

ITEM FOR FINANCE COMMITTEE

HEAD 190 – UNIVERSITY GRANTS COMMITTEE Subhead 000 Operational expenses

Members are invited to -

- (a) approve the deregulation, with effect from 1 July 2003, of various salary scales previously approved by the Finance Committee for application to University Grants Committee-funded institutions; and
- (b) accept the financial implications of removing the requirement for University Grants Committee-funded institutions to offer standard home financing allowances under an approved Home Financing Scheme as the only form of housing benefit available to staff not yet in the Scheme.

PROBLEM

The salary scales and Home Financing Scheme (HFS) prescribed by the Government for certain categories of staff in University Grants Committee(UGC)-funded institutions have undermined institutions' flexibility in determining remuneration packages for the concerned staff, and their competitiveness in global recruitment.

/ PROPOSAL

PROPOSAL

2. The Secretary for Education and Manpower (SEM) proposes to give UGC-funded institutions maximum flexibility in determining the salaries and housing benefits for their staff, by -

- (a) removing with effect from 1 July 2003 (“the Effective Date”) the various salary scales approved by the Finance Committee (FC) for application to certain categories of staff in UGC-funded institutions;
- (b) removing the requirement for the institutions to offer HFS as the only form of housing benefit available to staff appointed on or after the Effective Date; and
- (c) as a transitional arrangement, maintaining the eligibility to HFS for all serving staff appointed before the Effective Date. Those eligible staff who did not opt to join the Scheme before the end of option period in September 2001 may also retain their existing right to opt for the HFS subsequently, subject to the prevailing condition that the 120-month maximum entitlement period to the Scheme will be reduced by the number of calendar days between 1 October 2001 and the day he commences to receive allowance under HFS.

JUSTIFICATION**Salary scales of the UGC-funded institutions**

3. The staff of UGC-funded institutions are remunerated according to the following pay scales -

- Encl. 1
- (a) salary scales for heads of institutions (Enclosure 1);
 - (b) a common university salary scale for academic and equivalent administrative staff;
 - (c) a common salary scale for university clinical staff;
 - (d) salary scales for staff engaged in sub-degree level work; and
 - (e) salary scales for supporting staff.

Encl. 2 Salary scales (b) to (d) are at Enclosure 2.

4. At present, all the above salary scales are directly or indirectly linked to the civil service pay scale. The heads of institutions are remunerated between D6 and D8. The common university salary scales for academic and equivalent administrative staff are based on a pre-determined relativity between the professorial average and the top point of Senior Administrative Officer, and a fixed ratio between the professorial average and lower ranks. The common salary scale for university clinical staff is determined in relation to the salaries of Medical and Health Officers and Consultants in the civil service. The salary scales for staff engaged in sub-degree level work is linked to the Master Pay Scale. Salary scales (a) to (d) above were based on earlier approval by the FC mainly vide FC Item B9 dated 11 February 1970, FC Item C1 dated 21 July 1971, FC Item A12 dated 3 October 1973, FC Item C22 dated 1 September 1982, FCR(88-89)28, FCR(92-93)54 and FCR(96-97)30. The salary scales for supporting staff in (e) above, though not mandated by the FC, are to follow that of the civil service as stipulated in the UGC Notes on Procedures.

Deregulating salary scales of the UGC-funded institutions

5. The linkage between the various salary scales and civil service pay has been in place since the 1970s, modelling along the practice in the United Kingdom at the time. Despite the tremendous changes in the tertiary education sector in Hong Kong and worldwide, both the link and the mechanism underpinning it have not been reviewed or revised.

6. In the Higher Education Review carried out in 2002, the UGC considers that the link is obsolescent. It goes against the world trend of deregulation and undermines institutions' ability to modernise its remuneration system or to compete globally for talents. The Government agrees with the UGC and sees merits in deregulating university pay –

- (a) Universities are autonomous statutory bodies that are empowered by their respective governing ordinances to determine the terms and conditions of employment of their staff. Deregulation of university salary will give institutions more autonomy.
- (b) The mandatory link with the civil service pay limits the scope for individual institutions to adapt their remuneration packages to pursue different roles and missions and in response to changing local and international conditions. Deregulation of university salary gives individual institutions the flexibility to devise their own remuneration packages on the basis of merit and performance, and to develop options to suit individual circumstances, e.g. encashment of housing benefits and consultancy services.

/(c)

- (c) The regulation of salary scales is contradictory to the spirit of block grant funding, which is meant to allow subvented organisations more flexibility in deploying their resources.
- (d) Few countries now link university pay with that of their civil service. If we continue to require the link with civil service salary scales, it will undermine our institutions' competitiveness vis-à-vis their overseas counterparts in global recruitment.
- (e) The present practice of linking the pay of a university professor with that of a Senior Administrative Officer based on a historical percentage (the former's average salary is 143.8% of the top of the latter's salary scale) over 30 years ago is seriously out of date.
- (f) Each institution has a governance structure prescribed by statute. Their independent councils, mature internal management, established systems of financial audit and strong in-built stakeholder monitoring ensure that any flexibility will be exercised responsibly.

7. The Government agrees with the UGC's recommendation that the mandatory requirement to follow approved salary scales should be removed according to the following principles –

- (a) Individual institutions are free to decide their own remuneration systems. The systems may be based on the existing salary scales linked to civil service pay or totally new mechanisms.
- (b) The deregulation exercise is cost neutral. Institutions will not be worse off as a result of the exercise in terms of the public funding they receive.

8. Under the Higher Education Review, the institutions were asked to review their governance structures to see if they are suitable for modern day needs, following principles and international good practices enumerated in the report. As a result, respective councils of the institutions are currently at various stages of conducting reviews of their governance and management structures. One of them has completed the exercise, with the specialist panel recommending the establishment of a remuneration committee reporting directly to the University Council. Institutions should, in consultation with staff, set up remuneration systems that are transparent, with sufficient external participation, in line with international practice and following the spirit of institutional autonomy. The UGC will monitor the work of the institutions on this front to ensure that these broad principles are complied with.

9. On the handling of staff complaints, there are established channels and mechanisms within all institutions to handle grievances and appeals. The institutions will also be subject to external monitoring and periodic audits of UGC, as well as the jurisdiction of other agencies such as the Equal Opportunities Commission.

10. To assure institutions that deregulation is not a cost reduction exercise, the Government will continue to adjust the portion of pay-related expenditure in the recurrent grants to reflect any adjustment (upward or downward) in civil service salaries, making reference to the circumstances before deregulation. Specifically, the portion of pay-related expenditure to be adjusted will be determined based on a snapshot of the actual percentage of pay-related expenditure prior to the deregulation. To illustrate, if 65% of the recurrent funding requirements of the UGC sector is attributable to pay-related expenditure before the Effective Date, we will adjust this percentage of funding in line with the regular civil service pay adjustment. The percentage adjustment will also make reference to the staff profile in the UGC sector before deregulation.

Home Financing Scheme

11. After considering FCR(98-99)30, the FC accepted the financial implications of the Government introducing a HFS for eligible staff of the UGC-funded institutions with effect from 1 October 1998. Since its implementation, HFS has been the only form of housing benefit available to newly appointed eligible staff of the UGC-funded institutions and serving staff who have made an irrevocable option to join the HFS. It closely resembles the civil service HFS, except that there is no downpayment loan from the Government. As at end of November 2002, the overall take-up rate of HFS is 73%.

12. The objective of introducing the HFS was to meet the home ownership aspirations of eligible staff of the UGC-funded institutions and to reduce the Government's long-term expenditure on housing benefits in the UGC sector. It would not, however, be in line with the objective of deregulating remuneration systems in the UGC sector if the Government continues to mandate the provision of HFS allowances to new staff appointed on or after the Effective Date as the only form of housing benefit. We therefore propose to remove the mandatory requirement for the UGC-funded institutions to offer HFS as the only form of housing benefits, so as to provide maximum flexibility to institutions in putting together an integrated total remuneration package for their staff.

13. However, some 3 700 serving staff of these institutions are currently receiving monthly allowances under the HFS and have entered into commitment. The Government will honour its full commitment to these staff. Those eligible staff appointed before the Effective Date but did not opt to join the Scheme before the end of option period in September 2001 may retain their existing right to opt for the HFS subsequently, subject to the prevailing condition that the 120-month maximum entitlement period to the Scheme will be reduced by the number of calendar days between 1 October 2001 and the day he commences to receive allowance under HFS.

14. As regards serving staff appointed before the Effective Date who are not yet eligible for the HFS but have a legitimate expectation of receiving the allowance in due course, we propose that they should be given the option of joining the HFS when they become eligible, or taking up alternative remuneration packages to be offered by the institutions. This option will need to be exercised on the day when the person becomes eligible and, once made and accepted by the institutions, should be irrevocable. Under the terms and conditions of the HFS, those who have benefited under the Scheme would not be eligible for any other forms of housing benefits. In short, the eligibility to HFS for all serving staff appointed before the Effective Date is maintained. Their eligibility will be preserved so long as they remain in employment in an eligible post with the same or different UGC-funded institutions without a break in service.

15. After deregulation, the institutions are free to determine, having regard to their own circumstances, whether there should be a component of housing benefits in the remuneration packages for staff appointed on or after the Effective Date and, if so, the form in which such benefits should be made available (e.g. Private Tenancy Allowance (PTA), staff quarters or cash allowances).

16. In 2002-03, out of the block grant allocated by the Government, the UGC-funded institutions are spending about \$580 million to provide home financing allowances for their staff under the HFS and another around \$80 million on other forms of housing benefits. Separately, outside the block grant, the Government provided a top-up sum of around \$650 million to meet additional upfront costs in the implementation of HFS for eligible staff. After deregulation, institutions can freely decide the amount in their block grant to be set aside in offering housing benefits to staff who are not receiving HFS under the grandfathering arrangements in paragraphs 13 and 14 above. They can also continue to make use of their existing stock of staff quarters by offering quarters as a housing benefit or by renting out the quarters in exchange of rental income to support other forms of housing benefits for staff not on the HFS. Apart from the top-ups required to implement the HFS for eligible serving staff, the Government will not be providing any funding or resources outside the block grant for funding housing benefits in the UGC sector.

FINANCIAL IMPLICATIONS

17. Deregulation of university pay is a cost neutral exercise. Whether individual institutions decide to adopt new remuneration systems will not affect the way in which the block grants are adjusted each year.

18. In respect of the continuation of HFS for staff serving before the Effective Date and opting for HFS, the Government will continue to provide additional funding for institutions to meet the additional costs required for implementing the HFS. So far, the Government has been providing additional provisions on top of the recurrent block grants totaling around \$2.6 billion since 1998. This cumulative figure will increase during the period when the Government has to provide top up funding and as more serving staff opt to join the HFS by the time they become eligible. For serving staff who are already receiving HFS allowances, the total amount of top up is estimated to rise to some \$6 billion by 2008-09.

19. The HFS was devised with a view to achieving long-term savings in terms of reducing the expenditure on housing benefits over time (as HFS allowances are payable for ten years only for each recipient) and in the disposal of surplus quarters that would otherwise be made available to HFS recipients. We will review with the UGC, in due course, the amount of savings that could have been achieved from the group of HFS recipients and how these should be recovered by the Government. The amount of savings will have to take into account, inter alia, a projection on the final number of HFS recipients and the years for which they remain in employment in the UGC sector after receiving their full entitlement under the HFS. We expect the recovery to start in or after 2008-09 when notional savings in housing expenditure should start to accrue after the first batch of HFS recipients have received their full ten-year entitlement. Meanwhile, the existing arrangement for the Government and the institutions to share the notional rental income from the disposal of surplus quarters that would otherwise be made available to the HFS recipients will continue to apply, for as long as the HFS recipients remaining in service and their quarters entitlement remaining surplus.

20. With the financial arrangements in paragraph 16 above, the proposed deregulation of housing benefits after the Effective Date will not carry additional financial implications for the Government.

/BACKGROUND

BACKGROUND INFORMATION

21. The UGC is currently funding eight institutions of higher education, namely City University of Hong Kong (CityU), Hong Kong Baptist University (HKBU), Lingnan University (LU), the Chinese University of Hong Kong (CUHK), the Hong Kong Institute of Education (HKIEd), the Hong Kong Polytechnic University (PolyU), the Hong Kong University of Science and Technology (HKUST) and the University of Hong Kong (HKU). Since early 1970s, Members approved on various occasions the salary scales for different groups of academic and administrative staff of the UGC-funded institutions, and their subsequent modifications.

22. Prior to the implementation of the HFS, the housing benefits available to the eligible staff of the UGC-funded institutions include quarters, PTA and Home Purchase Scheme.

23. In September 1998, Members approved after considering FCR(98-99)30 the introduction of HFS for eligible staff of the UGC-funded institutions with effect from 1 October 1998. It is not subject to any quota as it is a condition of service for eligible staff, and Government has to provide the required financial provision for operating the HFS reflecting the actual take-up rates. The additional expenditure will be partly offset by reduced expenditure on existing housing-related expenses, which is already provided within the block grant for institutions. In the long run, the HFS in the UGC-funded sector is expected to bring about long-term savings or benefits in terms of reducing the expenditure on PTA over time and the disposal of surplus quarters. It will however require additional cashflow expenditure in the initial years.

24. The Legislative Council Panel on Education has been consulted on 17 February 2003 and 3 March 2003 on the proposals. The Panel invited deputations to express their views at the Panel meeting on 3 March 2003.

**Salary scales for heads of institutions
of UGC-funded institutions**

Heads of institutions	Salary scales
Vice-Chancellor, HKU	D8
Vice-Chancellor, CUHK	D8
President, HKUST	D8
President, PolyU	D8
President, CityU	D8
President and Vice-Chancellor, HKBU	D7
President, LU	D6
President, HKIEd	D6

Approved Salary Scales of Academic Staff in UGC-funded Institutions (with effect from 1 October 2002)

Monthly Salary Scale (Pt) (\$)	Scales for University Clinical Staff		Common Salary Scales for staff engaged in degree-level work (Non-clinical staff)	Scales for staff engaged in non-degree level work		
				City University of HK	The Hong Kong Polytechnic University	The Hong Kong Institute of Education
D10	217,400					
D9	205,500					
D8	181,700					
D7	176,205					
D6	163,205					
D5	154,700					
D4	145,665					
D3	128,365					
D2	117,040					
D1	98,595					
MPS 49	88,425					
48	85,355					
47	82,390					
46	79,510					
45	76,755					
44	74,075					
43	71,490					
42	68,550					
41	65,725					
40	63,005					
39	60,405					
38	57,730					
37	55,195					
36	52,705					
35	50,370					
34	48,140					
33	46,810					
32	44,705					
31	42,705					
30	40,785					
29	38,970					
28	37,200					
27	35,535					
26	33,940					
25	32,415					
24	31,005					
23	29,610					
22	28,275					
21	26,995					
20	25,715					
19	24,495					
18	23,335					
17	22,230					
16	21,160					
15	20,150					
14	19,195					
13	18,270					
12	17,220					