

ITEM FOR FINANCE COMMITTEE

HEAD 190 – UNIVERSITY GRANTS COMMITTEE

Subhead 000 Operational expenses

Members are invited to accept the total recurrent grant for the University Grants Committee-funded institutions for the 2004/05 academic year estimated at \$10,657.8 million.

PROBLEM

The eight institutions funded by the University Grants Committee (UGC) have to finalise their budgets and academic programmes for the 2004/05 academic year beginning on 1 July 2004. They need confirmation of the level of recurrent grants they will receive for the period.

PROPOSAL

2. The Secretary for Education and Manpower proposes that Members accept the total recurrent grant for the eight UGC-funded institutions for the 2004/05 academic year estimated at \$10,657.8 million, which has been accepted earlier by the institutions concerned. The institutions have recently re-confirmed their acceptance and earnest hope that the funding arrangement for the 2004/05 academic year will be decided as soon as possible.

/JUSTIFICATION

JUSTIFICATION**Recurrent funding requirements for the 2004/05 academic year**

3. We usually submit our proposal on recurrent grants for the UGC-funded sector to Finance Committee for consideration on a triennial basis. In February 2001 (vide FCR(2000-01)73), Members accepted the financial implications for recurrent grants totalling \$36,269.5 million for the eight institutions in the 2001/02 to 2003/04 triennium.

4. As the recommendations arising from the Higher Education Review in late 2002 entail considerable changes to existing systems and take time to implement, the Administration decided that the 2001/02 to 2003/04 triennium should “roll over” for one year to cover the 2004/05 academic year, postponing the new triennium to 2005/06 to 2007/08. For the 2004/05 “rollover” year, there will be minimal changes to the planning parameters such as the overall indicative student numbers and funding pattern.

5. Based on the established method, the UGC has assessed the recurrent funding requirements for the eight institutions for the 2004/05 academic year, having regard to the indicative student number targets and the Academic Development Proposals of the respective institutions. The student number targets and recurrent funding requirements for the rollover year, compared with the 2003/04 academic year, are shown at Enclosure 1.

Encl. 1

Cash Limit for the UGC-funded sector for the 2004/05 academic year

6. Government determines the level of recurrent grants to the UGC-funded sector (known as the Cash Limit) by deducting from the institutions' estimated total recurrent funding requirements an assumed income of the institutions which includes income from tuition fees⁽¹⁾ and other sources (mainly

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⁽¹⁾ The Administration has decided that the indicative tuition fees for the 2004/05 academic year will remain at their current levels.

interest/investment income). Based on this Cash Limit, the UGC has submitted to the Administration its formal recommendations on the recurrent grants for the individual UGC-funded institutions for 2004/05, as shown below -

	Academic Year	Financial Year	
	2004/05	2004-05	2005-06
	\$m	\$m	\$m
(a) City University of Hong Kong	1,373.7	1,035.5	338.2
(b) Hong Kong Baptist University	546.7	412.1	134.6
(c) Lingnan University	187.8	141.7	46.1
(d) Chinese University of Hong Kong	2,204.4	1,660.8	543.6
(e) Hong Kong Institute of Education	632.3	476.4	155.9
(f) Polytechnic University of Hong Kong	1,550.0	1,168.2	381.8
(g) Hong Kong University of Science and Technology	1,239.2	933.6	305.6
(h) The University of Hong Kong	2,138.1	1,611.0	527.1
Subtotal	9,872.2	7,439.3	2,432.9
Earmarked Research Grants	505.9	380.8	125.1
Language Enhancement Grants	76.6	57.7	18.9
Grants for Restructuring and Collaboration Activities	203.1	152.9	50.2
Total Recurrent Grants to UGC-funded sector	10,657.8	8,030.7	2,627.1

7. The Cash Limit for the UGC-funded sector in the 2004/05 academic year is \$10,657.8 million (down from the estimated provision of around \$12,250 million for 2003/04), reflecting -

/(a)

- (a) price adjustment of the sector's recurrent funding requirement, including cumulative deflation over the 2001/02 to 2003/04 triennium and price adjustment to the pay-related portion of the funding requirement having regard to civil service pay reductions in 2004 and 2005;
- (b) a lower level of assumed income reflecting the low interest rate environment;
- (c) a requirement for the sector to deliver 10% efficiency savings out of the price-adjusted Cash Limit for the 2003/04 academic year; and
- (d) estimated changes in student numbers for the 2004/05 academic year.

8. On paragraph 7(c) above, Members may wish to note that notwithstanding the efficiency drive across Government in the 2003-04 financial year, in line with the spirit of the triennium funding cycle we did not reduce the UGC recurrent grants for the 2003/04 academic year (the final year in the current triennium) on this account. Indeed, to assist the institutions in diversifying their funding sources, we established in June 2003 a \$1 billion Matching Grant Scheme to provide dollar-for-dollar matching grants for private donations secured by the institutions. As a result, a total of \$2 billion non-recurrent additional resources is made available to the sector through this initiative, as compared to the efficiency savings of about \$1.1 billion year-on-year that the sector is required to deliver in the 2004/05 academic year.

9. On paragraph 7(d) above, we have applied an improved methodology whereby the student unit costs as weighted by the relative cost of different levels (i.e. sub-degree, undergraduate, taught postgraduate and research postgraduate) are adopted as the basis for determining the impact of any changes in student numbers across triennia (or academic years where appropriate) on the Cash Limit. This means that in the case of a reduction in the number of sub-degree places, for instance, the Cash Limit will be reduced by the weighted costs, instead of the crude

/average

average student unit cost, of these sub-degree places. Accordingly, in arriving at the Cash Limit for the 2004/05 academic year, the Administration has deducted some \$60 million less from the UGC sector by adopting the student unit costs weighted by level to account for the reduction in subsidised sub-degree student places. We have separately agreed with the UGC that we will not further adjust the Cash Limit for 2004/05 downwards to reflect the reduction in publicly-funded taught postgraduate programmes. In this regard, the savings of \$103.1 million in recurrent grant that would otherwise accrue to the government will instead be kept by the UGC for funding part of the requirements from the institutions to re-organise themselves at the strategic level.

Encl. 2

10. As for the allocation of resources among the eight institutions, the UGC's methodology for determining the levels of recurrent grants to the individual institutions is detailed at Enclosure 2. The formula gives a reasonably rigorous and precise assessment of the resources required to meet the teaching and research requirements of each institution, and includes an element of funding specifically related to the recent performance of individual institutions in the research area. Following the Higher Education Review last year, the UGC is reviewing its funding methodology with a view to encouraging role differentiation among institutions, rewarding performance in accordance with role, and promoting competition among institutions on the basis of merit in areas of teaching, research, governance, management and community service.

11. The UGC intends to set aside \$203.1 million within the Cash Limit for the 2004/05 academic year (including the savings of \$103.1 million mentioned in the paragraph 9 above) to support restructuring and collaboration activities of the institutions for implementing initiatives which will help achieve greater value and quality for money, and realign activities of the institutions in accordance with the roles defined for them. Initial financial assistance will also be provided to institutions to pursue worthwhile projects capable of generating savings greater than the initial investment.

/12.

12. In accordance with established practices for assessing the recurrent funding requirements of the institutions, we have not taken into account the additional financial implications for the Government of introducing the UGC Home Financing Scheme since 1998, refund of Government rents and rates, and the matching grant scheme implemented since July 2003. The additional costs to the Government of these endeavours are therefore not reflected in the level of government grants recommended above.

Carrying over of unspent funds across triennia

13. In February 2001, Members approved the arrangement for each institution to carry up to 20% of the respective recurrent grant allocated by the UGC in a triennium to the next as reserve. We consider the 2004/05 rollover year as an extension of the 2001/02 to 2003/04 triennium. Thus, we intend to allow the institutions to carry unspent funds up to 20% of their total respective recurrent grants for the four academic years from 2001/02 to 2004/05 to the 2005/06 to 2007/08 triennium.

FINANCIAL IMPLICATIONS

14. The recommended Cash Limit of \$10,657.8 million for the 2004/05 academic year has an estimated cashflow of \$8,030.7 million in the 2004-05 financial year and \$2,627.1 million in the 2005-06 financial year. Subject to Members' agreement, we will include the necessary provision in the 2004-05 and 2005-06 Estimates of the Government.

15. In line with the normal arrangement, the Cash Limit, once determined, will not be adjusted during the period except for adjustments to take into account any changes in the indicative tuition fee levels (hence the assumed tuition fee income in the funding formula), any new initiatives from the Government and any further changes in civil service pay adjustment.

/BACKGROUND

BACKGROUND INFORMATION

16. The Legislative Council Panel on Education considered this proposal at its meetings on 1 and 9 December 2003. Members generally supported the proposal.

17. The Heads of Universities Committee (HUCOM) has once again reaffirmed its acceptance of the proposed level of funding for the 2004/05 academic year. In its statement on the 2005/06 to 2007/08 triennium funding issued on 20 February 2004, HUCOM reiterated its earnest hope that the funding arrangements for the 2004/05 academic year and the 2005/06 to 2007/08 triennium would be decided as soon as possible. Regarding the latter, it is the consensus of HUCOM's member institutions that they will try their best to work with a 0-0-X funding arrangement for the 2005/06 to 2007/08 triennium in the form of a 0-0-0 or 0-0-5 conditional model for planning purposes⁽²⁾. The final arrangement for the working number in the last year of the next triennium will be subject to discussion between the UGC, the institutions concerned and the Government at a later stage, having regard to a number of factors including the economic outlook at that time.

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⁽²⁾ The 0-0-5 model refers to the proposed funding arrangement for the 2005/06 to 2007/08 triennium under which the first 2 years of the triennium will have no further funding cut (after the planned 10% reduction in the 2004/05 academic year of the higher education budget), with a 5% cut being planned for the third year. 0-0-X refers to an alternative arrangement which will see the planned reduction in the third year of the triennium set at an undefined (but no more than 5%) figure to be determined nearer the time.

Table 1 - Student Number Targets in 2004/05 as compared to 2003/04

Target Undergraduate (Ug) Number				
Institutions	2003/04	2004/05	Difference	
			No.	%
CityU	7 134	7 134	-	-
HKBU	4 068	4 068	-	-
LU	2 037	2 037	-	-
CUHK	9 259	9 273	14	0.15
HKIEd	2 919	3 153	234	8.02
PolyU	7 311	7 325	14	0.19
HKUST	5 457	5 403	-54	-0.99
HKU	8 972	8 842	-130	-1.45
Total	47 157	47 235	78	0.17
Ug as % of Total	69.0%	70.5%		
Target Taught Postgraduate (TPg) Number				
Institutions	2003/04	2004/05	Difference	
			No.	%
CityU	853	605	-248	-29.07
HKBU	353	354	1	0.28
LU	-	-	-	-
CUHK	1 005	998	-7	-0.70
HKIEd	561	561	-	-
PolyU	814	591	-223	-27.40
HKUST	456	409	-47	-10.31
HKU	1 375	1 356	-19	-1.38
Total	5 417	4 874	-543	-10.02
TPg as % of Total	7.9%	7.3%		
Target Research Postgraduate (RPg) Number				
Institutions	2003/04	2004/05	Difference	
			No.	%
CityU	378	378	-	-
HKBU	139	139	-	-
LU	17	17	-	-
CUHK	1 275	1 275	-	-
HKIEd	-	-	-	-
PolyU	381	381	-	-
HKUST	850	850	-	-
HKU	1 275	1 275	-	-
Total	4 315	4 315	-	-
RPg as % of Total	6.3%	6.4%		

Target Sub-degree (SD) Number				
Institutions	2003/04	2004/05	Difference	
			No.	%
CityU	4 725	4 335	-390	-8.25
HKIEd	2 003	1 662	-341	-17.02
PolyU	4 725	4 615	-110	-2.33
Total	11 453	10 612	-841	-7.34
SD as % of Total	16.8%	15.8%		
Grand Total				
Institutions	2003/04	2004/05	Difference	
			No.	%
CityU	13 090	12 452	-638	-4.87
HKBU	4 560	4 561	1	0.02
LU	2 054	2 054	-	-
CUHK	11 539	11 546	7	0.06
HKIEd	5 483	5 376	-107	-1.95
PolyU	13 231	12 912	-319	-2.41
HKUST	6 763	6 662	-101	-1.49
HKU	11 622	11 473	-149	-1.28
Total	68 342	67 036	-1 306	-1.91

Table 2 - Recurrent Funding Requirements in 2004/05 as compared to 2003/04

	(A)	(B)	Difference	
	2003/04	2004/05	(B – A)	(B – A) / (A)
	\$ million	\$ million	\$ million	%
Funding requirements for eight UGC-funded Institutions				
<i>Government grant</i>	11,363.4	9,872.2	-1,491.2	-13.1
<i>Assumed income</i>	3,430.5	2,936.0	-494.5	-14.4
<i>Total Funds</i>	14,793.9	12,808.2	-1,985.7	-13.4
Central Allocation Vote	182.5	-	-182.5	-100.0
Teaching Development Grants	38.4	-	-38.4	-100.0
Earmarked Research Grants	577.9	505.9	-72.0	-12.5
Language Enhancement Grants	87.5	76.6	-10.9	-12.5
Grants for Restructuring and Collaboration Activities	-	203.1	203.1	-
Grand Total of recurrent funding requirements				
<i>Government grant</i>	12,249.7	10,657.8	-1,591.9	-13.0
<i>Assumed income</i>	3,430.5	2,936.0	-494.5	-14.4
<i>Total Funds</i>	15,680.2	13,593.8	-2,086.4	-13.3

Methodology for Determining the Levels of Recurrent Grants to the UGC-funded Institutions

Recurrent grants to each UGC-funded institution comprise a block grant (or earmarked recurrent grant in the case of HKIEd) and funds provided for specific purposes⁽¹⁾. Block grants (or earmarked recurrent grant in the case of HKIEd) for the UGC-funded institutions are largely determined based on a methodology developed by the UGC in 1994 and improved over the years. In short, 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

2. The **Teaching** element is based on the student numbers, their levels (i.e. sub-degree, first degree, 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 others because they require special equipment, laboratory or more staff time, etc. Relative weighting by broad academic programme categories (APC) is shown in the following table -

	APC	Relative cost weightings		
1.	Medicine	4.0	-	5.0
2.	Dentistry	3.5	-	5.0
3.	Studies Allied to Medicine & Health	1.4	-	2.4
4.	Biological Sciences	1.3	-	3.8
5.	Physical Sciences	1.3	-	3.2
6.	Mathematical Sciences	0.9	-	1.5
7.	Computer Science & IT	0.9	-	1.5
8.	Engineering & Technology	1.2	-	2.3
9.	Architecture & Town Planning	1	-	1.6
10.	Business & Management Studies	0.8	-	1.6
11.	Social Sciences	1	-	1.6
12.	Law	1	-	1.6
13.	Mass Communication & Documentation	1	-	1.6
14.	Languages & Related Studies	0.8	-	1.5
15.	Humanities	0.9	-	1.2
16.	Arts, Design & Performing Arts	1.3	-	1.8
17.	Education	0.9	-	1.4

⁽¹⁾ For the 2004/05 academic year, funds provided for specific purposes comprise funding from the Earmarked Research Grants, Language Enhancement Grants, and Grants for Restructuring and Collaboration Activities.

Research Element

3. The **Research** element is primarily related to the number of active research workers and the cost of research in respective fields. The number of active research workers in each cost centre was identified in the context of the Research Assessment Exercise last conducted in 1999 which assessed the research performance of different institutions and different cost centres within an institution.

Professional Activity Element

4. 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 number of academic staff.

Allocation within Institutions

5. The UGC formula 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.
