

## LEGISLATIVE COUNCIL BRIEF

### RECURRENT FUNDING FOR UNIVERSITY GRANTS COMMITTEE-FUNDED INSTITUTIONS IN THE 2001/02 TO 2003/04 TRIENNIUM

#### INTRODUCTION

At the meeting of the Executive Council on 9 January 2001, the Council **ADVISED** and the Chief Executive **ORDERED** that –

- (a) the distribution of indicative student number targets (by institution, level and academic year) for the 2001/02 to 2003/04 triennium as proposed by the University Grants Committee (UGC) and set out at **Annex A** should be approved;
- (b) the UGC's specific recurrent funding recommendations in respect of the eight UGC-funded institutions for the 2001/02 to 2003/04 triennium, as summarised in **paragraphs 6 to 9** below, should be endorsed subject to the acceptance of the financial implications by the Finance Committee of the Legislative Council;
- (c) the UGC-funded institutions should be allowed to carry over up to 20% of the triennial recurrent grants from one triennium to the next as reserves (**paragraphs 10 to 14**); and
- (d) the tuition fees for the UGC-funded institutions for 2001/02 should be frozen at the current (i.e. 1997/98 to 2000/01) levels (**paragraph 16**).

#### BACKGROUND AND ARGUMENT

##### *Student Number Targets*

2. The indicative student targets for the 2001/02 to 2003/04 triennium, when compared with the current triennium, are shown at **Annex A**. The salient features are set out below –

- (a) the number of publicly-funded first-year first-degree places (FYFD) in full-time-equivalent (fte) terms should remain constant at 14 500 places in the next triennium. Within this target, there will be redistribution between disciplines;
- (b) the undergraduate (Ug) number will be increased modestly to cater for the increase in four-year undergraduate programmes;
- (c) the taught postgraduate (TPg) number will be slightly increased to cater for expansion in the Postgraduate Diploma/Certificate in Education programmes;
- (d) the research postgraduate (RPg) student number target will be progressively increased by 720 fte (or 20%) to support Hong Kong's development in science and technology;
- (e) the sub-degree (SD) student number for the UGC-funded sector will decrease over the next triennium as the Hong Kong Institute of Education (HKIED) upgrades its SD pre-service teacher education places to degree or above levels;
- (f) the student number of degree or above level teacher education programmes will increase by about 90% in the next triennium<sup>1</sup>; and
- (g) the total intakes into the UGC-funded science and technology-related programmes will remain about one-third of the FYFD targets in the next triennium.

### ***Funding***

3. As agreed between the UGC and the Administration, 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<sup>2</sup>, with half of the savings being ploughed back to the UGC for redistribution to meet new developments such as areas of excellence. In effect, this works out to be a 5% net reduction in the overall average student unit cost. The reduced unit cost has formed the basis for determining the total allocation to the UGC for the

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<sup>1</sup> In addition, blister programmes on teacher education will also be provided in the next triennium to cater for increasing demand for trained teachers.

<sup>2</sup> The reduction in student unit cost does not apply to the Hong Kong Institute of Education (HKIED).

2001/02 to 2003/04 triennium. The Administration has not requested further reduction in the unit cost beyond the agreed target.

4. Adopting the new level in calculating the allocation for the next triennium will result in a reduction in the funding level when compared with the total allocation for the current one. A diagrammatic presentation is at **Annex B**. In absolute dollar terms, the recurrent funds available to the UGC-funded sector in the 2001/02 to 2003/04 triennium will be about **4%** less than the 1998/99 to 2000/01 triennium<sup>3</sup> due mainly to the full triennial effect of the unit cost reduction and deflation during the current triennium. The recurrent funding for the next triennium, when compared with the current one, is shown at **Annex C**.

5. The Administration agrees, in principle, that the student mix and the student unit cost by levels should be taken into account in determining the Cash Limit. However, in view of the resources available, we have adhered to the longstanding practice of using the overall student unit cost as the basis for determining the Cash Limit. This has resulted in the Cash Limit being about \$1 billion lower than that calculated under the weighted student unit cost approach. Subject to the availability of resources, we shall review the situation in determining funding for the 2004/05 to 2006/07 triennium.

### ***Recurrent Funding Assessment for the 2001/02 to 2003/04 Triennium***

#### **(A) Methodology**

6. Over 90% of the UGC's recurrent grant is directly allocated to the institutions. These grants are made up of three elements: teaching, research and professional activities. The teaching element is calculated based on the agreed student number targets and the relative cost weighting of different disciplines, modes and levels of studies. The research element is based on the institutions' performance as determined by the Research Assessment Exercise (RAE). The professional activity element is based on the number of academic staff. Details are set out at **Annex D**. In response to the Administration's calls, the UGC has decided to introduce further performance and mission-related elements into the assessment of the institutional recurrent grants, particularly in relation to the institutions'

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<sup>3</sup> This includes additional funding for the progressive upgrading of sub-degree teacher education places at the HKIED to degree and above levels in the 1998/99 to 2000/01 triennium.

performance in teaching and learning related activities. The UGC is working on a menu of performance descriptors, which will be taken into account in the allocation of this portion of the recurrent funding. The UGC expects to finalise the menu in 2001/02. A sum of \$700 million has been set aside for this purpose for distribution to the institutions in 2002/03 or 2003/04.

### **(B) Earmarked Grants**

7. In line with established practices, the UGC proposes to set aside earmarked grants for research, language enhancement and teaching development. To cope with an increasing number of high quality research proposals, the amount of Competitive Earmarked Research Grant (ERG) will be increased by 27% from \$1,286 million in the current triennium to \$1,632 million in the next one.

### **(C) Central Allocation Vote**

8. The UGC will reserve \$526 million (or 1.4% of total) in its central allocation vote to support cross-institutional initiatives and to meet new requirements during the triennium. Examples include the Area of Excellence Scheme, quality assurance projects and institutional restructuring.

### **(D) Specific Funding Recommendations**

9. The UGC's specific recurrent grants for the eight UGC-funded institutions for the 2001/02 to 2003/04 triennium<sup>4</sup> are shown below –

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<sup>4</sup> The figures have not taken into account the financial implications of introducing the UGC Home Financing Scheme (HFS) since 1998. In line with the parameters endorsed by the Finance Committee of the Legislative Council, UGC HFS does not affect the current basis of triennium funding, other than the adjustments to the total recurrent grants to the UGC-funded institutions to reflect Government's share of the rental income arising from surplus staff quarters.

	<i>Academic Year (July to June)</i>				<i>Total</i> <i>\$m</i>
	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>		
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>		
(A) Recurrent grants to institutions					
(a) CityU	1,555.0	1,503.8	1,502.5		4,561.3
(b) HKBU	595.7	589.4	594.1		1,779.2
(c) LU	211.8	205.0	205.2		622.0
(d) CUHK	2,481.8	2,437.5	2,452.9		7,372.2
(e) HKIEd	768.3	764.1	770.1		2,302.5
(f) PolyU	1,799.8	1,739.7	1,735.7		5,275.2
(g) HKUST	1,380.7	1,353.9	1,358.0		4,092.6
(h) HKU	2,409.0	2,330.4	2,328.0		7,067.4
	<i>Sub-total</i>	11,202.1	10,923.8	10,946.5	33,072.4
Performance- & mission-related funding		-	349.4	350.6	700.0
	<i>Sub-total</i>	<b>11,202.1</b>	<b>11,273.2</b>	<b>11,297.1</b>	<b>33,772.4</b>
(B) Earmarked Research Grants	510.8	543.3	577.9		1,632.0
(C) Teaching Development Grants	38.3	38.3	38.4		115.0
(D) Language Enhancement Grants	72.5	72.5	72.5		217.5
(E) Central Allocation Vote	140.5	175.2	209.9		525.6
(F) Total Recurrent Grant to the UGC-funded institutions	11,964.2	12,102.5	12,195.8		36,262.5
(G) Sum to be retained by UGC for administering inter-institutional projects	2.3	2.3	2.4		7.0
<b>(F) + (G)</b> <b>Total</b>	<b>Grand</b>	<b>11,966.5</b>	<b>12,104.8</b>	<b>12,198.2</b>	<b>36,269.5</b>

### *Carrying over of unspent funds between triennia*

10. At present, there is limited scope for the UGC and its institutions to carry unspent funds from one triennium to another. For the UGC-funded institutions, they are not allowed to do so except by making allocations to three purpose-specific reserve funds<sup>5</sup> to cater for bulges in expenditure across the funding period. We see merits in allowing the institutions to replace these reserve funds with a bigger general reserve facility so as to –

- (a) encourage longer-term planning and prudent financial management. Increased flexibility provides an incentive to

<sup>5</sup> The three reserve funds are building-related reserve, non-building-related reserve and staff-related reserve.

save money for future use. Such flexibility is given to a number of subvented organisations including the aided schools, the Hospital Authority (HA), and more recently the Vocational Training Council.

- (b) encourage the UGC-funded institutions to save up for the implementation of new initiatives arising from the education reform.

11. In view of the above, we propose that the UGC-funded institutions should each be allowed to carry over unspent funds up to **20%** of their respective UGC recurrent grants in a triennium to the next triennium as reserves.

12. In recommending a ceiling of 20%, we have taken into account the arrangements for other subvented bodies. The reserve ceilings for HA and 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. We suggest 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 ongoing discussion on the credit unit transfer and the normative length of an undergraduate programme. As public resources devoted to higher education already make up about one-third of the total resources allocated to education, the recurrent subsidy to the UGC-funded sector is not expected to increase 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 VTC which are funded on an annual basis, the UGC's Cash Limit and institutions' recurrent grants are determined 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. Institutions are expected to absorb the effect of inflation and deflation between triennia and hence bear a higher financial risk. The UGC sector therefore need a bigger reserve.

- (c) The life cycle for some research infrastructure investment varies. Added flexibility is required as expenditure may straddle two or even more triennia.
13. The reserve will operate according to the following principles:
- (a) The institutions will be required to notify the UGC of the amount of reserve as at the end of each triennium.
  - (b) The reserve must be spent within the ambit of the original grant. Windfall savings to the institutions may not be kept as reserves<sup>6</sup>.
  - (c) The interest income generated by the reserve will be included as part of the assumed income in the Cash Limit calculation. Other than that, the reserve will not be taken into account in determining the Cash Limit to the UGC sector as a whole.
  - (d) The reserve will not affect the calculation of student unit cost for the purpose of determining the tuition fee levels.
14. As regards the UGC itself, recurrent funds which remain unspent or unallocated to the institutions by the end of each financial year will, like all unspent provision in Government's General Revenue Account, lapse pursuant to the Public Finance Ordinance. We consider that the UGC also needs to put in place arrangements within the parameters of Government's existing accounting framework to facilitate the financing of projects with cash-flow expenditure straddling two triennia. Examples include the Areas of Excellence Scheme under which projects are funded for five years. We will seek the necessary approval for this arrangement, and for the proposed reserve facility mentioned above.

### ***Tuition Fees for 2001/02***

15. Since February 1998, Government has frozen most Government fees as an exceptional relief measure at a time of economic adjustment. Government has recently announced its decision to freeze Government school fees and some livelihood-related fees for another year.

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<sup>6</sup> Examples are surplus in tuition fee income as a result of the Administration approving a higher level of tuition fee than 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.

16. Whilst the tuition fees for the UGC-funded institutions are not Government fees, the indicative levels are determined by Government and the level of subvention (i.e. 82%) is the same as for senior secondary school fees. There is expectation that tertiary tuition fees will be treated on the same basis as school fees. The Chief Executive in Council therefore approved that the tuition fees for the UGC-funded institutions for 2001/02 should be frozen at the current (i.e. 1997/98 to 2000/01) levels, as shown below –

Degree and above programmes	\$42,100
Sub-degree programmes [except those offered by the Hong Kong Institute of Education (HKIED)]	\$31,575
Sub-degree programmes offered by the HKIED <sup>7</sup>	\$15,040

17. As a result of the proposed freeze, the cost recovery rate will be about 17.8% (excluding the HKIED's sub-degree programmes) and 17.4% (including the HKIED's sub-degree programmes) of the average student unit cost based on the level of grants to the UGC-funded sector for 2001/02.

## **NEXT STEP**

18. The Administration will invite Finance Committee of the Legislative Council to -

- (a) to accept the financial implications of the proposed total recurrent funding requirement of the eight UGC-funded institutions for the 2001/02 to 2003/04 triennium; and
- (b) to approve our proposal to allow the UGC-funded institutions to carry over up to 20% of the triennial recurrent grants from one triennium to the next as reserves.

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<sup>7</sup> 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.



## **FINANCIAL AND STAFFING IMPLICATIONS**

19. The estimated total cost for implementing the UGC's recurrent funding recommendations for the 2001/02 to 2003/04 triennium (i.e. the Cash Limit) will be \$36,269.5 million at the 2001-02 Estimates prices (i.e. 2000 salary and forecast 2001 non-salary price levels). Adequate funding has been earmarked for this purpose. In line with the normal arrangement governing the Cash Limit, once the Limit is determined, it will not be adjusted during the triennium except for adjustments for salary provisions of staff of the UGC-funded institutions in line with the civil service annual salary adjustment, and variations in income from tuition fees as a result of Government determining tuition fee levels different from those assumed in the Cash Limit calculations. The necessary funding approval for the triennial recurrent grants will be sought from the Finance Committee of the Legislative Council in the usual way. As we have assumed that the tuition fees will be frozen at the current level in determining the allocations to the UGC-funded institutions in 2001/02, the proposal to freeze the tuition fees will not have any additional financial implications on the Cash Limit now recommended.

20. Compared to the 1998/99 to 2000/01 triennium, the 2001/02 to 2003/04 triennium will provide less SD 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 will on average increase by about \$19 million a year.

## **PUBLIC CONSULTATION**

21. The recommendations regarding the recurrent funding for the 2001/02 to 2003/04 triennium are based on the UGC's proposals. The proposal to freeze tertiary tuition fees for another year is consistent with the arrangement for livelihood-related Government fees, which has been accepted by both LegCo and the community at large.

## **PUBLICITY**

22. A press release will be issued to announce the major recommendations. We will consult the Legislative Council Panel on Education on 15 January 2001.

## **ENQUIRIES**

23. For enquiries, please call Ms Michelle LI, Principal Assistant Secretary for Education and Manpower, at 2810 3023.

**The final distribution of Indicative Student Number Targets  
for 2001-2004 Triennium**

Institutions	Target Ug 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
<b>Total</b>	<b>46,235</b>	<b>46,822</b>	<b>47,157</b>	<b>140,214</b>

Institutions	Target TPg 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
<b>Total</b>	<b>5,636</b>	<b>5,518</b>	<b>5,417</b>	<b>16,571</b>

Institutions	Target RPg 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
<b>Total</b>	<b>4,035</b>	<b>4,175</b>	<b>4,315</b>	<b>12,525</b>

Institutions	Target SD 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
<b>Total</b>	<b>12,585</b>	<b>11,967</b>	<b>11,453</b>	<b>36,005</b>

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
<b>Total</b>	<b>68,491</b>	<b>68,482</b>	<b>68,342</b>	<b>205,315</b>

**Targets - 1998/99 to 2000/01 Vs 2001/02  
to 2003/04**

<b>Target Ug</b>										
	<b>2001/02 to 2003/04 Triennium</b>				<b>1998/99 to 2000/01 Triennium<sup>(Note 1)</sup></b>				<b>Difference</b>	
<b>Institutions</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>Total</b>	<b>1998/99</b>	<b>1999/2000</b>	<b>2000/01</b>	<b>Total</b>	<b>No.</b>	<b>%</b>
CityU	7,134	7,134	7,134	21,402	7,464	7,408	7,353	22,225	-823	-3.7%
HKBU	3,964	4,038	4,068	12,070	4,027	4,017	4,001	12,045	25	0.2%
LU	2,043	2,037	2,037	6,117	2070	2070	2070	6,210	-93	-1.5%
CUHK	9,284	9,291	9,259	27,834	9,195	9,213	9,218	27,626	208	0.8%
HKIED	1,787	2,453	2,919	7,159	30	90	204	324	6,835	2109.6%
PolyU	7,396	7,361	7,311	22,068	7,592	7,545	7,488	22,625	-557	-2.5%
HKUST	5,524	5,483	5,457	16,464	5,721	5,677	5,626	17,024	-560	-3.3%
HKU	9,103	9,025	8,972	27,100	8,970	9,038	9,090	27,098	2	0.0%
<b>Total</b>	<b>46,235</b>	<b>46,822</b>	<b>47,157</b>	<b>140,214</b>	<b>45,069</b>	<b>45,058</b>	<b>45,050</b>	<b>135,177</b>	<b>5,037</b>	<b>3.7%</b>
<b>Ug as % of Total</b>	<b>67.5%</b>	<b>68.4%</b>	<b>69.0%</b>	<b>68.3%</b>	<b>66.0%</b>	<b>65.8%</b>	<b>65.7%</b>	<b>65.8%</b>	<b>2.5%</b>	
<b>Target Tpg</b>										
<b>Institutions</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>Total</b>	<b>1998/99</b>	<b>1999/2000</b>	<b>2000/01</b>	<b>Total</b>	<b>No.</b>	<b>%</b>
CityU	914	896	853	2,663	935	935	935	2,805	-142	-5.1%
HKBU	336	346	353	1,035	205	205	205	615	420	68.3%
LU	-	-	-	-	0	0	0	0	0	-
CUHK	1,015	1,009	1,005	3,029	1,004	1,004	1,004	3,012	17	0.6%
HKIED	474	508	561	1,543	15	45	120	180	1,363	757.2%
PolyU	847	831	814	2,492	854	854	854	2,562	-70	-2.7%
HKUST	540	493	456	1,489	560	560	560	1,680	-191	-11.4%
HKU	1,510	1,435	1,375	4,320	1,552	1,552	1,552	4,656	-336	-7.2%
TPg held in reserve	0	0	0	0	60	45	75	180	-180	-100.0%
<b>Total</b>	<b>5,636</b>	<b>5,518</b>	<b>5,417</b>	<b>16,571</b>	<b>5,185</b>	<b>5,200</b>	<b>5,305</b>	<b>15,690</b>	<b>881</b>	<b>5.6%</b>
<b>Tpg as % of Total</b>	<b>8.2%</b>	<b>8.1%</b>	<b>7.9%</b>	<b>8.1%</b>	<b>7.6%</b>	<b>7.6%</b>	<b>7.7%</b>	<b>7.6%</b>	<b>0.4%</b>	
<b>Target Rpg</b>										
<b>Institutions</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>Total</b>	<b>1998/99</b>	<b>1999/2000</b>	<b>2000/01</b>	<b>Total</b>	<b>No.</b>	<b>%</b>
CityU	370	373	378	1,121	235	235	235	705	416	59.0%
HKBU	137	138	139	414	64	64	64	192	222	115.6%
LU	17	17	17	51	15	15	15	45	6	13.3%
CUHK	1,193	1,235	1,275	3,703	798	798	798	2,394	1,309	54.7%
HKIED	-	-	-	-	0	0	0	0	0	-
PolyU	351	364	381	1,096	210	210	210	630	466	74.0%
HKUST	774	813	850	2,437	510	510	510	1,530	907	59.3%
HKU	1,193	1,235	1,275	3,703	868	868	868	2,604	1,099	42.2%
RPg held in reserve	0	0	0	0	895	895	895	2,685	-2,685	-100.0%
<b>Total</b>	<b>4,035</b>	<b>4,175</b>	<b>4,315</b>	<b>12,525</b>	<b>3,595</b>	<b>3,595</b>	<b>3,595</b>	<b>10,785</b>	<b>1,740</b>	<b>16.1%</b>
<b>Rpg as % of Total</b>	<b>5.9%</b>	<b>6.1%</b>	<b>6.3%</b>	<b>6.1%</b>	<b>5.3%</b>	<b>5.2%</b>	<b>5.2%</b>	<b>5.3%</b>	<b>0.8%</b>	
<b>Target Sub-degree</b>										
<b>Institutions</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>Total</b>	<b>1998/99</b>	<b>1999/2000</b>	<b>2000/01</b>	<b>Total</b>	<b>No.</b>	<b>%</b>
CityU	4,725	4,725	4,725	14,175	4,725	4,725	4,725	14,175	0	0.0%
HKIED	3,135	2,517	2,003	7,655	4,947	5,219	5,214	15,380	-7,725	-50.2%
PolyU	4,725	4,725	4,725	14,175	4,725	4,725	4,725	14,175	0	0.0%
<b>Total</b>	<b>12,585</b>	<b>11,967</b>	<b>11,453</b>	<b>36,005</b>	<b>14,397</b>	<b>14,669</b>	<b>14,664</b>	<b>43,730</b>	<b>-7,725</b>	<b>-17.7%</b>
<b>SD as % of Total</b>	<b>18.4%</b>	<b>17.5%</b>	<b>16.8%</b>	<b>17.5%</b>	<b>21.1%</b>	<b>21.4%</b>	<b>21.4%</b>	<b>21.3%</b>	<b>-3.8%</b>	
<b>Grand Total</b>										
<b>Institutions</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>Total</b>	<b>1998/99</b>	<b>1999/2000</b>	<b>2000/01</b>	<b>Total</b>	<b>No.</b>	<b>%</b>
CityU	13,143	13,128	13,090	39,361	13,359	13,303	13,248	39,910	-549	-1.4%
HKBU	4,437	4,522	4,560	13,519	4,296	4,286	4,270	12,852	667	5.2%
LU	2,060	2,054	2,054	6,168	2,085	2,085	2,085	6,255	-87	-1.4%
CUHK	11,492	11,535	11,539	34,566	10,997	11,015	11,020	33,032	1,534	4.6%
HKIED	5,396	5,478	5,483	16,357	4,992	5,354	5,538	15,884	473	3.0%
PolyU	13,319	13,281	13,231	39,831	13,381	13,334	13,277	39,992	-161	-0.4%
HKUST	6,838	6,789	6,763	20,390	6,791	6,747	6,696	20,234	156	0.8%
HKU	11,806	11,695	11,622	35,123	11,390	11,458	11,510	34,358	765	2.2%
TPg held in reserve	0	0	0	0	60	45	75	180	-180	-100.0%
RPg held in reserve	0	0	0	0	895	895	895	2,685	-2,685	-100.0%
<b>Total</b>	<b>68,491</b>	<b>68,482</b>	<b>68,342</b>	<b>205,315</b>	<b>68,246</b>	<b>68,522</b>	<b>68,614</b>	<b>205,382</b>	<b>-67</b>	<b>0.0%</b>

Notes

1 Excluding the redistribution of numbers to upgrade HKIED's sub-degree teacher education places to degree and above levels.

## Annex A (Page 2)

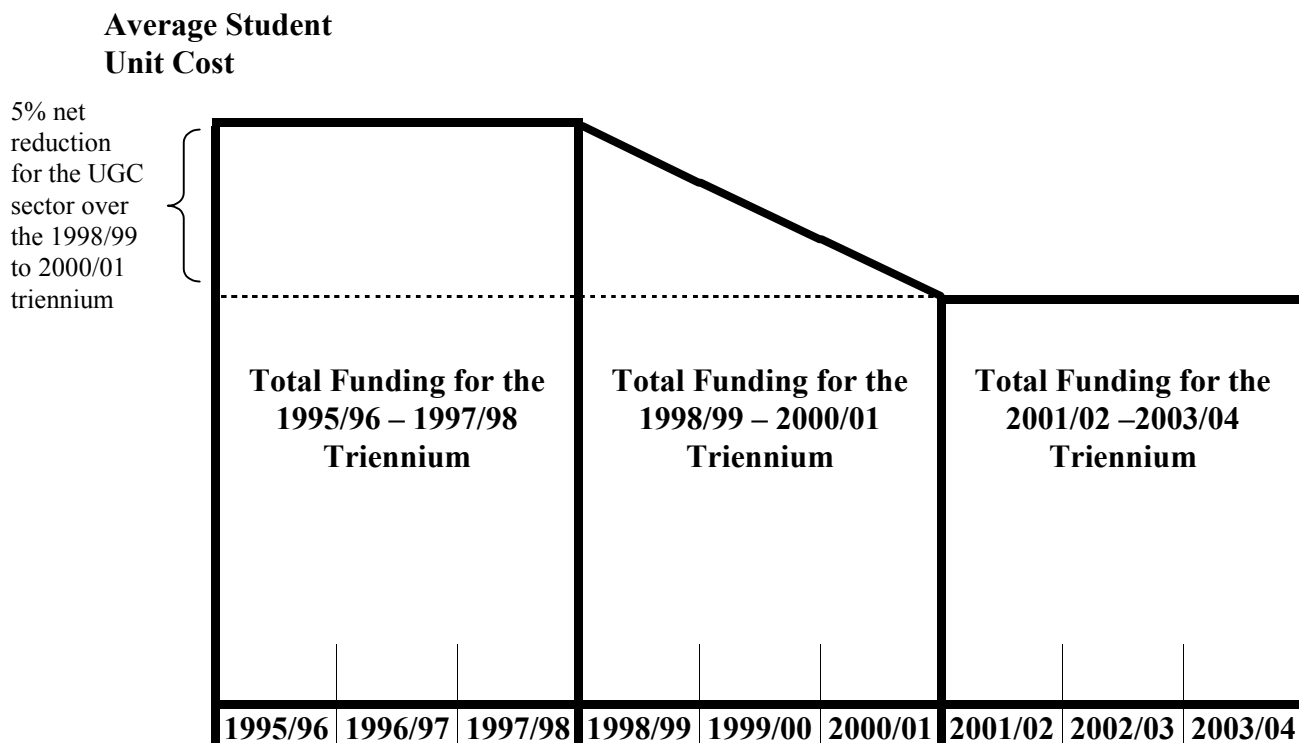
### Student Number Targets 1998/99 to 2000/01 Vs 2001/02 to 2003/04 Triennia

Target Undergraduate (Ug) Number				
			Difference	
Institutions	1998-2001	2001-04	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%
<b>Total</b>	<b>135,177</b>	<b>140,214</b>	<b>5,037</b>	<b>3.7%</b>
<b>Ug as % of Total</b>	<b>65.8%</b>	<b>68.3%</b>		
Target Taught Postgraduate (TPg) Number				
Institutions	1998-2001	2001-04	No.	%
CityU	2,805	2,663	-142	-5.1%
HKBU	615	1,035	420	68.3%
LU	0	-	0	-
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	180	-	-180	-100.0%
<b>Total</b>	<b>15,690</b>	<b>16,571</b>	<b>881</b>	<b>5.6%</b>
<b>TPg as % of Total</b>	<b>7.6%</b>	<b>8.1%</b>		
Target Research Postgraduate (RPg) Number				
Institutions	1998-2001	2001-04	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	0	-	0	-
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	2,685	-	-2,685	-100.0%
<b>Total</b>	<b>10,785</b>	<b>12,525</b>	<b>1,740</b>	<b>16.1%</b>
<b>RPg as % of Total</b>	<b>5.3%</b>	<b>6.1%</b>		
Target Sub-degree (SD) Number				
Institutions	1998-2001	2001-04	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%
<b>Total</b>	<b>43,730</b>	<b>36,005</b>	<b>-7,725</b>	<b>-17.7%</b>
<b>SD as % of Total</b>	<b>21.3%</b>	<b>17.5%</b>		
Grand Total				
Institutions	1998-2001	2001-04	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	180	-	-180	-100.0%
RPg held in reserve	2,685	-	-2,685	-100.0%
<b>Total</b>	<b>205,382</b>	<b>205,315</b>	<b>-67</b>	<b>0.0%</b>

#### Notes

1. Excluding the redistribution of numbers to upgrade HKIED's sub-degree teacher education places to degree and above levels.
2. At the beginning of the 1998-2001 triennium, some TPg and RPg numbers were held in reserve by the UGC for distribution to the institutions during the triennium.

Diagram to illustrate the effect of reduction in average student unit cost



**Note**

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

**Recurrent Funding**  
**1998/99 to 2000/01 Vs 2001/02 to 2003/04 Triennia**

	(A) 1998-2001 \$m	(B) 2001-04 \$m	Difference	
			(B-A)/(A) \$m	%
<b>Funding for 8 UGC-funded Institutions</b>				
<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%
<b>Grand Total to the UGC-funded Institutions</b>				
<i>Government grant</i>	<b>38,313.1</b>	<b>36,262.5</b>	<b>-2,051</b>	<b>-5.4%</b>
<i>Assumed income</i>	<b>10,052.3</b>	<b>10,212.7</b>	<b>160</b>	<b>1.6%</b>
<i>Total Funds</i>	<b>48,365.4</b>	<b>46,475.2</b>	<b>-1,890</b>	<b>-3.9%</b>

**Notes:**

- 1 UGC will retain some money to administer inter-institutional projects, i.e. \$2.3 m, \$2.3 m and \$2.4 m for 2001/02, 2002/03 and 2003/04 respectively.
- 2 Funding for the 1998-2001 triennium includes \$522.4 m supplementary provision to cover the tuition fee shortfall due to the freeze of tuition fee in 2000/01. Funding will be sought from Finance Committee of LegCo.
- 3 Original approved provision for CAV in the 1998-2001 triennium was \$556.3 m. Some of the expenditure has been reclassified under the institutional grant and ERG to ensure comparability with the classification for the 2001-2004 triennium.

## METHODOLOGY IN ASSESSING RECURRENT GRANT FOR THE UGC-FUNDED INSTITUTIONS

The assessment of recurrent grant for the UGC-funded institutions is largely 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:

	Academic Programme Category (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 (RAE) 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.