

## **LEGISLATIVE COUNCIL BRIEF**

### **RECURRENT FUNDING FOR UNIVERSITY GRANTS COMMITTEE-FUNDED INSTITUTIONS IN THE 2012/13 TO 2014/15 TRIENNIUM AND INJECTION INTO RESEARCH ENDOWMENT FUND**

#### **INTRODUCTION**

At the meeting of the Executive Council (ExCo) on 18 October 2011, the Council ADVISED and the Chief Executive ORDERED that –

- (a) the distribution of indicative student number targets for the 2012/13 to 2014/15 triennium set out in **Annex A** should be approved;
  - (b) the specific recurrent funding recommendations for the 2012/13 to 2014/15 triennium at a total cost of \$42,208.9 million, i.e. the Cash Limit, should be endorsed, subject to the acceptance of the financial implications by the Finance Committee (FC) of the Legislative Council (LegCo); and
  - (c) the 18% cost recovery target be revisited in the context of a tuition fee review, and the indicative tuition fees for UGC-funded programmes be maintained at the current level pending the completion of the review.
2. Members are also invited to note that an injection of \$5 billion into the Research Endowment Fund will be made, subject to the approval of the LegCo Finance Committee, to replace, from the 2013/14 academic year onwards, \$100 million of annual recurrent subvention to the Research Grants Council (RGC) as a funding source for earmarked research grants distributed to the UGC-funded institutions, and to provide additional competitive research funding which will also be open to applications from academics at the local self-financing degree sector.
3. We will consult the LegCo Panel on Education and then seek FC's acceptance of the recurrent funding to the UGC-funded institutions for the 2012/13 to 2014/15 triennium and approval of injection of \$5 billion into the Research Endowment Fund.

## JUSTIFICATION

### **Recurrent Funding for UGC-funded Institutions in the 2012/13 to 2014/15 Triennium**

4. The Administration and the UGC follow a triennial planning cycle for the UGC sector. The eight UGC-funded institutions need confirmation of the level of recurrent grants that they will receive for the 2012/13 to 2014/15 triennium, in order to finalise their budgets and academic programmes for that period. The UGC has submitted to the Administration the funding recommendations for the 2012/13 to 2014/15 triennium recurrent grants for the eight institutions.

#### **(A) Student Number Targets**

5. UGC's recommendations on the distribution of indicative student number targets are set out at **Annex A**. The key student number targets are as follows –

- (a) The number of publicly-funded first-year first-degree (FYFD) places in full-time-equivalent (fte) term<sup>1</sup> will be increased from 14 620<sup>2</sup> to 15 000 per cohort. To cater for the implementation of the New Academic Structure in the 2012/13 academic year, 30 000 FYFD places will be provided for the double cohorts: 15 000 for normative three-year programmes and another 15 000 for normative four-year programmes.
- (b) The number of publicly-funded senior year undergraduate places will be increased from the existing 3 974 to 8 000 per annum by phases, i.e. 2 487, 2 987 and 4 000 intakes in the 2012/13, 2013/14 and 2014/15 academic years respectively. The significant increase will facilitate the healthy and sustainable development of a multiple-entry and multiple-exit higher education system with greater and smoother inter-flow between the self-financing and publicly-funded sectors as well as between the sub-degree (SD) and degree sectors.
- (c) The number of publicly-funded SD places in the UGC-funded sector will be broadly maintained at the 2011/12 level, subject to phasing out of programmes not meeting the established retention criteria<sup>3</sup> and that individual institutions decide to stop offering.

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<sup>1</sup> Student number targets in this brief are presented in fte term unless otherwise specified.

<sup>2</sup> ExCo originally approved that 14 500 FYFD places per annum should be provided in the 2009/10 to 2011/12 triennium. Subsequently, ExCo approved in June 2009 provision of 120 additional FYFD places to the Hong Kong Institute of Education from the 2010/11 academic year onwards in support of its development into a multi-disciplinary institution, resulting in a total of 14 620 FYFD per annum.

<sup>3</sup> SD programmes in the UGC-funded sector will continue to be subsidised if (a) they require high start up and maintenance costs or access to expensive laboratories or equipment; (b) they meet specific manpower needs; or (c) they are regarded as 'endangered species'.

- (d) The number of publicly-funded taught postgraduate places will generally be maintained at the 2011/12 level (around 2 200 places across different years of study per annum).
- (e) The number of publicly-funded research postgraduate (RPg) places will remain at 5 595 per annum.

6. We will continue to adopt a two-pronged strategy of promoting the parallel development of the publicly-funded sector and the self-financing sector. Apart from increasing the number of UGC-funded FYFD and senior year undergraduate places, the Government encourages the development of the self-financed post-secondary sector by providing a series of support measures including land grant at nominal premium, start-up loans, quality enhancement grants and accreditation grants. There are currently six self-financing degree-awarding institutions providing undergraduate programmes in Hong Kong. Together with the self-financing programmes offered by some UGC-funded institutions, there are some 4 500 full-time locally accredited self-financing FYFD places and some 3 800 full-time locally accredited self-financing top-up degree intake places provided by these institutions per annum. We have expanded the student financial assistance schemes so that students pursuing locally accredited self-financing post-secondary programmes are eligible for means-tested grant and loan as well as non-means-tested loan on largely the same basis as students in publicly-funded programmes.

7. We estimate that, by the 2014/15 academic year, **over one-third** of the relevant age cohort will have the opportunity to pursue degree-level education (including first-year and senior year intakes). Including sub-degree places, **over two-thirds** of our young people in the relevant age group will have access to post-secondary education. While sub-degrees are independent and valuable qualifications, we recognise that some meritorious graduates aspire to pursue further studies. We estimate that **over one-fifth** of sub-degree graduates may articulate to full-time accredited degree education.

#### *Normative length of UGC-funded programmes*

8. With the implementation of the New Academic Structure in 2012, the normative length of undergraduate programmes will be extended from three to four years. The normative study length for senior year entrants (i.e. SD graduates) is two years. The normative length for PhD programmes is three years for students with a Master's degree and four years for those without a Master's degree.

## **(B) Funding**

9. The recommended Cash Limit for the entire UGC-funded sector for the 2012/13 to 2014/15 triennium is **\$42,208.9 million**. The recurrent grants for UGC will increase by around **\$3 billion per annum** by the 2014/15 academic year vis-à-vis the 2011/12 academic year. The Cash Limit reflects –

- (a) the funding for the additional year of the new four-year curriculum under the New Academic Structure;
- (b) additional funding of around \$1 billion (full-year effect) for the increase in FYFD and senior year undergraduate places, and other necessary adjustments for changes in student number targets in the 2012/13 to 2014/15 triennium;
- (c) necessary price adjustments to the UGC-funded sector's current funding requirement in accordance with the established mechanism (including inflation and civil service pay adjustment); and
- (d) the injection of \$5 billion into the Research Endowment Fund, the investment income from \$2 billion of which will replace \$100 million existing funding per year in the Cash Limit for earmarked research grants starting from the 2013/14 academic year.

10. Subject to the total recurrent grant of \$42,208.9 million being accepted by the Finance Committee, UGC will allocate the resources among the eight institutions in accordance with its methodology for determining the levels of recurrent grants to the individual institutions. The UGC's assessment of recurrent grants is based primarily on the distribution of indicative student number targets as mentioned in paragraph 5 above. The funding also reflects the roles and missions of the institutions, the ways in which they could best contribute to the manpower requirement of Hong Kong, and the institutions' Academic Development Proposals. The methodology, as detailed at **Annex B**, assesses the resources required to meet the teaching and research requirements of each institution. Based on this methodology, the UGC's plan for allocation of resources among the eight UGC-funded institutions in the 2012/13 to 2014/15 triennium is at **Annex C**.

### ***Funding for the additional year of the new four-year curriculum***

11. The Administration decided in the 2004/05 academic year that funding for the additional year of university education under the New Academic Structure would be shouldered by the Government, institutions, parents and students under a shared-funding model, at a total annual recurrent cost of around \$1.8 billion. This level was accepted by institutions. Taking into account increase in FYFD places and price adjustments, the cost will be adjusted to around **\$2.1 billion** at 2010/11 prices in a full year. We will keep in view the financial situation of our institutions in consultation with UGC as the triennium progresses to assess the real impact of the New Academic Structure.

### ***Top-up funding for additional medical places***

12. To meet the increasing demand for medical doctors in the future arising from new and enhanced medical and health services, the number of medical FYFD places will be increased from 320 to 420 per annum in the 2012/13 to 2014/15 triennium. Having regard to the higher student unit cost and longer duration of medical disciplines, the Government has agreed to provide top-up funding of around **\$200 million** per annum (full year effect) on an exceptional basis for the additional medical places in the UGC-funded sector. The Government will review the demand for medical doctors in the next triennial planning exercise and the top-up funding would be adjusted as appropriate.

### **(C) Tuition Fees**

#### ***Cost recovery target***

13. The recurrent grant to the UGC-funded institutions is a deficiency subvention calculated by deducting from the estimated gross expenditure an assumed income from tuition fees and other sources. The assumed tuition fee income is based on the indicative tuition fee level determined by the Chief Executive-in-Council.

14. ExCo approved in 1991 to increase by phases the cost recovery target for tuition fee for UGC-funded institutions from 12% to 18%. The target was achieved in the 1997/98 academic year and the indicative tuition fee has been frozen at \$42,100 per student per year since then in view of the social and economic situation in Hong Kong during the period. The recurrent funding from UGC alone has ceased to be a meaningful measure of contribution of public resources to higher education with the establishment of the Research Endowment Fund in 2009, the expansion of student financial assistance schemes and provision of substantial non-recurrent resources such as the five rounds of Matching Grant Scheme. It is arguable whether a cost recovery rate based solely on UGC recurrent grants remains a valid indicator of the appropriateness of the tuition level.

15. In view of the above considerations, the 18% cost recovery target should be revisited and we will embark on a tuition fee review including adjustment mechanism, taking into account latest development in the sector, locally and overseas.

#### ***Indicative tuition fee level***

16. In the public consultation document *New Academic Structure for Senior Secondary Education and Higher Education - Action Plan for Investing in the Future of Hong Kong* published in May 2005, in light of the heavy financial investment needed to implement the New Academic Structure in the 2012/13 academic year, we proposed a shared funding model through which parents and students will share by paying higher tuition fees for tertiary education, the community will share through the higher government expenditure on education whereas tertiary institutions will share through providing an extra year of university education at an annual recurrent cost of

around \$1.8 billion. An indicative level of \$50,000 per student per year (at 2005 prices) was mentioned in the document. The principle was generally supported insofar as the tuition fee level was reasonably set and was affordable for parents and the community. However, there were concerns that it was too early to set the tuition fee level and that the indicative figure of \$50,000 was on the high side. There were suggestions that any increase should be effected in a gradual manner, and more financial support should be provided to students in need.

17. Pending the completion of the review set out in paragraph 15, we will maintain the indicative tuition fees for UGC-funded programmes at the current level, as set out 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>4</sup>	\$15,040

### **Injection into Research Endowment Fund**

18. The Research Endowment Fund was established in February 2009 with an original endowment of \$18 billion. The investment income of the endowment is intended to –

- (a) replace, from the 2010/11 academic year onwards, \$506 million of annual recurrent subvention to RGC for distribution as earmarked research grants to the UGC-funded institutions; and
- (b) support theme-based research with investment income of up to \$4 billion of the Research Endowment Fund, thus allowing the institutions to work on research proposals on themes of a more long-term nature and strategically beneficial to the development of Hong Kong.

19. The Theme-based Research Scheme was launched in 2010, with the following three themes selected: promoting good health; developing a sustainable environment; and enhancing Hong Kong's strategic position as a regional and international business centre. In the 2011/12 academic year, the amount of earmarked research grant is \$795 million, comprising funding derived from the investment income of the Research Endowment Fund and another \$100 million redeployed from the Block Grant. We expect the amount will continue to ramp up in the 2012/13 to 2014/15 triennium when the Theme-based Research Scheme is in full swing.

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<sup>4</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 refers to the Certificate in Education courses which are currently charged at \$15,040.

20. To enhance the research capacity of the higher education sector, we plan to make an injection of **\$5 billion** endowment into the Research Endowment Fund subject to FC's approval. The investment income from \$2 billion of the endowment will replace the \$100 million annual recurrent subvention to RGC for distribution as earmarked research grants to the UGC-funded institutions, thus providing greater funding stability and certainty. To allow sufficient run-in time, we will only start to draw down the investment income of the Research Endowment Fund to support research projects in the UGC sector from the 2013/14 academic year onwards. The RGC will continue to determine the allocation of earmarked research grants on its own and in accordance with the established method.

21. UGC's report on the Higher Education Review recommends that we should review periodically self-financing institutions' access to competitive research funding. We support that part of the competitive research funding should be open to applications from academics at the local self-financing degree sector. The investment income from the remaining **\$3 billion** of the injection will be distributed on a competitive basis to full-time academics in the local self-financing degree sector (including applications submitted by such academics in collaboration with academics from UGC-funded institutions).

22. As the research capacity of our self-financing institutions will take some time to mature in quantity and quality, we envisage that the number of successful research proposals from self-financing institutions may need time to gear up. Unused investment income in the short run will be retained in the endowment fund as seed money to generate more investment income for future use. We will keep in view the actual utilisation of the competitive research funding.

## **IMPLICATIONS OF THE PROPOSAL**

23. The proposal has financial, staffing, economic and sustainability implications as set out at **Annex D**. The proposal is in conformity with the Basic Law, including the provisions concerning human rights. It has no productivity or environmental implications.

## **PUBLIC CONSULTATION**

24. The recommendations regarding the recurrent grants to the UGC-funded sector for the 2012/13 to 2014/15 triennium are based on UGC's proposals. UGC's report on the Higher Education Review recommends that we should review periodically self-financing institutions' access to competitive research funding.

## **PUBLICITY**

25. We will consult the LegCo Panel on Education and then seek FC's acceptance of the recurrent funding to the UGC-funded institutions for the 2012/13 to 2014/15 triennium and approval of injection of \$5 billion into the Research Endowment Fund.

## **ENQUIRY**

26. For enquiries on this brief, please contact Mr Wallace Lau, Principal Assistant Secretary for Education, on 3540 7468.

**Education Bureau  
November 2011**



**Distribution of indicative student number targets  
in full-time-equivalent (FTE) for the 2012/13 to 2014/15 triennium**

**Undergraduate (total numbers including senior year places)**

<b>Institutions</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>Total for the 2012-15 Triennium</b>
CityU	7 931	10 078	10 254	10 702	31 033
HKBU*	4 286	5 590	5 662	5 829	17 081
LU	2 087	2 534	2 487	2 460	7 481
CUHK	9 984	13 518	13 956	14 337	41 811
HKIEd	3 164	4 149	4 188	4 179	12 516
PolyU	8 553	11 177	11 453	11 998	34 627
HKUST	5 680	7 655	7 747	7 801	23 203
HKU	9 435	12 732	13 137	13 451	39 320
<b>Total</b>	<b>51 119</b>	<b>67 432</b>	<b>68 883</b>	<b>70 757</b>	<b>207 072</b>

\* Including "2+2" Diploma in Education programme which is funded at UG level.

**Undergraduate Senior Year Places (numbers incorporated in "Undergraduate" table above)**

<b>Institutions</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>Total for the 2012-15 Triennium</b>
CityU	1 368	1 479	1 722	2 236	5 437
HKBU	356	411	521	686	1 618
LU	248	248	248	248	744
CUHK	310	390	550	700	1 640
HKIEd	-	20	61	121	202
PolyU	1 388	1 499	1 742	2 256	5 497
HKUST	114	157	200	200	557
HKU	190	270	430	540	1 240
<b>Total</b>	<b>3 974</b>	<b>4 474</b>	<b>5 474</b>	<b>6 987</b>	<b>16 935</b>

**First-Year-First-Degree Places (numbers incorporated in "Undergraduate" table above)**

<b>Institutions</b>	<b>2011/12</b>	<b>2012/13 (3-year programme)</b>	<b>2012/13 (4-year programme)</b>	<b>2013/14</b>	<b>2014/15</b>	<b>Total for the 2012-15 Triennium</b>
CityU	2 162	2 111	2 095	2 095	2 095	8 396
HKBU	1 261	1 266	1 223	1 223	1 223	4 935
LU	580	553	553	553	553	2 212
CUHK	3 025	3 159	3 247	3 247	3 247	12 900
HKIEd	610	621	621	621	621	2 484
PolyU	2 306	2 460	2 337	2 337	2 337	9 471
HKUST	1 857	1 888	1 901	1 901	1 901	7 591
HKU	2 819	2 942	3 023	3 023	3 023	12 011
<b>Total</b>	<b>14 620</b>	<b>15 000</b>	<b>15 000</b>	<b>15 000</b>	<b>15 000</b>	<b>60 000</b>

**Taught Postgraduate**

<b>Institutions</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>Total for the 2012-15 Triennium</b>
CityU	53	53	53	53	159
HKBU	280	253	235	235	723
LU	-	-	-	-	-
CUHK	670	740	712	712	2 164
HKIEd	430	450	427	427	1 304
PolyU	15	15	15	15	45
HKUST	-	-	-	-	-
HKU	795	771	751	751	2 273
<b>Total</b>	<b>2 243</b>	<b>2 281</b>	<b>2 193</b>	<b>2 193</b>	<b>6 667</b>

**Research Postgraduate (Note 1)**

<b>Institutions</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>Total for the 2012-15 Triennium</b>
CityU	506	461	429	383	1 273
HKBU	196	181	166	150	497
LU	49	49	47	41	137
CUHK	1 559	1 493	1 361	1 211	4 065
HKIEd	31	32	30	27	89
PolyU	535	484	445	390	1 319
HKUST	1 133	1 057	939	813	2 809
HKU	1 586	1 503	1 359	1 200	4 062
Tentatively allocated (Note 2)	-	272	672	1 142	2 086
Centrally kept places (Note 2)	-	63	147	238	448
<b>Total</b>	<b>5 595</b>	<b>5 595</b>	<b>5 595</b>	<b>5 595</b>	<b>16 785</b>

**Sub-Degree**

<b>Institutions</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>Total for the 2012-15 Triennium</b>
CityU	1 007	921	841	841	2 603
HKBU	-	-	-	-	-
LU	-	-	-	-	-
CUHK	-	-	-	-	-
HKIEd	1 230	1 086	1 158	1 113	3 357
PolyU	3 354	3 338	3 020	2 367	8 725
HKUST	-	-	-	-	-
HKU	-	-	-	-	-
<b>Total</b>	<b>5 591</b>	<b>5 345</b>	<b>5 019</b>	<b>4 321</b>	<b>14 684</b>

## Total Enrolment

Institutions	2011/12	2012/13	2013/14	2014/15	Total for the 2012-15 Triennium
CityU	9 497	11 513	11 577	11 979	35 068
HKBU	4 762	6 024	6 063	6 214	18 301
LU	2 136	2 583	2 534	2 501	7 618
CUHK	12 213	15 751	16 029	16 260	48 040
HKIEd	4 855	5 716	5 803	5 746	17 265
PolyU	12 457	15 013	14 933	14 770	44 716
HKUST	6 813	8 712	8 686	8 614	26 012
HKU	11 816	15 006	15 247	15 402	45 655
Tentatively allocated (Note 2)	-	272	672	1 142	2 086
Centrally kept places (Note 2)	-	63	147	238	448
<b>Total</b>	<b>64 548</b>	<b>80 652</b>	<b>81 690</b>	<b>82 866</b>	<b>245 208</b>

### Notes:

1. With a total of 5 595 RPg places available for each year of the 2012/13 to 2014/15 triennium, the allocation of RPg places to individual institution is an on-going process. The figures provided here refer to the position as at 8 September 2011.
2. Of the total 5 595 RPg places for each year of the 2012/13 to 2014/15 triennium, these places are tentatively allocated / kept in the central pool, as a result of the introduction of competitive elements for allocating RPg places. With the support of heads of institutions, the UGC's intention is that within five years from the 2012/13 academic year, 50% of all research postgraduate places will be allocated either through direct competition or by reference to other competitive schemes.
3. Figures may not add up to the corresponding totals owing to rounding.

### Abbreviations:

CityU	City University of Hong Kong
HKBU	Hong Kong Baptist University
LU	Lingnan University
CUHK	The Chinese University of Hong Kong
HKIEd	The Hong Kong Institute of Education
PolyU	The Hong Kong Polytechnic University
HKUST	The Hong Kong University of Science and Technology
HKU	The University of Hong Kong

**Methodology for determining the levels of recurrent grants  
for the University Grants Committee (UGC)-funded institutions**

The UGC funding methodology was developed in 1994 and has been used since then for the assessment of the triennial recurrent grants. It has been reviewed and improved to ensure that it is appropriate for current circumstances.

2. Recurrent grants to each UGC-funded institution basically comprise a block grant and funds provided for specific purposes. The purpose of the UGC recurrent grants is to fund institutions to support pursuit of their different roles and missions in teaching and research.

**BLOCK GRANT**

3. The 2012/13 academic year is the first year of the implementation of the New Academic Structure in the UGC-funded sector. Thus, there will be new recurrent funding for the additional year under the New Academic Structure (“new pot of money”) in addition to the existing funding (“existing pot of money”) for the three years of undergraduate study and other levels of study. In this regard, a “two pots of money” approach / funding methodology has been applied to the whole of the 2012/13 to 2014/15 triennium as detailed below. However, institutions will still receive a lump-sum block grant, and the separate methodology in allocating the new Year 1 funding will not affect the existing autonomy in which institutions deploy their block grant.

**“Existing pot of money” for the three years of undergraduate study and other levels of study**

4. In the 2012/13 to 2014/15 triennium, the amount of block grants to the sector as a whole comprises three elements –

- (a) Teaching – about 75%
- (b) Research – about 23%
- (c) Professional Activity – about 2%

**Teaching Element**

5. The Teaching element is based on the student numbers, their study levels (i.e. sub-degree, undergraduate, 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 the 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 since the 2005/06 to 2007/08 triennium, as shown in the table below –

Academic Programme Categories (APC)	Price Group of APCs	Relative Cost Weightings	
		Teaching Programme	Research Programme
1. Medicine 2. Dentistry	A Medicine & Dentistry	3.6	1.8
3. Studies Allied to Medicine and Health 4. Biological Sciences 5. Physical Sciences 6. Engineering and Technology 7. Arts, Design & Performing Arts	B Engineering & Laboratory Based Studies	1.4	1.4
8. Mathematical Sciences 9. Computer Science and Information Technology 10. Architecture and Town Planning 11. Business and Management Studies 12. Social Sciences 13. Law 14. Mass Communication & Documentation 15. Languages & Related Studies 16. Humanities 17. Education	C Others	1.0	1.0

## Research Element

6. In the 2012/13 to 2014/15 triennium, the Research element will comprise two parts: one part informed by performance in the Research Assessment Exercise (RAE) 2006 and another part to be informed by success under the Research Grants Council (RGC). Regarding the latter component, the UGC will gradually allocate about 12.5% of the Block Grant, or 50% of the prevailing Research-portion (R-portion)(i.e. excluding the teaching element), on a more competitive basis according to institutions' success in obtaining RGC Earmarked Research Grants in the next three triennia (over nine years), to fund the indirect/on-costs of research projects approved by the RGC<sup>1</sup>. The fund will continue to be disbursed to the institutions as part of the Block Grant as infrastructure funding to enable institutions to provide both the staffing and facilities (e.g. accommodation and equipment) necessary to carry out research, and to fund a certain level of research. A review will be conducted before the end of the 2012/13 to 2014/15 triennium to see whether the pace of implementation should be adjusted.

<sup>1</sup> Details are explained to the Legislative Council Panel on Education in July 2011 vide LC Paper No. CB(2)2291/10-11(07). The change will build a direct correlation between the magnitude of RGC Earmarked Research Grants an institution obtains and its share of the research portion on indirect/on-costs. To taper the pace, the UGC will earmark 1.3% of the Block Grant each year (on a cumulative basis) for competitive allocation in the 2012/13 to 2014/15 triennium, increasing to 1.4% of the Block Grant and then to 1.5% of the Block Grant each year (on a cumulative basis), in the second and third triennia.

## **Professional Activity Element**

7. 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 total number of academic staff.

## **“New pot of money” for the additional year under the New Academic Structure**

8. The new funding for the additional year under the New Academic Structure is treated as a separate pot of money and is allocated wholly as “teaching funding”, while recognising differentiation in the teaching cost among faculties with price weights of 1.4 and 1.0 for (i) Medicine, Dentistry, Engineering and Laboratory-based studies; and (ii) Others respectively.

## **Academic Development Proposal Exercise and Competitive Allocation**

9. The UGC implemented the Competitive Allocation Mechanism – a performance-based allocation method adopted since the 2009/10 to 2011/12 triennium – in allocating the student places for the 2012/13 to 2014/15 triennium. Under the mechanism, each institution is required to set aside a small number of their non-manpower-planned first-year-first-degree places for re-distribution among the institutions to reflect comparative merits among themselves against the agreed criteria. During the process, institutions need to strategically review their academic profile, identify and prioritise areas of programmes considered fit for slimming or expanding in order to enhance and sharpen their roles. That said, how the institutions arrange their academic portfolio and offering is entirely a matter of their autonomy.

## **Allocation of Block Grant within Institutions**

10. The above-mentioned methodology 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.

## **FUNDS FOR SPECIFIC PURPOSES**

11. For the 2012/13 to 2014/15 triennium, the UGC has recommended to disburse the following grants for achieving various purposes that are considered to be important to the development of the local higher education sector –

(i) Earmarked Research Grant (ERG)

ERG is distributed by the RGC to support research projects and research activities. In the 2011/12 academic year, the amount of ERG is \$795 million<sup>2</sup>, comprising funding derived from the investment income of the Research Endowment Fund and another \$100 million redeployed from the Block Grant. With the injection of \$2 billion into the Research Endowment Fund, the \$100 million transfer from the Block Grant will be replaced starting from the 2013/14 academic year.

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<sup>2</sup> Include funding for the Early Career Scheme established this year to nurture junior new academics.

(ii) Language Enhancement Grant (LEG) and Teaching Development Grant (TDG)

LEG and TDG are designed to encourage and promote development of language skills, as well as innovative and improved methods of teaching. As a continuing signal of UGC's keen interest in these important activities, \$156 million each year is proposed to be provided to institutions in the 2012/13 to 2014/15 triennium.

(iii) Knowledge Transfer

To build up institutional capacity and to broaden institutions' endeavour in knowledge transfer, the UGC will reserve an annual funding of around \$52.8 million, for institutions for the 2012/13 to 2014/15 triennium.

(iv) Central Allocation Vote

The UGC continues to see a need to reserve a modest amount centrally to support new and unforeseen developments and hence \$140 million has been set aside each year for this purpose plus \$80 million earmarked for Areas of Excellence projects previously funded by this vote in the 2009/10 to 2011/12 triennium. Collaborative projects and ad hoc projects will be funded from Central Allocation Vote.

(v) Others

There are a number of other small extra formulaic adjustments relating to specific activities of institutions totalling some \$100 million each year on average, endorsed by the UGC.

**Allocation of recurrent funding for  
UGC-funded Institutions in the 2012/13 to 2014/15 triennium**

	Academic year (July to June)				
	2011/12 (\$ million)	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	Total (\$ million)
<b>Recurrent Grants</b> (Note 2)	(Approved allocation)				
City University of Hong Kong	1,365.8	1,612.3	1,655.1	1,735.8	5,003.1
Hong Kong Baptist University	646.2	798.7	807.6	831.5	2,437.8
Lingnan University	280.4	340.9	337.8	334.8	1,013.5
The Chinese University of Hong Kong	2,510.8	3,150.7	3,226.2	3,288.9	9,665.7
The Hong Kong Institute of Education	517.2	594.1	598.2	599.6	1,791.9
The Hong Kong Polytechnic University	1,865.6	2,226.6	2,212.5	2,221.2	6,660.3
The Hong Kong University of Science and Technology	1,401.5	1,689.6	1,703.1	1,719.8	5,112.5
The University of Hong Kong	2,473.2	3,036.3	3,133.2	3,215.1	9,384.7
<i>Sub-total of Recurrent Grants</i>	11,060.7	13,449.1	13,673.6	13,946.8	41,069.5
<b>Recurrent Grants to be allocated in the 2012/13-2014/15 triennium</b>					
Earmarked Research Grants (Note 3)	100.0	128.5	28.5	28.5	185.4
Funding for 448 Research Postgraduate places centrally held	-	18.0	42.1	68.5	128.5
Funding for Knowledge Transfer	50.0	52.8	52.8	52.8	158.4
Other Teaching and Learning Initiatives	-	2.3	2.3	2.3	7.0
Central Allocation Vote (Note 4)	100.0	220.0	220.0	220.0	660.0
<b>Total Recurrent Grants</b>	<b>11,310.8</b>	<b>13,870.7</b>	<b>14,019.3</b>	<b>14,318.9</b>	<b>42,208.9</b>
<b>Projected Annual Research Funding for UGC-funded Institutions from the Research Endowment Fund (\$ million)</b>	<b>Around 800-1000 # per annum</b>				

## Notes

1. The above numbers may not add up due to rounding.
2. Figures are indicative, which may increase or decrease slightly (estimated to be within +/- 2% generally) when actual competition results on the allocation of Research Postgraduate places and for indirect/on-costs of RGC projects are available.
3. Include \$100 million that has been deployed within the Cash Limit for research funding since the 2006/07 academic year and \$28.5 million, part of which is designated as research funding for Humanities and Social Sciences disciplines. The investment income from \$2 billion out of the \$5 billion injection into the Research Endowment Fund will replace the \$100 million starting from the 2013/14 academic year.
4. Include \$80 million funding for Areas of Excellence Scheme.



## Implications of the Proposal

### Financial and Staffing Implications

The overall funding requirement for the UGC-funded sector is worked out on the basis of an established framework for assessing the funding requirement of the sector, which takes into account the changes in price level and student numbers from the previous triennium. The estimated total cost for implementing the UGC's recurrent funding recommendations for the 2012/13 to 2014/15 triennium (i.e. the Cash Limit) will be **\$42,208.9 million**<sup>1</sup> –

<u>Financial Year</u> (April to March)	<u>\$ million</u>
2012 – 13	10,403.0
2013 – 14	13,982.2
2014 – 15	14,244.0
2015 – 16	3,579.7

2. The Government will earmark sufficient funding for the Cash Limit in the Estimates of the respective years. Separately, the Legislative Council has approved \$5.8 billion (in money-of-the-day prices) of capital funding for 12 projects related to the implementation of the New Academic Structure.

3. The additional 380 FYFD and 4 026 senior year undergraduate places will give rise to additional funding requirement in other areas outside of the recurrent funding recommendation of \$42,208.9 million, such as student financial assistance in the form of grants and loans, as well as capital subventions for expanded academic facilities and student hostels. For student financial assistance, it is estimated that around \$79.2 million for grants and student travel subsidy and \$33.8 million for low-interest loans per year would be required for these additional student places. In addition, it is estimated that around \$4.0 billion (in September 2011 prices) of capital funding will be required for the additional campus buildings and student hostels. Capital funding required will be subject to the established mechanism.

4. There will be additional workload for the Student Financial Assistance Agency arising from the additional year of undergraduate education and additional FYFD and senior year places. SFAA has sought the additional manpower resources required in accordance with the established mechanism.

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<sup>1</sup> The additional year of undergraduate education is estimated to cost around \$1,642 million per annum in a full year, including \$1,456 million for UGC and \$186 million for student financial assistance.

5. The injection to the Research Endowment Fund will require one-off funding of \$5 billion. We will earmark sufficient funding in the 2012-13 Estimates. The investment income from \$2 billion of the injection will replace recurrent funding of \$100 million per annum to the RGC starting from the 2013/14 academic year and the investment income from the remaining \$3 billion of the injection will provide new competitive research funds for the local self-financing degree sector.

### **Economic Implications**

6. The proposed recurrent funding to UGC-funded institutions seeks to sustain the development of tertiary education in Hong Kong especially in regard to maintaining the quality of teaching and research. Quality education at the tertiary level helps enhance the productivity and competitiveness of Hong Kong's workforce and strengthen Hong Kong's role as an international business and financial centre. The additional FYFD and senior year places will help increase the local talent pool conducive to maintaining Hong Kong's overall competitiveness against other international cities.

7. Diversified research and development activities are essential to sustain economic growth and enhance competitiveness. Research stimulates new ideas, and research-based innovation can promote high value-added economic activities. The basic and applied research conducted by tertiary institutions helps other research institutes and the business community to master and apply new knowledge. The injection into the Fund is expected to provide steady and additional resources through its investment earnings for the institutions to conduct such activities and will be conducive to sustaining growth of our knowledge-based economy.

### **Sustainability Implications**

8. The recurrent funding proposals are in line with the sustainability principle of enabling individuals to fulfil their potential by providing access to adequate and appropriate education. Appropriate financial assistance should continue to be provided to the lower income groups to help them acquire higher education and enhance competitiveness, thereby cultivating social integration and social mobility in Hong Kong.