

A. Introduction

The Audit Commission ("Audit") conducted a review on the funding of universities by the University Grants Committee ("UGC").

2. Hon Abraham SHEK Lai-him declared that he was currently a member of the Court and Council of the University of Hong Kong, and a member of the Court of The Hong Kong University of Science and Technology.

Background

3. In Hong Kong, there are eight universities funded by UGC¹ (all universities mentioned hereinafter refer to UGC-funded universities). UGC was established as a non-statutory advisory body in 1965. According to the Controlling Officer's Report of UGC in the annual Estimates of the Government, UGC:

- advises the Government on the development and funding of higher education in Hong Kong;
- advances the quality of teaching and learning, research and knowledge transfer at the universities; and
- monitors the efficiency and cost-effectiveness of the universities' UGC-funded activities.

4. According to the UGC's Notes on Procedures ("NoP"):²

- the mission statement of UGC is to work with Institutions, the Administration and the Community to promote excellence in the higher education sector, with a view to establishing Hong Kong as the education hub of the region and to nurturing high quality people to promote the economic and social development of Hong Kong;

¹ The eight universities are, in alphabetical order, City University of Hong Kong; Hong Kong Baptist University; Lingnan University; The Chinese University of Hong Kong; The Education University of Hong Kong; The Hong Kong Polytechnic University; The Hong Kong University of Science and Technology; and the University of Hong Kong.

² UGC's NoP explains and sets down the major operational procedures of the interplay between UGC, the universities and the Government, as represented by the Education Bureau. NoP is for observance by responsible officers of the universities, the UGC Secretariat and the Government. NoP could be accessed on the homepage of UGC.

- UGC has neither statutory nor executive powers; and
- UGC mediates interests between the universities and the Government. On one hand, UGC safeguards the academic freedom and institutional autonomy of the universities, while on the other it ensures value for money for the taxpayers.

5. UGC has under its aegis two non-statutory advisory bodies:

- Research Grants Council ("RGC"), which is responsible for advising the needs of the institutions of higher education in Hong Kong in the field of academic research, inviting and receiving applications for research grants, studentships and post-doctoral fellowships and approving such applications, and monitoring the implementation of such grants;³ and
- Quality Assurance Council ("QAC"), which is responsible for advising on quality assurance matters in the higher education sector in Hong Kong, including the conduct of quality audits of the universities.

6. UGC is supported by the UGC Secretariat, which is a government department and headed by Secretary-General of UGC. The Education Bureau ("EDB") is the policy bureau of the UGC Secretariat. Recommendations on recurrent grants to the universities are submitted by UGC, through Secretary for Education, to the Chief Executive in Council for endorsement. For the 2016-2017 financial year, the estimated expenditure of UGC amounted to \$17,966 million (\$144 million for the UGC Secretariat's expenses and \$17,822 million for grants/reimbursements provided to the universities).

7. The Committee held two public hearings on 12 December 2016 and 6 January 2017 to receive evidence on the findings and observations of the Director of Audit's Report ("Audit Report").

³ See Chapter 6 of Part 7 of this Report for "Funding of academic research projects by Research Grants Council".

The Committee's Report

8. The Committee's Report sets out the evidence gathered from witnesses. The Report is divided into the following parts:

- Introduction (Part A) (paragraphs 1 to 10);
- Administration of recurrent grants (Part B) (paragraphs 11 to 27)
- Administration of capital grants (Part C) (paragraphs 28 to 43);
- Governance and other administrative issues (Part D) (paragraphs 44 to 64); and
- Conclusions and recommendations (Part E) (paragraphs 65 to 67).

Opening statement by Secretary for Education

9. **Mr Eddie NG Hak-kim, Secretary for Education** made an opening statement at the beginning of the Committee's public hearing held on 12 December 2016, the summary of which is as follows:

- the Administration accepted the recommendations made in the Audit Report;
- the Administration considered that the independent structure, organization and operational arrangements of UGC could basically serve the needs and long-term interest of Hong Kong's higher education sector and contribute to institutional autonomy;
- with a view to attracting outstanding local and non-local students to advance their studies in Hong Kong, the Administration had implemented the following measures: the establishment of a \$1 billion Hong Kong Special Administrative Region Government Scholarship Fund; 10 targeted scholarships had also been offered each year to first-year non-local students from countries from the Association of Southeast Asian Nations, India and Korea; and 10 additional scholarships were made available for first-year non-local students from Indonesia to pursue publicly-funded full-time degree programmes in Hong Kong; and

- on the university tuition fee review, the Administration had made it clear in 2016 that the indicative tuition fee level would be maintained at the existing level and would not be adjusted during the 2016-2019 triennium. The Administration had invited UGC in June 2015 to launch a review of the tuition fee policies in other jurisdictions and propose options to EDB with due regard to the situation in Hong Kong. The consultancy report endorsed by UGC was submitted to EDB in late September 2016. EDB was carefully studying the findings of the report and would decide the way forward for the 2019-2020 academic year (all years mentioned hereinafter refer to academic years unless otherwise stated) and beyond in due course.

The full text of Secretary for Education's opening statement is in *Appendix 12*.

Opening statement by Secretary-General of the University Grants Committee

10. **Dr Richard T ARMOUR, Secretary-General of UGC** made an opening statement at the beginning of the Committee's public hearing held on 12 December 2016, the summary of which is as follows:

- UGC broadly accepted Audit's recommendations. The UGC Secretariat would, in consultation with UGC, take appropriate measures to implement them for continuous improvement in the various areas of work of UGC;
- both UGC and the universities considered that the provision of hostel places in particular for both local and non-local students was a key factor in promoting internationalization and campus harmony. UGC had been working very hard to pursue funding from the Government;
- up till the end of October 2016, 10 more final accounts for works projects had been closed with 94 outstanding. The UGC Secretariat would take appropriate measures in consultation with the Architectural Services Department ("ArchSD"), UGC's technical advisor, and the universities with a view to finalizing the project accounts as soon as possible;
- UGC supported Audit's recommendation to further encourage the universities to continue their efforts to attract more non-local students, in particular those other than Mainland students. Internationalization of the universities might come in many forms, including international

strategies, curriculum development, international networks, non-local student recruitment and integration, international faculty, etc. UGC had all along been encouraging universities to internationalize in ways that fitted their own institutional context; and

- to continue to attract top university leaders to serve on UGC's committees on a voluntary basis, UGC believed that the standard of passage arrangements and hotel accommodation offered should be commensurate with their standing and broadly similar to other international bodies competing for their time, and should not deter candidates from accepting an offer of appointment.

The full text of Secretary-General of UGC's opening statement is in *Appendix 13*.

B. Administration of recurrent grants

11. In Table 3 in paragraph 1.12 of the Audit Report, the actual recurrent grants to the universities had an overall increase of 52.4% (ranging from 37.3% to 60.8% for individual universities) from 2010-2011 to 2014-2015. However, according to Table 1 in paragraph 1.10 of the Audit Report, the total number of students (full-time equivalent)⁴ enrolled in UGC-funded programmes had only increased by 32.6% (ranging from 14.1% to 42% for individual universities) during the same period. The Committee sought explanation for the relative higher increase in the recurrent grants.

12. **Secretary for Education** explained at the public hearing that the increase in the recurrent grants was due to the following reasons:

- the implementation of the New Academic Structure for Senior Secondary Education and Higher Education with normative four-year undergraduate academic structure since 2012-2013;
- increase in the articulation places for sub-degree students to the last two years of undergraduate programmes from 2 000 to 4 000; and
- salary adjustments for staff of the universities.

⁴ Full-time equivalent is a unit used for measuring the number of students to report the approximate size of a university. A full-time equivalent of 1.0 is equal to a full-time student while 0.5 signals half a study load (e.g. the study load of a part-time student).

13. **Secretary-General of UGC** supplemented at the public hearing that the increase in recurrent grants for the universities was also due to the change in weightings among the types of courses taken up by students in the universities. Some universities had moved into more expensive disciplines, such as medicine.

14. According to Table 3 in paragraph 1.12 of the Audit Report, the actual recurrent grants to the universities amounted to \$16,072 million for 2014-2015, which was an increase of 52.4% over 2010-2011. The Committee also noted from Table 6 in paragraph 2.8 that the grant approved for the same year by the Legislative Council ("LegCo") in January 2012 was \$14,321 million and enquired about the difference.

15. **Secretary-General of UGC** explained at the public hearings and supplemented by his letter of 23 December 2016 (*Appendix 14*) that the 2014-2015 recurrent grants for the universities (\$14,321 million) were accepted by the LegCo Finance Committee ("FC") in January 2012, as part of UGC's recommendation on recurrent funding for the universities in the 2012-2015 triennium. The accepted amounts were at 2011 price level. Therefore, they were different from the actual 2014-2015 recurrent grants (\$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%).

16. In this connection, the Committee enquired about the salary adjustment mechanism and determination of salary scale of staff in universities, and whether the civil service pay adjustment rate would be adopted by the universities in the salary adjustment of their staff. **Secretary-General of UGC** replied in his letter of 23 December 2016 (*Appendix 14*) that:

- the universities had their own established mechanisms in determining the remuneration packages and salary adjustments of their staff, and were accountable for their decisions in this regard. Generally speaking, the remuneration of staff was 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 was conducted by some universities with a view to ensuring their market competitiveness;

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- as regards the salary adjustment mechanism, based on information provided by the universities, some universities would 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 was based on the performance assessment of the staff; and
- UGC did 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 were reminded that such additional subventions were meant to allow room for salary adjustment for their staff.

17. The Committee enquired about how UGC monitored the financial statements of the universities. In reply, **Secretary-General of UGC** explained at the public hearing that the grants to the universities were one-line budget. The three components, namely, teaching element, research element and professional activity element, formed the total budget. The universities could decide to apportion the spending on each component. That was the heart of institutional autonomy. UGC had to assure that the university councils were monitoring the management and expenditure through good solid financial transparency and robust governance inside universities. UGC reviewed the universities' financial statements and various certificates of audit as required.

18. The Committee noted from paragraph 2.12 of the Audit Report that in 2009-2010, UGC introduced a new recurrent earmarked funding for the universities to strengthen and broaden their endeavours in knowledge transfer.⁵ In the 2016-2019 triennium, this funding for knowledge transfer amounted to \$62.5 million per annum. The Committee enquired about the factors considered by UGC in setting the allocation of this funding for each university.

19. **Secretary-General of UGC** replied in his letter of 23 December 2016 (Appendix 14) that since 2009-2010, UGC had introduced an additional stream of

⁵ According to UGC, knowledge transfer is the systems and processes by which knowledge, including technology, know-how, expertise and skills are transferred between higher education institutions and society, leading to innovative, profitable or economic or social improvements. See paragraph 2.12 of the Audit Report.

recurrent earmarked funding for universities to build up their capacity and broaden their endeavours in knowledge transfer. The Research Group under UGC decided in April 2016 to retain the funding mechanism in use in the 2012-2015 triennium, i.e. the metrics-based formula, for the 2016-2019 triennium. The metrics-based formula for allocation to each university in the 2016-2019 triennium was as follows:

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

where

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 RGC in the preceding funding year

a: the relevant amount for the university concerned

n: sum of the relevant amount for all universities

20. As regards a review on changing the way knowledge transfer funding was to be provided to the universities for the next triennium (2019-2022), **Secretary-General of UGC** explained in the same letter that the Research Group agreed in September 2016 to consider changing the way knowledge transfer funding was provided to universities for the 2019-2022 triennium, e.g. by integrating the earmarked knowledge transfer funding into the Block Grant to universities. The Secretariat would review the earmarked knowledge transfer funding allocation in due course. The universities would be informed well in advance should there be any major changes to the knowledge transfer funding arrangements.

21. According to paragraph 2.25 of the Audit Report, UGC had laid down a number of enrolment rules in NoP that allowed the universities to have some flexibility in enrolling students. Noting from Table 12 in paragraph 2.26 of the Audit Report in which there were cases of non-compliance of some universities with the enrolment rules, the Committee asked about the reasons for the over-enrolment and whether it would have any impact on the teaching quality.

22. **Secretary-General of UGC** said at the public hearing that enrolment planning was difficult and UGC had been tolerant. As no additional funding was involved for over-enrolment, it was not a bad thing provided that the universities were clear that the marginal value exceeded the marginal cost. He also supplemented in his letter of 23 December 2016 (Appendix 14) that:

- on the rule "Enrolment of non-local students should not exceed 4% in Chinese medicine programmes" (item 4 of Table 12 of the Audit Report) for which the university exceeded the 4% limit by 20.1%, the enrolment of 20.1% above the limit in the 2012-2015 triennium meant that on average the university admitted 6 students above limit out of 30 per year. Similarly, for the same university, the enrolment of 9.6% above the limit in the 2009-2012 triennium meant that on average the university had admitted 2.9 students above the limit out of 30 per year;
- on the issue of over-enrolment of "No over-enrolment in Chinese medicine programmes" (item 5 of Table 12 of the Audit Report), for the university concerned, the over-enrolment of 5.7% in the 2012-2015 triennium meant that on average 1.7 students were admitted above limit out of 30 per year. Similarly, for the other university, the over-enrolment of 10.2% in the same triennium meant that on average 2.6 students were admitted above limit out of 25 per year. Also, in the 2009-2012 triennium, the over-enrolment of 1.9% meant that on average 0.5 student was admitted above limit out of 25 per year; and
- for the above cases, 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.

23. The Committee noted from paragraph 2.30 of the Audit Report that there was an example that the enrolments of a stream of teacher education programme had been consistently lower than 50% of the approved student numbers since 2010-2011. In reply to the Committee's enquiry about how UGC monitored and handled cases of under-enrolment, in particular the abovementioned case, **Secretary-General of UGC** explained in his letter of 23 December 2016 (Appendix 14) that:

- action had already been set out in paragraph 3.12 of NoP.⁶ UGC had adhered to the laid-down procedures i.e. regular monitoring of actual

⁶ Paragraph 3.12 of NoP states that modest under-enrolment is allowed on the understanding that the institutions will make every effort to offset under-enrolment in one programme by over-enrolment in others, therefore maintaining the effective use of public resources. To safeguard the use of public funds, under-enrolment across a whole institution exceeding 4% of the student number targets will lead to a claw back of funding, as considered by UGC as appropriate. For programmes subject to specific manpower requirements, the student number targets should be met as far as possible. A general reference of 4% under-enrolment will be tolerated, and UGC may decide on appropriate action on warranted under-enrolment situations having regard to the merits of individual cases.

enrolments, for dealing with cases of non-compliance with the enrolment rules. For example, UGC considered that there was serious under-enrolment of the then Hong Kong Institute of Education in 2007-2008 and action was taken to claw back funding;

- in December 2014, EDB expressed to UGC its concern on deviations from the approved student number targets in various streams of teacher education programme. Accordingly, EDB requested 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 needed 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; and
- upon finalization of the implementation details of "sub-cap proposal" in consultation with EDB and the teacher education universities, UGC wrote to the teacher education universities 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. UGC informed the teacher education universities, vide a letter of 20 October 2016, of the implementation details taking into account the views expressed by the teacher education universities, including the exemption from the sub-cap proposal for programmes with a small intake.

24. On the subject of non-compliance with the enrolment rules by the universities, **Secretary for Education** supplemented in his letter of 23 December 2016 in *Appendix 15* that:

- while responsibility to ensure universities' compliance with enrolment rules rested with UGC, EDB had from time to time requested the UGC Secretariat to provide relevant information about enrolment, and had provided advice/taken follow-up actions as appropriate in response to such information. Examples of such matters were set out as follows:

Enrolment of local and non-local students

- (a) EDB had taken note that, prior to 2016-2017, the universities might enroll non-local students to their UGC-funded sub-degree, undergraduate and taught postgraduate programmes up to 4% within and 16% outside the approved UGC-funded student numbers by study level. In other words, UGC-funded places were primarily, but not solely, used to admit local students. To address the community's concerns that non-local students were taking up precious public resources at the expense of local students, EDB sought the Chief Executive in Council's approval in December 2014 to revise the policy of enrolment of local and non-local students, such that starting from 2016-2017, all new non-local students should only be admitted through over-enrolment capped at 20% of the approved UGC-funded student numbers. To effect the policy change, EDB also wrote to UGC, requesting it to make corresponding changes to the enrolment rules for compliance by the universities; and

Application of under-enrolment rule to teacher education programmes

- (b) EDB had taken note that there were significant deviations between the actual enrolment figures and the approved student number targets in a few individual streams of teacher education programmes. In response, EDB wrote to UGC in December 2014, suggesting that the various streams of teacher education programme should be treated as distinct manpower-planned programmes for the purpose of applying UGC's enrolment rules, and therefore the relevant student number target of each stream needed to be met.

25. The Committee enquired about the tuition fees payable by non-local students of UGC-funded undergraduate programmes and the corresponding cost recovery rates, and the factors taken into account when setting the levels of tuition fees.

26. **Secretary for Education** explained at the public hearing and supplemented in his letter of 23 December 2016 in Appendix 15 that:

- in 2003, the Administration accepted UGC's recommendation that, as a general rule, UGC-funded institutions should charge non-local students of UGC-funded undergraduate programmes at a level which was at least sufficient to recover all additional direct costs, and that the tuition fees should in no circumstances be lower than the fees applicable to local students (i.e. \$42,100 per annum). Institutions were supportive of the initiative, and agreed that the tuition fees for non-local students should be at least \$60,000 per annum. While the tuition fee for local students had been maintained at \$42,100 per annum since 1997-1998, institutions had been increasing the tuition fees payable by non-local students over the years. In 2016-2017, the tuition fees payable by non-local students of UGC-funded undergraduate programmes ranged from \$110,000 to \$146,000 per annum; and
- on the conditions that all non-local students of UGC-funded undergraduate programmes were admitted through over-enrolment and the tuition fees payable by them were at least sufficient to recover all additional direct costs, institutions enjoyed the autonomy in setting the tuition fee levels as they saw fit, having regard to their own circumstances. Neither the Administration nor UGC prescribed a target cost recovery rate.

27. In reply to the Committee's enquiry about the tuition fees payable by non-local students of UGC-funded postgraduate programmes, **Secretary for Education** advised in his letter of 23 December 2016 in Appendix 15 that:

- at present, there were two types of UGC-funded postgraduate programmes, namely taught postgraduate programmes and research postgraduate programmes. Similar to non-local students of UGC-funded undergraduate programmes, non-local students of UGC-funded taught postgraduate programmes had to be admitted through over-enrolment and they were required to pay tuition fees at a level which was at least sufficient to recover all additional direct costs, and that the tuition fees should in no circumstances be lower than the fees applicable to local students (i.e. \$42,100 per annum). In 2016-2017, the tuition fees payable by non-local students of UGC-funded taught postgraduate programmes ranged from \$110,000 to \$146,000 per annum;
- as regards research postgraduate students, they played an important role in the higher education sector. Not only did they participate directly in a large number of research activities, but they also took part

in the teaching activities of institutions (such as acting as teaching assistants, laboratory administrators, etc.) as well as served as a bridge between the undergraduates and the teaching staff, thereby contributing to the teaching and learning as well as knowledge transfer in institutions;

- given the consideration in the last inset, and with a view to boosting the research capability in Hong Kong through attracting high quality talents from around the world, the universities currently admitted research postgraduate students on a merit basis and charged them a uniform tuition fee of \$42,100 per student per year,⁷ taking into account the students' academic results and research capability, regardless of their place of origin. This practice helped ensure that the best candidates irrespective of place of origin were engaged to boost the level of research and contribute to the teaching and learning as well as knowledge transfer work in institutions, thereby safeguarding the effectiveness of public spending; and
- admission of outstanding research talents, regardless of their countries of residence, to research postgraduate programmes on a merit basis by the universities was in line with the common practice of the international academic community. In 2015-2016, the number of local applications for UGC-funded research postgraduate programmes was 1 868, which was submitted by 934 local applicants (estimated number).⁸ 535 of these local applicants were eventually admitted, which accounted for 57.3% of the estimated number of local applicants or 28.6% of the number of local applications. As regards the estimated remaining 42.7% of local applicants, they included those who eventually declined admission offers from the universities in order to pursue other opportunities, as well as those who were not given offers having regard to their academic credentials. In contrast, the number of applications for UGC-funded research postgraduate programmes by non-local students was 16 900 in 2015-2016. The

⁷ It should be noted that paragraph 3.11 of the UGC NoP provides that, subject to prior notification to UGC and in case institutions choose to over-enrol research postgraduate students beyond the 40% cap, the additional full direct costs incurred (defined as all direct marginal costs incurred arising from the over-enrolment, including studentships, and additional costs for student supervision, cost of space provided etc) should be met from non-UGC/RGC funds, including higher tuition fees payable by the over-enrolled students.

⁸ The universities estimated that, on average, each local applicant would submit two applications for admission to UGC-funded research postgraduate programmes.

number of non-local intakes in the same year was 1 853, accounting for 11% of the non-local applications.⁹

C. Administration of capital grants

Assessment of academic space

28. The Committee noted from paragraphs 3.15 and 3.16 of the Audit Report that the space requirement formulae were developed by a consultant in 2000 and were last reviewed in 2006. Given the changes and developments in the higher education sector in the 10 years since 2006, the Committee asked when the next review on the space requirement formulae would take place.

29. **Secretary-General of UGC** advised in his letter of 4 January 2017 (*Appendix 16*) that the space requirement formulae for assessing the universities' academic space needs were reviewed and updated in 2006. In the process of the 2006 review, the academic space requirements for the "3+3+4" new academic structure, whole person development and internationalization had already been taken into account. The universities had been informed of the need to consider reviewing the space requirement formulae. The universities would be further consulted and invited to provide feedback on the need for a review later. Should UGC decide to conduct the review, it might commence in 2017 and might take about two years to complete.

30. According to paragraph 3.19 of the Audit Report, there were differences between the academic space inventory records maintained by UGC and those submitted by the universities. According to paragraph 3.21 of the Audit Report, the UGC Secretariat had not conducted any space utilization surveys since 2006. In reply to the Committee's enquiry on the finalization of the space inventory updating exercise and the discussion with the universities on conducting space utilization surveys, **Secretary-General of UGC** advised at the public hearing and supplemented in his letter of 4 January 2017 (*Appendix 16*) that the UGC Secretariat had already completed the reconciliation of the space inventory records with the universities. Both UGC and universities' records had been updated appropriately. As regards space utilization survey, the universities had been advised to consider the need to

⁹ The number of applications submitted by non-local applicants considerably varied, and hence universities were unable to estimate the number of non-local applicants on the basis of the number of non-local applications received.

conduct such survey. The universities would be further consulted and invited to provide feedback on the scope and way to conduct the survey shortly.

Shortfall in student hostel places

31. According to paragraph 3.6 of the Audit Report, all undergraduate students who had enrolled in UGC-funded programmes should be given the opportunity to stay in student hostels for at least one year of their courses. In addition, the following students who had enrolled in UGC-funded programmes should be provided with student hostel places:

- non-local students;
- research postgraduate students; and
- undergraduate students whose daily travelling time exceeds four hours.

The Committee enquired about:

- total and successful applications for hostel places by categories of students; and
- justifications to set a criterion for providing students whose daily travelling time exceeding four hours.

32. **Secretary-General of UGC** advised in his letter of 4 January 2017 (Appendix 16) that:

- UGC calculated the provisions of publicly-funded student hostels to universities in accordance with the criteria set out in the last paragraph. That said, the actual allocation of student hostel places to individual students was a matter for universities as autonomous bodies. The universities allocated their hostel places (including the publicly-funded, privately-funded and temporary hostel places) to their students (local and non-local students enrolled in the UGC-funded or non-UGC funded programmes, as well as exchange students) in accordance with their own sets of criteria and procedures. Generally speaking, apart from the criteria set out in the last paragraph, universities also took into account the actual number of applications, merits of individual applicants (e.g. contributions in extra-curricular activities) and

compassionate grounds, etc. in assessing the applications. The number of total and successful applications for hostel places by students enrolled in UGC-funded programmes, with breakdown by category of students under paragraph 3.6 of the Audit Report, for the past five years is tabulated at *Appendix 17*; and

- UGC considered that students' choice of universities should be based on the quality of education and the disciplines available, and should not be unduly influenced by the proximity of their homes to the universities. Therefore, students who spent excessive travelling time should be provided with hostel places. According to the universities concerned, around 2.5% of the local undergraduate students needed to travel more than four hours daily in 2015-2016. Albeit there was a continuous request to meet the hostel shortfall under the existing criteria, UGC was not aware of a request for review of the criteria themselves, including the criterion concerned with a view to shortening the travelling time from four hours to, say, three hours.

33. On the issue of shortfall in student hostel places, **Secretary-General of UGC** advised in his letter of 23 December 2016 (Appendix 14) that both UGC and the universities considered that the provision of hostel places for both local and non-local students according to the established policy was a key factor in promoting internationalization. If a hostel place was not provided to non-local students, no matter whether they were Mainland or non-Mainland students, it would inevitably have an impact on their willingness to study in Hong Kong as they would have to find their own accommodation outside campus during their study. Moreover, hostel life was very important to many non-local as well as local students as it was an essential part of higher education – providing them with an environment conducive to learning, and allowing greater social interaction that enriched personal development as well as the learning experience generally. Such learning experiences could not be replicated easily in rented accommodation outside campus. That said, it must also be noted that shortage of hostel places was not the only determining factor when non-local students considered their study destinations. They would take into account other factors as appropriate.

34. The Committee noted with concern from paragraph 3.7 of the Audit Report that in 2015-2016, there was a total shortfall¹⁰ of 8 660 student hostel places for the universities and asked how EDB and UGC would address such shortfall.

¹⁰ Shortfall is the difference between the student hostel place requirement of the universities and the UGC's existing provision.

35. **Secretary-General of UGC and Secretary for Education** pointed out in their letters of 23 December 2016 (Appendices 14 and 15) respectively that:

- EDB and UGC recognized that hostel experience was an integral part of higher education, and was 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 were available to the universities, of which some 6 470 were completed in the past five years, while another 676 places were currently under construction. To cope with the surging requirements and the shortfall, UGC and the universities had been working closely with the Government in the planning work for new hostel projects. Eight hostel projects were currently at various stages of planning by the universities, which were expected to deliver around 8 450 publicly-funded hostel places. In addition, UGC had 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 internationalization, UGC had since 2013 accorded higher priority to hostel projects than academic building projects when pursuing Capital Works Reserve Fund. In the past few years, UGC had also repeatedly appealed to the Government at various levels for funding support to the hostel projects. On the other hand, universities had been advised to consider alternative ways in provision of student hostels (e.g. finding other funding sources) apart from modifying and/or reprioritizing their projects under planning with a view to enhancing the chance in obtaining funding from the Government for more hostel places; and
- Secretary for Education advised that as a matter of policy, all public works projects were subject to the availability of funds, which was one of the major factors for consideration. Competition for capital works funding had always been keen. Capital Works Projects ("CWPs") of the universities, as with other CWPs, would need to compete with other priorities, including housing and land initiatives, hospital projects, roads and railways, as well as other community facilities.

Finalization of project final accounts

36. According to paragraphs 3.24 to 3.26 of the Audit Report, the UGC Secretariat adopted the term "commissioning of the facilities" in NoP that the project final accounts of major CWPs should be submitted to the UGC Secretariat and finalized as soon as possible and in any event not later than three years after "commissioning of the facilities". The term was originally used in a Financial Circular relating to capital works issued by the Financial Services and the Treasury Bureau ("FSTB") but there was no elaboration of the meaning of term in the circular. The Committee enquired if the UGC Secretariat had clarified with FSTB on the meaning of the term as it would affect the time allowed for the submission of final accounts of major CWPs.

37. **Secretary-General of UGC** advised at the public hearing that the UGC Secretariat had written to FSTB on the meaning of the term "commissioning of the facilities". In reply to the enquiry of the Committee, **Mr Raistlin LAU, Deputy Secretary for Financial Services and the Treasury (Treasury)**³ advised at the public hearing that FSTB had already replied to UGC on the matter. The Secretary for Financial Services and the Treasury provided a copy of the reply by its letter of 3 January 2017 in *Appendix 18* in which it was stated that for the purpose of finalizing the final accounts of CWPs, "project commissioning date" referred to the date when the project commenced functional operation. Project commissioning was not tied with the defect liability period.

38. The Committee noted with concern from paragraphs 3.28 to 3.31 of the Audit Report that as at 30 June 2016, the final accounts of 36 completed major CWPs could not be finalized within three years after "commissioning of the facilities". Out of these 36 CWPs, the finalization of final accounts for 29 had been overdue for more than three years (the longest overdue period was some 18 years). For completed Alterations, Additions, Repairs and Improvements ("AA&I") projects, the final accounts of 98 completed projects could not be finalized within three months after the physical completion of the projects. Out of these accounts, 43 had been overdue for more than three years (the longest being some 15 years). The Committee enquired about the reasons for the delay in finalization of project final accounts for major CWPs and AA&I projects.

39. **Secretary-General of UGC** stated in his letter of 23 December 2016 (Appendix 14) that the latest progress of finalization of final accounts (as at 23 December 2016) was as follows:

Funding of universities by University Grants Committee

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

The UGC Secretariat had reviewed the remaining overdue project accounts and had identified the following reasons for the delay in the submission of the final accounts:

- 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;
- 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 might no longer be available. As a result, longer time was required for the universities and ArchSD to work on alternative means to determine the supported level of expenditures;
- late settlement of final accounts between the universities and the works contractors. In some cases, the universities might 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 might take years to settle); and
- 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 2012-2013).

40. **Secretary-General of UGC** further advised in the same letter that in order to expedite the finalization of project accounts, the UGC Secretariat had taken the following measures since 2010:

- devising new procedural work flow and time frame in consultation with ArchSD to streamline the processing of final account submissions;
- conducting meetings/briefings with the universities concerned and ArchSD with a view to resolving the unsettled final accounts and expedite the vetting process;
- devising alternative means/measures in consultation with the 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 were supported by relevant evidences/information as agreed by ArchSD); and
- urging the universities concerned to take prompt actions to expedite the submission of final accounts and supporting documents for processing by ArchSD and the UGC Secretariat. Letters had 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 Secretary-General of UGC recently, the Chairman and Secretary-General of UGC personally visited each President of eight universities and sought personal intervention to resolve the problem in the past few years.

41. The Committee noted from paragraph 3.32 of the Audit Report that upon finalization of project final accounts for major CWPs and AA&I projects, any unspent project balances and unsupported expenses would be returned to the Administration. In this connection, the Committee asked UGC and FSTB whether there were any intended delayed submissions of project final accounts and whether interests would be charged on such cases for unspent project balances and unsupported expenses to be returned to the Administration.

42. **Secretary-General of UGC** replied in his letter of 23 December 2016 (Appendix 14) that the delay in submission of final accounts was due to various reasons, as set out in paragraph 39 above. Based on the information provided by universities, there was no clear evidence showing that universities had intentionally delayed the submission of project final accounts beyond the time limit specified in the UGC NoP unreasonably. In vetting the final account submissions, the UGC Secretariat consulted ArchSD, UGC's technical adviser, who would advise on the supported level of the final project expenditures and other technical matters as appropriate. If the UGC Secretariat together with ArchSD found that a university had intentionally delayed the submission of project final account beyond the specified time limit, UGC would consult FSTB whether interests should be charged on a case-by-case basis as appropriate.

43. **Secretary for Financial Services and the Treasury** replied in his letter of 3 January 2017 (Appendix 18) that the UGC Secretariat had advised him that the Secretariat was not aware of any cases in which universities had delayed returning the unspent project balances and unsupported expenses when required by the UGC Secretariat in the process of account finalization. While no interest had ever been charged due to delay in account finalization, or delay in return of unspent project balances and unsupported expenses among the 171 cases as quoted in paragraph 3.24 of the Audit Report, FSTB would consider the propriety of imposing interest or other penalty charges to protect the interest of the Administration in cases involving intentional delays in the finalization of accounts, or in returning unspent project balances and unsupported expenses due to the Administration, in consultation with relevant parties.

D. Governance and other administrative issues

Governance and administrative issues

44. In reply to the Committee's enquiry about how the rates of honoraria were set (paragraph 4.4 of the Audit Report), **Secretary-General of UGC** pointed out in his letter of 13 January 2017 in *Appendix 19* that the rates of honoraria were first approved by FC in 1973. As provided for in the said FC paper, the subsequent adjustments to the rates were delegated to the then Secretary for the Treasury for approval, which was now under the authority of Secretary for Financial Services and the Treasury. The adjustments were made with reference to the annual civil service pay adjustment.

45. The Committee noted with concern from paragraphs 4.5 and 4.6 of the Audit Report that 26 Register of Interests forms of existing and former UGC members and QAC members could not be located by the UGC Secretariat and enquired whether the UGC Secretariat had reviewed the reasons that had led to the loss of the forms.

46. **Secretary-General of UGC** pointed out in his letters of 13 and 18 January 2017 in *Appendices 19* and *20* that of the 26 forms that could not be located by the UGC Secretariat, two were resubmitted by UGC/QAC members concerned and UGC had secured the relevant remaining 24 forms. On this incident, the UGC Secretariat had reviewed the system on the management of Register of Interests forms submitted by UGC/QAC members. The UGC Secretariat noted that the system for monitoring the receipt of and the filing of these forms was not satisfactory with no single register, hence resulting in the failure to locate a number of such forms. The UGC Secretariat was now preparing a database to provide a central register on the receipt of the Register of Interests forms submitted by members. A bring-up mechanism would also be set up to closely monitor the progress of submission from members.

47. On the existing system for the proper and efficient management of conflict of interest, **Secretary-General of UGC** pointed out in his letter of 13 January 2017 in Appendix 19 that UGC had adopted a two-tier system in the declaration of interest by members. Members were required to declare any possible conflict of interest on their first appointment/reappointment or significant change of circumstances. At the second tier, members were required to declare interest on a case by case basis whenever necessary, having regard to the nature of the items under discussion. Members with potential conflict of interest were required to excuse themselves from the discussion of the items concerned.

48. The Committee noted from paragraph 4.6(b) of the Audit Report that members of UGC, the UGC Sub-Committees/Groups and QAC were not required to submit annually an updated Register of Interests form to the UGC Secretariat, a practice adopted for members of RGC. The Committee enquired about the reasons for the different requirements and whether measures would be taken to align the different requirements.

49. **Secretary-General of UGC** replied at the public hearing and supplemented in his letter of 13 January 2017 in Appendix 19 that RGC members were subject to a more stringent requirement to declare interests, i.e. they were required to update their

declaration of interest annually, because RGC dealt with the allocation of a large amount of funding and the likelihood of inter-institutional conflict changes among institutions was more frequent among Panel members. By comparison, the work of UGC, the UGC Sub-Committees/Groups and QAC was more of an advisory nature and did not directly involve funding. Hence, the two-tier mechanism for declaring interests was considered appropriate. However, in view of Audit's recommendation, UGC had no objection to inviting members of UGC, the UGC Sub-Committees/Groups and QAC to submit updated Register of Interests forms annually as adopted by RGC. The UGC Secretariat would put in place this requirement with effect from 1 April 2017 before the next meetings.

50. With reference to paragraph 4.11 of the Audit Report, the Committee enquired about the timeline for UGC to prepare a document in the form of a strategic plan. **Secretary-General of UGC** replied at the public hearing and supplemented in his letter of 13 January 2017 in Appendix 19 that the UGC Secretariat would invite UGC to consider the need to prepare a document in the form of a strategic plan which would set out, amongst other things, the principles, strategies, strategic priorities of UGC tentatively in the next UGC meeting in May 2017. In the case that UGC considered that there was such a need, the UGC Secretariat would prepare the document, update it periodically and make it available on the UGC's website.

51. The Committee noted from paragraphs 4.14 to 4.16 of the Audit Report that UGC had chosen the same five upmarket hotels to provide accommodation for non-local members of UGC, RGC and QAC (as well as their Committees, Sub-Committees, Groups and Panels), and asked for justifications and whether quotations for other hotels were obtained as alternative options.

52. **Secretary-General of UGC** replied at the public hearing and supplemented in his letter of 13 January 2017 in Appendix 19 that having regard to the status of non-local members who were renowned academics from around the world, the UGC Secretariat considered that it was appropriate to provide hotel accommodation at upmarket hotels for non-local members when they attended meetings in Hong Kong. These five upmarket hotels were located in the vicinity of the meeting venue. In order to enhance the procurement arrangement, the UGC Secretariat had invited additional hotels for submission of quotations with effect from December 2016. In general, all appropriate hotels which were located in the vicinity of the meeting venue were included in the quotation exercise. In principle, the lowest quotation would be accepted as the appointed hotel for non-local members. The UGC Secretariat would further explore with hotels on the possibility of providing special

rates under the mechanism of quotation exercise. A breakdown of the number of hotel room-nights by UGG, RGC and QAC from 2005-2006 to 2015-2016 financial years is in Appendix 20.

53. According to paragraphs 4.21 to 4.24 of the Audit Report, the UGC Secretariat might not have followed the Government's Stores and Procurement Regulations in conducting the procurements of air tickets for non-local academics attending meetings in Hong Kong by not conducting open tendering for procurement exceeding \$1.43 million. The Committee asked whether UGC had consulted Director of Government Logistics and Secretary for Financial Services and the Treasury on whether such arrangement complied with the relevant regulation. **Secretary-General of UGC** replied in his letter of 13 January 2017 in Appendix 19 that following the publication of the Audit Report, the UGC Secretariat had been in dialogue with the representatives from the Government Logistics Department ("GLD") and FSTB to consult them on the procurement procedures of air tickets. During the discussion, UGC noted from GLD that as a general rule, procurement of air tickets for the same activity should be consolidated as far as practicable. The UGC Secretariat had taken the advice of GLD and would put in place suitable arrangements in the procurement of air tickets in consultation with GLD and FSTB as appropriate.

Internationalization of universities

54. The Committee noted from paragraph 2.32 of the Audit Report that starting from 2016-2017, all new non-local students should be admitted through over-enrolment capped at 20% of the approved UGC-funded student numbers. According to Table 23 in paragraph 4.30 of the Audit Report, the number of non-local students enrolled in UGC-funded programmes had increased from 10 074 (14% of total student enrolment) in 2010-2011 to 15 730 (16% of total student enrolment) in 2015-2016. Study by Audit further revealed that Mainland students made up the largest group of non-local students at the universities (e.g. 87% in 2010-2011 and 76% in 2015-2016). The Committee enquired if UGC and/or EDB had any statistics of non-local students who had remained to stay/work in Hong Kong after graduating.

55. **Secretary-General of UGC** and **Secretary for Education** explained respectively in their letters of 23 December 2016, 18 January and 25 January 2017 (*Appendices 14, 15, 21 and 22*) that:

Funding of universities by University Grants Committee

- at present, the Immigration Department administered the "Immigration Arrangements for Non-local Graduates", which allowed non-local students who had 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 submitted applications to the Immigration Department within six months after graduation) and returning non-local graduates (i.e. non-local graduates who submitted applications to the Immigration Department beyond six months after graduation) were eligible under the scheme. The statistics related to the "Immigration Arrangements for Non-local Graduates" were maintained by the Immigration Department;
- in 2015-2016 (as at June 2016), 2 685 applicants with undergraduate qualifications were approved. The breakdown statistics on successful applicants who were non-local graduates of UGC-funded undergraduate programmes were not available; and
- as regards the number of approved "Immigration Arrangements for Non-local Graduates" applications since April 2015 from Mainland residents who had bachelor's degrees, master's degrees and doctorate degrees were tabulated as below:

	2015 (April to December)	2016
Bachelor's degree (including other academic qualifications at degree level or equivalent)	2 181	1 292
Master's degree	6 008	6 425
Doctorate degree	661	894

56. **Secretary for Education** advised at the public hearing that the Administration was in process of liaising with the alumni associations of non-local graduates on collecting statistics on whether their members remained to stay/work in Hong Kong after they had graduated.

57. According to a follow-up paper provided by EDB to the LegCo Panel on Education,¹¹ the number of secondary six students meeting the general entrance requirements for undergraduate admission was projected to be 22 000 in 2016. On the other hand, there were only about 15 000 UGC-funded first-year first-degree places for 2016-2017, with around 7 000 secondary school leavers meeting the general entrance requirements not able to be admitted to these places. The Committee enquired whether the great number of non-local students, in particular those from the Mainland, studying at the universities would cause an adverse impact on the resources available to the local students.

58. **Secretary for Education** explained at the public hearing and supplemented in his letter of 4 January 2017 in *Appendix 23* that:

- as a matter of principle, enrolment of non-local students to UGC-funded sub-degree, undergraduate, taught postgraduate programmes should not be considered as creating an adverse impact on local students of these programmes. On the contrary, non-local students helped diversify the local higher education sector and enhance the competitiveness of local students and Hong Kong as a whole. A multi-cultural learning environment, with students coming from other countries/regions, would help enhance cultural exchanges, broaden the horizons of the local students and ensure that graduates, local and non-local alike, were globally competitive; and
- moreover, whilst noting the immense benefits of recruitment of non-local students, the Administration had implemented the following measures to ensure that the resources available to local students would not be compromised as a result of recruitment of non-local students:

20% cap on enrolment of non-local students

- (a) recruitment of non-local students to UGC-funded sub-degree, undergraduate and taught postgraduate programmes was subject to a cap, by study level, that was equivalent to 20% of the approved student numbers. This helped strike a balance between enrolling non-local students for the benefit of the higher education sector as a whole, and ensuring that the vast majority of the student population of these programmes remained local;

¹¹ Source: the Administration's paper dated 22 March 2016 submitted to the Legislative Council Panel on Education (LC Paper No. CB(4)776/15-16(01)).

Admission of non-local students by over-enrolment

- (b) starting from 2016-2017, all new non-local students of UGC-funded sub-degree, undergraduate and taught postgraduate programmes must be admitted through over-enrolment outside the approved student numbers. This helped ensure that precious publicly-funded student places, including but not limited to the 15 000 first-year first-degree places, were entirely reserved for admission of local students. In other words, local students would not be "displaced" whatsoever as a result of admission of non-local students;

Tuition fees for non-local students

- (c) under existing policy, universities should charge non-local students of UGC-funded sub-degree, undergraduate and taught postgraduate programmes tuition fees at levels at least sufficient to recover all additional direct costs, and that the tuition fees should in no circumstances be lower than the fees applicable to local students. This policy helped ensure that recurrent resources available to local students would not in any way be compromised as a result of admission of non-local students; and

Provision of hostel places and academic space

- (d) under existing policy, the needs of both local and non-local students for hostel places and academic space were fully and separately taken into account when calculating the provisions available to universities according to the established formulae.¹² The actual allocation of places by individual universities in a particular year would depend on the number of available places, the actual demand and their own allocation policies.

59. In this connection, **Secretary-General of UGC** advised in his letter of 13 January 2017 in Appendix 19 that to encourage universities to internationalize in ways that fitted its institutional context, UGC had:

- in the 2012-2015 triennium, put together a "tripartite" funding scheme (funding from EDB, UGC and the universities) of \$30 million to

¹² See paragraph 31 above for the criteria on the provision of publicly-funded student hostel places to universities

support four new initiatives on internationalization and engagement with the Mainland, all of which were implemented in 2013-2014 and 2014-2015. One of the initiatives was to set up a Hong Kong Pavilion in international education conferences to attract more non-local students from different regions as well as to promote the UGC sector as a united front. These annual conferences included the Asia Pacific Association for International Education, NAFSA: Association of International Educators and the European Association for International Education; and

- funding would continue to be provided to the universities in the 2016-2019 triennium to continue their efforts to attract more diversified sources of non-local students. Apart from the major international education conferences, the universities were given additional funding to expand into new markets they considered to be desirable. The UGC Secretariat would keep in view and see whether and how to encourage universities to attract more diversified non-local students.

60. **Secretary-General of UGC** further advised in the same letter that according to the information provided by the universities, some commonly used key performance indicators on internationalization used by the universities were:

- number and percentage of full time non-local academic staff;
- number and percentage of non-local students;
- number of exchange agreements signed with non-local institutions;
- number and percentage of incoming and outgoing exchange students;
- number and percentage of students with non-local learning experience; and
- number of research collaborations with non-local institutions.

61. Since the number and percentage of full time non-local academic staff could be one of the indicators of the extent of internationalization, the Committee enquired whether UGC would consider collecting information on the mix of academic staff of each university. **Secretary-General of UGC** replied in his letter of

13 January 2017 in Appendix 19 that the UGC Secretariat would consider collecting information on the mix of academic staff from the universities in the next 2017-2018 regular data collection exercise. In accordance with the established mechanism, the Secretariat would consult the universities on the data collection arrangement, including the coverage, definitions and classifications.

62. At the request of the Committee, **Secretary for Education** provided the number of applications for and student intakes of UGC-funded research postgraduate programmes by place of origin from 2012-2013 to 2016-2017 in *Appendix 24*.

63. Noting that Mainland students made up the majority of students studying for postgraduate programmes in Hong Kong, the Committee enquired:

- whether the Administration would implement measures to encourage more local talents to apply for postgraduate programmes in Hong Kong; and
- whether the Administration would consider reserving a certain number of places of postgraduate programmes for application by local applicants only.

64. In reply, **Secretary for Education** advised in his letter of 18 January 2017 in Appendix 21 that:

- the Administration and universities had organized symposiums, seminars, talks, and promotion activities such as through RoadShow to attract local talents to apply for postgraduate programmes in Hong Kong. This notwithstanding, the decision of local graduates on whether and where to pursue postgraduate studies, especially research postgraduate programmes, was a personal choice affected by such factors as prevailing employment opportunities in the market, students' career orientation and prospect in the teaching/research fields. Furthermore, among local students who chose to pursue research postgraduate studies, many would do so abroad, so that they could conduct research under a different culture and environment;
- in 2015-2016, about 29% of the applications for UGC-funded research postgraduate programmes submitted by local students were admitted by universities, whilst only about 11% of applications by non-local

students (including those from the Mainland) were admitted. This indicated that the chance for local students to be admitted to UGC-funded research postgraduate programme was more than double of that for non-local students. Moreover, universities had yet to fully utilize their over-enrolment capacity. If applications for research postgraduate programmes were received from outstanding local students, universities still had spare capacity to consider their admission on a merit basis;

- as regards UGC-funded taught postgraduate programmes, recruitment of non-local students to UGC-funded taught postgraduate programmes (alongside sub-degree and undergraduate programmes) was subject to a cap, by study level, that is, equivalent to 20% of the approved student numbers. This helped strike a balance between enrolling non-local students for the benefit of the higher education sector as a whole, and ensuring that the vast majority of the student population of these programmes remained local;
- the Administration accepted UGC's recommendation in 2002 that the quota for non-local research postgraduate students should be removed from the universities. Imposing restrictions on the number of non-local students for research postgraduate programmes would only pose hindrance to the pursuit of academic excellence by the local higher education sector and lead to a loss of high quality research talents and projects to other places; and
- the universities currently admitted research postgraduate students on a merit basis, taking into account the students' academic results and research capability, regardless of their place of origin.

E. Conclusions and recommendations

Overall comments

65. The Committee:

- notes that:
 - (a) the Administration's recurrent expenditure for the 2016-2017 financial year was estimated to be \$347.5 billion and education

Funding of universities by University Grants Committee

took up the largest portion at \$74.7 billion (21.5%). Out of this sum, the estimated expenditure of the University Grants Committee ("UGC") amounted to \$17.966 billion including \$17.822 billion¹³ for grants/reimbursements provided to eight universities¹⁴ funded by UGC (all universities mentioned hereinafter refer to UGC-funded universities); and

- (b) the mission of UGC is to work with the universities, the Government and the community to promote excellence in the higher education sector, with a view to establishing Hong Kong as the education hub of the region and to nurturing high quality people to promote the economic and social development of Hong Kong. UGC advises the Government on the application of such funds as may be approved by the Legislative Council for education in such universities. UGC also advises the Government on the development and funding of higher education in Hong Kong, advances the quality of teaching and learning, research and knowledge transfer at the universities, and monitors the efficiency and cost-effectiveness of the universities' UGC-funded activities;

- stresses that:

- (a) UGC's work plays an important role in providing resources and shaping the tertiary education and manpower supply for Hong Kong and thus has a great bearing on the competitiveness of Hong Kong;
- (b) in carrying out its duties and to achieve its mission, UGC has a duty to ensure autonomy and academic freedom of universities as well as to ensure value-for-money for the taxpayers; and
- (c) as a publicly-funded body, UGC has to be transparent and accountable to the public;

¹³ The remaining \$0.144 billion was for the UGC Secretariat's expenses.

¹⁴ The eight universities are, in alphabetical order, City University of Hong Kong; Hong Kong Baptist University; Lingnan University; The Chinese University of Hong Kong; The Education University of Hong Kong; The Hong Kong Polytechnic University; The Hong Kong University of Science and Technology; and the University of Hong Kong.

Governance issues

- expresses grave concern and dissatisfaction and finds it unacceptable about various irregularities and deficiencies of UGC in the governance, management and the utilization of resources as evidenced by the following:
 - (a) some universities had not complied with the enrolment rules as laid down in the UGC's Notes on Procedures in 2009-2012 and 2012-2015 triennia, and the non-compliance cases were not adequately followed up by UGC;
 - (b) as at 30 June 2016, the finalization of project final accounts for 36 completed major Capital Works Projects ("CWPs") and 98 completed Alterations, Additions, Repairs and Improvements ("AA&I") projects of the universities had been overdue, the longest for CWPs and AA&I projects being some 18 years and 15 years respectively;
 - (c) 26 Register of Interests forms of members of UGC and Quality Assurance Council ("QAC") for the 2011-2012 to 2015-2016 academic years (all years mentioned hereinafter refer to academic years unless otherwise stated) could not be located by the UGC Secretariat;
 - (d) different practices on the submission of Register of Interests forms had been adopted for the Research Grants Council ("RGC") members, and members of UGC, the UGC Sub-Committees/Groups and QAC;
 - (e) the UGC Secretariat had not promulgated rules of procedure governing the conduct of meetings of UGC, the UGC Sub-Committees/Groups and QAC;
 - (f) no documentary evidence showing justifications for choosing the same five upmarket hotels to provide hotel accommodation for non-local members of UGC, RGC and QAC (as well as their Committees, Sub-Committees, Groups and Panels) and that less expensive hotels were not suitable or not available;
 - (g) the UGC Secretariat treated each air ticket for the non-local members travelling to Hong Kong to attend meetings as an

individual item in a quotation exercise so that no tendering was conducted for procurement of air tickets with the amount exceeding \$1.43 million;¹⁵ and

- (h) UGC had not produced a document in the form of a strategic plan to guide its actions and the use of resources in meeting new demands and the challenges of a changing environment;
- urges UGC to:
 - (a) take measures to rectify the irregularities and deficiencies as identified in the Director of Audit's Report ("Audit Report") in order to achieve good governance and ensure value-for-money for public money spent, and implement any new measures expeditiously;
 - (b) prepare a strategic plan to set out the principles and practices of UGC;
 - (c) seek advice from the Financial Services and the Treasury Bureau and the Government Logistics Department as to whether its current arrangement of procuring air tickets complies with the Government's Stores and Procurement Regulations; and
 - (d) consult the Government Logistics Department to improve its arrangement of procuring hotel accommodation and air tickets;

Internationalization of universities

- agrees that, in the age of rapid globalization and intense regional and international competition, internationalization, which includes the achieving of a balance mix of international students and staff, is the key to Hong Kong's future development and would benefit local students, and is a priority for the universities;
- notes that of the 15 730 (16% of the total student enrolment) non-local students enrolled in UGC-funded programmes for 2015-2016, the majority of 11 893 (76% of all non-local students) were from the Mainland;

¹⁵ According to the Government's Stores and Procurement Regulations, for procurements with a value over \$1.43 million, open tendering should be conducted.

- expresses great dissatisfaction and finds it unacceptable that resources granted to the universities which could have been used to admit more local students had been used to admit non-local students, given that the number of UGC-funded first-year first-degree places in full-time-equivalent terms is maintained at 15 000 per annum for 2016-2017 and the projected number of secondary six students meeting the general entrance requirements for undergraduate admission in 2016 was 22 000;¹⁶
- expresses grave concern and dissatisfaction that UGC and the Education Bureau ("EDB"):
 - (a) have not collated data and compiled statistics on whether Mainland and non-Mainland non-local students studying undergraduate and postgraduate programmes at the universities remain to work/stay in Hong Kong making contributions to the development of Hong Kong after they have graduated. Such statistics could give an indication on the cost-effectiveness (in terms of talent retention) of public resources expended on non-local students in the universities;
 - (b) have not yet agreed with the universities on a set of key performance indicators on internationalization, such as the target ratio of local to non-local students; and
 - (c) could not address the shortfall in student hostel places, the provision of which is a key factor in promoting internationalization;
- acknowledges that EDB will liaise with the university alumni associations of non-local students for information on non-local graduates working/studying in Hong Kong after graduating from universities;
- urges EDB to regularly review its policies on tertiary education with a view to enhancing the internationalization of universities; and

¹⁶ Source: the Administration's paper dated 22 March 2016 submitted to the Legislative Council Panel on Education (LC Paper No. CB(4)776/15-16(01)).

- demands UGC and EDB to:
 - (a) compile statistics on whether non-local students (Mainland and non-Mainland students) pursue further study or take up employment in Hong Kong after graduating from universities;
 - (b) review regularly whether public money granted to the universities and the present mix of non-local students, with the vast majority of non-local students from the Mainland, have achieved the intended objectives of internationalization and the key performance indicators on internationalization, and continue to monitor the universities' performance on internationalization;
 - (c) consider measures to promote diversity at universities, such as attracting more non-local students, in particular those other than Mainland students; and to encourage more local students to pursue postgraduate programmes in Hong Kong;
 - (d) review the supply of student hostel places with universities to ensure that insufficient supply of student hostel places would not impede the internationalization of universities; and
 - (e) better utilize scarce land resources allocated for the construction of student hostels with a view to maximizing the number of hostel places provided subject to the plot ratio of the site.

Specific comments

66. The Committee:

Administration of recurrent grants

- expresses grave concern that:
 - (a) in determining funding to the universities for the research element that was solely based on the universities' performance in the Research Assessment Exercise, UGC did not include the universities' research impact (e.g. any effect on the economy, society, culture, health, environment, etc.) as one of the elements of assessment in the Exercise;

- (b) in allocating the earmarked grants for knowledge transfer activities¹⁷ (\$62.5 million per annum in the 2016-2019 triennium) to the universities, UGC did not take into consideration the achievements of knowledge transfer activities of the universities;
- (c) the tuition fee had remained unchanged and had not been reviewed since 1997-1998. The cost recovery rate dropped from 18% in 2012-2013 to 15.8% in 2015-2016. It was not until June 2015 that EDB invited UGC to launch a review of tuition fee policies in other jurisdictions and propose options to EDB for consideration with due regard to the situation in Hong Kong;
- (d) Audit Commission ("Audit")'s examination on the universities' actual student enrolment in the 2009-2012 and 2012-2015 triennia revealed that there were cases of non-compliance with UGC's enrolment rules (i.e. rules governing over-enrolment/under-enrolment of local/non-local students for manpower-planned/non-manpower-planned programmes). However, such non-compliance cases had not been followed up by UGC;
- (e) UGC's Notes on Procedures is silent on the consequences of non-compliance with over-enrolment rules except for mentioning that no extra resources will be provided by UGC for over-enrolment of students. The cases of non-compliance with over-enrolment rules were therefore not followed up;
- (f) in the 2009-2012 and 2012-2015 triennia, for manpower-planned programmes, there were cases of under-enrolment in which six universities had exceeded the tolerance level of 4% by 0.5% to 32.3%.¹⁸ There was, however, no documentary evidence showing that UGC had given consideration to taking appropriate action on these cases;

¹⁷ According to UGC, knowledge transfer is the systems and processes by which knowledge, including technology, know-how, expertise and skills are transferred between higher education institutions and society, leading to innovative, profitable or economic or social improvements. See paragraph 2.12 of the Audit Report.

¹⁸ See Table 12 in paragraph 2.26 of the Audit Report.

- (g) as at 31 July 2016, UGC was still deliberating on the appropriate limits on under-enrolment on individual streams of teacher education programmes, some 1.5 years after EDB expressed its concern on the matter in December 2014; and
 - (h) as at 31 July 2016, UGC's Notes on Procedures had still not been updated and the changes to the enrolment rules had not been finalized to effect the policy change for admission of non-local students in 2016-2017;
- notes that:
- (a) Secretary-General of UGC has agreed with Audit's recommendations in paragraphs 2.16 and 2.35 of the Audit Report; and
 - (b) Secretary for Education has agreed with Audit's recommendation in paragraph 2.23 of the Audit Report;

Administration of capital grants

- expresses grave concern and dissatisfaction that:
- (a) according to UGC's records, in 2015-2016, there was a total shortfall (i.e. the difference between the student hostel place/academic space requirement of the universities and UGC's existing provision) of 8 660 student hostel places and 133 292 square metres of academic space for the universities;
 - (b) the slow progress in campus and student hostel development would affect the development of the universities and the overall competitiveness of the higher education sector and this would have an adverse impact on the internationalization of universities;
 - (c) it has been ten years since the space requirement formulae were reviewed in 2006. In the past decade, UGC sector had gone through a lot of changes and developments, which might have impacts on the academic space needs of the universities;
 - (d) in the latest space inventory updating exercise conducted in November 2014, there were differences (6 871 square metres in

- total) between the academic space inventory records maintained by UGC and those submitted by the universities;
- (e) since 2006, UGC had not appointed an external party to audit the space inventories of the universities so as to verify the accuracy of the inventories;
 - (f) according to the Space Inventory Manual, space utilization surveys are a useful tool to measure whether the universities' facilities are used at an optimal level and an additional source of information for evaluation of the universities' capital works project proposals. However, since 2006, the UGC Secretariat has not conducted any such surveys. The UGC Secretariat also has not requested the universities to provide information on their space utilization; and
 - (g) as at 30 June 2016, the finalization of project final accounts for 36 completed major CWPs and 98 completed AA&I projects had been overdue. The longest overdue period was some 18 years;
- notes that Secretary-General of UGC has agreed with Audit's recommendations in paragraphs 3.13, 3.22 and 3.33 of the Audit Report;

Governance and other administrative issues

- expresses grave concern and dissatisfaction and finds it unacceptable that:
- (a) 26 Register of Interests forms for members of UGC and QAC for the period 2011-2012 to 2015-2016 could not be located by the UGC Secretariat which could adversely affect the management of conflict of interest in UGC and QAC;
 - (b) the attendance rates of two members of QAC were low. As at 30 June 2016, one local QAC member attended two (29%) out of seven QAC meetings since his appointment in April 2014, and another non-local QAC member attended two (50%) out of four meetings since his appointment in April 2015;

- (c) the UGC Secretariat has not promulgated rules of procedure governing the conduct of meetings of UGC, the UGC Sub-Committees/Groups and QAC;
- (d) UGC has not produced any strategic plan setting out the principles, priorities and practices of UGC, which should be updated periodically and made available on its website;
- (e) booking of hotel accommodation for non-local members of UGC, RGC and QAC coming to Hong Kong for meetings were made after obtaining quotations from the same five upmarket hotels. However, there was no documentary evidence showing justifications for choosing the same five upmarket hotels and that less expensive hotels were not suitable or not available;
- (f) it is the practice of the UGC Secretariat that all non-local members are provided with Business Class return air tickets for travelling to Hong Kong to attend meetings. The UGC Secretariat has not explored whether there are less expensive passage options (e.g. travelling on classes other than Business Class for short flights) that are acceptable to the non-local members;
- (g) instead of consolidating procurement batches to achieve better economies of scale in 2014, the UGC Secretariat conducted 12 procurement batches for a total of 110 return air tickets costing \$7.1 million;
- (h) according to the report entitled "Aspirations for the Higher Education System in Hong Kong" issued by UGC in 2010, internationalization is not the same thing as encouraging Mainland students to study in Hong Kong. However, in 2015-2016, Mainland students made up 76% of the non-local students enrolled in UGC-funded programmes at the universities. Non-local students other than Mainland students accounted for only 3.9% of total student enrolment; and
- (i) the Financial Affairs Working Group's review report of October 2013 highlighted areas for improvement in the cost allocation practices and the level of financial transparency of the universities, and put forward recommendations to address the issues. However, the implementation of the cost allocation

guidelines drawn up to take forward the review report recommendations has been deferred from 2017-2018 to 2018-2019; and

- notes that:
 - (a) Secretary-General of UGC has agreed with Audit's recommendations in paragraphs 4.12, 4.25, 4.35, 4.46 and 4.58 of the Audit Report; and
 - (b) Secretary for Education has agreed with Audit's recommendation in paragraph 4.36 of the Audit Report.

Follow-up action

67. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by the Committee and Audit.