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**Panel on Education**

**Background brief prepared by the Legislative Council Secretariat  
for the meeting on 14 November 2011**

**Recurrent funding for the  
University Grants Committee-funded institutions**

**Purpose**

This paper provides background information on the methodology adopted by the University Grants Committee ("UGC") for allocating funds to the UGC-funded institutions. It also summarizes the discussions of the Panel on Education ("the Panel") on the provision of recurrent grants for the UGC-funded institutions for the 2009-2010 to 2011-2012 triennium ("2009-2012 triennium"), and the allocation of undergraduate student places and research funding.

**Recurrent grants to the UGC-funded institutions**

2. Funding for the UGC-funded institutions is composed of recurrent grants and capital grants. The purpose of recurrent grants is to support the institutions in pursuit of their different roles and missions in teaching and research. The bulk of the recurrent grants are disbursed to institutions on a triennial basis to tie in with the academic planning cycle and in the form of a block grant to provide institutions with maximum flexibility. Once allocations are approved, institutions have a high degree of freedom in deciding how the resources are put to best use.

3. On 9 January 2009, the Finance Committee ("FC") approved recurrent grants of \$33,992 million for the UGC-funded institutions for the 2009-2012 triennium. The allocation of resources among the UGC-funded institutions for the triennium is in **Appendix I**.

## **Funding methodology**

4. The UGC allocates recurrent grants to the UGC-funded institutions based on a methodology developed in 1994. Recurrent grants to each institution basically comprise a block grant and funds provided for specific purposes. In the 2009-2012 triennium, the amount of block grants to the UGC sector as a whole comprises three elements –

- (a) teaching – about 75%
- (b) research – about 23%
- (c) professional activity – about 2%

5. The teaching element of the recurrent grants is primarily related to student numbers. It is calculated by taking account of the distribution of students among the different disciplines, their levels (i.e. sub-degree, first degree, taught postgraduate and research postgraduate) and their mode (i.e. part time, full time etc). The research element of the recurrent grants is based on the number of active researchers and the cost of research in respective fields. The professional activity element, which is associated with professional (non-research) activities which should be undertaken by all members of academic staff, is calculated based on the number of academic staff.

6. Funds allocated for specific purposes include the Earmarked Research Grant, Teaching Development Grant, Language Enhancement Grant, Grants for Additional Research Postgraduate Places and Knowledge Transfer and the Central Allocation Vote. The provision of these Grants/Funds is considered important by UGC to the development of the local higher education sector.

## **Deliberations of the Panel**

7. The Panel discussed the recurrent funding for the UGC-funded institutions in the 2009-2012 triennium and the establishment of the Research Endowment Fund at its meeting on 8 December 2008. Issues relating to the recurrent funding for the UGC-funded institutions were also raised in the context of the discussions on the allocation of research funding and undergraduate places for the 2012-2013 to 2014-2015 triennium ("2012-2015 triennium") at the Panel meeting on 11 July 2011. The relevant concerns of members are summarized below.

### Publicly-funded undergraduate places

8. The adequacy of publicly-funded first-year first-degree ("FYFD") places has been a long-standing concern of the Panel. Members noted that each year, about 5 000 secondary 7 students did not have access to FYFD places, notwithstanding their attainment of the minimum requirements for admission to publicly-funded undergraduate programmes. They were concerned that with the substantial increase of students participating in the Hong Kong Diploma of Secondary Education Examination in 2012, a greater number of students would be qualified for admission but could not be admitted to publicly-funded degree programmes. Members suggested that the Administration should consider providing subsidy to these students to attend self-financing degree programmes by subsidizing these programmes. Members also considered the provision of publicly-funded articulation places inadequate to meet the needs of sub-degree graduates. They considered it necessary for the Administration to increase the provision of both FYFD and articulation places.

9. At the Council meeting of 10 December 2008, the motion on "raising the limit of university places for publicly-funded bachelor's degree programmes" moved by Hon Starry LEE and as amended by Hon CHEUNG Man-kwong, Hon IP Kwok-him and Hon Tanya CHAN was passed.

10. In his 2010-2011 Policy Address, the Chief Executive announced that publicly-funded FYFD places would increase from the existing 14 620 to 15 000 per cohort of students in each year of the 2012-2015 triennium, while the number of publicly-funded senior year undergraduate places would increase from the existing 3 974 to 8 000 per annum by phases starting from 2012-2013 academic year to provide more articulation opportunities for sub-degree graduates.

### Allocation of FYFD places

11. Members were concerned about the mechanism of competitive allocation of a percentage of publicly-funded FYFD places adopted since the 2009-2012 triennium. Under the mechanism, each institution was required to set aside a certain percentage of its FYFD places to a central pool, for subsequent possible re-distribution among institutions to reflect comparative merits among themselves assessed on the basis of their Academic Development Proposals ("ADPs"). Members noted that in the 2012-2015 triennium, 6% of the FYFD places in each institution had been set aside for competitive allocation. Lingnan University was required to set aside 4% of its FYFD places because of its small size. The competitive allocation mechanism did not apply to places in disciplines under Government manpower planning.

12. Members were concerned about unfair treatment against humanities and liberal arts disciplines when institutions were working out internally which student places should be set aside for competitive allocation. These disciplines could not compete with disciplines with market appeal such as business administration. There was a suggestion that to avoid unhealthy competition among and within institutions, the Administration should consider allocating only newly created FYFD places for competitive bidding. Members considered that information on the number of FYFD places and the programmes concerned set aside by each institution for competitive allocation and the number of FYFD places allocated to each institution after the exercise should be made known to the public as public funds were involved. Some members expressed concern whether there was adequate transparency in the evaluation criteria adopted by individual institutions and UGC in the competitive allocation mechanism for FYFD places.

13. According to the UGC, the evaluation of the ADPs was based on four broad evaluation criteria, namely, strategy; teaching and learning; advanced scholarship; and community (including culture and businesses). UGC had consulted and agreed with the institutions on these broad evaluation criteria. A dedicated group comprising overseas academics and local lay members of the UGC was formed to evaluate the ADPs submitted by individual institutions. To avoid any conflict of interest, all local academic members of UGC were excluded from the evaluation process. The dedicated group evaluated the ADPs in a holistic manner having regard to the agreed criteria and also met with the senior management of each institution to discuss their ADPs.

14. The UGC further pointed out that the competitive elements to be introduced in the 2012-2015 triennium were mild. In respect of the allocation of FYFD places, only 6% of the places were placed in a competitive pool, while the remaining 94% were unaffected. Institutions were given full autonomy in the process and there was no cause for concern about any interference from UGC. Given the finite number of publicly-funded student places, it was necessary to have a mechanism to redistribute places from time to time to facilitate institutions to stay competitive and be consistent with their role and fit-for-purpose.

### Research funding

#### *Research Endowment Fund*

15. Members noted that the recurrent funding for earmarked research grants at \$506 million per annum disbursed through the Research Grant Committee ("RGC") would be replaced by the investment income of the \$18 billion

Research Endowment Fund ("the Fund") established in 2009 from the 2010-2011 academic year onwards. In addition, investment income of up to \$4 billion of the Fund would be used to support theme-based research which were of a more long-term nature and strategically beneficial to the development of Hong Kong.

16. While welcoming the establishment of the Fund to provide a stable source of research funding, members expressed concern as to whether the return on investment was sufficient to support research activities and whether a ceiling on the use of the principal of the Fund would be set in case the investment income was insufficient to support research activities. Members were also concerned that given the volatilities of the investment market, relying on the investment income of the Fund to support research would create more uncertainty. Members considered that the Administration should specify a minimum funding level for research activities, and should inject further capital into the Fund when the principal of the Fund had decreased to a level that the investment income was less than the minimum provision of funding.

17. According to the Administration, the Fund would provide a stable source of funding to sustain the long-term development of research in the UGC sector. Under the mode of providing research funding on a triennial basis, the level of funding would be subject to the amount of public resources available in a given triennium and competing priorities in other policy areas. The Administration considered it appropriate to use a small part of the principal of the Fund to ensure a stable research allocation during economic downturns and would not set any ceiling on the use of the principal of the Fund.

18. Members may wish to note that the Chief Executive has proposed in the 2011-2012 Policy Address to inject \$5 billion into the Fund. Of that, \$3 billion will fund self-financing tertiary institutions on a competitive basis to enhance academic and research development. The investment income of the remaining \$2 billion of the injection will replace \$100 million of the annual recurrent subvention to the RGC to provide stable research funding for the UGC-funded institutions.

#### *Competitive allocation of research funding*

19. Another concern of members was UGC's proposal of allocating half (i.e. 12.5%) of the 25% of the block grant earmarked for research on a more competitive basis over a period of nine years. Members expressed concern that institutions would be driven to place even more resources on research and less focus on teaching, and local young academic staff would be affected as they were not given opportunities to conduct research. Members were also concerned about the competitive edge enjoyed by large institutions over small

institutions; research on international issues over research on local issues; and the more popular disciplines over the less popular disciplines. Members considered that the Administration should increase research funding on top of the existing provision for competitive bidding by the institutions. There was also a view that the Administration should allocate only new research resources for competitive bidding.

20. According to the UGC, to address the institutions' concerns, it had modified its original plan. The proposed progressive transfer of 12.5% of the block grant for competitive allocation over a period of nine years was not a radical move in terms of pace and magnitude. The maximum variable funding an institution's management needed to take account of in the first year of the 2012-2015 triennium was 1.3% of its block grant, the second year 2.6% and the third year 3.9%, even if the institution did not get any successful proposals from the RGC. The UGC would review the proposed competitive arrangements for allocation of research funding before the end of the 2012-2015 triennium so that appropriate changes could be considered in a timely manner.

#### University tuition fees

21. When the Panel was briefed on the recurrent funding for the UGC-funded institutions for the 2009-2012 triennium at its meeting on 8 December 2008, members noted the Administration's proposal to adopt, in the light of the heavy financial investment needed to implement the four-year undergraduate programmes in the 2012-2013 academic year, a shared funding model through which parents and students should share by paying higher tuition fees for tertiary education, while the community would share through the general revenue of the Government. Members expressed concern about the proposed shared funding model and increase of tuition fees.

22. Members pointed out that it had been the Administration's intention to use the savings generated from a decline in secondary school student population to support the implementation of the new academic structure, and there had not been any mention about the need for parents to share the funding required. Some members were of the view that any savings generated from the decline of student population should be used to support the implementation of small class teaching in secondary schools.

23. The Administration pointed out that the indicative tuition fees for the UGC-funded programmes had been frozen at the 1997-1998 level since the 1998-1999 academic year. The Administration would consult stakeholders and the community as appropriate on the proposed tuition fee level for the new four-year undergraduate programme and the corresponding changes to the student financial assistance schemes before it came to a final view on the tuition

fee level under the new academic structure in the last quarter of 2011 at the latest.

### **Recent development**

24. The UGC has submitted to the Administration its recommendations on the recurrent funding for the UGC-funded institutions for the 2012-2015 triennium. The Panel will be briefed on these recommendations at the upcoming meeting on 14 November 2011.

### **Relevant papers**

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

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## Allocation of Recurrent Funding for UGC-funded Institutions in the 2009-12 Triennium

	Academic year (July to June)			
	2008/09	2009/10	2010/11	2011/12
	(in \$million)			
(a) City University of Hong Kong	1,213.3	1,363.9	1,347.9	1,336.0
(b) Hong Kong Baptist University	604.1	647.4	640.0	634.2
(c) Lingnan University	260.6	287.3	281.2	278.3
(d) The Chinese University of Hong Kong	2,208.6	2,360.3	2,409.2	2,443.2
(e) The Hong Kong Institute of Education	479.8	520.0	520.2	508.7
(f) The Hong Kong Polytechnic University	1,648.9	1,837.1	1,823.0	1,826.9
(g) The Hong Kong University of Science and Technology	1,256.6	1,337.2	1,339.1	1,335.9
(h) The University of Hong Kong	2,123.5	2,313.6	2,352.1	2,389.1
<b>Sub-total</b>	<b>9,795.5</b>	<b>10,667.1</b>	<b>10,712.7</b>	<b>10,752.4</b>
<b>Recurrent Grants to be allocated</b>				
Earmarked Research Grants	656.0	606.0	100.0	100.0
Grants for Research Development Activities	45.3	0	0	0
Grants for 800 Research Postgraduate Places	0	101.3	202.5	300.0
Grants for Knowledge Transfer Activities	0	50.0	50.0	50.0
Central Allocation Vote	100.0	100.0	100.0	100.0
<b>Total Recurrent Grants to the UGC-funded institutions</b>	<b>10,596.8</b>	<b>11,524.4</b>	<b>11,165.2</b>	<b>11,302.4</b>

Note :

(1) The reasons for the changes in the recurrent grants to be allocated are as follows:

- (a) Funding for Earmarked Research Grants (ERG) at \$506m per annum will be replaced by the investment income of the Research Endowment Fund from 2010/11 onwards. Top-up funding will be deployed to ERG from the REF in 2009/10;
- (b) Areas of Excellence projects are funded under Grants for Research Development Activities in 2008/09 and will be funded from the Central Allocation Vote from 2009/10 onwards; and
- (c) The 800 research postgraduate places will be created in phases: 270, 540 and 800 for 2009/10, 2010/11 and 2011/12 respectively.

(2) Figures may not add up to the corresponding totals owing to rounding.

## Appendix II

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

<b>Committee</b>	<b>Date of meeting</b>	<b>Paper</b>
Panel on Education	3.1.2005 (Item II)	<a href="#">Minutes</a> <a href="#">Agenda</a>
Panel on Education	11.1.2005 (Item I)	<a href="#">Minutes</a> <a href="#">Agenda</a>
Panel on Education	7.2.2005 (Item IV)	<a href="#">Minutes</a> <a href="#">Agenda</a>
Finance Committee	25.2.2005	<a href="#">Minutes</a> <a href="#">FCR(2004-05)43</a>
Panel on Education	10.4.2006	<a href="#">Minutes</a> <a href="#">EMB(MPE)CR 2/2041/05</a>
Finance Committee	26.5.2006	<a href="#">Minutes</a> <a href="#">FCR(2006-07)11</a>
Panel on Education	28.2.2007	<a href="#">CB(2)1182/06-07(02)</a>
Panel on Education	10.12.2007 (Item V)	<a href="#">Minutes</a> <a href="#">Agenda</a> <a href="#">CB(2)642/07-08(02)</a> <a href="#">CB(2)965/07-08(01)</a>
Finance Committee	11.1.2008	<a href="#">Minutes</a> <a href="#">FCR(2007-08)45</a>
Panel on Education	8.12.2008	<a href="#">Minutes</a> <a href="#">Agenda</a>
Council Meeting	10.12.2008	<a href="#">Official Record of Proceedings</a> <a href="#">Pages 71 – 124</a>

Finance Committee	9.1.2009	<a href="#">Minutes</a> <a href="#">FCR(2008-09)55</a>
Panel on Education	11.7.2011	<a href="#">Minutes</a> <a href="#">Agenda</a>

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