

ITEM FOR FINANCE COMMITTEE

HEAD 190 - UNIVERSITY GRANTS COMMITTEE Subhead 492 Grants to UGC-funded institutions

Members are invited to approve supplementary provision of \$329.7 million to meet the University Grants Committee-funded institutions' shortfall in tuition fee income in the 1999/2000 academic year.

PROBLEM

As a result of the Government's decision to freeze the 1999/2000 tuition fees at the 1998/99 levels, the University Grants Committee (UGC)-funded institutions have received less tuition fee income in the 1999/2000 academic year than budgeted. Without supplementary provision, they cannot deliver the services as planned for the current triennium.

PROPOSAL

2. We propose supplementary provision of \$329.7 million in 1999-2000 to meet the UGC-funded institutions' shortfall in tuition fee income in the 1999/2000 academic year.

JUSTIFICATION

3. We determine recurrent funding for the UGC-funded institutions on a deficiency grant basis after deducting from the estimated gross expenditure an assumed income from tuition fees and from other sources. The assumed tuition fee income is an estimate that has to be reconciled when the actual fee levels are known. This means that if the actual fee levels subsequently approved by the Administration for a certain academic year are lower than those assumed in determining the recurrent grant, Government will normally provide additional

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funds to meet the shortfall. On the contrary, if there is a surplus income as a result of the actual tuition fee level being higher than that assumed, the excess in recurrent grant will be clawed back by Government.

4. As a result of the Government's decision to freeze the 1999/2000 tuition fees at the 1998/99 levels, the tuition fee income for UGC-funded institutions in the 1999/2000 academic year is \$329.7 million less than the amount assumed in determining the recurrent funding to the UGC in the current triennium. It should be noted that the 1998/99 tuition fee levels were the same as those for 1997/98 following a similar decision to freeze fees in 1998 and for which we have already provided the UGC-funded institutions an additional grant of \$129.5 million in 1998-99 with Finance Committee's approval.

5. In the current triennium (1998/99 to 2000/01), the UGC-funded institutions are already operating under considerable financial constraints. This is due to a 10% reduction in terms of average student unit costs to be achieved by the end of the triennium, with half of the savings to be returned to Government. Moreover, in support of Government's efforts to encourage further education, the UGC-funded institutions had, without detriment to quality, enrolled 265 additional students (in full-time equivalent terms) in 1998/99 above the target number at taught postgraduate level, without additional recurrent or capital funding from Government. Requiring the UGC and its institutions to top up the shortfall in tuition fee income in part or in full would affect the UGC's funding for new initiatives including the development of areas of excellence. It would also undermine the institutions' ability to achieve and maintain recognition as world-class research centres in the international community and to keep pace with rising international standards.

6. In the light of the above, we propose to meet in full the institutions' shortfall in tuition fee income by providing to the UGC, through supplementary provision in 1999-2000, additional funding of \$329.7 million. Subject to Members' approval, we will disburse the additional sum in 1999-2000 to minimise any disruption to the granting of funds by the UGC to institutions for the development of areas of excellence.

FINANCIAL IMPLICATIONS

7. If Members approve the proposal, we shall offset the supplementary provision of \$329.7 million by deleting an equivalent amount under Head 106 Miscellaneous Services Subhead 251 Additional commitments.

8. As a result of the freeze in the tuition fee levels, the estimated requirement for grants to students under the Local Student Finance Scheme will be reduced by \$40.4 million for the 1999/2000 academic year. In overall financial terms, the net additional expenditure for Government will therefore be \$289.3 million.

BACKGROUND INFORMATION

9. Eight institutions currently come under the aegis of the UGC, namely City University of Hong Kong, Hong Kong Baptist University, Lingnan University, The Chinese University of Hong Kong, The Hong Kong Institute of Education, The Hong Kong Polytechnic University, The Hong Kong University of Science and Technology and The University of Hong Kong.

10. Recurrent funding to UGC-funded institutions for the 1998/99 to 2000/01 triennium was considered by the Finance Committee of the Provisional Legislative Council in March 1998. Members accepted the financial implications for recurrent grants totalling \$35,399.4 million for the eight UGC-funded institutions. This amount, known as the Cash Limit for Government's recurrent funding to the UGC in the triennium, will not normally be exceeded except for adjustment to take into account the civil service salary adjustment and the difference between the estimated and actual tuition fee income.

11. For the 1998/99 academic year, as a result of the Government's decision to freeze the tuition fee levels at 1997/98 levels, the institutions had a shortfall in tuition fee income of \$149.5 million, \$20 million of which was met by savings identified by the institutions. Members approved supplementary provision of \$129.5 million to the UGC-funded institutions in 1998-99 to meet the remaining shortfall (FCR(98-99)70). In view of the current economic situation, the Chief Executive in Council decided that the tuition fees for the UGC-funded institutions in the 1999/2000 academic year should continue to be frozen.