

LEGISLATIVE COUNCIL BRIEF

RECURRENT FUNDING FOR THE UNIVERSITY GRANTS COMMITTEE-FUNDED UNIVERSITIES IN THE 2019/20 to 2021/22 TRIENNIUM

INTRODUCTION

At the meeting of the Executive Council on 11 December 2018, 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;
- (b) UGC's specific recurrent funding recommendations at a total cost of \$60,467.1 million in the 2019/20 to 2021/22 triennium as set out at **Annex B** should be endorsed; and
- (c) the indicative tuition fee level should be maintained at the current level.

JUSTIFICATIONS

2. The Government allocates recurrent grants to the eight UGC-funded universities 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 2019/20 to 2021/22 triennium to the Government.

Student number targets

3. UGC's recommendations on the distribution of indicative student number targets (by university and by level) in the 2019/20 to 2021/22 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;

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

- (b) the number of UGC-funded senior year undergraduate (Ug) intake places for articulation of holders of sub-degree (SD) qualifications will be maintained at 5 000 per annum;
- (c) the number of UGC-funded SD² places across different years of study will be 2 983, 2 961 and 2 961 in 2019/20, 2020/21 and 2021/22 respectively;
- (d) the number of UGC-funded taught postgraduate (TPg) intake places will be around 1 280, 1 264 and 1 260 in 2019/20, 2020/21 and 2021/22 respectively, 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 595³.

4. All along, the Government has strived 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 48% of our young people in the relevant cohort now have access to degree-level education. Over 70% of them have access to post-secondary education, taking into account sub-degree education. In recent years, the Government has implemented a series of measures⁴ to further increase subsidised higher education opportunities, in a bid

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

⁴ These include:

- (a) increasing UGC-funded senior year Ug intake places to 5 000 by 2018/19;
- (b) implementing Non-means-tested Subsidy Scheme for Self-financing Undergraduate Studies in Hong Kong and the Mainland starting from 2017/18;
- (c) introducing the Study Subsidy Scheme for Designated Professions/Sectors (SSSDP) to subsidise around 1 000 students per cohort to pursue self-financing Ug programmes in selected disciplines to meet Hong Kong's manpower needs. SSSDP has been regularised in 2018/19 with an increased subsidised quota of about 3 000 per cohort;
- (d) implementing the Hong Kong Scholarship for Excellence Scheme since 2015/16 to support up to 100 outstanding students per cohort to study in renowned universities outside Hong Kong to nurture a diversified pool of top talents to propel Hong Kong's development; and
- (e) introducing the Mainland University Study Subsidy Scheme so that needy students pursuing studies in designated mainland institutions may receive a means-tested grant during their study period.

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, assuming the performance of secondary school graduates is maintained at comparable level⁵.

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 costs 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 2019/20 to 2021/22 triennium is **\$60,467.1 million** (or \$20.2 billion each year, representing an increase of 12.8% as compared with \$17.9 billion for 2018/19). Among other things, the Cash Limit reflects –

- (a) necessary price and pay adjustments;
- (b) changes in student numbers;
- (c) top-up funding for additional UGC-funded FYFD and TPg places in healthcare disciplines (details are set out in paragraph 8 below); and
- (d) changes in student unit costs as weighed by the relative cost of different levels of study.

6. The UGC will allocate the resources among the eight universities in accordance with its methodology for determining the levels of recurrent grants to the individual universities. The UGC's assessment of recurrent grants is based primarily on the distribution of indicative student number targets as set out in paragraph 3 above. The methodology, as detailed at **Annex C**, assesses the resources required to meet the teaching and research requirements of each university. Based on this methodology, the UGC's plan for allocation of resources among the eight UGC-funded universities in the 2019/20 to 2021/22 triennium is at **Annex B**.

⁵ For secondary school graduates applying for FYFD programmes, the 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 2018, out of 50 642 day school candidates entering the HKDSE Examination, 21 264 or 42% met the general entrance requirements.

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

7. The Government decided in the 2004/05 academic year that funding for the additional year of Ug education under the New Academic 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 \$2.9 billion at 2018 prices in a full year during the 2019/20 to 2021/22 triennium. Since its inception in September 2012, the NAS has been successfully implemented in the UGC-funded sector. Students have benefitted from the additional year of the carefully re-engineered undergraduate curriculum, which includes more general education programmes and more overseas exchange, placement and internship opportunities. The revised curriculum helps them better prepare themselves for future careers and further study.

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

8. Taking into account the findings of the “Strategic Review on Healthcare Manpower Planning and Professional Development”, the Government will increase the number of healthcare-related UGC-funded FYFD intake places by over 150 (including 60 medical, 60 nursing, and some 30 dental and allied health professionals) in the 2019/20 to 2021/22 triennium. The Government will add 20 UGC-funded TPg intake places in dentistry for the 2019/20 to 2021/22 triennium and also increase 19 UGC-funded TPg places in clinical psychology in 2020/21. 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 universities according to the established formula.

Carrying over of unspent funds across triennia

9. Universities are allowed to deploy recurrent grants within a funding period as they see fit. Besides, following the established practice, universities will be allowed to carry unspent funds up to 20% of their respective total recurrent grants in the current funding period (i.e. 2016/17 to 2018/19) to the next (i.e. 2019/20 to 2021/22 triennium) as general reserve.

Indicative tuition fee level

10. The recurrent grant to the UGC-funded universities 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 universities. The assumed tuition fee income is based on the indicative tuition fee level determined by the Chief Executive in Council.

11. On the Government's invitation, the UGC has completed a consultancy study on the tuition fee policies of undergraduate education in different jurisdictions. UGC's consultancy study shows that the cost of higher education shared between the government and students/parents, as well as the actual fee levels of publicly-funded programmes, vary from jurisdiction to jurisdiction. As far as Hong Kong is concerned, the current tuition fee level does not stand out as particularly high or low when compared with the jurisdictions covered in UGC's consultancy study.

12. In tandem with the Government's policy direction to increase recurrent expenditure in education, and having regard to the findings of the UGC's consultancy study, as well as Hong Kong's state of economic development and commitment to higher education development, the indicative tuition fee levels of UGC-funded programmes will remain unchanged during the 2019/20 to 2021/22 triennium, i.e. \$42,100 per student per year for UGC-funded programmes at degree level⁶. This has formed the basis for calculating the Cash Limit.

City University of Hong Kong's proposal on School of Veterinary Medicine

13. Since 2009, the City University of Hong Kong (CityU) has applied to the UGC three times to introduce a bachelor's degree in veterinary medicine. After receiving the third proposal from CityU in 2016, the Government advised CityU that there is a prima facie case for Hong Kong to consider introducing a professionally accredited undergraduate programme in veterinary medicine, and, the ideal veterinary school for Hong Kong should have a small professional veterinary medicine training programme and a top-heavy postgraduate and research programme.

⁶ 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 Education University of Hong Kong, the bulk of which are currently charged at \$15,040 per student per year.

14. In October 2017, , CityU submitted the latest proposal for funding a veterinary medicine programme to the UGC for consideration in the context of the 2019/20 to 2021/22 Triennium Planning Exercise. In examining CityU's latest proposal, the UGC paid particular attention to whether graduates would be able to practise veterinary medicine upon graduation, and also financial sustainability, among other factors. After the review, the Task Force was satisfied with the response and performance of CityU.

15. The UGC announced on 20 August 2018 its support for CityU to launch a UGC-funded six-year Bachelor of Veterinary Medicine programme with effect from 2019/20. The UGC has requested CityU to submit an annual progress report to the UGC before the programme obtains full accreditation status. The Government supports the UGC's recommendation and relevant funding requirement has been included in the Cash Limit.

IMPLICATIONS OF THE PROPOSAL

16. 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 significant family implication, and no civil service, environmental or gender implications.

PUBLIC CONSULTATION

17. The recommendation is based on the Planning Exercise Proposals submitted by universities and recommended by UGC.

PUBLICITY

18. We will consult LegCo Panel on Education.

ENQUIRIES

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

Education Bureau
December 2018

**Final distribution of indicative student number targets in
full-time equivalent terms for the 2019-22 triennium**

University	Taught Postgraduate			
	2019/20	2020/21	2021/22	Total
CityU	53	53	53	159
HKBU	127	113	113	353
LU	-	-	-	-
CUHK	597	600	600	1 797
EdUHK	331	320	320	971
PolyU	20	20	-	40
HKUST	-	-	-	-
HKU	725	771	791	2 287
Total	1 852	1 877	1 877	5 606

University	Research Postgraduate			
	2019/20	2020/21	2021/22	Total
CityU	581	500	425	1 506
HKBU	221	190	160	571
LU	56	48	40	144
CUHK	1 381	1 267	1 174	3 822
EdUHK	73	62	49	184
PolyU	574	497	437	1 508
HKUST	1 027	913	818	2 758
HKU	1 432	1 314	1 206	3 952
Tentative allocation (Note 1)	250	804	1 286	2 340
Total	5 595	5 595	5 595	16 785

University	Undergraduate (total numbers including senior year places)			
	2019/20	2020/21	2021/22	Total
CityU	11 170	11 170	11 170	33 510
HKBU*	6 100	6 091	6 068	18 259
LU	2 374	2 364	2 354	7 092
CUHK	14 794	14 761	14 746	44 301
EdUHK	4 313	4 301	4 328	12 943
PolyU	13 165	13 151	13 131	39 447
HKUST	8 189	8 272	8 355	24 816
HKU	13 735	13 769	13 797	41 301
Total	73 840	73 879	73 949	221 669

* Including "3+2" Diploma in Education programme which is funded at Ug level.

University	Undergraduate Senior Year Places (numbers incorporated in "Undergraduate" table above)			
	2019/20	2020/21	2021/22	Total
CityU	2 790	2 790	2 790	8 370
HKBU	1 292	1 292	1 292	3 876
LU	260	260	260	780
CUHK	868	868	868	2 604
EdUHK	368	368	368	1 104
PolyU	3 540	3 540	3 540	10 620
HKUST	302	302	302	906
HKU	705	705	705	2 115
Total	10 125	10 125	10 125	30 375

University	First-Year-First-Degree Places (numbers incorporated in "Undergraduate" table above)			
	2019/20	2020/21	2021/22	Total
CityU	2 095	2 095	2 095	6 285
HKBU	1 148	1 148	1 148	3 444
LU	521	521	521	1 563
CUHK	3 257	3 257	3 257	9 771
EdUHK	609	609	609	1 827
PolyU	2 322	2 322	2 322	6 966
HKUST	2 034	2 034	2 034	6 102
HKU	3 014	3 014	3 014	9 042
Total	15 000	15 000	15 000	45 000

University	Sub-Degree			
	2019/20	2020/21	2021/22	Total
CityU	841	841	841	2 523
HKBU	-	-	-	-
LU	-	-	-	-
CUHK	-	-	-	-
EdUHK	948	926	926	2 800
PolyU	1 194	1 194	1 194	3 582
HKUST	-	-	-	-
HKU	-	-	-	-
Total	2 983	2 961	2 961	8 905

University	Total Enrolment			
	2019/20	2020/21	2021/22	Total
CityU	12 645	12 564	12 489	37 698
HKBU	6 448	6 394	6 341	19 183
LU	2 430	2 412	2 394	7 236
CUHK	16 772	16 628	16 520	49 920
EdUHK	5 665	5 609	5 623	16 897
PolyU	14 953	14 862	14 762	44 577
HKUST	9 216	9 185	9 173	27 574
HKU	15 892	15 854	15 794	47 540
Tentative allocation (Note 1)	250	804	1 286	2 340
Total	84 271	84 312	84 382	252 965

Notes

1. Of the total 5 595 RPg places for each year of the 2019-22 triennium, these places are tentatively allocated as a result of the introduction of competitive elements for allocating RPg places. Figures refer to the position as at August 2018.
2. '-' denotes nil.
3. 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
EdUHK	The Education University of Hong Kong
PolyU	The Hong Kong Polytechnic University
HKUST	The Hong Kong University of Science and Technology
HKU	The University of Hong Kong

Annex B

Allocation of recurrent funding for UGC-funded Universities in the 2019/20 to 2021/22 triennium

	Academic year (July to June)			Triennium Total (\$ million)
	2019/20 (\$ million)	2020/21 (\$ million)	2021/22 (\$ million)	
Recurrent grants allocated in the form of a Block Grant (Note 2)				
City University of Hong Kong	2,594.7	2,596.5	2,598.9	7,790.1
Hong Kong Baptist University	1,231.3	1,232.5	1,230.5	3,694.3
Lingnan University	439.3	438.6	437.5	1,315.4
The Chinese University of Hong Kong	4,301.2	4,322.5	4,346.2	12,969.9
The Education University of Hong Kong	912.8	909.2	912.5	2,734.5
The Hong Kong Polytechnic University	3,262.3	3,263.4	3,262.1	9,787.8
The Hong Kong University of Science and Technology	2,405.1	2,419.6	2,436.3	7,261.0
The University of Hong Kong	4,462.9	4,534.8	4,593.0	13,590.6
<i>Sub-total of recurrent grants</i>	19,609.6	19,717.0	19,817.0	59,143.6
Recurrent grants to be allocated in the 2019/20 to 2021/22 triennium in the form of earmarked grants and funding (Note 3)	441.2	441.2	441.2	1,323.6
<u>Total recurrent grants</u>	20,050.8	20,158.2	20,258.1	60,467.1

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 Areas of Excellence Scheme, Earmarked Research Grants, knowledge transfer and other centrally held provisions.

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

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 universities. It is regularly reviewed and improved to ensure that it is appropriate and relevant to current circumstances.

2. Recurrent grants for each UGC-funded university basically comprise a block grant and funds provided for specific purposes. The purpose of the UGC recurrent grants is to fund universities 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 universities, a "two pots of money" approach/funding methodology has been applied since the 2012/13 to 2014/15 triennium, as detailed below. Universities 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 universities 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 universities. 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, i.e. the Research Portion (R-portion), is disbursed to the universities as infrastructure funding to enable universities 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 R-portion to its funded universities on a more competitive basis according to their success in obtaining peer reviewed Research Grants Council (RGC) Earmarked Research Grants (ERGs). It was originally intended that over a period of nine years (starting from the 2012/13 academic year), about 50% of the R-portion would be ultimately allocated in this manner. In 2017, in response to the stakeholders' concerns expressed in the Review of the RGC (Phase I), the UGC approved the interim arrangement to "freeze" the percentage of the competitive part of the R-portion at 26% since the 2017/18 academic year, pending the completion of a further review on R-portion. The remaining 74% of the R-portion will be allocated with regard to the universities' performance in the Research Assessment Exercise (RAE). For the 2019/20 to 2021/22 triennium, before the results of the forthcoming RAE in 2020 are available, the results of the RAE 2014 will continue to inform allocation of the rest of the R-portion.

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 universities

9. The above-mentioned methodology only serves as a basis for determining the block grant allocation to the UGC-funded universities. Once allocations are approved, universities 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 universities. The UGC’s recommendations therefore make provision for the following specific requirements for the 2019/20 to 2021/22 triennium –

(a) Earmarked Research Grants (ERG)

The ERG is distributed by the RGC to support research projects and research activities of the eight UGC-funded universities. The ERG is funded by the investment income of the Research Endowment Fund (REF). To keep the amount of funding of the ERG up to the current price level, an amount of \$72.7 million will be deployed within the Cash Limit for ERG for each of the academic years in the 2019/20 to 2021/22 triennium.

(b) Teaching Development and Language Enhancement Grant (TDLEG)

UGC attaches great importance to teaching and learning. A sum of \$781.2 million will be provided for the TDLEG in the 2019/20 to 2021/22 triennium.

(c) Knowledge Transfer

To support expansion of institutional capacity and to broaden universities’ endeavours in knowledge transfer, the UGC will continue to reserve a sum of \$68.5 million (including the inflation adjustment) for universities for each of the academic years in the 2019/20 to 2021/22 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.* \$600 million in the 2019/20 to 2021/22 triennium) centrally to support new initiatives during the triennium, in addition to setting aside an average annual funding of \$100 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 universities, totalling around \$72 million each year.

Implications of the proposal

Financial implications

The overall funding requirement for the University Grants Committee (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 2019/20 to 2021/22 triennium (i.e. the Cash Limit) will be **\$60.5 billion (or \$20.2 billion each year on average)** –

<u>Financial Year</u> (April to March)	<u>\$ million</u>
2019 – 20	15,038.1
2020 – 21	20,131.3
2021 – 22	20,233.2
2022 – 23	5,064.5

The average annual recurrent funding for this triennium represents an increase of 12.8% as compared with \$17.9 billion for the 2018/19 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 proposed increase of UGC-funded FYFD and TPg places in the relevant healthcare disciplines, there will be additional funding requirements in other areas such as student financial assistance in the form of grants and loans and clinical placements at hospitals. For student financial assistance, the full year effect will be \$2.3 million per annum and for clinical placements at hospitals, the full year effect will be \$2.5 million per annum.

3. In addition, we estimate that capital funding for an additional 4 300 square metres¹ of academic building space will be needed. 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 universities for the 2019/20 to 2021/22 triennium will help sustain the development of higher education in Hong Kong especially in regard to maintaining the quality of teaching and research, which should in turn be conducive to strengthening Hong Kong's human capital for meeting the needs of future economic development.

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.