions. Indeed, we manage to have this surplus, despite the funding cut in the current Triennium, for the following three reasons:

- a. Deflation – which is not anticipated.
- b. Re-engineering of both academic and administrative structures.
- c. Temporary freezing of posts for expediency, which however cannot be a long-term measure in view of the need to maintain the quality of our programmes.

In fact, the surplus from this Triennium has been set aside for specific purposes. Part of the surplus is designated for campus upgrade. By September 2001, we will have moved to the Tuen Mun campus for six years and campus maintenance and upgrade works have to be undertaken in the coming few years. The other part of the surplus will be used for the setting up of an Integrated Administrative Computer System, which is of high priority and necessity in this advanced information technology era.

With all our dedicated efforts, we have managed to have a balanced budget at the end of the current Triennium, i.e. in 2000-2001, despite the cut. But, in the coming years, as predicted by the Financial Secretary, there will be a mild inflation and no longer any deflation. We also intend to “unfreeze” some of the temporarily frozen posts so as to maintain at least the minimum quality of our programmes. More important, our budget will have to be significantly bigger because of annual salary increments. On top of all these, Lingnan has now to face a funding cut of 8.3% in the next Triennium. The financial difficulties confronting us are thus real and not based on “misunderstanding”.

Given the fact that Lingnan is a small institution, with a distinctive liberal arts mission, comparatively young history, and at its early stage of development, it is very difficult, or almost impossible, to have the flexibility to adapt to the funding cut, irrespective of whether we have been warned or not warned of such funding cut in advance.

Under such circumstances, we sincerely hope that the Government will provide more funding to the higher education sector in general, and that the University Grants Committee (UGC) would adopt a funding formula (of which we have no exact information) taking into consideration the special situation of a small, liberal arts institution such as Lingnan. It is especially important that the UGC will honour its pledge that factors such as history, size, mission and stage of development of institutions would be taken into account in the UGC funding allocation. Insufficient funding to Lingnan will not only hurt Lingnan but more importantly the development of liberal arts education in Hong Kong. If the performance of a liberal arts institution is adversely affected by underprovision of resources, liberal arts education will not be able to earn the respect of the general public and receive favourable consideration by the funding agency. A vicious circle is then developed, resulting in liberal arts education being unjustifiably stifled in Hong Kong.

Yours sincerely,

Edward K.Y. Chen
President

c.c. Mr. Peter Cheung, Secretary-General, UGC
Mrs. Fanny Law, SEM
Heads of Institutions