

LEGISLATIVE COUNCIL BRIEF

**RECURRENT FUNDING FOR THE
UNIVERSITY GRANTS COMMITTEE-FUNDED
INSTITUTIONS IN THE 2016/17 to 2018/19 TRIENNIUM**

INTRODUCTION

At the meeting of the Executive Council on 26 January 2016, the Council ADVISED and the Chief Executive ORDERED that –

- (a) the distribution of indicative student number targets as proposed by the University Grants Committee (UGC) and set out at **Annex A** should be approved; and
- (b) UGC's specific recurrent funding recommendations at a total cost of \$53,557.1 million in the 2016/17 to 2018/19 triennium should be endorsed.

JUSTIFICATIONS

2. The Government allocates recurrent grants to the eight UGC-funded institutions in the form of a block grant, usually on a triennial basis, to tie in with the academic planning cycle of the UGC-funded sector. UGC has submitted its funding recommendations for the 2016/17 to 2018/19 triennium to the Government.

Student number targets

3. UGC's recommendations on the distribution of indicative student number targets (by institution and by level) in the 2016/17 to 2018/19 triennium are set out at **Annex A**. The key student number targets are summarised as follows –

- (a) the number of UGC-funded first-year first-degree (FYFD) places in full-time-equivalent (fte) terms¹ will be maintained at 15 000 per annum;
- (b) the number of UGC-funded senior year undergraduate (Ug) intake places would progressively increase from 4 265 in 2015/16, to 4 600, 4 800 and 5 000 intakes in 2016/17, 2017/18 and 2018/19 respectively. In other words, sub-degree (SD) graduates can look forward to continuous significant enhancement in the number of publicly-funded articulation places. The significant increase will facilitate the healthy and sustainable development of a multiple-entry and multiple-exit higher education system with greater and smoother inter-flow between the self-financing and publicly-funded sectors as well as between the SD and degree sectors;
- (c) the number of UGC-funded SD places across different years of study will decrease by 674 to 3 195 (or 1 646 intake places) by 2018/19, due to the continued phasing-out of SD programmes not meeting the established retention criteria for public funding in accordance with the agreed schedule², and changes in student numbers in disciplines subject to the Government's specific manpower requirements³;
- (d) the number of UGC-funded taught postgraduate (TPg) places will be around 1 798 places across different years of study (or 1 259 intake places) in 2018/19, taking into account changes in the Government's specific manpower requirements; and
- (e) the number of UGC-funded research postgraduate (RPg) places will remain at 5 595⁴.

¹ Student number targets in this paper are presented in fte terms unless otherwise specified.

² As a matter of policy, SD programmes in the UGC-funded sector should generally be run on a self-financing basis. SD programmes will continue to be subsidised if (a) they require high start-up and maintenance costs or access to expensive laboratories or equipment; (b) they meet specific manpower needs; or (c) they are regarded as 'endangered species'.

³ In general, the Government does not specify manpower requirements for individual disciplines for the purpose of allocating student numbers to the UGC-funded institutions, except for a very small number of professions where (a) the public sector is the major employer and the UGC-funded sector is the major provider of relevant education programmes; (b) the unit cost of a student place in that specific discipline is exceptionally high; or (c) the community has a very strong case for assured provision of adequate manpower.

⁴ This represents the total RPg number irrespective of years of study.

4. All along, the Government has been striving to provide secondary school leavers with flexible and diversified articulation pathways with multiple entry and exit points through promoting the quality and sustainable development of the publicly-funded and self-financing post-secondary education sectors. Through the development of both sectors, about 46% of our young people in the relevant cohort now have access to degree-level education. Including sub-degree education, about 70% of them have access to post-secondary education. In recent years, the Government has implemented a series of measures⁵ to further increase subsidised higher education opportunities, in a bid to provide school leavers with broader and more diversified articulation pathways. On full implementation of these measures, and given the declining student population, we envisage that there will be sufficient publicly-funded and self-financing FYFD places for all secondary school leavers meeting minimum entrance requirements for university admission by 2016/17, assuming the performance of secondary school graduates is maintained at comparable level⁶.

⁵ These include:

- (a) increasing UGC-funded senior year Ug intake places (see paragraph 3(b) above);
- (b) implementing the Study Subsidy Scheme for Designated Professions/Sectors starting from the 2015/16 academic year to subsidise about 1 000 students per cohort to pursue self-financing undergraduate programmes in selected disciplines to meet Hong Kong's manpower needs. The scheme will benefit three cohorts of students, and is being reviewed on its effectiveness;
- (c) implementing the Hong Kong Scholarship for Excellence Scheme to support up to 100 outstanding students per cohort to pursue undergraduate and postgraduate studies in renowned universities outside Hong Kong with effect from the 2015/16 academic year to help nurture a diversified pool of top talent to propel Hong Kong's development. The scheme will benefit three cohorts of students, and will then be subject to a review of its effectiveness;
- (d) implementing the Mainland University Study Subsidy Scheme. The review of this three-year pilot scheme will be advanced as to how to expand its scope to benefit more students studying in the Mainland; and
- (e) implementing the Multi-faceted Excellence Scholarship to support institutions in admitting about 20 local undergraduate students a year who excel in sports, arts and/or community services.

⁶ For secondary school graduates applying for FYFD programmes, the minimum general entrance requirements are Level 3 or above in Chinese Language and English Language, and Level 2 or above in Mathematics (Compulsory Part) and Liberal Studies in the Hong Kong Diploma of Secondary Education (HKDSE) Examination. In 2015, out of 61 136 day school candidates entering the HKDSE Examination, 24 547 or 40.3% met the minimum general entrance requirements.

Funding

5. In line with our established practice, we calculate the Cash Limit for the UGC-funded sector based on the student number targets and the student unit funding rates as weighed by the relative cost of different levels of study, with necessary adjustment to price and pay levels, if any. The recommended Cash Limit for the entire UGC-funded sector for the 2016/17 to 2018/19 triennium is **\$53,557.1 million** (or \$17.9 billion each year, representing an increase of 4.7% as compared with \$17.1 billion for 2015/16). Among other things, the Cash Limit reflects –

- (a) necessary price and pay adjustments;
- (b) additional funding for the progressive increase in senior year undergraduate intake places as well as other necessary adjustments to cater for changes in student numbers;
- (c) top-up funding for additional UGC-funded FYFD places in healthcare disciplines (details are set out in paragraph 8 below); and
- (d) adjustments as a result of Government-wide efficiency savings measures with effect from the 2016-17 financial year⁷.

6. The UGC will allocate the resources among the eight institutions in accordance with its methodology for determining the levels of recurrent grants to the individual institutions. The UGC's assessment of recurrent grants is based primarily on the distribution of indicative student number targets as mentioned in paragraph 3 above. The methodology, as detailed at **Annex B**, assesses the resources required to meet the teaching and research requirements of each institution. Based on this methodology, the UGC's plan for allocation of resources among the eight UGC-funded institutions in the 2016/17 to 2018/19 triennium is at **Annex C**.

Funding for the additional year of Ug education under the New Academic Structure

7. The Administration decided in the 2004/05 academic year that funding for the additional year of university education under the New Academic

⁷ As one of the Government-wide expenditure control measures to drive re-engineering and re-prioritisation, envelope holders are generally required to deliver efficiency savings. As far as the UGC-funded institutions are concerned, they will be required to contribute efficiency savings totalling \$243.1 million per annum (full-year effect), i.e. 1.34% in 2018/19.

Structure (NAS) would be shouldered by the Government, institutions, parents and students under a shared-funding model, at a total annual recurrent cost of around \$1.8 billion. This level was accepted by institutions. Taking into account subsequent increases in FYFD places and price adjustments, the cost will be adjusted to around \$2.6 billion at 2015 prices in a full year during the 2016/17 to 2018/19 triennium. Since its inception in September 2012, the NAS has been successfully implemented in the UGC-funded sector for three years. Students have benefitted from the additional year of the carefully re-engineered undergraduate curriculum, which help them better prepare themselves for future careers and further study. For example, new general education programmes have been developed and now cover around 25% to 30% of the entire curriculum. Besides, more overseas exchange, placement and internship opportunities are offered within the normative four-year curriculum. Broad-based admission mechanisms have been adopted by most of the institutions to admit students to an academic faculty instead of a specific programme. In other words, students are given the flexibility to defer their choice of a major/specific programme, which offers them an opportunity to have a taste of different subjects before choosing their majors in the sophomore year.

Top-up funding for additional UGC-funded FYFD places in healthcare disciplines

8. Based on the preliminary results of the strategic review of healthcare manpower planning and professional development, the Government will increase the number of UGC-funded FYFD places in medicine, dentistry and other healthcare disciplines by 50, 20 and 68 respectively in the 2016/17 to 2018/19 triennium. Since the unit cost of these clinical programmes is higher and the duration of study of some of these programmes is longer, necessary top-up funding will be provided to the UGC-funded institutions according to the established formula.

Carrying over of unspent funds across triennia

9. Institutions are allowed to deploy recurrent grants within a funding period as they see fit. Besides, following the established practice, institutions will be allowed to carry unspent funds up to 20% of their respective total recurrent grants in the current funding period (i.e. 2012/13 to 2015/16) to the next (i.e. 2016/17 to 2018/19 triennium) as general reserve.

Indicative tuition fee level

10. The recurrent grant to the UGC-funded institutions is a deficiency subvention calculated by deducting an assumed income from tuition fees and other sources from the estimated gross funding requirement of the UGC-funded institutions. The assumed tuition fee income is based on the indicative tuition fee level determined by the Chief Executive in Council.

11. There is no plan to increase the indicative tuition fee level at present and we will maintain the indicative tuition fee at the current level during the 2016/17 to 2018/19 triennium, i.e. \$42,100 per student per year for UGC-funded programmes at degree level⁸. This has formed the basis for calculating the Cash Limit. Having said that, we notice that the tuition fee level has remained at the same level for nearly two decades. The Government has invited UGC to conduct a study on the practices in respect of tuition fee policy in other jurisdictions and propose options to the Government for consideration with due regard to the situation in Hong Kong. This is to enable the Government to lead an informed and rational discussion on the way forward.

IMPLICATIONS OF THE PROPOSAL

12. The proposal has financial, economic and sustainability implications as set out at **Annex D**. It is in conformity with the Basic Law, including the provisions concerning human rights. It has no civil service, productivity, environmental, family or gender implications.

PUBLIC CONSULTATION

13. The recommendation is based on the Academic Development Proposals submitted by institutions and recommended by UGC.

PUBLICITY

14. We will consult LegCo Panel on Education.

⁸ The indicative tuition fee for UGC-funded programmes at sub-degree level is pegged to 75% of that at degree level, except for those offered by the HKIEd, the bulk of which are currently charged at \$15,040 per student per year.

ENQUIRIES

15. Enquiries on this brief can be directed to Miss Sharon Ko, Principal Assistant Secretary for Education, at telephone number 3509 8501.

Education Bureau
January 2016

**Final distribution of indicative student number targets in
full-time equivalent terms for the 2016-19 triennium**

Institution	Taught Postgraduate			
	2016/17	2017/18	2018/19	Total
CityU	71	53	53	177
HKBU	183	130	130	443
LU	-	-	-	-
CUHK	667	584	584	1 835
HKIEd	402	359	359	1 120
PolyU	15	15	15	45
HKUST	-	-	-	-
HKU	748	702	657	2 107
Total	2 085	1 843	1 798	5 726

Institution	Research Postgraduate			
	2016/17	2017/18	2018/19	Total
CityU	548	489	428	1 465
HKBU	231	195	162	588
LU	59	49	41	149
CUHK	1 380	1 272	1 177	3 829
HKIEd	67	58	51	176
PolyU	575	502	438	1 515
HKUST	1 041	919	820	2 780
HKU	1 463	1 329	1 215	4 007
Tentative allocation (Note 1)	231	782	1 263	2 276
Total	5 595	5 595	5 595	16 785

Institution	Undergraduate (total numbers including senior year places)			
	2016/17	2017/18	2018/19	Total
CityU	11 170	11 170	11 170	33 510
HKBU*	5 956	6 041	6 114	18 111
LU	2 450	2 428	2 406	7 284
CUHK	14 684	14 734	14 784	44 202
HKIEd	4 181	4 222	4 219	12 622
PolyU	12 569	12 823	13 064	38 456
HKUST	7 924	8 004	8 055	23 983
HKU	13 685	13 732	13 742	41 159
Total	72 619	73 154	73 554	219 327

Institutions	Undergraduate Senior Year Places (numbers incorporated in "Undergraduate" table above)			
	2016/17	2017/18	2018/19	Total
CityU	2 790	2 790	2 790	8 370
HKBU	969	1 106	1 231	3 306
LU	260	260	260	780
CUHK	868	868	868	2 604
HKIEd	232	312	348	892
PolyU	2 939	3 188	3 424	9 551
HKUST	270	300	301	871
HKU	662	701	703	2 066
Total	8 990	9 525	9 925	28 440

Institutions	First-Year-First-Degree Places (numbers incorporated in "Undergraduate" table above)			
	2016/17	2017/18	2018/19	Total
CityU	2 095	2 095	2 095	6 285
HKBU	1 171	1 171	1 171	3 513
LU	531	531	531	1 593
CUHK	3 297	3 297	3 297	9 891
HKIEd	582	582	582	1 746
PolyU	2 342	2 342	2 342	7 026
HKUST	1 951	1 951	1 951	5 853
HKU	3 031	3 031	3 031	9 093
Total	15 000	15 000	15 000	45 000

Institutions	Sub-Degree			
	2016/17	2017/18	2018/19	Total
CityU	841	841	841	2 523
HKBU	-	-	-	-
LU	-	-	-	-
CUHK	-	-	-	-
HKIEd	1 044	1 021	1 000	3 064
PolyU	1 713	1 573	1 354	4 640
HKUST	-	-	-	-
HKU	-	-	-	-
Total	3 598	3 435	3 195	10 227

Institutions	Total Enrolment			
	2016/17	2017/18	2018/19	Total
CityU	12 630	12 553	12 492	37 675
HKBU	6 370	6 366	6 406	19 142
LU	2 509	2 477	2 447	7 433
CUHK	16 731	16 590	16 545	49 866
HKIEd	5 694	5 660	5 629	16 982
PolyU	14 872	14 913	14 871	44 656
HKUST	8 965	8 923	8 875	26 763
HKU	15 896	15 763	15 614	47 273
Tentative allocation (Note 1)	231	782	1 263	2 276
Total	83 897	84 027	84 142	252 065

Notes

- * Including "3+2" Diploma in Education programme which is funded at Ug level.
- 1. Of the total 5 595 RPg places for each year of the 2016-19 triennium, these places are tentatively allocated as a result of the introduction of competitive elements for allocating RPg places. Figures refer to the position up to July 2015.
- 2. Figures may not add up to the corresponding totals owing to rounding.

Abbreviations:

CityU	City University of Hong Kong
HKBU	Hong Kong Baptist University
LU	Lingnan University
CUHK	The Chinese University of Hong Kong
HKIED	The Hong Kong Institute of Education
PolyU	The Hong Kong Polytechnic University
HKUST	The Hong Kong University of Science and Technology
HKU	The University of Hong Kong

**Methodology for determining the levels of recurrent grants
for the University Grants Committee (UGC)-funded institutions**

The UGC's funding methodology was developed in 1994 and has been used since then for the assessment of the recurrent grants for the UGC-funded institutions. It is regularly reviewed and improved to ensure that it is appropriate and relevant to current circumstances.

2. Recurrent grants for each UGC-funded institution basically comprise a block grant and funds provided for specific purposes. The purpose of the UGC recurrent grants is to fund institutions to support the pursuit of their different roles and missions in teaching and research.

Block grant

3. The New Academic Structure (NAS) has been implemented in the UGC-funded sector since the 2012/13 academic year. Thus, there has been new recurrent funding for the additional year under the NAS ("new pot of money") in addition to the funding ("existing pot of money") for the three years of undergraduate study and other levels of study. In this regard, for the purpose of determining the block grant allocation to institutions, a "two pots of money" approach/funding methodology has been applied since the 2012/13 to 2014/15 triennium, as detailed below. Institutions still receive a single lump-sum block grant in the end and the "two pots of money" approach will not affect the existing autonomy within which institutions deploy their block grant.

"Existing pot of money" for the three years of undergraduate study and other levels of study

4. Under the "existing pot of money", the amount of block grant to the sector as a whole comprises three elements –

- (a) Teaching – about 75%
- (b) Research – about 23%
- (c) Professional Activity – about 2%

Teaching element

5. The bulk of the block grant is allocated for teaching, which is an indispensable duty and mission of all institutions. The Teaching element is

determined on the basis of the student numbers, their study levels (i.e. sub-degree, undergraduate, taught postgraduate and research postgraduate), modes of study (i.e. part-time and full-time) and disciplines of study. Some subjects are more expensive to teach than others because of special equipment or laboratory needs, or because they are more staff time intensive, etc. Relative cost weightings by broad academic programme category are grouped into three price groups, as shown in the table below -

Academic Programme Category (APC)	Price Group of APCs	Relative Cost Weighting	
		Teaching⁽¹⁾ Programme	Research⁽²⁾ Programme
1. Medicine 2. Dentistry	A Medicine & Dentistry	3.6	1.8
3. Studies Allied to Medicine and Health 4. Biological Sciences 5. Physical Sciences 6. Engineering and Technology 7. Arts, Design & Performing Arts	B Engineering & Laboratory Based Studies	1.4	1.4
8. Mathematical Sciences 9. Computer Science and Information Technology 10. Architecture and Town Planning 11. Business and Management Studies 12. Social Sciences 13. Law 14. Mass Communication & Documentation 15. Languages & Related Studies 16. Humanities 17. Education	C Others	1.0	1.0

Notes:

(1) Includes sub-degree, undergraduate and taught postgraduate programmes.

(2) Includes research postgraduate programmes.

Research element

6. The Research element is disbursed to the institutions as infrastructure funding to enable institutions to provide both the staffing and facilities (e.g. accommodation and equipment) necessary to carry out research, and to fund a certain level of research. To promote research excellence, the UGC has been gradually allocating the Research element to its funded institutions on a more competitive basis according to their success in obtaining peer reviewed Research Grants Council (RGC) Earmarked Research Grants (ERGs). Over a period of nine years (starting from the 2012/13 academic year), about 50% of the Research element will be allocated in this manner. The remainder is allocated with regard to the institutions' performance in the Research Assessment Exercise (RAE). For the 2016/17 to 2018/19 triennium, the results of the RAE 2014 have been used.

Professional Activity element

7. This element of funding is intended to fund professional activities not covered by the Teaching element and Research element and is calculated based on the number of academic staff.

“New pot of money” for the additional year under the New Academic Structure

8. The funding for the additional year under the NAS, treated as a separate pot of money, is allocated wholly as “teaching funding” among faculties with price weightings of 1.4 and 1.0 for (i) Medicine, Dentistry, Engineering and Laboratory-based studies; and (ii) Others respectively.

Allocation of block grant within institutions

9. The above-mentioned methodology only serves as a basis for determining the block grant allocation to the UGC-funded institutions. Once allocations are approved, institutions have autonomy in and responsibility for determining the best use of the resources vested in them.

Grants for specific purposes and extra-formulaic adjustments

10. The UGC is aware that its formula-based funding model cannot address all the various needs of the institutions. The UGC's recommendations therefore make provision for the following specific requirements for the 2016/17 to 2018/19 triennium –

- (a) Earmarked Research Grants (ERG)
The bulk of the ERG is now funded by the investment income of the Research Endowment Fund. In addition, an amount of \$28.3 million will be deployed within the Cash Limit for ERG for each of the academic years in the 2016/17 to 2018/19 triennium.
- (b) Teaching Development and Language Enhancement Grant (TDLEG)
UGC attaches great importance to teaching and learning. A sum of \$562.8 million will be provided for the TDLEG in the 2016/17 to 2018/19 triennium. From this amount, the sum of \$50 million will be allocated on a competitive basis.
- (c) Knowledge Transfer
To build up institutional capacity and to broaden institutions' endeavour in knowledge transfer, the UGC will reserve a sum of \$62.5 million for institutions for each of the academic years in the 2016/17 to 2018/19 triennium.
- (d) Central Allocation Vote (CAV)
Similar to the past triennium funding exercise, the UGC will set aside about 1.0% of the Cash Limit (*i.e.* \$540 million in the 2016/17 to 2018/19 triennium) centrally to support new initiatives during the triennium, in addition to setting aside an average annual funding of \$90 million for the Areas of Excellence projects.
- (e) Others
The UGC also agreed to fund a number of small extra-formulaic adjustments relating to specific activities of institutions, totalling some \$68.0 million each year.

**Allocation of recurrent funding for
UGC-funded Institutions in the 2016/17 to 2018/19 triennium**

	Academic year (July to June)			Triennium Total (\$ million)
	2016/17 (\$ million)	2017/18 (\$ million)	2018/19 (\$ million)	
Recurrent grants allocated in the form of a Block Grant (Note 2)				
City University of Hong Kong	2,284.6	2,282.7	2,288.3	6,855.6
Hong Kong Baptist University	1,085.5	1,090.5	1,102.0	3,278.0
Lingnan University	408.1	399.4	392.5	1,200.0
The Chinese University of Hong Kong	3,893.9	3,875.8	3,877.3	11,647.0
The Hong Kong Institute of Education	809.4	805.3	802.2	2,416.9
The Hong Kong Polytechnic University	2,837.5	2,861.4	2,880.4	8,579.2
The Hong Kong University of Science and Technology	2,119.0	2,139.5	2,157.2	6,415.6
The University of Hong Kong	3,982.0	4,011.6	4,038.8	12,032.4
<i>Sub-total of recurrent grants</i>	17,419.9	17,466.2	17,538.7	52,424.8
Recurrent grants to be allocated in the 2016/17 to 2018/19 triennium in the form of earmarked grants and funding (Note 3)	430.8	340.8	360.8	1,132.3
<u>Total recurrent grants</u>	<u>17,850.7</u>	<u>17,807.0</u>	<u>17,899.4</u>	<u>53,557.1</u>

Notes

1. The above numbers may not add up due to rounding.
2. Figures are indicative, which may increase or decrease slightly when actual competition results on the allocation of RPg places and Research Grants Council projects are available.
3. These include: funding to be allocated for knowledge transfer; funding for competitive allocation in sector-wide strategic areas in teaching and learning, language enhancement and internationalisation; earmarked research grants; funding for Areas of Excellence Scheme and other centrally held provisions.

Implications of the proposal

Financial implications

The overall funding requirement for the UGC-funded sector is worked out on the basis of an established framework, which takes into account the changes in pay/price levels and student numbers from the previous funding period. The estimated total cost for implementing the UGC's recurrent funding recommendations for the 2016/17 to 2018/19 triennium (i.e. the Cash Limit) will be **\$53.6 billion (or \$17.9 billion each year)** –

<u>Financial Year</u> (April to March)	<u>\$ million</u>
2016 – 17	13,388.0
2017 – 18	17,817.9
2018 – 19	17,876.3
2019 – 20	4,474.9

The annual recurrent funding for this triennium represents an increase of 4.7% as compared with \$17,105.9 million for the 2015/16 academic year. The Government will earmark sufficient funding for the Cash Limit in the Estimates of the respective years.

2. As a result of the progressive increase of 1 000 senior year undergraduate intake places and proposed increase of 138 FYFD places in the relevant healthcare disciplines, there will be additional funding requirements in other areas outside of the UGC's recurrent funding recommendation. For student financial assistance, the full year effect will be \$28.5 million per annum and for clinical placements at hospitals, the full year effect will be \$6 million per annum.

3. In addition, we estimate that capital funding for an additional 1 930 square metres¹ of academic building space and 6 student hostel places will be needed for the provision of additional healthcare FYFD places. Besides, each additional senior year undergraduate intake place will give rise to a need for about 18.06 square metres¹ of additional academic building space and 1.03 student hostel places (or 18 062 square metres of additional building space and 1030 student hostel places for 1 000 senior year undergraduate intake places) in a full year. There may also be additional requirement for land grants. Capital funding required will be sought in accordance with the established mechanism.

¹ In net operational floor area (NOFA).

Economic implications

4. The proposed recurrent funding to UGC-funded institutions for the 2016/17 to 2018/19 triennium will help sustain the development of higher education in Hong Kong especially in regard to maintaining the quality of teaching and research. The additional senior year places will help enhance the quality of our human capital to meet the manpower needs of different industries, which should in turn be conducive to maintaining Hong Kong's economic vitality and overall competitiveness.

Sustainability implications

5. The recurrent funding proposals are in line with the sustainability principle of enabling individuals to fulfil their potential by providing access to adequate and appropriate education.