

**Extract from the minutes of meeting of the Panel on Education  
held on 13 May 2002**

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**V. Follow-up discussion on the Report entitled "Higher Education in Hong Kong"**

27. Members noted that a list of specific questions raised by deputations and individuals at the meeting on 7 May 2002 was tabled at the meeting which was subsequently issued vide CB(2)1937/01-02.

28. At the Chairman's invitation, Secretary General, University Grants Committee (SG(UGC)) made the following response –

- (a) Provision of flexible remuneration package for the recruitment of academics of the highest standing was the prevailing international trend, and delinking the terms and conditions of service of staff of the UGC-funded institutions from the civil service pay and conditions (the "delinking" proposal) provided such flexibility;
- (b) The "delinking" proposal was put forward without any regard to the fact that the Administration was going to review the civil service pay and conditions;
- (c) As there were private course providers providing associate degree and sub-degree programmes on a self-financing basis, UGC considered that UGC-funded institutions should follow the same principle with the exception of those programmes that had high start up and maintenance costs, programmes that met specific manpower needs, or programmes that contributed to the academic development or overall development of the community which required protection to survive;
- (d) It would be difficult for UGC to give an undertaking to maintain the existing level of funding allocation for provision of associate degree programmes, but it was the UGC's position that any surplus arising should be used in the higher education sector;
- (e) UGC had decided to extend the consultation period on the Report to end of July 2002;
- (f) The overall policy and resources allocation arising from the recommendations in the Report would be decided by the

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Administration, but UGC would review its strategic role in the allocation of teaching and research resources;

- (g) UGC would as far as practicable provide justifications for accepting or not accepting the recommendations; and
- (h) UGC would render support for institutions to implement the recommendations in the Report.

29. PAS(EM)1 supplemented the following –

- (a) Under the "delinking" proposal, institutions were not required to link their terms and conditions of service of their staff to the civil service pay and conditions. The Administration supported the proposal from the perspective that it would enhance institution's flexibility in recruiting and retaining talents, but the Administration had no intention to reduce the funding allocation to higher education by way of implementing the proposal;
- (b) The Administration had not taken a position on the recommendation of requiring sub-degree programmes to be primarily self-financing;
- (c) UGC would review existing associate degree programmes with UGC-funded institutions to identify the programmes which should continue to be publicly funded;
- (d) The Administration provided financial assistance to eligible students in the form of grant and interest-bearing loan at 2.5% per annum by way of the Financial Assistance Scheme for post-secondary students (FASP), and a Non-means Tested Loan Scheme for post-secondary students (charged at 2% below the average best lending rate of the note-issuing banks plus a 1.5% risk-adjusted factor) for needy students studying self-financing associate and sub-degree programmes. With these financial assistance, students should be able to pay the fees even if the programmes were to be offered on a self-financing basis; and
- (e) The Administration would consider the recommendations of UGC after the public consultation exercise, and would decide the way forward on individual recommendations having regard to the overall policy and resources considerations.

30. Dr YEUNG Sum, Mr CHEUNG Man-kwong, Ms Emily LAU and Dr LO Wing-lok expressed appreciation of UGC's decision to extend the consultation period to the end of July 2002 so that students of the higher education sector who were currently busy with their end-of-term examinations would have sufficient time to study the recommendations in the Report.

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31. At Ms Emily LAU's suggestion, members agreed that in view of the extension of the consultation period, the motion debate on the Report sponsored by the Chairman scheduled for discussion at the Council meeting on 22 May 2002 should preferably be postponed to a later date. The Chairman undertook to follow up the arrangements with the Clerk.

Delinking from civil service pay system

32. Dr YEUNG Sum said that the Democratic Party strongly opposed to the "delinking" proposal because it would eventually bring about reduction of higher education resources and decrease in staff salary levels. He pointed out that although the Administration said that it would not reduce the funding allocation to higher education, the Financial Secretary had already set a maximum increase of 1.5% in annual public expenditure based on a forecast of 3.5% economic growth. Dr YEUNG pointed out that UGC-funded tertiary institutions already enjoyed flexibility in recruitment of renowned academics. He considered that it was equally important to create a working environment that was conducive to high-level academic teaching and research. Dr YEUNG asked how the Administration could guarantee that funding allocation to higher education would remain unchanged.

33. Mr CHEUNG Man-kwong shared a similar concern. He said that higher education would be affected even if the funding allocation in absolute terms would remain unchanged because the sector would be required to provide additional services in the years to come. The primary purpose of the "delinking" proposal was to reduce government expenditure in staff costs of the subvented sector. Mr CHEUNG further pointed out that the debate on the proposal had dominated the discussion of other recommendations of the Report, which was aimed to set the directions for the future development of the higher education in Hong Kong. He urged the Administration to withdraw the "delinking" proposal so that the community could focus discussion on other recommendations of the Report.

34. PAS(EM)1 responded that the "delinking" proposal was put forward to provide flexibility to institutions, and not to reduce funding allocation to higher education. He, however, pointed out that funding allocation to higher education would subject to fluctuation, for example, if there was a downward adjustment of civil service pay levels. The Administration would work out the concrete funding mechanism with UGC if the "delinking" proposal was to be implemented and there would be a clearer picture by that time. PAS(EM)1 assured members that the Administration was well aware of staff's concerns and worries, and would consider the views of the community, particularly the staff and students of the higher education sector, and discuss with UGC and the UGC-funded institutions to decide the way forward. He added that the Administration considered the proposal feasible in principle and still kept an open mind at the present stage.

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35. SG(UGC) stressed that the "delinking" proposal was put forward as an integral part of the strategic developments for certain UGC-funded institutions to achieve international excellence. From a strategic perspective, the Report suggested that further deregulation of the current higher education system towards providing institutions with greater freedom and flexibility in determining remuneration and terms and conditions of service for academic staff was a necessary condition to facilitate achievement of international excellence. Mr CHEUNG Man-kwong remarked that the existing system had already allowed adequate flexibility by way of the appointment of visiting professors.

36. Ms Emily LAU said that she understood that the "delinking" proposal would create adverse effects on staff morale and their feeling of security in employment. She considered that to soothe staff's resentment against the proposal, the Administration should give an assurance that funding allocation to higher education would not be reduced after the implementation of the "delinking" proposal, and UGC and UGC-funded institutions should work out a fair and transparent mechanism for making the salary differentiation when the proposal was implemented. Ms LAU cited Lord Sutherland's saying that the proposed recommendations should require additional resources for implementation. She was concerned that if the Administration could not give an undertaking to maintain the existing funding allocation to higher education in real terms, it would not be able to rely on the support of the stakeholders in higher education to push ahead with the reform measures.

37. In response, SG(UGC) considered that there must be a mechanism to provide for an adequate assurance of future funding allocation to higher education. He said that it was UGC's view that the Administration must give an undertaking that the funding allocation to higher education would not be affected by the implementation of the "delinking" proposal, when the budget-neutral concept was adopted in public finance. SG(UGC) pointed out that it was the duty of institutions to devise a fair mechanism for making salary differentiation, but institutions must be provided with adequate funding if they chose to retain the linkage of their terms and conditions of service of their staff with the civil service pays and conditions. SG(UGC) added that he did not anticipate that implementation of the "delinking" proposal would have an immediate impact on staff because more than 50% of serving staff of UGC-funded institutions were employed on a tenure basis and the remaining staff would be protected by the terms of their employment contracts.

38. PAS(EM)1 reiterated that it was not the policy intention to reduce funding allocation by way of the "delinking" proposal. The existing recurrent allocation for UGC-funded institutions was provided in the form of a block grant and institutions had full discretion to use the allocation. The Administration considered that the proposal was worth consideration as a further deregulatory step to provide institutions with greater freedom to decide on salary administration.

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39. Dr LO Wing-lok considered that top academics would not be attracted solely by an attractive remuneration package of salary and benefits. He cited overseas experience to illustrate that an excellent teaching and research environment was equally important. He asked how the implementation of the "delinking" proposal would affect staff who were employed on a tenure basis.

40. SG(UGC) responded that a competitive salary surely was not the only consideration of top academics in their career pursuits. A "total remuneration" concept for the recruitment of academics of an international standing was prevalent, which meant that these academics would consider the overall teaching and research environment, professionalism of peer scholars, level of academic freedom and research support, etc. He also pointed out that even if institutions decided to implement the "delinking" proposal, it might not be possible to apply to staff on tenure employment.

41. Mr LEUNG Yiu-chung expressed concern about the adverse effects of implementing the "delinking" proposal on academic freedom. He said that academic staff were now required to conduct more research studies and publish more scholarly work. However, the reality was that local research projects and scholarly work did not receive equal recognition as their international counterparts. Mr LEUNG also considered that market competition would to some extent suppress academic freedom, and staff would have to flatter their superiors in order to compete for more resources to conduct research and scholarly work. He urged UGC to ensure a balanced developments in teaching programmes and research projects in UGC-funded institutions.

42. SG(UGC) responded that institutions would have to compete with the business sector in recruitment of top academics in an international context. He did not consider that implementing the "delinking" proposal would result in flattery among academics for the sake of competing for more resources. He pointed out that "delinking" was the trend in overseas universities and believed that academics had their professional dignity in their work. He acknowledged that there was a misperception in the academic sector about evaluation of local research projects and scholarly work. However, UGC had mechanisms in place to ensure fair evaluation of local and international research projects and a balanced provision of teaching programmes in UGC-funded institutions.

Self-financing of associate degree and sub-degree programmes

43. Dr YEUNG Sum expressed strong objection to the proposed provision of associate degree and sub-degree programmes on a self-financing basis. He considered that self-financing would create a major obstacle to development of a knowledge-based economy. Without government subsidy, less wealthy students would have to rely on loans to pay the high programme fees and related expenses. Those who did not want to be in debts would have to work until they had enough saving, or simply give up their plans for further studies. Dr YEUNG cautioned that provision of educational programmes on a self-financing basis would lead to social differentiation in the long run as social

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mobility for students of the low-income families would then be severely blocked.

44. PAS(EM)1 responded that the Government's policy was to ensure that no eligible students would be deprived of their right to education for a lack of financial means. In reality, Government provided financial assistance to students in commensuration with their family or personal income through the Student Finance Assistance Agency (SFAA). According to SFAA, 20% and 60% applicants of FASP were given full reimbursement of programme fees, and loans at low interest rate respectively. In addition, the Administration had set aside \$5 billion for provision of interest free loans to tertiary programme providers, assisting them to meet the initial set up costs for running tertiary educational programmes. Although the intention of Government was that some sub-degree programmes should be self-financing, the Administration would consider continuous provision of funding to programmes that met the criteria set out in paragraph 2.19 of the Report.

45. Mr CHEUNG Man-kwong considered that the policy to provide 82% subsidy to undergraduate programmes in UGC-funded institutions but no subsidy to associate degree and sub-degree programmes was unfair. Since very few associate and sub-degree programmes would be publicly funded, most of them would have to operate on a self-financing basis. As a result, students taking these programmes would have to pay the high programme fees, and many of them would have to apply loans to pay for their studies. Referring to the submission of Mr Ivan CHOI [LC Paper No. CB(2)1858/01-02(01)], Mr CHEUNG said that even in the United States where market competition was the accepted norm, the ratio of publicly-funded community college to private college offering associate degree programmes was 6.4 (980 colleges) to 1 (152 colleges). He urged the Administration to adopt a similar policy so that a certain proportion of the associate and sub-degree programmes in certain UGC-funded institutions were publicly funded.

46. SG(UGC) quoted the associate degree programmes provided by CityU as an example, saying that Hong Kong would have a situation where the same institution was providing both publicly-funded and self-financing programmes. He said that some associate degree programmes would remain publicly funded for the benefits of the community, but it was difficult to predetermine a ratio. In fact, UGC was collaborating with relevant UGC-funded institutions to identify associate degree and sub-degree programmes which should be publicly funded. These institutions would in turn liaise with their programme partners to ascertain the programmes which should be recommended for public funding to continue. The Education and Manpower Bureau would play a major role in the determination of providing public funding for programmes designed to meet specific manpower needs.

47. Mr CHEUNG Man-kwong asked why the average unit cost of an associate degree programme was estimated at \$110 000 a year by UGC when

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the annual fees for a self-financing associate degree programme offered by the Lingnan University was around \$50 000 only.

48. SG(UGC) explained that the estimate of \$110 000 for an UGC-funded associate degree programme had taken into account teaching and research activities (comprised around 25% of the total unit cost) as well as administrative and development costs incurred. However, the average unit cost of other associate degree programmes offered in the market were mainly calculated on the basis of the teaching cost incurred. SG(UGC) added that UGC would review the formulae for calculation of average unit costs of associate degree programmes which were publicly funded.

Role of UGC

49. Ms Cyd HO noted that in accordance with Recommendation 2 of the Report, UGC would conduct an internal review of its procedures, and publish a clear statement of its responsibilities in the light of new challenges, emphasizing an enhanced strategic role for steering the higher education sector. She also noted that Recommendation 3 proposed the establishment of a Further Education Council (FEC) to oversee the provision of programmes at associate degree and comparable levels by both public and private providers. Ms HO considered that the future development of associate degree programmes would determine whether FEC should operate under UGC or as an independent authority. She enquired about the strategic role of UGC in the expanding post-secondary sector and asked how UGC would steer the higher education sector, without jeopardising institutional autonomy and academic freedom. She considered that UGC should play the role of a facilitator to assist institutions to compete for international excellence, and should only interfere when the mechanism failed to maintain fair competition.

50. SG(UGC) responded that the role of UGC in post-secondary education would be determined by the future developments of the post-secondary sector. In essence, the role of UGC, FEC and the Secretary for Education and Manpower in the development of the expanding post-secondary sector would have to be determined after the new landscape of the post-secondary sector had been defined. The Report proposed that UGC would be responsible for advising and steering the degree awarding sector. In other words, UGC's scope of work would cover all tertiary institutions offering degree programmes, which would include the Open University of Hong Kong, the Hong Kong Academy for Performing Arts, the continuing education sector, the community colleges and private universities, etc. If the recommendations in the Report were adopted, UGC would take a more proactive role in steering the higher education sector by means of strategic planning at a macro level. This meant that UGC would concentrate on fine-tuning the different missions of institutions, which would be driven by UGC's funding mechanisms and by the competitiveness of the market. In practice, UGC would become more concentrated in selectively identifying the strengths of institutions, and to enhance further development of such strengths towards achieving international

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excellence so as to promote the competitiveness of Hong Kong in the international arena. In other words, UGC would become less involved in supervision of institutions, and in this sense institutions would have greater autonomy and academic freedom.

51. Ms Cyd HO expressed reservations about the idea of fine-tuning the higher education sector through differentiation of missions, as it would to some extent affect institutional autonomy and academic freedom. SG(UGC) explained that there should be clear diversity of missions in publicly funded institutions to ensure cost-effective use of scarce resources and to meet the development needs of the community. In fact, UGC-funded institutions accepted the principle of mission differentiation in their future development. To facilitate further development of institutional strengths, UGC would develop performance indicators to assess the outputs of teaching and research, which would be incorporated in the development of mission- and performance-related funding mechanisms.

Other issues

52. Dr LO Wing-lok sought clarifications about the number of institutions which should be strategically identified for the purpose of achieving international excellence. SG(UGC) responded that there was not a preset number of institutions for such purpose. All UGC-funded institutions were encouraged to develop their strengths to achieve the highest international levels. While some universities had the capacity to be research-led, other would have the capacity to become centres of excellence in learning and teaching.

53. Ms Cyd HO asked whether recurrent funding allocation to UGC-funded institutions would be deducted correspondingly if they receive private endowments. SG(UGC) clarified that private endowment was not counted in an institution's recurrent budget. Institutions had full discretion on use of private endowments. He added that starting from the current triennium, the Administration had already allowed UGC-funded institutions to carry over unspent funds up to 20% of their respective recurrent grants in a triennium to the next triennium as reserves.

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