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Panel on Education

Updated background brief prepared by the Legislative Council Secretariat for the meeting on 8 December 2008

Recurrent funding for the University Grants Committee-funded institutions

Purpose

This paper sets out the methodology adopted by the University Grants Committee (UGC) for allocating funds to the UGC-funded institutions, and summarizes the discussions of the Panel on Education (the Panel) on the provision of recurrent grants for the UGC-funded institutions for the 2005-2008 triennium and the 2008-2009 roll-over year.

Funding methodology

2. In 1994, UGC developed a new methodology for the assessment of the triennial recurrent grants for the UGC-funded institutions, and applied it for the assessment of the 1995-1998 triennial recurrent grants. Since then, UGC had reviewed and improved the methodology to ensure its validity. The funding methodology was set out in the UGC's Report on Higher Education in Hong Kong issued in October 1996.

3. In gist, the funding methodology is based upon two major activities of the UGC-funded institutions, namely, the quantity of teaching, primarily related to the number of students, and the quantity of research, largely determined by the number of academic staff. The overall student numbers are agreed with the Administration for each year of a triennium. The determination of the number of staff who are active in research is undertaken by UGC in a "Research Assessment Exercise" about eighteen months before the beginning of each triennium. The intention is that once allocations are approved, institutions should have a high degree of freedom and responsibility for determining the best use of the resources vested in them.

Recurrent grants to the UGC-funded institutions

4. Recurrent grants to each UGC-funded institution basically comprise a block

grant and funds provided for specific purposes. 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 element - about 10%; and
- (d) professional activity -about 2%.

5. Funds allocated for specific purposes include the Earmarked Research Grants, the Performance and Role-related Funding, the Teaching Development Grants, the Language Enhancement Grants, the Restructuring and Collaboration Fund, the Research Development Fund and the Central Allocation Vote. The provision of these Grants/Funds is considered important by UGC to the development of higher education in Hong Kong.

6. On 14 December 2004, the Executive Council approved the recurrent funding of \$30,762.4 million under the 0-0-5 model for the UGC-funded institutions for the 2005-2008 triennium. The 0-0-5 funding arrangement meant that there was no reduction in recurrent grants in the first two years of the triennium, but the grants would be reduced in the third year by 5%.

7. On 20 November 2007, the Executive Council endorsed the UGC's funding recommendation of \$10,596.8 million for the UGC-funded institutions for the 2008-2009 roll-over year. The reasons for rolling over the 2005-2008 triennium to cover the 2008-2009 academic year and postponing the next triennium to the 2009-2012 academic years were to give the institutions, UGC and the Administration more time to consider the academic planning as well as the associated funding requirement from the 2012-2013 academic year onwards when the four-year undergraduate programmes would then be introduced.

Deliberations of the Panel

8. The Panel held three meetings to discuss the recurrent funding for the UGC-funded institutions for the 2005-2008 triennium and one meeting to examine the funding proposal for the 2008-2009 roll-over year. The major concerns of members are summarized below.

Rationale for the 0-0-5 model

9. Members noted the objection of the staff and student associations of the eight UGC-funded institutions to the 0-0-5 model. Members were given to know that the 0-0-5 model was determined in late 2004 against the background of an uncertain fiscal position and economic outlook. As the economic outlook had become more favourable in early 2005, members questioned the need for achieving efficiency

savings of 5% for the 2007-2008 academic year.

10. The Administration explained that when discussing the recurrent funding for the 2004-2005 academic year, the Administration, UGC and Heads of Universities Committee had reached a consensus for the eight UGC-funded institutions to try their best to work with a 0-0-X model for the 2005-2008 triennium. The 0-0-X funding arrangement meant that there would be no funding cut in the first two years of the triennium, but the grants might be reduced in the third year by an undefined percentage, which should be no more than 5%, to be determined nearer the time. Based on this consensus, the Administration had adopted the 0-0-5 model as the planning assumption for the 2005-2008 triennium. The aim to achieve efficiency savings of 5% from the 2007-2008 academic year onwards was only the worst scenario adopted for planning purpose. The 0-0-5 model indicated the minimum level of recurrent grants for the 2005-2008 triennium, and its adoption would facilitate both the institutions and the Administration to budget in a prudent manner. The Administration would conduct a review in mid-2006, and hoped that the circumstances then would allow it to recommend a higher level of recurrent grants for the 2007-2008 academic year.

11. Notwithstanding the Administration and UGC's explanations, the Panel decided at its meeting on 7 February 2005 not to support the submission of the financial proposal on the recurrent funding for the UGC-funded institutions for the 2005-2008 triennium to the Finance Committee for consideration. Nevertheless, the Administration submitted the financial proposal to the Finance Committee on 25 February 2005, and the financial proposal was approved.

12. In 2006, the Administration conducted a review of the planning assumption for efficiency savings of 5% by the UGC-funded institutions for the 2007-2008 academic year. Having considered a number of factors, including the economic outlook, the Administration accepted the recommendation of UGC that there should be no funding cut for the 2007-2008 academic year. With the support of the Panel, the Administration sought the approval of the Finance Committee to increase the recurrent grants for the UGC-funded institutions for the 2007-2008 by \$504.3 million. The Administration's proposal was approved by the Finance Committee on 26 May 2006.

Funding for the Hong Kong Institute of Education (HKIEd)

13. Members noted with grave concern the proposed reduction of recurrent funding for HKIEd by 33% for the 2005-2008 triennium. Members pointed out that should the funding for HKIEd for the 2003-2004 academic year be used as the basis, the reduction was as high as 47%, i.e. from about \$790 million in 2003-2004 to about \$420 million in 2007-2008. Members sought the reasons for the massive funding cut for HKIEd.

14. UGC explained that the reduction of recurrent funding for HKIEd was due to a number of factors, namely, the reduction of about 14% of publicly-funded student places across all levels at HKIEd; the phasing out of front-end loading (given to

institutions at their early stage of development normally within a period of nine years) within the 2005-2008 triennium; replacement of exemption from 10% unit cost reduction applied to other UGC-funded institutions in 1998-2001 by a monotechnic premium; delivery of 5% efficiency savings in 2007-2008; and residual effect of the downward adjustment to the civil service pay by 3% in January 2005.

15. The Administration stressed that the reduction of funding for HKIED was determined in accordance with the established funding methodology and practices in the UGC sector. The reduction in teacher education places was decided after thorough discussion with the sector concerned on the supply of and demand for teachers in the context of a declining student population.

16. Members urged the Administration to consider the impact of the substantial funding reduction on the operation of HKIED. They made some suggestions for the Administration's consideration, including adjusting the reduction of certificate programme places for early childhood education offered by HKIED, and extending the period for phasing out front-end loading.

17. According to the Administration, the pre-school sector had indicated support for the provision of diversity in teacher education programmes, hence the decision for taking out the certificate programme places from HKIED and allocating them through competitive bidding. In addition to recurrent grants, HKIED could obtain funding by bidding courses and programmes commissioned by the then Education and Manpower Bureau. Under the proposed reform in academic structure for senior secondary education, there would be substantial demands for professional development programmes for in-service teachers in the coming few years. HKIED should work out competitive programmes in the light of the needs of the education sector and bid for additional allocations.

18. To mitigate the concern of members about the impact of the reduced recurrent funding on HKIED and after discussions with HKIED, UGC approved an increase in the intake of students by 30 per annum for the Bachelor in Early Childhood Education programme in the 2005-2008 triennium. The Administration would also approve two project initiatives submitted by HKIED which aimed at supporting the professional development of schools and teachers. With these measures, the recurrent funding for HKIED for the 2005-2008 triennium would be reduced by about 25%.

19. In discussing the recurrent funding for the 2008-2009 roll-over year at the Panel meeting on 10 December 2007, members noted that the recurrent funding for HKEId would only be increased from about \$440 million for the 2007-2008 academic year to about \$480 million for the 2008-2009 academic year. Members were concerned whether the funding could be increased for the healthy development of HKIED and whether HKIED could compete with other institutions in recruiting quality staff as its staff were known to have lower salaries than their counterparts in other UGC-funded institutions.

20. UGC explained that HKIED was funded on the same basis as other UGC-funded institutions, except for its entitlement to a monotechnic premium for its

primary engagement in teacher education. Apart from recurrent funding, HKIED could continue to bid for additional allocations through tender bids for the provision of professional development and other programmes. Since the delinking of the staff salaries from the civil service pay in 2003, all UGC-funded institutions had the autonomy to determine their staff salaries. As HKIED operated a significant number of sub-degree programmes, this might be a reason for the lower staff salaries. Recently, HKIED had adopted new staff grades and salary systems, and the responses to HKIED's staff recruitment exercise were favourable.

21. Both the Administration and UGC pointed out that HKIED accepted the recurrent funding proposal for the 2008-2009 roll-over year. In response to the Panel's enquiry, the Acting President of HKIED confirmed in writing HKIED's acceptance of the proposed recurrent funding, and indicated that the amount was more than HKIED's planning estimate.

Research funding

22. Members noted with concern that compared with other major Asian countries, Hong Kong had been spending a very small proportion of its Gross Domestic Products (GDP) on research activities. The Report on Higher Education in Hong Kong published by UGC in 2002 stated that Hong Kong invested only 0.48% of its GDP on research and was ranked 16 among the 20 countries under study. The Earmarked Research Grants for the 2008-2009 year were \$656 million, 8% higher than that for the previous year. Members urged an increase in allocation for research activities.

23. UGC advised that currently, Hong Kong spent about 0.8% of its GDP on researches, which was low by international standard. Apart from the \$656 million Earmarked Research Grants, around 25% of the recurrent grants for the institutions would be used to fund research activities. The Administration considered that public funding apart, it was necessary to promote private donations to support research activities. According to the Administration's estimation, of the \$7.7 billion additional resources secured under the first three rounds of the Matching Grant Scheme, about \$2.1 billion would be used for researches. About \$1.1 billion came from private donations and the balance of \$1 billion from the matching grants.

24. The allocations to each of the UGC-funded institutions and to specific purposes for the 2005-2008 triennium and the 2008-2009 roll-over year are set out in **Appendix I**.

Relevant papers

25. A list of the relevant papers on the Legislative Council website is in **Appendix II**.

**Allocation of resources among the eight University Grants Committee
(UGC)-funded institutions in the 2008-2009 roll-over year, as compared with the
approved allocation for the 2005-2008 triennium^{Note}**

	Academic year (July to June)			2008/09
	2005/06	2006/07 (in \$million)	2007/08	
(a) City University of Hong Kong	1,294.7	1,189.1	1,141.6	1,213.3
(b) Hong Kong Baptist University	555.9	557.9	558.0	604.1
(c) Lingnan University	196.7	203.6	203.8	260.6
(d) The Chinese University of Hong Kong	2,178.0	2,145.2	2,144.7	2,208.6
(e) The Hong Kong Institute of Education	536.1	504.2	445.5	479.8
(f) The Hong Kong Polytechnic University	1,648.8	1,595.6	1,559.3	1,648.9
(g) The Hong Kong University of Science and Technology	1,218.8	1,207.1	1,189.9	1,256.6
(h) The University of Hong Kong	2,144.9	2,059.8	2,030.0	2,123.5
Sub-total	9,773.9	9,462.5	9,272.8	9,795.5
Earmarked Research Grants	505.9	605.9	605.9	656.0
Grants for Restructuring and Collaboration Activities	123.6	132.5	158.8	0
Grants for Research Development Activities	123.6	132.5	158.8	45.3
Central Allocation Vote	10.0	100.0	100.0	100.0
Total Recurrent Grants to the UGC-funded institutions	10,537.0	10,433.4	10,296.3	10,596.8

Note: Extracted from paper : FCR(2007-08)45 provided by the Education Bureau in January 2008.

**Relevant papers on
recurrent funding for the University Grants Committee-funded institutions**

Meeting	Date of meeting	Paper
Panel on Education	3.1.2005 (Item II)	Minutes Agenda
Panel on Education	11.1.2005 (Item I)	Minutes Agenda
Panel on Education	7.2.2005 (Item IV)	Minutes Agenda
Finance Committee	25.2.2005	Minutes FCR(2004-05)43
Panel on Education	10.4.2006	Minutes EMB(MPE)CR 2/2041/05
Finance Committee	26.5.2006	Minutes FCR(2006-07)11
Panel on Education	28.2.2007	CB(2)1182/06-07(02)
Panel on Education	10.12.2007 (Item V)	Minutes Agenda CB(2)642/07-08(02) CB(2)965/07-08(01)
Finance Committee	11.1.2008	Minutes FCR(2007-08)45