

**Funding Support Rendered to the
University Grants Committee-funded Institutions**

PURPOSE

At the meeting of the Panel on Education on 8 May 2006, Members discussed the issue of university tuition fees and the cost recovery rate for tuition fees of degree programmes offered by the eight institutions funded by the University Grants Committee (UGC). In response to the Chairman's request, the Administration undertook to provide a paper setting out the total funding support rendered by the Government to the UGC sector. The information is hereby provided.

RECURRENT FUNDING

2. Through the UGC, the Government provides recurrent subventions to the eight UGC-funded institutions mainly in the form of block grants on a triennial basis. This is the main funding source to support the recurrent funding requirements of the UGC sector, which amounts to \$39,870 million for the 2005-08 triennium. There are at the same time other important sources of recurrent funding support provided by the Administration to the UGC-funded institutions and their students. They are set out in the ensuing sections.

(a) Topping-up for the implementation of Home Financing Scheme

3. With the introduction of the Home Financing Scheme (HFS) in the UGC-funded institutions in October 1998, the Government has been providing additional recurrent funding to the institutions to support its implementation. On average, about \$543 million per annum has been provided by the Government for the UGC HFS during the 2005-08 triennium - or \$1,630 million for the whole 2005-08 triennium.

(b) Reimbursement of Government Rent and Rates

4. Under the current policy, the UGC-funded institutions are eligible for reimbursement of Government rent and rates for premises

occupied for UGC-funded activities. The amount of refund provided by the Government to the UGC-funded institutions is estimated at about \$140 million per annum – or \$420 million over the 2005-08 triennium.

(c) Financial Assistance provided to Students under the Local Student Finance Scheme

5. To ensure that no eligible student would be deprived of the educational opportunity due to lack of means, the Administration provides financial assistance for full-time students of the UGC-funded institutions in the form of means-tested grant and/or loan¹ and non-means-tested loan. Grants for undergraduate students of the UGC are estimated at about \$740 million per annum – or \$2,220 million over the 2005-08 triennium.

6. Taking into account all the recurrent funding as set out in paragraphs 2 to 5 above, the estimated total recurrent funding for the UGC sector for the 2005-08 triennium would be \$44,140 million. Using this basis, the cost recovery rate of the tuition fee would be 17.5%.

NON-RECURRENT GRANTS

7. In addition to the above recurrent funding support, the Government also provides non-recurrent grants as well as land at nominal premium to the institutions to support their ongoing academic developments and internationalization efforts and to strengthen their fund-raising capabilities -

(a) Capital Grants for Capital Works and the Alterations, Additions, Repairs and Improvements Programme

8. The Government provides the main source of funding for campus development projects of the institutions. Over the years, the Government has provided billions of dollars to support the provision of

¹ Eligible students may apply for means-tested grant and/or loan under the Local Student Finance Scheme (LSFS) to meet with tuition fees and living expenses. Apart from the LSFS, means-tested travel subsidy will also be provided to eligible students to help them meet with home-school travel under the Student Travel Subsidy Scheme. Students who do not want to go through or fail to pass the means test could apply for non-means-tested loan under the Non-means-tested Loan Scheme.

adequate academic and student facilities necessary for the UGC-funded institutions to operate effectively. Individual capital works projects costing more than \$15 million will be considered by the Administration under the context of the Capital Works Resource Allocation Exercise, and will require funding approval from the Finance Committee of the Legislative Council. On the other hand, projects not exceeding \$15 million will be funded collectively under the UGC's Alterations, Additions, Repairs and Improvements block vote. The average amount of capital grants allocated to the UGC-funded institutions in the 2005-08 triennium is estimated at about \$660 million per annum – or \$1,980 million over the 2005-08 triennium. These figures have yet to take into account the costs of the land which is granted to the institutions at nominal premium for development purposes.

(b) Matching grants

9. Since 2003, the Administration has introduced three rounds of Matching Grant Scheme at a total of \$3 billion to facilitate further internationalisation efforts and campus development of the institutions. In the 2005-08 triennium, the amount of government funds available for matching under the Second and Third Matching Grant Schemes is \$2 billion. Together with the private donations secured by the institutions, the total amount of resources available to the institutions and their students has thus increased substantially, even though such resources are not provided through the conventional mode of recurrent funding and therefore not readily reflected in the student unit costs and cost recovery rates.

TOTAL FUNDING RENDERED TO THE UGC SECTOR

10. Adding together the estimated recurrent and non-recurrent funding for the 2005-08 triennium as set out in paragraphs 2 to 9 above, the total funding for the UGC sector will be about \$48,120 million. Using this basis, the cost recovery rate of the tuition fee for the 2005-08 triennium would be 16.1%.

BACKGROUND

11. This section briefly describes the methodology for calculating UGC triennial funding and the cost-recovery rate as applied to such funding, for Members' background information.

12. As mentioned above, Government provides recurrent subventions to the eight UGC-funded institutions through the UGC mainly in the form of block grants on a triennial basis. Based on the student number targets and the average unit costs of the publicly-funded student places, the UGC estimates the total recurrent funding requirement for the UGC sector under its established funding methodology. The UGC then determines the recommended level of recurrent grants to the eight institutions after deducting the tuition fees and "other assumed income" to be received by the institutions (which include mainly interest on deposits and investment income). The Administration will seek the Executive Council's endorsement of the recommended level of recurrent grants before submitting the proposal to the Finance Committee of the Legislative Council for approval.

13. To facilitate the UGC's assessment of the assumed tuition fee income to be received by the institutions, the Administration sets "indicative tuition fee levels" for UGC-funded programmes for the purpose of determining the level of recurrent subventions. The Government also derives an average cost recovery rate by comparing the estimated tuition fee income (based on the Administration's indicative tuition fee levels) with the estimated recurrent funding requirement of the UGC sector as a whole. The cost recovery rate aims to provide an overall indicator for measuring and benchmarking students/parents' contribution to tertiary education in Hong Kong.