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Panel on Education

Background brief prepared by the Legislative Council Secretariat for the special meeting on 26 January 2006

Remuneration systems in University Grants Committee (UGC)-funded institutions after deregulation of university salary scales

Purpose

This paper provides background information on the deregulation of university salary scales which were implemented on 1 July 2003. This paper also summarises the major views and concerns expressed by members of the Panel on Education (the Panel) about the remuneration systems in University Grants Committee (UGC)-funded institutions after deregulation of their salary scales.

Background

2. The various salary scales applicable to the staff of UGC-funded institutions had been directly or indirectly linked to the civil service pay scales since the 1970s. The heads of institutions were remunerated between Point 6 and Point 8 on the Government Directorate Pay Scale. The common university salary scales for academic and equivalent administrative staff were 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. These salary scales were approved by the Finance Committee (FC) of the Legislative Council (LegCo). The salary scales for supporting staff followed those of the civil service as stipulated in the UGC Notes on Procedures.

3. The report of the UGC 2002 Higher Education Review (the Review Report) which was commissioned by the Secretary for Education and Manpower was released in March 2002 for public consultation. One of the key recommendations in the Review Report was that a small number of institutions be strategically identified as the focus of public and private sector support with the explicit intention of creating institutions capable of competing at the highest international levels. Further deregulation of the higher education system including greater freedom and flexibility for the institutions to determine remuneration and terms

and conditions of service for academic staff was considered a necessary condition for this key recommendation.

4. According to the Review Report, in order for institutions to compete at international level, they must have the freedom and flexibility to determine the appropriate terms and conditions of service that enable them to recruit and retain staff of the highest standing. A linkage to civil service pay and conditions is an impediment to international competitiveness, and delinking would give institutions the freedom to devise their own remuneration packages. However, delinking from the civil service pay and conditions would also place a firm responsibility on the governing body and the heads of institutions to ensure fair and acceptable means of making such salary differentiations, when the system operated with a high level of deregulation.

5. After the public consultation exercise on the Review Report, UGC recommended the Administration to take an early decision regarding the delinking of salaries but leave the timing for implementation to institutions. After consideration of UGC's recommendation, the Administration decided that university remuneration should be deregulated, but institutions should be given the option to decide whether and when to introduce their own remuneration package.

6. At its meeting on 11 April 2003, FC approved the Administration's proposal on deregulation of the salary scales for application to UGC-funded institutions with effect from 1 July 2003 according to the following principles –

- (a) individual institutions were free to decide their own remuneration systems. The systems could be based on the existing salary scales linked to civil service pay or on totally new mechanisms; and
- (b) the deregulation exercise was cost neutral, i.e. institutions would not be worse off as a result of the exercise in terms of the public funding they received.

7. At the same meeting, FC also approved the Administration's proposal of removing the requirement for UGC-funded institutions to offer Home Financing Scheme as the only form of housing benefit available to staff appointed on or after 1 July 2003.

Review exercises undertaken by UGC-funded institutions on their remuneration systems after deregulation of university salary scales

8. In June 2004, the Administration informed the Panel that following the deregulation of their salary scales, all UGC-funded institutions had embarked on their own reviews of the remuneration packages of their staff. As of early June 2004, three institutions, i.e. the Lingnan University, the Chinese University of Hong Kong and the Hong Kong Polytechnic University, had completed their

review exercise and started implementing new pay and remuneration systems. The other five UGC-funded institutions, i.e. the Hong Kong University of Science and Technology, the City University of Hong Kong, the Hong Kong Baptist University, the Hong Kong Institute of Education and the University of Hong Kong, were in the process of review, e.g. consulting staff, putting forward recommendations for consideration and/or endorsement by the respective institutions' Councils, etc.

Major views and concerns expressed by Panel members

Meetings

9. The Panel discussed the Higher Education Review at four meetings on 26 March 2002, 7 May 2002, 13 May 2002 and 2 December 2002. The Panel further discussed issues relating to the deregulation of university salary scales at its meetings on 17 February 2003, 3 March 2003, 21 June 2004 and 5 July 2004. The Panel had received views from deputations at the meetings held on 7 May 2002, 3 March 2003 and 5 July 2004.

10. The major views and concerns about deregulation of university salary scales expressed by members at these meetings are summarised in paragraphs 11 to 35 below.

Impact on the funding allocation to higher education

11. Members belonging to the Democratic Party expressed objection to the proposal of delinking university salary scales from civil service pay scales because it would eventually bring about reduction of higher education resources and decrease in salary levels of university staff. They considered that the primary purpose of the proposal was to reduce government expenditure in the staff costs of the subvented sector. These members also considered that development of higher education would be affected even if the funding allocation in absolute terms would remain unchanged because the sector would need funds to provide additional services in the years to come.

12. Hon Emily LAU expressed concern 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.

13. UGC responded that the proposal of delinking university salary scales from civil service pay scales was put forward as an integral part of the strategic developments for certain UGC-funded institutions to achieve international excellence. UGC was of the view that the Administration must give an undertaking that the funding allocation to higher education would not be affected by the implementation of the proposal, when the budget-neutral concept was

adopted in public finance. The Administration stressed that it was not the policy intention to reduce funding allocation by way of the 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. However, the Administration could only guarantee that institutions delinking their salary scales from the civil service pay scales would not be worse off than if they continued to maintain the link in terms of the public funding they received.

14. Hon CHEUNG Man-kwong expressed concern that although the Administration would continue to follow the adjustment in civil service salaries in adjusting the portion of pay-related expenditure in the recurrent grants to the UGC-funded institutions after deregulation of their salary scales, institutions might seek to achieve savings from pay-related expenditure items in order to make up for the shortfalls of allocation for non-pay-related expenditure items.

Development and implementation of new remuneration systems

15. Hon CHEUNG Man-kwong considered that the Administration should first review the existing university salary structure and examine the need to establish a new remuneration package acceptable to UGC-funded institutions and their staff, before considering the proposal of deregulating university salary scales.

16. UGC responded that imposition of a common remuneration system for all UGC-funded institutions, after the delinking of university salary scales from civil service pay scales, would not be in line with the recommendations of the Review Report and the spirit of a block grant which was to allow institutions maximum freedom in the use of available resources. The primary issue was whether institutions should be given the freedom to design and implement a remuneration system which best suited their individual needs in consultation with their stakeholders.

17. Some members expressed concern whether staff of UGC-funded institutions had been adequately consulted in the course of the review and establishment of new remuneration systems in their respective institutions. Hon CHEUNG Man-kwong pointed out that the deregulation of university salary scales had led to substantial reduction in staff salaries, particularly the salaries for new staff. He considered it unsatisfactory to adopt a new system under which new recruits would receive a starting salary which was 40% to 50% less than the salaries for serving staff with more or less the same experience.

18. Some members also expressed concern that in some institutions, the percentages of salary reductions for junior staff were much higher than those for senior staff. They pointed out that some institutions had taken the opportunity to replace the automatic salary increment system with a merit-based system under which the award of salary increments would be subject to a performance assessment. They considered that it was necessary to ensure that such assessment was conducted in a fair and open manner.

19. UGC responded that while implementation of a new remuneration structure which applied to new recruits but not serving staff might give rise to staff discontent, institutions would take into account their unique circumstances and adopt appropriate strategies to facilitate implementation of their remuneration systems. As regards a large difference in salary reduction between senior staff and junior staff in some institutions, UGC explained that during the review of their remuneration structures for academic and non-academic staff, institutions would consider the competitiveness of their remuneration packages with comparable jobs in the local and international markets. As a result, some institutions had recommended lower percentages of salary reduction for their senior non-academic staff in order to attract talents and retain outstanding staff.

20. Hon CHEUNG Man-kwong considered that UGC should play a more proactive role in monitoring the development and implementation of new remuneration systems in UGC-funded institutions. He suggested that UGC should work out a set of guiding principles for institutions to observe in formulating new remuneration systems.

21. UGC did not consider it appropriate to provide such a set of guiding principles, as UGC-funded institutions were autonomous bodies and their governing bodies were empowered to decide on how best to review and develop their remuneration systems. UGC would keep in view the development and implementation of new remuneration systems in UGC-funded institutions, and provide assistance and advice to individual institutions as appropriate. UGC stressed that in line with the principle of institutional autonomy, UGC-funded institutions should have discretion to decide how to review and develop their new remuneration systems after deregulation of their salary scales. UGC was confident that institutions would consult their staff extensively through appropriate channels and explore a wide range of alternatives during the review process.

Disputes between staff and management over new remuneration systems

22. Some members expressed concern that disputes between staff and management would increase as a result of implementing new remuneration systems, such as disputes over arrangements on award of salary increment, promotion, etc. They were also concerned that deregulation of university salary scales might create a culture of flattery which would have adverse effect on academic freedom and institutional autonomy. Members in general were of the view that UGC-funded institutions should put in place independent, fair and transparent mechanisms to deal with staff appeals and grievances arising from the establishment and implementation of new remuneration systems.

23. UGC responded that deregulation of university pay and review of university governance structure were interrelated issues, and the Review Report had recommended that institutions should review their governance and management structures with a view to enhancing transparency and public

accountability. In reviewing their governance and management structures, institutions were also required to look into the effectiveness of the existing appeal channels. UGC pointed out that there were established channels and mechanisms within all institutions to handle appeals and grievances and the institutions would refine their appeal procedures to facilitate implementation of their new governance structures and remuneration systems as appropriate.

24. Members noted that it had been suggested in the Review Report that an external mechanism for settling disputes within the tertiary education sector, and extending the remit of the Office of the Ombudsman to cover the UGC sector was an option worthy of consideration. UGC, however, made a final recommendation that the idea of subjecting institutions to the overview of the Office of the Ombudsman be withdrawn, and universities would be encouraged to increase external participation and transparency in their grievances procedures instead. Some members considered that there was a need to establish an external body to handle staff complaints and grievances within the tertiary education sector.

25. While the Administration agreed that an effective and impartial mechanism to handle staff complaints was essential for effective implementation of new remuneration systems, the Administration did not consider it appropriate to set up a centralised mechanism to handle staff grievances and complaints in all the eight institutions which had different historical developments. The Administration also considered that it was contrary to the spirit of institutional autonomy.

Impact on universities' competitiveness in recruiting and retaining good staff

26. Some members expressed concern that the deregulation of university salary scales had resulted in significant reduction in staff salaries, which would adversely affect the competitiveness of universities in Hong Kong in recruiting and retaining world-class academics.

27. UGC emphasised that the purpose of deregulation of university salary scales was not to reduce staff salaries, but to allow more flexibilities for institutions to draw up new remuneration systems to attract good academic staff. The competitiveness of the institutions and the quality of higher education in Hong Kong as a whole would therefore be enhanced, rather than adversely affected.

28. Hon Dr YEUNG Sum and Hon CHEUNG Man-kwong queried that UGC-funded institutions had already enjoyed flexibility in recruitment of renowned academics. They considered that a working environment that was conducive to high-level academic teaching and research was equally important to attract and retain quality local and overseas staff.

29. Hon Andrey EU asked about the number of existing staff in UGC-funded institutions who were employed on superannuation terms. She also asked whether their terms and conditions of employment would be affected as a result of deregulating university salary scales.

30. UGC informed members that the percentage of academic staff employed on superannuation terms in UGC-funded institutions ranged from 50% to 90% and their terms and conditions of employment varied from institutions to institutions. UGC pointed out that any adjustments to the terms and conditions of employment in an institution should be agreed by the staff and the management.

31. Dr Hon YEUNG Sum considered that universities' ability to attract good academic staff would be bound to be affected if they could only offer contract terms to new recruits, and the quality of higher education would eventually be affected. Hon MA Fung-kwok, however, opined that the offer of more permanent terms might not be the best way to attract and retain good academic staff, given most university heads were employed on contract terms.

The role of governing bodies of universities

32. Some members expressed concern about the role of the governing bodies of UGC-funded institutions (i.e. the university councils) in the development and implementation of new remuneration systems. They suggested that the minutes of university council meetings and attendance of council members should be made available to the public so as to enhance their accountability to the public. These members considered that university council members should carry out their duties to monitor the operation of the universities on behalf of society and should meet with staff and their representatives readily to receive their views.

33. Some other members, however, were of the view that the autonomy of universities should be respected, and LegCo should not interfere with university governance unnecessarily. They considered that LegCo should only ensure that university governance remained transparent, fair and just, and that public funds were prudently used by universities.

34. According to UGC, reviews on university governance and management were being/had been conducted, and institutions' councils would strive to ensure that the establishments were fit for their purpose. Institutions were fully aware of the needs to maintain dialogue with their staff and students, and there were staff and student representatives in all governing councils. All these measures helped to ensure that the governing councils discharged their duties and played their role in an accountable manner.

35. Members may wish to note that when the Panel discussed the recurrent funding for UGC-funded institutions in the 2005/06 to 2007/08 triennium at its meeting on 11 January 2005, the issue of enhancing the transparency of institutional management was raised. Dr Hon Fernando CHEUNG requested that all UGC-funded institutions should publicise the agendas and minutes of meetings of their governing bodies. His request was relayed to the relevant governing bodies for consideration. The responses from the UGC-funded institutions are summarised in **Appendix I**.

Issues to be followed up

36. At the Panel meeting on 5 July 2004, members agreed that the universities concerned, UGC and the Administration should follow up and revert to the Panel on the following issues –

- (a) the offer of contract terms to new recruits which would affect the universities' ability to attract good academic staff;
- (b) larger percentages of salary reductions for junior staff than those for senior staff;
- (c) availability of appeal and grievance mechanisms for staff who felt aggrieved by the implementation of a new remuneration system to lodge complaints;
- (d) adoption of reasonable and uniform salary scales for similar grades in UGC-funded institutions;
- (e) complaints against universities compelling serving academic staff on substantiated terms to accept the conversion of their terms of employment to contract terms; and
- (f) the monitoring of and improvement to the functions of university councils and performance of individual council members.

Motion on the report on Higher Education Review

37. A motion was moved for debate on the Review Report at the Council meeting on 26 June 2002. The Official Record of Proceedings of the Council meeting is available on the LegCo website at <http://www.legco.gov.hk>.

Relevant papers

38. A list of relevant papers is in **Appendix II**. Soft copies of these documents are available on the LegCo website at <http://www.legco.gov.hk>.

Summary of responses of UGC-funded institutions to the request that all agendas and minutes of meetings of their councils should be made public

<p>Institutions (LC Paper No.)</p>	<p>Responses of respective councils</p>
<p>City University of Hong Kong [CB(2)824/04-05(03) issued on 4 February 2005]</p>	<p>Printed copies of the agendas, papers and minutes of Council meetings are placed in the University Library. There may, however, be matters where it is necessary to observe confidentiality. Such matters are likely to concern individuals or have a “commercial” sensitivity.</p> <p>The Council is aware of the need for openness and transparency in the dissemination of the decisions of the Council. The Council Secretariat also issues a summary report of Council meetings in the University newsletter.</p>
<p>The Chinese University of Hong Kong [CB(2)1000/04-05(01) issued on 4 March 2005]</p>	<p>It would not be advisable or practicable for all agendas and minutes of Council meetings to be made public indiscriminately.</p> <p>According to established practice, agendas and minutes of the Council have been treated as confidential documents. The Council deals with a lot of institutional management matters related to individual staff and students which are private and confidential information. Certain Council decisions, such as appointments and awards of honorary degrees, should not be disclosed until the offers are accepted by the persons concerned. Furthermore, certain matters dealt with by the Council, like contracts for technology transfer and other business arrangements, are often subject to non-disclosure clauses. The Council will authorise that public announcement be made on certain matters deemed by the Council to be suitable for disclosure or to be of public interest.</p>

Institutions (LC Paper No.)	Responses of respective councils
The University of Hong Kong [CB(2)1399/04-05(01) issued on 28 April 2005]	<p>It is neither necessary nor appropriate to make the full agenda and minutes of Council public.</p> <p>Given the sensitivity of issues discussed at Council meetings, and the University's prevailing practice of informing the public of the Council's decisions and policy through different appropriate channels, and in the interest of full freedom of discussion, it is neither necessary nor appropriate to make the full agenda and minutes of Council public.</p>
The Hong Kong Institute of Education [CB(2)1669/04-05(01) issued on 25 May 2005]	<p>It is considered not necessary to make public all agendas and minutes of Council meetings.</p> <p>Given that it has always been the Council's practice to report a summary of its discussions/decisions to staff in the monthly Staff Bulletin, and that the Council has been appointed to oversee the operation of the Institute, it is considered not necessary to make public all agendas and minutes of Council meetings.</p>
The Hong Kong Polytechnic University [CB(2)2369/04-05(01) issued on 22 July 2005]	<p>Major decisions of the Council, other than those confidential items, will be uploaded onto the intranet.</p>
The Hong Kong University of Science & Technology [CB(2)2411/04-05(01) issued on 1 August 2005]	<p>The Council does not consider it appropriate for meeting agenda and minutes to be made public.</p> <p>There are existing channels for the Council to publicize its decisions, and a balance should be struck between public accountability and academic freedom/institutional autonomy. In the interest of freedom of discussion at meetings, the Council does not consider it appropriate for meeting agenda and minutes to be made public.</p>

Institutions (LC Paper No.)	Responses of respective councils
Hong Kong Baptist University [CB(2)2433/04-05(01) issued on 11 August 2005]	<p>The release of the agendas and minutes of Council meetings to the public might inhibit discussions at those meetings and would not be in the overall interest of the work of the Council and consequently the University.</p> <p>There must be a good balance between public accountability and free expression within the Council. Accountability to the public has all along been achieved through, inter alia, the Chief Executive's appointment of lay Council members, who constitute the majority of the Council. Also, information on major decisions of the Council is disseminated to various sectors through a number of well-publicized channels.</p>
Lingnan University [CB(2)2608/04-05(01) issued on 20 September 2005]	<p>It would not be appropriate to make public all the agendas and minutes of Council meetings.</p> <p>Agenda items discussed at Council meetings are mainly of academic nature or concerning personnel matters. For issues or resolutions that concern public interest, the Council will make them known to the public through proper channels such as press release or conference and the University homepage on Internet.</p>

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Relevant documents

Date of meeting	Paper	LC Paper No.
Panel on Education		
26-3-02	Minutes of the meeting	CB(2)2174/01-02
	Report of the University Grants Committee on "Higher education in Hong Kong"	http://www.legco.gov.hk/yr01-02/english/panels/ed/papers/ed0326-ugc-report-e.pdf
7-5-02	Minutes of the meeting	CB(2)2339/01-02
13-5-02	Minutes of the meeting	CB(2)2340/01-02
2-12-02	Minutes of the meeting	CB(2)901/02-03
	LegCo Brief issued by the Education and Manpower Bureau entitled "Higher Education Review and rolling over the 2001/02 to 2003/04 triennium to the 2004/05 academic year"	File Ref : EMB CR 3/21/2041/89
17-2-03	Minutes of the meeting	CB(2)1472/02-03
	Admin paper entitled "Deregulation of University Salaries"	CB(2)1125/02-03(05)
3-3-03	Minutes of the meeting	CB(2)1705/02-03
21-6-04	Minutes of the meeting	CB(2)3324/03-04
	Admin paper entitled "Remuneration Systems in University Grants Committee-funded Institutions after Deregulation of Salary Scales"	CB(2)2786/03-04(01)

Date of meeting	Paper	LC Paper No.
5-7-04	Minutes of the meeting	CB(2)3328/03-04
Finance Committee		
11-4-03	Minutes of the meeting	FC144/02-03
	Admin paper entitled "Item for Finance Committee: Head 190 – University Grants Committee, Subhead 000 Operational expenses"	FCR(2003-04)5

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