

## **ITEM FOR FINANCE COMMITTEE**

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

Members are invited to approve an increase in the total recurrent grant for the University Grants Committee-funded institutions for the 2007/08 academic year from \$9,792.0 million by \$504.3 million to \$10,296.3 million, thus increasing the total recurrent grant for the 2005/06 to 2007/08 triennium from \$30,762.4 million to \$31,266.7 million.

### **PROBLEM**

We need to confirm the level of recurrent funding for the eight institutions funded by the University Grants Committee (UGC) for the 2007/08 academic year, having regard to the outcome of the Administration's review of the 5% savings assumed for that academic year.

### **PROPOSAL**

2. The Secretary for Education and Manpower proposes the adoption of a 0-0-0 funding model for the 2005/06 to 2007/08 triennium (i.e. no funding cut for the triennium). Accordingly, the specific recurrent funding for the 2007/08 academic year should be increased from \$9,792.0 million by \$504.3 million to \$10,296.3 million, thus increasing the total recurrent grant for the 2005/06 to 2007/08 triennium from \$30,762.4 million (i.e. the 0-0-5 funding model) as approved by the Finance Committee (FC) vide FCR(2004-05)43 on 25 February 2005, to \$31,266.7 million (i.e. the 0-0-0 funding model).

**/JUSTIFICATION .....**

## JUSTIFICATION

### Level of recurrent funding for the 2007/08 academic year

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.

4. The level of recurrent grant for the UGC-funded institutions in the current 2005/06 to 2007/08 triennium was determined in end 2004/early 2005 against the background of an uncertain overall fiscal position and the economic outlook at that time. In line with the spirit of prudent financial management, and as approved by the FC vide FCR(2004-05)43 on 25 February 2005, the Administration had assumed, for planning purposes, that there would be 5% recurrent savings in the 2007/08 academic year. That was in accordance with the 0-0-X model as agreed by the Heads of Universities Committee's member institutions. The 0-0-5 funding arrangement meant that there would be no further reduction in recurrent grant for the purpose of efficiency savings in the first two years of the triennium, but funding would be reduced in the third year of the triennium by 5%. The Administration undertook to review before mid-2006 the 5% reduction assumed for the 2007/08 academic year, having regard to a number of factors including the economic outlook.

5. Having reviewed the situation, we now consider that there are economic as well as financial grounds for adopting a 0-0-0 model as recommended by the UGC (i.e. no funding cut for the 2007/08 academic year).

6. On the economic side, the current economic recovery of Hong Kong is more solid, compared with the situation in end 2004/early 2005 when we first considered the 0-0-5 funding model. In 2005, our economy expanded rapidly with real Gross Domestic Product (GDP) registering a growth of 7.3%. Hong Kong's economy is expected to achieve solid growth in 2006, with GDP forecast to increase by 4-5%. Furthermore, compared with a year ago, inflation is expected to turn moderately higher in the rest of the current triennium. The 0-0-0 funding model will provide additional resources to support the continued development of our higher education sector during an inflationary era. Furthermore, the capability and competitiveness of our human capital are the key attributes of Hong Kong's future success in an increasingly globalised world. Our additional investments in the higher education sector through the 0-0-0 funding model will provide the necessary resources for the UGC-funded institutions to expand their academic and research capacity, which will in turn enhance their capability for producing leaders for our society. This will strengthen Hong Kong's international competitiveness and benefit our long-term economic development.

7. On the financial side, we have also seen improvements in the Government's fiscal position. For the first time since 1997-98, both the Operating and the Consolidated Accounts (as from 2005-06) have recorded surplus.

8. Having regard to the above economic and fiscal factors and our long-standing commitment to investing in higher education, we recommend that the level of recurrent funding for the UGC-funded institutions should be maintained at the current level throughout the 2005/06 to 2007/08 triennium (i.e. the 0-0-0 model). This will provide the UGC sector with stable funding when it is preparing for the reform of the new academic structure for senior secondary and higher education.

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

9. Under the 0-0-0 funding model, the recurrent grant for the 2007/08 academic year will be \$10,296.3 million. The revised total recurrent grants we recommend for the entire UGC-funded sector in the 2005/06 to 2007/08 triennium will be \$31,266.7 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	10,296.3
<b>Total</b>	<b>31,266.7</b>

The Cash Limit reflects –

- (a) necessary price adjustment to the UGC sector's current funding requirement in accordance with the established mechanism; and
- (b) necessary adjustments for year-on-year changes in student numbers during the 2005/06 to 2007/08 triennium.

10. In accordance with the 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 .....**

### Allocation of resources among the eight institutions

11. Subject to Members' approval of our proposal to increase the total recurrent grant for the current triennium to \$31,266.7 million, the UGC will allocate the resources among the eight institutions in accordance with its established methodology for determining the levels of triennial recurrent grants to the individual institutions.

12. Under the 0-0-0 funding model, 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	1,141.6	3,625.4
(b) Hong Kong Baptist University	555.9	557.9	558.0	1,671.8
(c) Lingnan University	196.7	203.6	203.8	604.1
(d) The Chinese University of Hong Kong	2,178.0	2,145.2	2,144.7	6,467.9
(e) The Hong Kong Institute of Education	536.1	504.2	445.5	1,485.8
(f) The Hong Kong Polytechnic University	1,648.8	1,595.6	1,559.3	4,803.7
(g) The Hong Kong University of Science and Technology	1,218.8	1,207.1	1,189.9	3,615.8
(h) The University of Hong Kong	2,144.9	2,059.8	2,030.0	6,234.7
<b>Sub-total of Recurrent Grants for eight institutions</b>	<b>9,773.9</b>	<b>9,462.5</b>	<b>9,272.8</b>	<b>28,509.2</b>
Earmarked Research Grants	505.9	605.9	605.9	1,717.7
Grants for Restructuring and Collaboration Activities	123.6	132.5	158.8	414.9
Grants for Research Development Activities	123.6	132.5	158.8	414.9
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>10,296.3</b>	<b>31,266.7</b>

Note : When compared to the allocation originally planned by the UGC as set out in FCR(2004-05)43 on 25 February 2005, the table above reflects an increase in the Earmarked Research Grants by \$100 million in each of the academic year of 2006/07 and 2007/08 for the purpose of enhancing research activities. The increase is met by a corresponding reduction in the Grants for Restructuring and Collaboration Activities and Grants for Research Development Activities. Separately, the UGC will provide 127 and 254 additional senior year undergraduate places in the 2006/07 and 2007/08 academic years respectively (in addition to the 1 680 places to be created in each of the 2006/07 and 2007/08 academic years) using the savings arising from phasing out the institutions' publicly-funded taught postgraduate programmes.

13. 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

14. The estimated total cost for implementing the recurrent funding recommendation (under the 0-0-0 funding model) for the UGC-funded institutions for the 2005/06 to 2007/08 triennium is \$31,266.7 million. The estimated cash flow, by financial year, is as follows –

<b>Financial Year</b>	<b>Cash flow (\$ million)</b>
2005 – 06	7,902.7
2006 – 07	10,459.4
2007 – 08	10,330.5
2008 – 09	2,574.1
<b>Total</b>	<b>31,266.7</b>

The necessary provision for the 2006-07 financial year has been included in the 2006-07 Estimates. Subject to Members' agreement, we will include the necessary provision for the remaining years in the annual Estimates of the relevant financial years. 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 civil service pay adjustment, if any.

15. The changes to the approved student number targets, including the increase in the number of senior year places as mentioned in the Note to the table in paragraph 12 above, may have consequential financial implications outside the recurrent funding recommendations of \$31,266.7 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 .....**

**BACKGROUND**

16. The Administration and the UGC follow a triennial planning cycle for the UGC sector. In February 2005, the FC approved the recurrent funding recommendation at a total cost of \$30,762.4 million under the 0-0-5 funding model (i.e. recurrent savings of 5% assumed for the 2007/08 academic year). The FC also noted that the Administration would review before mid-2006 the 5% savings assumed for the 2007/08 academic year, on the understanding that any additional recurrent funding for the 2005/06 to 2007/08 triennium would be capped at \$504.3 million.

17. We reported to the Legislative Council Panel on Education in the form of an information note about our decision to adopt the 0-0-0 funding model. The Panel has not indicated any objection to the Administration's submission of this proposal to the FC for approval.

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Education and Manpower Bureau  
May 2006