

LEGISLATIVE COUNCIL BRIEF

**RECURRENT FUNDING FOR
UNIVERSITY GRANTS COMMITTEE-FUNDED INSTITUTIONS
FOR THE 2007/08 ACADEMIC YEAR**

INTRODUCTION

At the meeting of the Executive Council on 28 March 2006, the Council ADVISED and the Chief Executive ORDERED that subject to the acceptance of the financial implications by the Finance Committee of the Legislative Council (**paragraphs 2 to 7 below**), the 0-0-0 funding model should be adopted for the 2005/06 to 2007/08 triennium for the University Grants Committee (UGC)-funded institutions; accordingly, the specific recurrent funding for the 2007/08 academic year should be adjusted to \$10,296.3 million, thus increasing the total recurrent grant for the 2005/06 to 2007/08 triennium from \$30,762.4 million (i.e. the 0-0-5 funding model) to \$31,266.7 million (i.e. the 0-0-0 funding model).

JUSTIFICATIONS

Level of recurrent funding for the 2007/08 academic year

2. The determination of the level of recurrent funding for the UGC-funded institutions in the current 2005/06 to 2007/08 triennium took place in end 2004/early 2005 against the background of an uncertain overall fiscal position and economic outlook at that time. In line with the spirit of prudent financial management, the Administration has thus assumed, for planning purposes, that there would be 5% recurrent savings in the 2007/08 academic year in accordance with the 0-0-X model as agreed by the Heads of Universities Committee's member institutions. The 0-0-5 funding arrangement for the 2005/06 to 2007/08 triennium means that there would be no further funding cut in the first two years of the triennium but funding would be reduced in the third year of the triennium by 5%. The Administration undertook to review before mid-2006 the 5% reduction

assumed for the 2007/08 academic year, having regard to a number of factors including the economic outlook.

3. Having reviewed the situation, we consider that there are economic as well as financial grounds for adopting a 0-0-0 model as recommended by the UGC, i.e. no funding cut for the 2007/08 academic year.

4. On the economic side, the current economic recovery of Hong Kong is more solid, compared with the situation in end 2004/early 2005 when we first considered the 0-0-5 funding model. In 2005, our economy expanded rapidly with real Gross Domestic Product (GDP) registering a growth of 7.3%. Hong Kong's economy is expected to achieve solid growth in 2006, with GDP forecast to increase by 4-5%. Furthermore, compared with a year ago, inflation pressure is expected to turn moderately higher in the rest of the current triennium. The 0-0-0 model will provide additional resources for our higher education sector to develop during an inflation era. In the longer term, the capability and competitiveness of our human capital are the key attributes of Hong Kong's future success in an increasingly globalised world. In the light of these economic considerations, our additional investments in the higher education sector through the 0-0-0 model will offer resources for the UGC-funded institutions to expand the academic and research capacity of our higher education sector, and in turn our human capital. This will strengthen Hong Kong's international competitiveness to the benefit of our long-term economic development.

5. On the financial side, we have also seen improvements in the Government's fiscal position. For the first time since 1997-98, the Operating and the Consolidated Accounts (as from 2005-06) have recorded surplus.

6. Having regard to the above economic and fiscal factors and our long-standing commitment to investing in higher education, we recommend that the level of recurrent funding for the UGC-funded institutions should be maintained at the current level throughout the 2005/06 to 2007/08 triennium, i.e. the 0-0-0 model. This will provide the UGC sector with stable funding when it is preparing for the reform of the new "3+3+4" academic structure. Under the 0-0-0 model, the recurrent grant for the 2007/08 academic year would be \$10,296.3 million. The revised total recurrent grants we recommend for the entire UGC-funded sector in the 2005/06 to 2007/08 triennium is \$31,266.7 million as shown below -

| | Academic year (July to June) | | | Total |
|--|------------------------------|---------------------------|-----------------|-----------------|
| | 2005/06 | 2006/07 (in \$million) | 2007/08 | |
| (a) City University of Hong Kong | 1,294.7 | 1,189.1 | 1,141.6 | 3,625.4 |
| (b) Hong Kong Baptist University | 555.9 | 557.9 | 558.0 | 1,671.8 |
| (c) Lingnan University | 196.7 | 203.6 | 203.8 | 604.1 |
| (d) The Chinese University of Hong Kong | 2,178.0 | 2,145.2 | 2,144.7 | 6,467.9 |
| (e) The Hong Kong Institute of Education | 536.1 | 504.2 | 445.5 | 1,485.8 |
| (f) The Hong Kong Polytechnic University | 1,648.8 | 1,595.6 | 1,559.3 | 4,803.7 |
| (g) The Hong Kong University of Science and Technology | 1,218.8 | 1,207.1 | 1,189.9 | 3,615.8 |
| (h) The University of Hong Kong | 2,144.9 | 2,059.8 | 2,030.0 | 6,234.7 |
| Sub-total of Recurrent Grants for eight institutions | 9,773.9 | 9,462.5 | 9,272.8 | 28,509.2 |
| Earmarked Research Grants | 505.9 | 605.9 | 605.9 | 1,717.7 |
| Grants for Restructuring and Collaboration Activities | 123.6 | 132.5 | 158.8 | 414.9 |
| Grants for Research Development Activities | 123.6 | 132.5 | 158.8 | 414.9 |
| Central Allocation Vote | 10.0 | 100.0 | 100.0 | 210.0 |
| Total Recurrent Grants to the UGC-funded institutions | 10,537.0 | 10,433.4 | 10,296.3 | 31,266.7 |

(Note: The table above has reflected the increase of Earmarked Research Grants by \$100 million per academic year in the 2006/07 and 2007/08 academic years to enhance research activities, which are met by estimated reduction in Grants for Restructuring and Collaboration Activities and Grants for Research Development Activities when compared to the allocation originally endorsed by the ExCo and approved by the Finance Committee.)

7. This 0-0-0 model will result in the Cash Limit for the 2007/08 academic year being about \$504.3 million higher than the 0-0-5 model approved by the Finance Committee (FC) of the Legislative Council in February 2005. We will revert to FC to seek approval to increase the recurrent grant for the 2007/08 academic year by \$504.3 million.

IMPLICATIONS OF THE PROPOSAL

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

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

PUBLIC CONSULTATION

10. The recommendations contained in this paper are developed in consultation with the UGC.

PUBLICITY

11. We will inform the Legislative Council Panel on Education of the Administration's position, after which we will seek the approval of the Finance Committee of the Legislative Council to increase the level of recurrent funding for the UGC-funded institutions in the 2007/08 academic year by \$504.3 million.

ENQUIRIES

12. For enquiries regarding this Legislative Council brief, please contact Miss Charmaine Lee, Principal Assistant Secretary for Education and Manpower, at 3540 7468.

BACKGROUND

13. The Administration and the UGC follow a triennial planning cycle for the UGC sector. In February 2005, the Finance Committee (FC) of the Legislative Council approved the recurrent funding recommendation at a total cost of \$30,762.4 million under the 0-0-5 model (i.e. recurrent savings of 5% to be achieved from the 2007/08 academic year). The FC also noted that the Administration would review before mid-2006 the 5% savings assumed for the 2007/08 academic year, on the understanding that any additional recurrent funding for the 2005/06 to 2007/08 triennium will be capped at \$504.3 million.

Education and Manpower Bureau
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Implications of the Proposal

Financial Implications

The overall funding recommendation is worked out largely on the basis of an established framework for assessing the funding requirement of the University Grants Committee (UGC) sector. Additional funding of \$504.3 million for the 2005/06 to 2007/08 triennium would be required for implementing the recommendation of adopting a 0-0-0 model for the 2007/08 academic year. The revised estimated cash flow for the entire triennium will be as follows –

| <u>Financial Year</u> | <u>\$ million</u> |
|------------------------------|--------------------------|
| 2005 – 06 | 7,902.7 |
| 2006 – 07 | 10,459.4 |
| 2007 – 08 | 10,330.5 |
| 2008 – 09 | 2,574.1 |
| Total | 31,266.7 |

Economic Implications

2. The proposal offers additional investments in university education for the UGC-funded institutions to explore further research development and collaboration opportunities and to pursue various academic and student exchange activities. Given the transformation of Hong Kong economy towards the high value added and professional end, the investments will accelerate the enhancement of quality and competitiveness of Hong Kong's human resources through expanding our higher education sector. This will strengthen Hong Kong's role as a major international business and financial centre and will be beneficial to the long-term economic prosperity of Hong Kong, particularly in view of ongoing global competition for talents and an ageing local population in the coming decades.

Sustainability Implications

3. The proposals would improve the return of investment in education in terms of better teaching quality, student outcome and research

performance and are in line with the sustainability principle of enabling individuals to fulfil their potential by providing access to adequate and appropriate education. The proposals should also facilitate the efficient use of educational resources.