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23 December 2016

Mr Anthony Chu
Clerk
Public Accounts Committee
Legislative Council
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Dear Mr Chu,

Public Accounts Committee

Consideration of Chapter 2 of the Director of Audit's Report No. 67

Funding of universities by University Grants Committee ("UGC")

I refer to your letter dated 13 December 2016 to the Secretary-General, UGC, requesting for supplementary information on a number of issues discussed at the public hearing held on 12 December 2016. The requested information is now set out at the **Annex** for reference by the Public Accounts Committee. As requested, my colleagues will send you soft copies of the information by email.

Should you need further clarifications on the above, please feel free to contact Miss Winnie Wong, Deputy Secretary-General (1) on 2844 9914 or Mr David Leung, Deputy Secretary-General (2) on 2844 9942.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R. Armour', enclosed within a circular scribble.

(Dr. Richard T ARMOUR)
Secretary-General

c.c. Secretary for Education (fax no. 2810 7235)
Secretary for Financial Services and the Treasury (fax no. 2147 5239)
Director of Audit (fax no. 2583 9063)

(a) Recurrent grants to UGC-funded universities and salary adjustment mechanism of staff in universities

2014/15 recurrent grants to UGC-funded universities

The 2014/15 recurrent grants for the universities (\$14,321 million) were accepted by the Finance Committee of the Legislative Council in January 2012, as part of our recommendation on recurrent funding for the universities in the 2012/13 to 2014/15 triennium. The **accepted** amounts were at 2011 price level. Therefore, they were different from the **actual** 2014/15 recurrent grants shown in Table 3 (\$16,072 million) which had incorporated, amongst other things, the adjustments of the relevant portion of the recurrent grants based on the civil service pay adjustments for the period 2012 to 2015 (effective rate of about 14%).

Salary adjustment mechanism and determination of salary scale of staff in universities

Universities have their own established mechanisms in determining the remuneration packages and salary adjustments of their staff, and are accountable for their decisions in this regard. Generally speaking, the remuneration of staff is determined with reference to factors such as available market information, pay information of Hong Kong's public sector and the international academic sector, qualification and experience of the staff, civil service pay scale, and internal salary relativity, etc. Benchmarking review of the remuneration packages with local and international practices is conducted by some universities with a view to ensuring their market competitiveness.

As regards the salary adjustment mechanism, based on information provided by the UGC-funded universities, some universities will make reference to the civil service pay adjustments as well as the available market information in considering the salary adjustment of staff in relevant years, though the actual salary adjustment for individual staff is based on the performance assessment of the staff.

The UGC does not seek to control for funding purposes actual expenditure on salaries and benefits in the universities since the delinking of institutional salaries from the civil service salary scales in 2003. That notwithstanding, at the time of allocation of the supplementary grants arising from the civil service pay adjustments, the universities are reminded that such additional subventions are meant to allow room for salary adjustment for their staff.

(b) Factors considered in setting the allocation of knowledge transfer funding for UGC-funded institutions and details of the change in the way knowledge transfer is to be provided to the universities for the next triennium (2020-2023) (paragraph 2.15(b) of the Audit Report refers)

Since the 2009/10 academic year, UGC has introduced an additional stream of recurrent earmarked funding for universities to build up their capacity and broaden their endeavours in knowledge transfer (KT). In the 2016-19 triennium, KT funding of \$62.5 million per year is available for allocation to UGC-funded universities. The Research Group under UGC decided in April 2016 to retain the funding mechanism in use in the 2012-15 triennium, i.e. the metrics-based formula, for the 2016-19 triennium. The metrics-based formula for allocation to each UGC-funded university in the 2016-19 triennium is as follows –

$$\text{Share of Funding} = \$62.5 \text{ million} \times \frac{T_a + 4R_a}{\sum(T_n + 4R_n)}$$

T: Teaching element of the UGC Block Grant in the funding year

R: The sum of the research element of the UGC Block Grant in the funding year and the total funding received from the Research Grants Council in the preceding funding year








a: The relevant amount for the university concerned

n: Sum of the relevant amount for all the eight UGC-funded universities

Noting that the KT culture has already been fully embedded in universities' strategies and operations, the Research Group agreed in September 2016 to consider changing the way KT funding was provided to universities for the next 2019-22 triennium, e.g. by integrating the earmarked KT funding into the Block Grant to universities. The universities will be informed well in advance should there be any major changes to the KT funding arrangements. The Secretariat will review the earmarked KT funding allocation in due course, and Audit's views and recommendation will be taken into account in the review.

(c) Enrollment rules – Details of items 4 and 5 in Table 12 in paragraph 2.26

The University codes are provided to PAC on a **restricted basis** and **should not be disclosed to the public** –

University A : 
University B : 
University C : 
University D : 
University E : 
University F : 
University G : 

On the issue of over-enrolment of “Enrolment of non-local students should not exceed 4% in Chinese medicine programmes” (Item 4 of Table 12 in the Audit Report); Members may wish to note that for University D, the enrolment of 20.1% above the limit in the 2012-15 triennium means that on average the university admitted 6.0 students above limit out of 30.0 per year (rather than 36.1 students which was the average actual/total enrolment per year in that triennium). Similarly, for the same university, the enrolment of 9.6% above the limit in the 2009-12 triennium means that on average the university had admitted 2.9 students above the limit out of 30.0 per year (rather than 14.3 students which was the average actual/total enrolment per year in that triennium). The absolute number of intake/enrolment above limit was relatively small, while on the other hand, the corresponding approved student number target (limit) for that particular programme was also small and hence the percentage seems high.

On the issue of over-enrolment of “No over-enrolment in Chinese medicine programmes” (Item 5 of Table 12 in the Audit Report), Members may wish to note that for University D, the over-enrolment of 5.7% in the 2012-15 triennium means that on average 1.7 students were admitted above limit out of 30.0 per year (rather than 10.3 students which was the average actual/total enrolment per year in that triennium). Similarly, for University F, the over-enrolment of 10.2% in the same triennium means that on average 2.6 students were admitted above limit out of 25.0 per year (rather than 15.3 students which was the average actual/total enrolment per year in that triennium). The absolute number of intake/enrolment above the limit was relatively small, while on the other hand, the corresponding approved student number target for that particular programme was also small and hence the percentage might seem high. Also, for University F, the over-enrolment of 1.9% in the 2009-12 triennium means that on average 0.5 student was admitted above limit out of 25.0 per year (rather than 2.3 students which was the average actual/total enrolment per year in that triennium).

(d) Measures taken / to be taken by UGC and/or EDB in addressing cases of under-enrollment (Table 12 in paragraphs 2.26 and 2.30)

With reference to Table 12, paragraph 2.26 of the Audit Report, action has already been set out in section 3.12 of the NoP. UGC has adhered to the laid-down procedures i.e. regular monitoring of actual enrolments, for dealing with cases of non-compliance with the enrolment rules. For example, the UGC considered that there was serious under-enrolment of the then HKIED in 2007/08 academic year and action was taken to claw back funding.

In December 2014, the EDB expressed to the UGC its concern on deviations from the approved student number targets in various streams of teacher education programme. Accordingly, the EDB requested the UGC to consider treating various streams of teacher education programmes as distinct manpower-planned programmes for the purpose of applying UGC’s enrolment rules, and therefore the relevant student number target of each stream needs to be met (hereinafter referred to as “sub-cap proposal”). Not all of these were within the control of the institution

concerned since for certain short or part-time courses, student numbers depended on schools releasing serving teachers.

Upon finalisation of the implementation details of the “sub-cap proposal” in consultation with EDB and the teacher education universities (TEUs), we wrote to TEUs requesting them to take into account the Government’s recommendation that the various streams of teacher education programmes be treated as distinct manpower-planned programmes for the purpose of applying the sub-caps on enrolment for manpower-planned programmes. We informed the TEUs, vide a letter of 20 October 2016, of the implementation details taking into account the views expressed by the TEUs, including the exemption from the sub-cap proposal for programmes with a small intake.

(e) Statistics on non-local graduates of UGC-funded undergraduate programmes who have remained to work / stay in Hong Kong after graduating

At present, the Immigration Department administers the “Immigration Arrangements for Non-local Graduates (IANG)”, which allows non-local students who have obtained an undergraduate or higher qualification in a full-time and locally-accredited local programme in Hong Kong, including UGC-funded undergraduate programmes, to apply to stay/return and work in Hong Kong. Both non-local fresh graduates (i.e. non-local graduates who submit applications to the ImmD within six months after graduation) and returning non-local graduates (i.e. non-local graduates who submit applications to the ImmD beyond six months after graduation) are eligible under the scheme.

In 2015/16 (as at June 2016), 2 685 applicants with undergraduate qualifications were approved. The breakdown statistics on successful applicants who are non-local graduates of UGC-funded undergraduate programmes are not available.

(f) Measures taken / to be taken by UGC / EDB in addressing the shortfall in student hostel places

Both the Education Bureau and UGC recognise that hostel experience is an integral part of higher education, and is committed to supporting the development of publicly-funded student hostels in accordance with

well-established policies and calculation criteria. At present, around 29 200 publicly-funded hostel places are available to the UGC-funded universities, of which some 6 470 were completed in the past five years, while another 676 places are currently under construction. As at 2015/16, there was a shortfall of around 8 660 publicly-funded student hostel places. To cope with the surging requirements, the UGC and its funded universities have been working closely with the Government in the planning work for new hostel projects. Eight hostel projects are currently at various stages of planning (i.e. Category B- projects in Government's Capital Works Resource Allocation Exercise (CWRAE)) by UGC-funded universities, which are expected to deliver around 8 450 publicly-funded hostel places. In addition, UGC has supported two capital project proposals of universities to provide 930 additional hostel places.

Having regard to the importance of hostel life to students and the promotion of internationalisation, the UGC has since 2013 accorded higher priority to hostel projects than academic building projects when pursuing Capital Works Reserve Fund. In the past few years, the UGC has also repeatedly appealed to the Government at various levels for funding support to the hostel projects. On the other hand, universities have been advised to consider alternative ways in provision of student hostels (e.g. finding other funding sources) apart from modifying and / or reprioritising their projects under planning with a view to enhancing the chance in obtaining funding from the Government for more hostel places.

Looking ahead, UGC will continue to work closely with EDB and the UGC-funded universities on funding proposals in Government's CWRAE.

(g) Impact of shortage of student hostel places on non-local students

Both the UGC and the universities consider that the provision of hostel places for both local and non-local students according to the established policy is a key factor in promoting internationalisation. If a hostel place is not provided to non-local students, no matter whether they are Mainland or non-Mainland students, it will inevitably have an impact on their willingness to study in Hong Kong as they will have to find their own accommodation outside campus during their study. In Hong Kong in particular, this is not easy. Moreover, we understand that hostel life is

very important to many non-local as well as local students as it is an essential part of higher education – providing them with an environment conducive to learning, and allowing greater social interaction that enriches personal development as well as the learning experience generally. Such learning experiences cannot be replicated easily in rented accommodation outside campus. That said, it must also be noted that shortage of hostel places is not the only determining factor when non-local students consider their study destinations. Many other factors are taken into account.

(h) Reasons for the delay in submission of project final accounts

With the concerted efforts of universities, Architectural Services Department (ArchSD) and UGC Secretariat, the latest progress of finalisation of final accounts (as at 23 December 2016) is as follows:

	Major Capital Works Projects	AA&I Projects
(i) Total number of projects with finalisation of final accounts overdue as at 30 June 2016	36	98
(ii) Total number of projects with final accounts finalised since 1 July 2016	9	49
(iii) Total number of projects pending finalisation of final accounts (i.e. (i)-(ii))	27	49

The UGC Secretariat continues to review the remaining overdue project accounts and has identified the following reasons for the delay in the submission of the final accounts:

1. Missing information / payment records on the project accounts, in particular those projects which were completed some considerable time ago. In some cases, the universities advised that the file records could not be found and some of the computer records showing the relevant expenditures could no longer be retrieved due to change in accounting/computer systems over the years;
2. Missing supporting information / documents to justify the final expenditures incurred. In the process of vetting the final expenditures of a project, universities might be required by ArchSD, UGC’s technical adviser, to provide justifications and supporting documents to substantiate some of the expenditures incurred, in particular those

involving contractual claims and variations or provisions above the normal requirements. Nevertheless, due to movement of staff in charge of the projects in either the consultancy firms or the universities, some of the crucial information may no longer be available. As a result, longer time was required for the universities and the ArchSD to work on alternative means to determine the supported level of expenditures;

3. Late settlement of final accounts between the universities and the works contractors. In some cases, the universities may have genuine difficulties in settling the final accounts with the works contractors (e.g. due to liquidation of the contractors and length of the liquidation process which may take years to settle; and
4. Limited staff resources tasked with the final account submissions, particularly during the time when the universities (and the UGC Secretariat) were heavily engaged in other tasks with higher priorities (e.g. the implementation of many new “3+3+4” capital projects which was planned since 2005 to cater for the additional academic space requirements for the new academic structure starting from 2012/13).

(i) Delayed submission of project final accounts by the universities

As stated in the reply to question (h) above, the delay in submission of final accounts was due to various reasons. Based on the information provided by universities, there is no clear evidence showing that universities have intentionally delayed the submission of project final accounts beyond the time limit specified in the UGC Notes on Procedures unreasonably. In vetting the final account submissions, the UGC Secretariat consults the ArchSD, UGC’s technical adviser, who will advise on the supported level of the final project expenditures and other technical matters as appropriate. If the UGC Secretariat together with ArchSD consider that a university has intentionally delayed the submission of project final account beyond the specified time limit in a particular case, we would consider consulting the FSTB whether interests should be charged on a case-by-case basis as appropriate.

(j) Measures taken by UGC in expediting the submission of final accounts of capital works projects and AA&I projects by the universities

In order to expedite the finalisation of project accounts, UGC Secretariat has taken the following measures since 2010:

1. Devising new procedural work flow and time frame in consultation with the ArchSD to streamline the processing of final account submissions;
2. Conducting meetings / briefings with the universities concerned and ArchSD with a view to resolving the unsettled final accounts and expedite the vetting process;
3. Devising alternative means / measures in consultation with universities and ArchSD to tackle problematic cases (e.g. to accept universities' undertakings signed at vice-President level in lieu of lost payment records, provided such undertakings are supported by relevant evidences / information as agreed by the ArchSD); and
4. Urging the universities concerned to take prompt actions to expedite the submission of final accounts and supporting documents for processing by ArchSD and UGC Secretariat. Letters have been issued to the Director of Estates or higher level officers (up to the Presidents) of the universities in 2010, 2012, 2013, 2014 and 2016 respectively. In addition to the letters to the Presidents issued by the Secretary General of UGC recently, the Chairman and Secretary General of UGC personally visited each President of eight UGC-funded universities and sought personal intervention to resolve the problem in the past few years.