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31 December 2003

Clerk, Public Accounts Committee
Legislative Council
8 Jackson Road
Central
Hong Kong

(Attn.: Ms Dora Wai)

Dear Ms Wai,

**The Director of Audit's Report on the
results of value for money audits (Report No. 41)**

Chapter 9: funding of tertiary education

Thank you for your letter dated 15 Dec 2003. Please find below the joint response of the institutions on the following issues as requested by the Public Accounts Committee.

Review of the Crude Average Student Unit Cost

- (a) The institutions agree that a review of the appropriateness of using the current crude average student unit cost as the basis for the funding the UGC Sector should be conducted but respect that this is a matter for the UGC to take forward in consultation with the institutions. In the light of the many reforms underway in the sector, a meaningful review could only be started during the 2005-2008 triennium when the situation becomes more settled.

Enhancement of Transparency of the 'Teaching' and 'Research' funding split

- (b) As a new funding methodology is being developed by the UGC for the assessment exercise of the 2005-2008 triennium, institutions support that more transparency regarding the funding split between teaching and research should be made when the new assessment exercise is completed in early 2005, with institutions retaining the autonomy in the deployment of resources.

Disclosure of RAE result

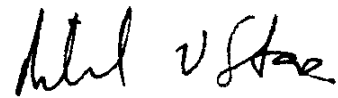
- (c) In the UGC's Higher Education Review Report published in March 2002, it is proposed that the Research Assessment Exercise (RAE) should be refined to promote higher levels of excellence in university research. The UGC has been actively working on a refined methodology for the next exercise due for completion in 2006 and has decided that the results of the new exercise, together with the comments made by the RAE panels, should be suitably disclosed in due course. The institutions would work with the UGC to determine on exactly what, how and when.

Overhead Recovery Rate

- (d) Institutions are forming a small working group comprising the Directors of Finance of the institutions to conduct the review to the overhead recovery rates. We expect a work plan will be available in early 2004 from the Group and external auditors of the institutions will be consulted as and when necessary. We also expect that fair and appropriate overhead recovery rates will be worked out by individual institutions for each self-financed operation, having regard to the differences in the circumstances of the institution, the size of the self-financed operation concerned in relation to the institution's core activities and the variation in the administrative efforts incurred.
- (e) The UGC will revise the UGC Notes on Procedures should it be decided that the student hostels should not be subject to overhead charging.

Please kindly note that the above is also broadly in line with the UGC's thinking on the matters, based on its discussions so far. Nevertheless, due to the very tight deadline for response, I have not been able to consult the UGC on the details of several of the matters raised. I shall write to you again in due course in the unlikely event that the UGC holds a different view from those attributed to it above.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Michael V Stone'.

(Michael V Stone)
Secretary-General

c.c. HoIs
SEM
Permanent Secretary for Financial
Services and the Treasury (Treasury)
Director of Audit