

ITEM FOR FINANCE COMMITTEE

HEAD 190 – UNIVERSITY GRANTS COMMITTEE Subhead 000 Operational expenses

Members are invited to –

- (a) accept the total recurrent grant estimated at \$30,762.4 million to the University Grants Committee-funded institutions for the 2005/06 to 2007/08 triennium; and
- (b) note that the Administration will review in mid-2006 the 5% savings assumed to be delivered by the institutions starting from the 2007/08 academic year and, in the light of that review, may seek the approval of this Committee to increase the total recurrent grant in (a) above, up to a level not exceeding \$31,266.7 million.

PROBLEM

The eight institutions funded by the University Grants Committee (UGC) need confirmation of the level of recurrent grants they will receive for the 2005/06 to 2007/08 triennium, in order to finalise their budgets and academic programmes for that period.

/PROPOSAL

PROPOSAL

2. The Secretary for Education and Manpower (SEM) proposes that Members accept the total recurrent grant for the UGC-funded institutions for the 2005/06 to 2007/08 triennium estimated at \$30,762.4 million. The Administration will review in mid-2006 the 5% savings assumed to be delivered by the institutions starting from the 2007/08 academic year. If the review concludes that the savings required of the institutions can be reduced, the Administration will seek the approval of this Committee to increase the total recurrent grant for the 2005/06 to 2007/08 triennium, up to a level not exceeding \$31,266.7 million.

JUSTIFICATION

Recurrent funding requirements for the 2005/06 to 2007/08 triennium

3. Recurrent funding requirements of the UGC-funded institutions are assessed having regard mainly to the indicative student number targets and the approved Academic Development Proposals of the institutions. The student number targets for the 2005/06 to 2007/08 triennium are shown at Enclosure 1.

Encl. 1

4. In the context of discussing the recurrent grant to the UGC-funded institutions for the 2004/05 academic year, and as reported to Members vide FCR(2003-04)66, the eight UGC-funded institutions, as members of the Heads of Universities Committee, had reached a consensus that they would try their best to work with a 0-0-X funding arrangement for the 2005/06 to 2007/08 triennium. This 0-0-X funding arrangement means there will be no further reduction in recurrent grant for efficiency savings in the first two years of the triennium, but the grant may be reduced in the third year of triennium by an undefined percentage, which should be no more than 5%, to be determined nearer the time.

5. Based on the above consensus, the Administration has adopted the 0-0-5 model as planning assumption for the 2005/06 to 2007/08 triennium, i.e. we assume that the UGC sector will achieve efficiency savings of 5% from the 2007/08 academic year onwards. The recurrent funding requirements of the UGC-funded institutions for the 2005/06 to 2007/08 triennium is \$39,229.3 million.

/Cash

Cash Limit for the UGC-funded sector for the 2005/06 to 2007/08 triennium

6. Government determines the level of recurrent grants to the UGC-funded sector (known as the Cash Limit) by deducting from the institutions' estimated total recurrent funding requirements an assumed income of the institutions which includes income from tuition fees^{Note} and other sources (mainly interest and investment income).

7. The Cash Limit for the UGC-funded institutions proposed for the 2005/06 to 2007/08 triennium is \$30,762.4 million, with the following indicative cash flow requirement –

Academic Year		\$ million
2005/06		10,537.0
2006/07		10,433.4
2007/08		9,792.0

The Cash Limit reflects –

- (a) the assumption that the sector will deliver 5% efficiency savings from the 2007/08 academic year onwards;
- (b) necessary price adjustment to the UGC sector's current funding requirement in accordance with the established mechanism; and
- (c) necessary adjustments for year-on-year changes in student numbers during the 2005/06 to 2007/08 triennium.

8. Regarding paragraph 7(a) above, the 0-0-5 model will result in the Cash Limit for the 2005/06 to 2007/08 triennium being about \$504.3 million lower than the 0-0-0 model. The Administration will review in the middle of 2006 the 5% efficiency savings in recurrent grant assumed for the 2007/08 academic year having regard to a number of factors, including the economic outlook. We will report to the Legislative Council Panel on Education and the Finance Committee on the outcome of this review. If circumstances so warrant, we will seek this Committee's approval to increase the total recurrent grant for the 2005/06 to 2007/08 triennium, up to a level not exceeding \$31,266.7 million, i.e. an increase by no more than \$504.3 million.

/9.

^{Note} The Administration has decided that the indicative tuition fees for the 2005/06 to 2007/08 triennium will remain at their current levels.

9. Regarding paragraph 7(b) above, the pay-related portion of the recurrent funding requirement has been adjusted downwards to reflect the full-year effect of civil service pay reduction effective since January 2005. Price adjustment to the non-pay-related portion of the sector's recurrent funding requirement is 0%.

10. Regarding paragraph 7(c) above, the year-on-year changes are as shown at Enclosure 1. In line with the arrangement for the 2004/05 academic year, we have not adjusted the Cash Limit downwards to reflect the reduction in publicly-funded taught postgraduate programmes. The savings that would otherwise accrue to the Government will instead be kept by the UGC to support restructuring and collaboration activities of the institutions and research development, including the provision of about 450 additional research postgraduate places over and above the targets at Enclosure 1.

11. In accordance with established practices for assessing the triennial funding for the institutions, we have not taken into account the additional requirements for government funding to support the UGC Home Financing Scheme introduced in 1998 and refund of Government rents and rates. We will provide additional funding for the institutions to meet the costs of these items separately in the usual manner.

Allocation of resources among the eight institutions

12. Subject to the total recurrent grant of \$30,762.4 million being accepted by this Committee, the UGC will allocate the resources among the eight institutions in accordance with its methodology for determining the levels of triennial recurrent grants to the individual institutions. The methodology, as detailed at Enclosure 2, gives a reasonably rigorous and precise assessment of the resources required to meet the teaching and research requirements of each institution.

Encl. 2

13. The UGC's plan for allocation of resources among the eight UGC-funded institutions in the 2005/06 to 2007/08 triennium is as follows –

/Academic

	Academic year (July to June)			Total
	2005/06	2006/07	2007/08	
	(in \$million)			
(a) City University of Hong Kong	1,294.7	1,189.1	1,080.0	3,563.8
(b) Hong Kong Baptist University	555.9	557.9	527.3	1,641.1
(c) Lingnan University	196.7	203.6	191.6	591.9
(d) The Chinese University of Hong Kong	2,178.0	2,145.2	2,037.3	6,360.5
(e) The Hong Kong Institute of Education	536.1	504.2	422.0	1,462.3
(f) The Hong Kong Polytechnic University	1,648.8	1,595.6	1,476.8	4,721.2
(g) The Hong Kong University of Science and Technology	1,218.8	1,207.1	1,129.8	3,555.7
(h) The University of Hong Kong	2,144.9	2,059.8	1,924.8	6,129.5
Sub-total of Recurrent Grants for eight institutions	9,773.9	9,462.5	8,789.6	28,026.0
Earmarked Research Grants	505.9	505.9	505.9	1,517.7
Grants for Restructuring and Collaboration Activities	123.6	182.5	198.3	504.4
Grants for Research Development Activities	123.6	182.5	198.2	504.3
Central Allocation Vote	10.0	100.0	100.0	210.0
Total Recurrent Grants to the UGC-funded institutions	10,537.0	10,433.4	9,792.0	30,762.4

14. In line with established practice, each institution may carry up to 20% of its recurrent grant allocated by the UGC during the last triennium (including the 2001/02 to 2003/04 triennium and the 2004/05 rollover year) to the 2005/06 to 2007/08 triennium as reserve.

FINANCIAL IMPLICATIONS

15. The estimated total cost for implementing SEM's recurrent funding recommendations (under the 0-0-5 model) for the UGC-funded institutions for the 2005/06 to 2007/08 triennium is \$30,762.4 million. The estimated cashflow, by financial year, is as follows –

Financial Year	\$ million
2005 – 06	7,902.7
2006 – 07	10,459.4
2007 – 08	9,952.4
2008 – 09	2,447.9

/Subject

Subject to Members' agreement, we will include the necessary provision in the annual Estimates of the relevant financial years. In the event that a 0-0-X model, with X representing a cut of less than 5% were to be adopted after the review in 2006, additional funding of up to \$504.3 million would be required for the 2005/06 to 2007/08 triennium. Other than this contingent arrangement, in line with the normal arrangement governing triennium funding, the Cash Limit, once determined, will not be adjusted during the triennium except for adjustments to take into account changes in the indicative tuition fee levels (hence the assumed tuition fee income in the funding formula), new initiatives from the Government and further civil service pay adjustment, if any.

16. The changes to student numbers will have consequential financial implications outside the recurrent funding recommendations of \$30,762.4 million, such as student financial assistance in the form of grants and loans, as well as capital subventions for construction of campus buildings and/or student hostels.

BACKGROUND INFORMATION

17. We submit the recurrent funding requirements of the UGC-funded institutions to Finance Committee for consideration on a triennial basis. As the recommendations arising from the Higher Education Review in late 2002 entail considerable changes to existing systems and take time to implement, the Administration decided that the 2001/02 to 2003/04 triennium should "roll over" for one year to cover the 2004/05 academic year, postponing the new triennium to 2005/06 to 2007/08.

18. The Legislative Council Panel on Education considered this proposal at its meetings on 3 January 2005. To address the concerns expressed by some Members about the reduction in recurrent funding to the Hong Kong Institute of Education, the UGC Secretariat tabled a Note to set out the main reasons leading to the reduction, which is attached herewith as Enclosure 3. The proposal will be further discussed at the Panel on 11 January 2005.

Encl. 3

Education and Manpower Bureau
January 2005

Student Number Targets in the 2005/06 to 2007/08 Triennium

Institutions	Degree (total numbers including additional senior year places)			
	2005/06	2006/07	2007/08	Total
City University of Hong Kong	7228	7275	7388	21891
Hong Kong Baptist University	4175	4275	4250	12700
Lingnan University	2120	2203	2203	6526
The Chinese University of Hong Kong	9523	9597	9601	28721
The Hong Kong Institute of Education	3202	3014	2932	9148
The Hong Kong Polytechnic University	7589	7839	7857	23285
The Hong Kong University of Science and Technology	5457	5537	5546	16540
The University of Hong Kong	8909	8964	9042	26915
Total	48203	48704	48819	145726

Institutions	Undergraduate Senior Year Places *			
	2005/06	2006/07	2007/08	Total
City University of Hong Kong	210	420	420	1050
Hong Kong Baptist University	110	220	220	550
Lingnan University	53	106	106	265
The Chinese University of Hong Kong	95	190	190	475
The Hong Kong Institute of Education	0	0	0	0
The Hong Kong Polytechnic University	220	440	440	1100
The Hong Kong University of Science and Technology	57	114	114	285
The University of Hong Kong	95	190	190	475
Total	840	1680	1680	4200

* - numbers incorporated in 'Degree' table above.

Institutions	First-Year-First-Degree Places *			
	2005/06	2006/07	2007/08	Total
City University of Hong Kong ^	2282	2282	2282	6846
Hong Kong Baptist University	1306	1306	1306	3918
Lingnan University ^	694	694	694	2082
The Chinese University of Hong Kong	2875	2875	2875	8625
The Hong Kong Institute of Education ^	468	468	468	1404
The Hong Kong Polytechnic University ^	2365	2365	2365	7095
The Hong Kong University of Science and Technology	1811	1811	1811	5433
The University of Hong Kong	2699	2699	2699	8097
Total	14500	14500	14500	43500

* - numbers incorporated in 'Degree' table above.

Institutions	Sub-Degree			
	2005/06	2006/07	2007/08	Total
City University of Hong Kong	3579	2078	1115	6772
Hong Kong Baptist University	0	0	0	0
Lingnan University	0	0	0	0
The Chinese University of Hong Kong	0	0	0	0
The Hong Kong Institute of Education	1339	1345	1203	3887
The Hong Kong Polytechnic University	4412	3847	3278	11537
The Hong Kong University of Science and Technology	0	0	0	0
The University of Hong Kong	0	0	0	0
Total	9330	7270	5596	22196

/Taught Postgraduate

Institutions	Taught Postgraduate			
	2005/06	2006/07	2007/08	Total
City University of Hong Kong	316	116	53	485
Hong Kong Baptist University	344	373	355	1072
Lingnan University	0	0	0	0
The Chinese University of Hong Kong	880	806	783	2469
The Hong Kong Institute of Education	495	475	470	1440
The Hong Kong Polytechnic University	399	127	77	603
The Hong Kong University of Science and Technology	283	153	45	481
The University of Hong Kong	1101	939	836	2876
Total	3818	2989	2619	9426

Institutions	Research Postgraduate#			
	2005/06	2006/07	2007/08	Total
City University of Hong Kong	378	378	378	1134
Hong Kong Baptist University	139	139	139	417
Lingnan University	17	17	17	51
The Chinese University of Hong Kong	1275	1275	1275	3825
The Hong Kong Institute of Education	0	0	0	0
The Hong Kong Polytechnic University	382	381	381	1144
The Hong Kong University of Science and Technology	850	850	850	2550
The University of Hong Kong	1275	1275	1275	3825
Total	4316	4315	4315	12946

Institutions	2005/06	2006/07	2007/08	Total
City University of Hong Kong	11501	9847	8934	30282
Hong Kong Baptist University	4658	4787	4744	14189
Lingnan University	2137	2220	2220	6577
The Chinese University of Hong Kong	11678	11678	11659	35015
The Hong Kong Institute of Education	5036	4834	4605	14475
The Hong Kong Polytechnic University	12782	12194	11593	36569
The Hong Kong University of Science and Technology	6590	6540	6441	19571
The University of Hong Kong	11285	11178	11153	33616
Grand Total	65667	63278	61349	190294

^ - This is UGC's allocated first-year-first-degree student numbers but the institutions have worked among themselves to redeploy numbers for collaborative programmes of Hong Kong Institute of Education with Lingnan University, The Hong Kong Polytechnic University and City University of Hong Kong.

- Over and above the target numbers set out here, UGC intends to redeploy part of the savings from reduction in taught postgraduate places to provide an additional 450 research postgraduate places per year, to be allocated to the institutions by phases at a later stage.

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

Recurrent grants to each UGC-funded institution comprise a block grant⁽¹⁾ and funds provided for specific purposes⁽²⁾. Block 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 block grants to the sector as a whole comprises four elements :

- (a) Teaching – about 68%
- (b) Research – about 20%
- (c) Performance and Role Related – about 10%
- (d) 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 cost weightings by broad academic programme categories have been grouped into three price groups with effect from the 2005/06 to 2007/08 triennium.

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.

/Performance

⁽¹⁾ The grants to the HKIEd are currently provided in the form of earmarked recurrent grant. As the HKIEd has entered a mature stage of development, it will be funded on a block grant basis starting from the 2005/06 to 2007/08 triennium, on par with the other institutions.

⁽²⁾ For the 2005/06 to 2007/08 triennium, these comprise funding from the Earmarked Research Grants, Grants for Research Development Activities, and Grants for Restructuring and Collaboration Activities, etc.

Performance and Role Related Element

4. Funding related to this element has taken cognizance of institutions' performance, and their performance against role. It is informed by the result of an assessment undertaken under the Performance and Role-related Funding Scheme by a UGC Assessment Panel in 2004. The Panel conducted an objective peer review exercise based on self-assessment submissions and presentations made by the UGC-funded institutions. Self-suggested indicators, criteria and benchmarks were used for evaluating the institutions' performance.

Professional Activity Element

5. 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

6. The UGC formula only serves as a basis for determining the block grant 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.

**Note from the University Grants Committee Secretariat:
Funding of the Hong Kong Institute of Education
in the 2005-2008 Triennium**

For transparency and accuracy, the UGC Secretariat sets out below the main reasons leading to the reduction in recurrent funding to the Hong Kong Institute of Education (HKIEd) during the 2005-2008 triennium.

1. Summary Position

- The reduction in recurrent funding to the HKIEd for the 2005-2008 triennium is mainly due to the following factors -
 - reduction in number of publicly-funded student places;
 - phasing out of front-end loading within the 2005-2008 triennium;
 - replacement of exemption from 10% unit cost reduction in 1998-2001 by a monotechnic premium;
 - delivery of 5% efficiency saving in 2007/08; and
 - residual effect of the 3% civil service pay adjustment with effect from 1 January 2005 on the institution's funding requirement.

The last two items above are common to all UGC-funded institutions.

2. Change in Student Numbers

- The total student number, and hence any change in number, is an important element in assessing recurrent funding to be allocated to all UGC-funded institutions. The reduction in student numbers is about 14% in aggregate across all levels at HKIEd. The provision of teacher education places in the UGC sector is subject to the specific manpower planning requirements of the Administration. Such provision thus has taken into account the current situation of surplus teachers, projected demand for teachers (which in turn is affected by the projected decline in school student population), demands for teachers in specific key learning areas, and anticipated needs in upgrading existing teachers in the coming years. The figures do not, however, take account of the possible needs of the change to the 3+3+4 structure for secondary and tertiary education, since the consultation exercise is still on going.
- The nature of HKIEd of being a monotechnic institution focused on the delivery of teacher education programmes means that it has no other programmes to switch student numbers to, to “compensate” for the reduced demand in teacher education places.

/3.

3. Front End Loading

- Front-end loading is only given to institutions at their early stage of development or upgrading. For the HKIED, front-end loading has been provided by the University Grants Committee (UGC) since 1998/99. Since the HKIED has already become a well-developed institution and obtained self-accreditation status in 2004, the UGC decided it was time gradually to reduce its front-end loading during the triennium and to remove it in the year of 2007/08. It will have thus been in place for nine years. The imminent removal of front end loading has been well known to the HKIED for some time and was accepted by them as one of the consequences of becoming a self accrediting institution. This practice is wholly consistent with what the UGC did for the other institutions in the past.

4. Monotechnic premium

- The HKIED was exempted by the UGC from the 10% unit cost reduction that took place in 1998-2001, in view of the fact that it was then at a very early stage of its development. This anomaly is no longer appropriate, since the HKIED is now a mature institution. However, the UGC has recognised that the monotechnic nature of the HKIED places constraints on its flexibility of operation and therefore has made an extra-formulaic (upwards) adjustment to its total grant. The monotechnic premium is somewhat less than the exemption figure was.

5. Other Funding Parameters

- The way that the UGC determines funding allocation to HKIED is consistent with the formula and methodology that apply to all other UGC-funded institutions.