

## **ITEM FOR FINANCE COMMITTEE**

### **HEAD 190 – UNIVERSITY GRANTS COMMITTEE Subhead 000 Operational expenses**

Members are invited to –

- (a) accept the total recurrent grant currently estimated at \$30,762.4 million to the University Grants Committee-funded institutions for the 2005/06 to 2007/08 triennium;
- (b) note that of the above, the estimated recurrent grant for the 2007/08 academic year is based on the Administration's current planning assumption that the institutions will achieve 5% efficiency savings starting from that year; and
- (c) note the Administration's proposal to review before mid-2006 the 5% savings assumed in (b) above. If justified in the light of that review, the Administration may seek the approval of the Finance Committee to increase the total recurrent grant in (a) above, up to a level not exceeding \$31,266.7 million, which is the maximum grant reflecting a 0-0-0 funding arrangement for the triennium.

**/PROBLEM .....**

**PROBLEM**

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

**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 currently estimated at \$30,762.4 million. The Administration will review before mid-2006 the 5% savings assumed to be delivered by the institutions starting from the 2007/08 academic year, in consultation with the UGC and the Heads of Universities Committee (HUCOM). If circumstances allow, the Administration will seek the approval of the Finance Committee (FC) to increase the total recurrent grant for the 2005/06 to 2007/08 triennium, up to a level not exceeding \$31,266.7 million, which is the maximum grant reflecting a 0-0-0 funding arrangement for the triennium. A consensus has been reached with all eight institutions which have no objection and have accepted this proposal.

**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 HUCOM, 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. With the above consensus in mind, the Administration considers it prudent to adopt the 0-0-5 model as the current planning assumption for the 2005/06 to 2007/08 triennium, i.e. for planning purposes we assume for the time being that the UGC sector will achieve efficiency savings of 5% from the 2007/08 academic year onwards. This is the “worst case scenario” which shows the minimum level of resources that will be available to the institutions in the triennium. While our review before mid-2006 may support adoption of a better scenario, possibly the 0-0-0 model, which entails the provision of more resources within the parameters of the 0-0-X arrangement, we believe that it is appropriate for the institutions and the Administration, as responsible management, to plan initially on the basis of 0-0-5. Under this worst case scenario, the recurrent funding requirement of the UGC-funded institutions for the 2005/06 to 2007/08 triennium will be \$39,229.3 million.

#### **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<sup>Note</sup> 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 –

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

The Cash Limit reflects –

- (a) the current planning 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

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

- (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, in the worst case scenario (0-0-5 model), the Cash Limit for the 2005/06 to 2007/08 triennium will be about \$504.3 million lower than that under the 0-0-0 model. The Administration will review before 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. The review will be conducted in consultation with the UGC and HUCOM. We will report to the Legislative Council Panel on Education and the FC on the outcome of this review. If circumstances allow, we will seek the FC'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, which is the maximum grant reflecting the 0-0-0 funding model.

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 the FC, the UGC will allocate the resources among the eight

/institutions .....

Encl. 2

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.

13. Using the 0-0-5 model as the worst case planning assumption, 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 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
<b>Sub-total of Recurrent Grants for eight institutions</b>	<b>9,773.9</b>	<b>9,462.5</b>	<b>8,789.6</b>	<b>28,026.0</b>
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
<b>Total Recurrent Grants to the UGC-funded institutions</b>	<b>10,537.0</b>	<b>10,433.4</b>	<b>9,792.0</b>	<b>30,762.4</b>

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 .....

## FINANCIAL IMPLICATIONS

15. The estimated total cost for implementing SEM's recurrent funding recommendations (under the worst case scenario of 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 cash flow, by financial year, is as follows –

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

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% is to be adopted after the review in 2006, additional funding of up to \$504.3 million (in the case of the 0-0-0 model) 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 may 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 the FC 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.

Encl. 3 18. The [Legislative Council Panel on Education considered this proposal at its meetings on 3 and 11 January 2005](#). To facilitate discussion, the UGC Secretariat tabled a Note to explain the funding recommendations for the Hong Kong Institute of Education, which is attached herewith as Enclosure 3 for Members' reference. [The Panel further discussed the proposal on 7 February 2005](#). The eight UGC-funded institutions represented at the meeting had no objection to the Administration's submission of this proposal to the FC for approval on 25 February 2005, although Members had divided views as to whether they supported the submission.

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Education and Manpower Bureau  
February 2005

**Enclosure 1 to FCR(2004-05)43**

**Student Number Targets in the 2005/06 to 2007/08 Triennium  
(in full-time-equivalent terms)**

Institutions	Degree (total numbers including additional senior year places)			
	2005/06	2006/07	2007/08	Total
City University of Hong Kong	7 228	7 275	7 388	21 891
Hong Kong Baptist University	4 175	4 275	4 250	12 700
Lingnan University	2 120	2 203	2 203	6 526
The Chinese University of Hong Kong	9 523	9 597	9 601	28 721
The Hong Kong Institute of Education	3 202	3 014	2 932	9 148
The Hong Kong Polytechnic University	7 589	7 839	7 857	23 285
The Hong Kong University of Science and Technology	5 457	5 537	5 546	16 540
The University of Hong Kong	8 909	8 964	9 042	26 915
<b>Total</b>	<b>48 203</b>	<b>48 704</b>	<b>48 819</b>	<b>145 726</b>

Institutions	Undergraduate Senior Year Places *			
	2005/06	2006/07	2007/08	Total
City University of Hong Kong	210	420	420	1 050
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	1 100
The Hong Kong University of Science and Technology	57	114	114	285
The University of Hong Kong	95	190	190	475
<b>Total</b>	<b>840</b>	<b>1 680</b>	<b>1 680</b>	<b>4 200</b>

\* - numbers incorporated in 'Degree' table above.

Institutions	First-Year-First-Degree Places *			
	2005/06	2006/07	2007/08	Total
City University of Hong Kong ^	2 282	2 282	2 282	6 846
Hong Kong Baptist University	1 306	1 306	1 306	3 918
Lingnan University ^	694	694	694	2 082
The Chinese University of Hong Kong	2 875	2 875	2 875	8 625
The Hong Kong Institute of Education ^	468	468	468	1 404
The Hong Kong Polytechnic University ^	2 365	2 365	2 365	7 095
The Hong Kong University of Science and Technology	1 811	1 811	1 811	5 433
The University of Hong Kong	2 699	2 699	2 699	8 097
<b>Total</b>	<b>14 500</b>	<b>14 500</b>	<b>14 500</b>	<b>43 500</b>

\* - numbers incorporated in 'Degree' table above.

Institutions	Sub-Degree			
	2005/06	2006/07	2007/08	Total
City University of Hong Kong	3 579	2 078	1 115	6 772
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	1 339	1 345	1 203	3 887
The Hong Kong Polytechnic University	4 412	3 847	3 278	11 537
The Hong Kong University of Science and Technology	0	0	0	0
The University of Hong Kong	0	0	0	0
<b>Total</b>	<b>9 330</b>	<b>7 270</b>	<b>5 596</b>	<b>22 196</b>



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	1 072
Lingnan University	0	0	0	0
The Chinese University of Hong Kong	880	806	783	2 469
The Hong Kong Institute of Education	495	475	470	1 440
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	1 101	939	836	2 876
<b>Total</b>	<b>3 818</b>	<b>2 989</b>	<b>2 619</b>	<b>9 426</b>

Institutions	Research Postgraduate #			
	2005/06	2006/07	2007/08	Total
City University of Hong Kong	378	378	378	1 134
Hong Kong Baptist University	139	139	139	417
Lingnan University	17	17	17	51
The Chinese University of Hong Kong	1 275	1 275	1 275	3 825
The Hong Kong Institute of Education	0	0	0	0
The Hong Kong Polytechnic University	382	381	381	1 144
The Hong Kong University of Science and Technology	850	850	850	2 550
The University of Hong Kong	1 275	1 275	1 275	3 825
<b>Total</b>	<b>4 316</b>	<b>4 315</b>	<b>4 315</b>	<b>12 946</b>

<b>Institutions</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>Total</b>
City University of Hong Kong	11 501	9 847	8 934	30 282
Hong Kong Baptist University	4 658	4 787	4 744	14 189
Lingnan University	2 137	2 220	2 220	6 577
The Chinese University of Hong Kong	11 678	11 678	11 659	35 015
The Hong Kong Institute of Education	5 036	4 834	4 605	14 475
The Hong Kong Polytechnic University	12 782	12 194	11 593	36 569
The Hong Kong University of Science and Technology	6 590	6 540	6 441	19 571
The University of Hong Kong	11 285	11 178	11 153	33 616
<b>Total</b>	<b>65 667</b>	<b>63 278</b>	<b>61 349</b>	<b>190 294</b>

^ 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.

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

Recurrent grants to each UGC-funded institution comprise a block grant<sup>(1)</sup> and funds provided for specific purposes<sup>(2)</sup>. 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 .....**

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(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.

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**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. 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.

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University Grants Committee Secretariat  
3 January 2005