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**LEGISLATIVE COUNCIL BRIEF**  
**UNIVERSITY GRANTS COMMITTEE :**  
**FUNDING FOR 2004/05**

**INTRODUCTION**

At the meeting of the Executive Council on 18 November 2003, the Council ADVISED and the Chief Executive ORDERED that, regarding the 2004/05 academic year –

- (a) the distribution of indicative student number targets as proposed by the UGC (**Annex A**) should be approved (**paragraph 4** below);
- (b) the UGC's specific recurrent funding recommendations in respect of the eight UGC-funded institutions as summarized in **paragraphs 5 to 9** below should be endorsed, subject to the acceptance of the financial implications by the Finance Committee of the Legislative Council;
- (c) the student unit cost adopted for funding purpose should be weighted by level when accounting for changes in student numbers across triennia (or academic years where appropriate) with effect from 2004/05 (**paragraphs 10 to 11** below); and
- (d) the indicative tuition fees should remain at their current levels (**paragraphs 12 to 13** below).

**JUSTIFICATIONS**

**Planning of 2004/05 academic year**

3. As the recommendations arising from the Higher Education Review 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 “roll over” year, minimal changes would be introduced for the overall student numbers and funding pattern.

**(A) Student number targets**

4. The distribution of indicative student numbers (by institution and by level) are set out at **Annex A**. The number of sub-degree and taught postgraduate places will decrease by 841 and 543 respectively in the 2004/05 academic year, mainly reflecting the established policy to withdraw funding for sub-degree and taught postgraduate programmes in general, and the initiative to upgrade sub-degree pre-service teacher training to degree and above levels. The number of undergraduate places will increase by 78, reflecting the last phase of upgrading teacher training places, and additional places in nursing. At the research postgraduate level, the student numbers will remain the same.

**(B) UGC’s funding recommendations**

5. The UGC has submitted to the Administration its formal recommendations on the recurrent grants for the eight UGC-funded institutions for 2004/05, as shown below. The recommendations reflect the roles of the institutions, the ways in which they could best contribute to the needs of Hong Kong, the institutions’ Academic Development Proposals, as well as the limitations in resources that they experience.

	Academic Year	Financial Year	
	2004/05	2004-05	2005-06
	\$m	\$m	\$m
(a) CityU	1,373.7	1,035.5	338.2
(b) HKBU	546.7	412.1	134.6
(c) LU	187.8	141.7	46.1
(d) CUHK	2,204.4	1,660.8	543.6
(e) HKIEd	632.3	476.4	155.9
(f) PolyU	1,550.0	1,168.2	381.8
(g) HKUST	1,239.2	933.6	305.6
(h) HKU	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
Loan Fund	100.0	75.3	24.7
Restructuring Fund	103.1	77.6	25.5
Total Recurrent Grants to UGC-funded Institutions	10,657.8	8,030.7	2,627.1

6. The Cash Limit for the entire UGC-funded sector in 2004/05 is \$10,657.8 million (down from the estimated provision of around \$12,250 million for 2003/04), reflecting : 10% efficiency savings requested by the Administration; changes in student numbers; cumulative deflation over the 2001/02 to 2003/04 triennium; proposed civil service pay reductions in 2004 and 2005; as well as a lower level of assumed income reflecting the low interest rate environment.

7. Notwithstanding the efficiency drive across Government in 2003/04 (amounting to 1.8%), in line with the spirit of the triennium funding cycle we did not reduce the UGC block grant for 2003/04 (the final year in the current triennium) on this account. Indeed, to assist the institutions in diversifying their funding sources, we established 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 one-off 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 2004/05.

8. While the reduction in publicly-funded taught postgraduate programmes would also result in savings, we have agreed with the UGC that such reduction would not be taken into account for funding purpose in 2004/05. The amount (some \$100 million) will instead be kept by the UGC for setting up a restructuring fund aimed at helping the institutions re-organize themselves at the strategic level. Funding will be provided to

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.

9. In addition, UGC will set aside \$100 million from the Cash Limit as a loan fund to provide initial financial assistance to institutions to pursue worthwhile projects capable of generating savings greater than the initial investment.

### **(C) Methodology in calculating Cash Limit**

10. Hitherto, the crude average student unit cost has always been the basis for determining the Cash Limit for the UGC sector. When planning for the 2001/02 to 2003/04 triennium, the Administration agreed that there was merit in taking into account the different student unit costs of different levels (i.e. sub-degree, undergraduate, taught postgraduate and research postgraduate) in determining funding for the UGC sector, and agreed that this should be explored in future, subject to the availability of resources.

11. We recommend that with effect from 2004/05, the student unit costs as weighted by the relative cost of different levels should be adopted as the basis for determining funding insofar as changes in student numbers across triennia (or academic years where appropriate) are to be accounted for. 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 costs, of these sub-degree places. Other than this, the Cash Limit will not be re-assessed with reference to weighted student unit costs. This is because as most sub-degree and taught postgraduate programmes cease to be publicly-funded, the programmes to remain in the UGC sector will largely be at the undergraduate level, and further refinement of the costing basis by level should not be necessary.

### **(D) Indicative tuition fees**

12. Since February 1998, the Government has frozen most Government fees as an exceptional relief measure at a time of economic adjustment. Having regard to the social, economic and political situations of Hong Kong at the time, the Administration has also frozen the indicative tuition fees for UGC-funded programmes for six academic years from 1998/99 to 2003/04. The indicative tuition fees have remained at the 1997/98 level, as shown below –

Degree and above programmes	\$42,100
Sub-degree programmes (except those offered by the Hong Kong Institute of Education (HKIED) )	\$31,575
Sub-degree programmes offered by the HKIED <sup>1</sup>	\$15,040

13. For 2004/05, we do not propose to change the indicative tuition fees.

### **IMPLICATIONS OF THE PROPOSAL**

14. The proposal has financial, economic and sustainability implications as set out at **Annex B**.

15. The proposal is in conformity with the Basic Law, including the provisions concerning human rights. It has no civil service, productivity or environmental implications.

### **PUBLIC CONSULTATION**

16. The recommendations contained in this paper are developed in consultation with the UGC. The recommendations regarding the recurrent funding for the 2004/05 academic year are based on the UGC's proposals.

### **PUBLICITY**

17. We will consult the Legislative Council Panel on Education, after which we will ask the Finance Committee of the Legislative Council to accept the financial implications of the recurrent funding for the UGC-funded institutions in 2004/05.

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<sup>1</sup> Sub-degree programmes of HKIED are subject to a different scale of tuition fees. The bulk of HKIED's sub-degree programme tuition fees comes from the Certificate in Education courses which are currently charged at \$15,040.

## **ENQUIRIES**

18. For enquiries regarding this Legislative Council brief, please contact Ms Irene Young, Principal Assistant Secretary for Education and Manpower Bureau, at 2810 3023.

## **BACKGROUND**

19. The Administration and the UGC follow a triennial planning cycle for the UGC sector.

20. In accordance with ExCo's approval to "roll over" the current triennium (i.e. 2001/02 to 2003/04 triennium) for one year to cover the 2004/05 academic year, the UGC has submitted funding recommendations for 2004/05 which reflects minimal changes to the overall student numbers and funding pattern, for the Administration's agreement.

**Education and Manpower Bureau**  
**November 2003**

## Planned Enrolment for 2004/05 Roll-Over Year

Level	Institution								Full-time equivalent Student number
	CityU	HKBU	LU	CUHK	HKIEd	PolyU	HKUST	HKU	Total
Sub-degree	4335				1662	4615			10612
Undergraduate	7134	4068	2037	9273	3153	7325	5403	8842	47235
Taught Postgraduate	605	354		998	561	591	409	1356	4874
Research Postgraduate	378	139	17	1275		381	850	1275	4315
<b>Total</b>	12452	4561	2054	11546	5376	12912	6662	11473	67036

## **Implications of the Proposal**

### **Financial Implications**

The estimated total cost for implementing the UGC's recurrent funding recommendations for the 2004/05 academic year (i.e. the Cash Limit) will be \$10,657.8 million, with an estimated cashflow of \$8,030.7 million in 2004-05 financial year and \$2,627.1 million in 2005-06 financial year. The required funding will be met from SEM's operating expenditure (OPEX) envelope for the relevant financial years.

2. The proposed Cash Limit is around \$1,590 million below the recurrent grant of around \$12,250 million to the UGC sector in the 2003/04 academic year. The savings are the combined effect of price adjustment to the sector's overall funding requirement in 2003/04 academic year (including that arising from proposed civil service pay adjustment in 2004 and 2005), 10% efficiency savings and reductions in the number of subsidised sub-degree places. We will be surrendering the majority of the savings to meet the savings target required of the OPEX envelope and retaining some for investment into post-secondary education, mainly in the form of student financial assistance.

3. Adopting the student unit costs weighted by level to account for changes in sub-degree student numbers, the Administration would be deducting some \$60 million less from the UGC sector in 2004/05.

4. The freeze of tuition fees at the current level does not carry any additional financial implications.

### **Economic Implications**

5. Quality education at the tertiary level helps enhance the capability and competitiveness of Hong Kong's human resources, and prepare our workforce for higher value added activities in a knowledge-based and innovation-prone setting. The present proposals seek to sustain the development of tertiary education in Hong Kong with

better balance and cost efficiency, and to enhance the quality of teaching and research. Manpower requirements at the tertiary education level for the various social and economic sectors will be taken into account.

### **Sustainability Implications**

6. The proposal should generally be in line with the sustainability principle of enabling individuals to fulfil their potential by providing access to adequate and appropriate education. It should also facilitate the efficient use of educational resources. Appropriate financial assistance should continue to be provided to the lower income groups to help them acquire higher education and enhance competitiveness, thereby cultivating social integration and social mobility in Hong Kong.