

CHAPTER 9

University Grants Committee Secretariat

Funding of tertiary education

The audit team consisted of:

*John CHU Nai-cheung, Ms Michelle YUEN Yuet-ping
and Ms Elizabeth LAM Sau-man under the direction of
David LEUNG Moon-tong*

Audit Commission
Hong Kong
18 October 2003

FUNDING OF TERTIARY EDUCATION

Contents

	Paragraphs
SUMMARY	
PART 1: INTRODUCTION	1.1
Background	1.2
University Grants Committee	1.3 – 1.4
UGC-funded institutions	1.5 – 1.7
Recent developments of tertiary education in Hong Kong	1.8 – 1.13
Director of Audit's Report No. 40	1.14
Audit review on the funding of tertiary education	1.15 – 1.16
General response from the HKU	1.17
PART 2: UGC's ENDEAVOURS IN BENCHMARKING THE COST OF TERTIARY EDUCATION	2.1
Benchmarking of the student unit cost of tertiary education	2.2 – 2.6
The use of a crude average student unit cost as a basis for funding tertiary education	2.7 – 2.11
<i>Audit recommendations</i>	2.12
Response from the Administration and the institutions	2.13 – 2.16
PART 3: FUNDING AND RESOURCE ALLOCATION	3.1
Government funding for the institutions	3.2
Recurrent grants	3.3 – 3.5
Teaching and research are core elements of recurrent grants	3.6 – 3.9

	Paragraphs
Funding split between teaching and research	3.10 – 3.22
<i>Audit recommendations</i>	3.23
Response from the Administration and the institutions	3.24 – 3.29
Disclosure of funding allocation of recurrent grants in the Annual Estimates	3.30 – 3.31
<i>Audit recommendations</i>	3.32
Response from the Administration and the institutions	3.33 – 3.34
PART 4: RESEARCH ASSESSMENT EXERCISE AND IMPLEMENTATION OF RESEARCH PROJECTS	4.1
Research Assessment Exercise	4.2 – 4.13
<i>Audit recommendations</i>	4.14
Response from the Administration and the institutions	4.15 – 4.18
RAE assessment panels	4.19 – 4.21
<i>Audit recommendation</i>	4.22
Response from the Administration and the institutions	4.23 – 4.26
Terminated research projects	4.27 – 4.35
<i>Audit recommendations</i>	4.36
Response from the Administration and the institutions	4.37 – 4.41
Extension of time of research projects	4.42 – 4.45
<i>Audit recommendations</i>	4.46
Response from the Administration and the institutions	4.47 – 4.49
PART 5: FUNDING OF SELF-FINANCING ACTIVITIES	5.1
Background	5.2 – 5.3
UGC policy on the funding of self-financing activities	5.4

	Paragraphs
Types of self-financing activities	5.5
Determination of the standard overhead recovery rate	5.6 – 5.7
<i>Audit observations</i>	5.8 – 5.16
<i>Audit recommendations</i>	5.17
Response from the Administration and the institutions	5.18 – 5.22
 PART 6: REFUND OF GOVERNMENT RENTS AND RATES	 6.1
Refund of government rents and rates to the institutions	6.2 – 6.5
Refund of government rents and rates for self-financing activities	6.6 – 6.10
<i>Audit recommendations</i>	6.11 – 6.12
Response from the Administration and the institutions	6.13 – 6.16

Appendices

- A : HKU's general remarks on the audit review
- B : Information from UGC to the institutions in the 2001-02 to 2003-04 funding exercise
- C : Extracts of comments made by the RAE panels and their individual members in the 1999 RAE
- D : Scholarship as defined by the Carnegie Foundation
- E : Bodies/units providing self-financing continuing and professional education programmes in the institutions
- F : Acronyms and abbreviations

FUNDING OF TERTIARY EDUCATION

Summary

1. The University Grants Committee (UGC) is a non-statutory advisory body responsible for advising the Government on the development and funding needs of tertiary institutions in Hong Kong. The UGC is supported by a secretariat which is headed by its Secretary-General. The Secretary-General is the Controlling Officer who accounts for the expenditure of the UGC, including grants made to the higher-education institutions. In 2002-03, the approved budget for tertiary education amounted to \$13.5 billion, which represented 28% of total government expenditure on education and 5% of total government expenditure (paras. 1.2 and 1.3).

AUDIT FINDINGS

UGC's endeavours in benchmarking the cost of tertiary education

2. In Hong Kong, the established practice is to adopt a crude average student unit cost in determining the funding of the UGC sector. This student unit cost, which is historical-based, had been adjusted to take into account the changes in price levels over the years. There had been public concerns on whether the student unit cost of tertiary education in Hong Kong was on the high side, compared with that in the advanced countries. However, the UGC's endeavours in benchmarking the student unit cost in Hong Kong against that in overseas countries with a view to determining the funding levels of the institutions have so far not been very successful. The problem is that the Government/UGC has not conducted any major review to ascertain whether this crude average student unit cost would continue to serve as the appropriate basis for funding tertiary education. There is an urgent need to determine the appropriate funding level for the institutions by re-establishing the right level of student unit cost by means of, for example, carrying out an in-depth review of the budgets of the institutions (paras. 2.7, 2.9 and 2.11).



Funding and resource allocation

3. In February 2001, when seeking commitment of funding for the 2001-02 to 2003-04 triennium, it was clearly stated in the Finance Committee paper that the triennial recurrent grants comprised about 75% for teaching, 23% for research and 2% for professional activities. There was a general expectation that the UGC should allocate the recurrent grants broadly in the proportion of 75% for teaching, and 25% for research (including the 2% for professional activities). However, the UGC had “top-sliced” 5% of the funds for subsequent allocation to the institutions as earmarked grants which were largely for research purpose. The effect of allocating “top-sliced funds” largely to research has had the result of increasing the overall proportion of recurrent funds allocated to research. The actual allocations exceeded the funding intention of 25% for research by 2.57 percentage points. To adhere to the funding intention, the UGC needs to revise the allocation method (paras. 3.12 to 3.17).

4. In the Controlling Officer’s Report of the Annual Estimates, only a single sum of the annual recurrent grants is shown, without any indicative breakdown for the provision of funding between teaching and research. Audit considers that more information should be provided in the Controlling Officer’s Report (paras. 3.30 and 3.31).

Research Assessment Exercise and implementation of research projects

5. **Research Assessment Exercise.** The Research Assessment Exercise (RAE) is an important tool by which public funds for higher education are allocated, with due regard to research performance. The full results of the 1999 RAE were not disclosed to the institutions and the public. In the UK, the full results of the RAE are posted on the Internet. As Hong Kong has broadly followed the UK system of funding research at tertiary institutions, Audit considers that there is a case for the UGC to disclose the full results of each RAE. Furthermore, Audit notes that members of the 1999 RAE panels were heavily drawn from the academic field. According to the 1999 RAE results, some research output may have more relevance to the needs of commerce and industry. There may be a case to widen the user representation in the composition of membership of the relevant assessment panels (paras. 4.2, 4.5, 4.8, and 4.19 to 4.21).

6. **Terminated research projects.** The Competitive Earmarked Research Grant (CERG) represents the largest portion of the Earmarked Research Grants which are administered by the Research Grants Council (RGC) of the UGC. Audit examined the 57 CERG projects approved in 2000-01, 2001-02 and 2002-03, which were terminated. The direct costs of 54 of these terminated projects amounted to \$9.2 million. The major cause of project termination was that the Principal Investigators had left the institutions (paras. 4.27, 4.29, 4.30 and 4.32).

7. **Extension of time of research projects.** For approved projects, the RGC has delegated the authority to the institutions to approve project extension of 12 months or less in aggregate. Audit notes that the institutions granted extensions of time on many occasions from 1999-2000 to 2002-03. The UGC needs to consider, in consultation with the RGC, introducing appropriate control measures to ensure that research projects are completed on time. Audit notes that annual progress reports have to be submitted by the Principal Investigators. However, at present there is no requirement, at the application stage of a project, to state the key milestones to be achieved at different stages of the project (paras. 4.42 to 4.45).

Funding of self-financing activities

8. The UGC Notes on Procedures require that the institutions should aim to reflect the full costs of the activities concerned when determining the level of overhead charges to be levied on the self-financing activities. In 1998, the institutions *agreed amongst themselves* that they should normally charge overhead at a standard flat rate of 15% (on direct costs) for non-UGC-funded research projects. Audit could not ascertain the basis on which the institutions reached this decision. Around that time, the institutions already noted that a costing exercise of university indirect expenses on each project had indicated that these indirect components would constitute around 38% in 1997-98. Audit found that, for the three-year period 1999-2000 to 2001-02, the overall weighted average overhead percentage (on direct costs) for all the institutions was 59.2%. This suggests that the standard overhead recovery rate of 15% set by the institutions is on the low side (paras. 5.4(b), 5.6, 5.9, 5.11 and 5.12).

9. Audit has also reviewed the overhead recovery rates adopted by individual institutions for their self-financing activities and found that two institutions adopted overhead recovery rates below 15% for some of their self-financing activities. Nearly all institutions do not charge any overhead costs to their student hostels, despite that the UGC Notes on Procedures have clearly stated that student hostels should be operated on a self-financing basis. Audit appreciates the value of student hostels in tertiary education. It would appear that the UGC needs to reconsider whether student hostels should be exempted from overhead recovery (paras. 5.14 to 5.16).

Refund of government rents and rates

10. Institutions use premises owned or leased by them for a variety of purposes, including UGC-funded and self-financing activities. In 2002-03, \$23.3 million was refunded to the institutions in respect of government rents and rates for the premises used by them for the self-financing activities. As far as Audit could ascertain, there is no clear UGC guideline on whether these self-financing commercial/quasi-commercial activities operated by the institutions are eligible for refund of government rents and rates. Audit considers that the UGC needs to address the issue whether these self-financing activities qualify for refund of government rents and rates (paras. 6.6 and 6.9).

AUDIT RECOMMENDATIONS

11. The Secretary-General, University Grants Committee should:

UGC's endeavours in benchmarking the cost of tertiary education

- (a) critically review whether the crude average student unit cost currently used for funding the UGC sector is still appropriate and consider carrying out an in-depth review of the budgets of the institutions (para. 2.12(a) and (b));
- (b) in conducting the review, make reference to the tertiary education student unit cost in similar institutions overseas (para. 2.12(c));

Funding and resource allocation

- (c) revise the method of allocating recurrent grants to the institutions so that the funding intention that 75% will be devoted to teaching and 25% to research would be fulfilled (para. 3.23(a));
- (d) inform each institution of the proportion of the recurrent grants allocated for teaching, and for research, and disclose the methodology and data used in assessing the recurrent grants given to each institution (para. 3.23(b) and (c));
- (e) in the Controlling Officer's Report of the Annual Estimates, disclose the UGC funding methodology and provide more information on the block grant allocated to each institution (para. 3.32(a) and (b));

RAE and implementation of research projects

- (f) consider disclosing, including making available on the UGC website, the full results of each RAE on performance of the departments of the institutions (para. 4.14(a));
- (g) consider widening the membership of the RAE assessment panels to obtain input from people outside of the academia who have useful knowledge and expertise (para. 4.22);
- (h) in consultation with the RGC:
 - (i) in the assessment process, consider also the risk factor that a research project may be terminated if the Principal Investigator leaves the institution before project completion (para. 4.36);

- (ii) review and take measures to tighten the control over the granting of extension of time by the institutions (para. 4.46(a)); and

- (iii) consider requiring the setting of key milestones at the application and planning stage of projects to provide a benchmark against the progress made (para. 4.46(b));

Funding of self-financing activities

- (i) ask the institutions to conduct a thorough review to find out whether the standard overhead recovery rate of 15% is still appropriate, having regard to the latest overhead cost structures of each institution (para. 5.17(a));

- (j) reconsider whether student hostels should be subject to overhead charging or not and, if necessary, revise the UGC Notes on Procedures (para. 5.17(c)); and

Refund of government rents and rates

- (k) incorporate into the UGC Notes on Procedures clear guidelines on the eligibility criteria for refund of government rents and rates and the related administrative procedures (para. 6.12).

Response from the Administration and the UGC-funded institutions

12. The Administration has generally agreed with the audit recommendations. In general, the UGC-funded institutions have also taken note of and accepted most of the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background and the objectives of the audit report.

Background

1.2 Tertiary education is an important part of the education system. In 2002-03, the approved budget for tertiary education amounted to \$13.5 billion, which represented 28% of total government expenditure on education and 5% of total government expenditure.

University Grants Committee

1.3 The University Grants Committee (UGC) is a non-statutory advisory committee responsible for advising the Government on the development and funding needs of tertiary institutions in Hong Kong. It has neither statutory nor executive powers. The UGC is appointed by the Chief Executive of the Hong Kong Special Administrative Region. It comprises a Chairman and 21 members. The membership of the UGC and its subordinating committees includes academics from local and overseas tertiary institutions. The UGC is supported by a secretariat which is headed by a Secretary-General, UGC. The Secretary-General is the Controlling Officer who accounts for the expenditure of the UGC, including grants made to the higher-education institutions.

1.4 The main functions of the UGC are to:

- (a) advise the Government on the development and funding of higher education in Hong Kong;
- (b) administer government grants made to the UGC-funded higher-education institutions;
- (c) maintain and improve the quality of teaching, learning and research in the UGC-funded institutions; and
- (d) monitor the efficiency and effectiveness of the institutions' activities.

UGC-funded institutions

1.5 There are eight higher-education institutions (hereinafter referred to as the “institutions”) which receive government grants through the UGC. They are, in alphabetical order:

- (a) City University of Hong Kong (CityU);
- (b) Hong Kong Baptist University (HKBU);
- (c) Lingnan University (LU);
- (d) The Chinese University of Hong Kong (CUHK);
- (e) The Hong Kong Institute of Education (HKIEd);
- (f) The Hong Kong Polytechnic University (PolyU);
- (g) The Hong Kong University of Science and Technology (HKUST); and
- (h) The University of Hong Kong (HKU).

1.6 In the 2002-03 academic year (normally from September to August), the eight institutions together enrolled 60,933 full-time students and 17,798 part-time students (Note 1).

Note 1: *The 60,933 full-time students included 8,977 sub-degree students, 45,669 undergraduate students, 2,446 taught postgraduate students and 3,841 research postgraduate students. The 17,798 part-time students included 5,192 sub-degree students, 3,501 undergraduate students, 8,501 taught postgraduate students, and 604 research postgraduate students.*

1.7 Each of the eight institutions is an autonomous body established under its own ordinance with its own governing council. The institutions have substantial freedom in the control of their curricula and academic standards, selection of staff and students, and internal allocation of resources. The institutions are diverse in character and in their different contributions to the educational, cultural and economic development of Hong Kong. As stated in the UGC's report "*Facts and Figures 2002*", the eight institutions can be categorised according to their characteristics, as follows:

- (a) **CUHK, HKUST and HKU:** concentrating on first and higher degree work covering a range of subjects. They also offer research programmes for a significant number of students covering a wide range of subject areas;
- (b) **CityU and PolyU:** offering programmes including sub-degree, undergraduate and postgraduate courses, with a strong emphasis on the application of professional knowledge and vocational education;
- (c) **HKBU and LU:** providing predominantly courses at first degree level and aiming at providing a broad general education; and
- (d) **HKIED:** offering courses from sub-degree to postgraduate level for the teaching profession.

Recent developments of tertiary education in Hong Kong

Increase of participation rate

1.8 In the 2000 Policy Address, the Chief Executive announced that within ten years, 60% of senior secondary school leavers should have access to tertiary education. In achieving this 60% participation rate, the Government would facilitate tertiary institutions, private enterprises and other organisations to provide various post-secondary programmes. The current planning target is to provide first-year first-degree (FYFD) places for about 18% of the 17 to 20 age cohort. Apart from the provision of these FYFD places, other post-secondary programmes will mainly be operated on a self-financing basis.

Changeover from 3-year to 4-year undergraduate academic structure

1.9 In 2000, the Education Commission (EC) put forward the idea of a 3-year senior secondary academic structure. After considering the Working Group's Report on "*Review of the Academic Structure of Senior Secondary Education*", in May 2003

the EC proposed the implementation of a 3-year senior secondary academic structure, and correspondingly a 4-year undergraduate programme. Implementation of these proposals requires huge amount of additional resources. In view of current fiscal constraints, the EC recommended that the Government should continue to take forward and consolidate the on-going education reform between the years 2003-04 and 2006-07. The EC also urged the Government to announce by 2006-07 at the latest when the first cohort of the 3-year senior secondary programme would be in place.

1.10 In implementing the new academic structure, the EC considered that the Government should actively review and redeploy the resources required. All sectors in the community could make suggestions on how to raise funds or reduce the additional resources required. On the basis of the current annual student unit cost and the facilities required, it was estimated that extending the first-degree programmes for one year would incur an additional non-recurrent expenditure of \$7.2 billion and recurrent expenditure of \$2.3 billion. Since the university sector had greater flexibility in managing resources, the EC considered that there might be room for adjusting downwards the estimates in the next few years. For example, universities might actively consider switching from a 3-year to a 4-year curriculum through other means (such as soliciting donations from the private sector, redeploying existing resources and greater flexibility in programme arrangements). The education sector could also put forward ideas on resource redeployment or identification of new revenue measures.

UGC Higher Education Review

1.11 In May 2001, the Secretary for Education and Manpower (SEM) commissioned the UGC to launch a comprehensive review of higher education. In March 2002, the UGC published the review report "*Higher Education in Hong Kong*" (the Sutherland Report). Following public consultation on the Sutherland Report, the UGC submitted its final recommendations to the SEM in September 2002. The Government accepted most of the UGC's final recommendations and announced in November 2002 a blueprint for the further development of higher education in Hong Kong. One of the key recommendations of the Sutherland Report was the delinking of the terms and conditions of service of staff of the UGC-funded institutions from the civil service pay and conditions of service. In April 2003, the delinking proposal was approved by the Finance Committee (FC) of the Legislative Council (LegCo).

1.12 To enable the UGC to have more time to work out the implementation of various aspects of the Sutherland Report, the Administration decided to roll-over the 2001-02 to 2003-04 triennium for one year to cover the 2004-05 academic year. The next triennium will be from 2005-06 to 2007-08.

Efficiency savings and reduction in UGC block grant

1.13 Following the Government's acceptance of the UGC's final recommendations in November 2002, discussions were held with the institutions to achieve efficiency savings in line with the cost-saving measures applicable to government bureaux/departments in 2004-05 and in the 2005-06 to 2007-08 triennium. For the triennium rollover year of 2004-05, a 10% reduction in the UGC block grant is expected. Hence, the search for efficiency savings and more cost-effective use of resources will be an on-going process in the tertiary education sector over the next few years.

Director of Audit's Report No. 40

1.14 Audit recently conducted a series of value for money audits on the UGC-funded institutions. Three review reports were included in the Director of Audit's Report No. 40 of March 2003:

- (a) Chapter 8: *"University Grants Committee funded institutions – Governance, strategic planning and financial and performance reporting"*;
- (b) Chapter 9: *"University Grants Committee funded institutions – General administrative services"*; and
- (c) Chapter 10: *"University Grants Committee funded institutions – Staff remuneration packages and stipends"*.

Audit review on the funding of tertiary education

1.15 As part of the on-going value for money audits on the UGC-funded institutions, Audit recently examined the funding of tertiary education. The review focused on the following areas:

- (a) UGC's endeavours in benchmarking the cost of tertiary education (PART 2);
- (b) funding and resource allocation (PART 3);

- (c) Research Assessment Exercise and implementation of research projects (PART 4);
- (d) funding of self-financing activities (PART 5); and
- (e) refund of government rents and rates (PART 6).

The audit examination has revealed that there is a need to critically review the UGC funding of tertiary education and there is scope for improvement in the funding of self-financing activities of the tertiary institutions.

1.16 In carrying out the audit review, Audit examined the relevant records and interviewed the staff of the eight institutions and the UGC Secretariat. Audit would like to acknowledge with gratitude the full cooperation of the staff of the eight institutions and the UGC Secretariat.

General response from the HKU

1.17 The **Vice-Chancellor, The University of Hong Kong** has provided some general remarks on the audit review (see Appendix A). He has also said that the purpose is to provide all stakeholders (including the Public Accounts Committee of LegCo and the general public) with pertinent background information on the academic, moral and social values of higher education to enable them to read the audit report in its proper context.

PART 2: UGC's ENDEAVOURS IN BENCHMARKING THE COST OF TERTIARY EDUCATION

2.1 This PART examines the UGC's endeavours in benchmarking the cost of tertiary education in Hong Kong against that elsewhere.

Benchmarking of the student unit cost of tertiary education

2.2 For some years, the UGC had been trying to benchmark the student unit cost of tertiary education in Hong Kong against that in other parts of the world. Because a meaningful conclusion could only be drawn from a comparison with institutions of similar student mix and profile, partly owing to the lack of data the UGC's endeavours had not been very successful.

2.3 In 1999, based on the data available in 1995-96, the UGC conducted a crude analysis by comparing the Hong Kong student unit cost with that of 56 institutions in the USA. These institutions were considered to be a representative cross-section of the USA universities most closely replicating the profiles of the Hong Kong institutions. The exercise concluded that the average student unit cost of the UGC-funded sector was comparable to that of similar institutions in the USA.

2.4 The latest benchmarking exercise was in 2002. A management consultant was commissioned to conduct a more precise assessment of how the student unit teaching cost in Hong Kong compared with that of similar institutions overseas. The objective of the consultancy study was to benchmark the student unit teaching cost of the UGC-funded institutions against that of similar higher education institutions overseas, and to draw conclusions from the study that could assist the UGC in monitoring the unit teaching cost. It was intended that the data collected would be used for determining funding levels. Given the difficulties in conducting this kind of comparison, and in order to ensure the cost-effectiveness of the study, the consultancy was so designed that its first phase was essentially a feasibility study. This study would help the UGC assess the prospect of having reliable results, *before* proceeding further to the actual benchmarking exercise against institutions of the selected countries.

2.5 In late 2002, Phase I of the consultancy study was completed. The Consultancy Report issued in December 2002 stated that:

- (a) the first phase of the study had explored the various methodologies employed to measure student unit cost both locally and abroad;

- (b) it had accomplished the setting of the peer group and nominated the benchmarking partners, thereby paving the way for the commencement of the remaining phases of the study;
- (c) the student unit cost had not only been an indication of the amount of expenditure on a student, but it had also shown that it held many future uses that were yet to be explored and to be considered in greater detail to broaden the understanding of performance of higher education institutions; and
- (d) the consultancy study had its limitations. They did not pose a threat to the feasibility of the study. It would be possible to draw conclusions on the student unit teaching cost upon in-depth analysis of the data obtained.

2.6 In response, the UGC indicated that it had considerable reservations over the appropriateness of some of the benchmarking partners nominated for the Hong Kong institutions (see para. 2.5(b)). Taking into account the difficulties in the interpretation of student unit cost data of different countries as revealed by the Phase I Consultancy Report, the UGC decided *not* to proceed further with other phases of the consultancy.

The use of a crude average student unit cost as a basis for funding tertiary education

2.7 A commonly-used measure of the cost of tertiary education is the student unit cost, which is calculated by dividing the annual total expenditure of the tertiary institutions by the full time equivalent (FTE – Note 2) number of students. In Hong Kong, the established practice is to adopt a crude average student unit cost in determining the cash limit for the triennial funding of the UGC sector. This student unit cost, which is historical-based, had been adjusted to take into account the changes in price levels over the years, and reached a high of \$240,714 per year in 1998-99.

2.8 In its report on “*Higher Education in Hong Kong*” published in 1996, the UGC considered that, as the higher education sector entered a consolidation phase, the sector should be able to achieve a 10% reduction in student unit cost by the end of the 1998-99 to 2000-01 triennium without detriment to quality. In February 2001, the FC of LegCo was informed that, with half of the savings ploughed back to the UGC for redistribution to the institutions to meet new developments, this worked out to be a

Note 2: *FTE is a standard unit used for counting student numbers in order to report the approximate size of a tertiary institution. A full-time student is counted as one FTE. Part-time students are counted pro rata according to the normal duration of the course.*

5% net reduction in student unit cost. The student unit cost was reduced to \$234,428 per year in 1999-2000 and \$228,544 per year in 2000-01. In the 2001-02 to 2003-04 triennium, the student unit cost used for funding the UGC sector was further reduced by about 1% to \$226,360 per year, mainly reflecting the deflationary trend during the period.

2.9 There had been public concerns on whether the student unit cost of tertiary education in Hong Kong was on the high side, compared with that in the advanced countries (Note 3). However, as mentioned in paragraphs 2.2 to 2.6, the UGC's endeavours in benchmarking the student unit cost in Hong Kong against that in overseas countries with a view to determining the funding levels of the institutions have so far not been very successful.

2.10 Yet at the same time the tertiary education sector in Hong Kong is undergoing reforms, which will require huge amount of resources to implement (see paras. 1.8 to 1.13). These reforms include:

- (a) meeting the participation rate of 60% for tertiary education by 2010, mainly by the provision of post-secondary places on a self-financing basis (see para. 1.8); and
- (b) changeover from 3-year to 4-year undergraduate academic structure (see paras. 1.9 and 1.10).

2.11 The determination of the cash limit for the funding of the UGC sector has been based on a crude average student unit cost. Apart from a net reduction of about 5% of the student unit cost in the 1998-99 to 2000-01 triennium (see para. 2.8), over the years, the student unit cost used for funding the UGC sector has been adjusted based largely on the changes in price levels. **The problem is that so far, the Government/UGC has not conducted any major review to ascertain whether this crude average student unit cost would continue to serve as the appropriate basis**

Note 3: *In 1999, a Member of LegCo asked how the average student unit cost of the tertiary institutions in Hong Kong compared to the average figures in advanced countries. In response, the SEM said that in view of the different socio-economic situation as well as the different size, complexity and models of higher education systems in the selected countries, figures on student unit cost quoted from these countries were not directly comparable with those of Hong Kong. Besides, there were also technical difficulties, for example, the student unit cost figures of the selected countries were based on purchasing-power-parity exchange rates, which were rates of currency conversion which eliminated the differences in price levels among countries, but the student unit cost figures of Hong Kong were not purchasing-power-parity figures.*

for funding tertiary education. Given the resources implications for implementing the reforms mentioned in paragraph 2.10, there is an urgent need to determine the appropriate funding level for the institutions. This could be done by re-establishing the right level of student unit cost by means of, for example, carrying out an in-depth review of the budgets of the institutions. And, in so doing, a zero-based budgeting approach may be considered.

Audit recommendations

2.12 **Audit has recommended that the Secretary-General, University Grants Committee should:**

- (a) **critically review whether the crude average student unit cost currently used for funding the UGC sector is still appropriate (see para. 2.11);**
- (b) **consider carrying out an in-depth review of the budgets of the institutions (see para. 2.11); and**
- (c) **in conducting the review, make reference to the tertiary education student unit cost in similar institutions in overseas countries, taking into account the differences in socio-economic situation and higher education systems in these countries (see para. 2.9).**

Response from the Administration and the institutions

2.13 The **Secretary for Education and Manpower** agrees that a review on the appropriateness of using the current student unit cost as the basis for funding the UGC sector would help determine the appropriate level of funding for the sector. He has also said that when making reference to the student unit cost of tertiary education in overseas institutions, the differences in socio-economic situation and higher education system in the countries concerned should be taken into account.

2.14 The **Secretary-General, University Grants Committee** in general agrees with Audit's recommendation, i.e. to consider whether a review of the existing bases of funding the tertiary education sector is necessary. He has also said that if the outcome is positive, the UGC would decide, in consultation with the institutions and the Administration, on how best the review should be conducted, taking into account Audit's recommendations as well as other limitations of making international comparisons on costs.

2.15 The **Vice-Chancellor, The University of Hong Kong** has said that the HKU is in broad agreement with Audit's recommendations in paragraph 2.12. He has also said that:

- (a) *the use of the crude average unit cost as a basis for funding is outmoded and cannot meet the rapidly changing environment in which higher education institutions have to operate. The use of crude average student unit cost as a basis for funding also ignores the reality that the institutions have differentiated roles and missions. A major recommendation of the Sutherland Report is to implement an appropriate model of role differentiation, and this must be supported by funding differentiation, with different funding templates for those institutions having different roles and missions. The HKU has introduced a funding methodology that is based on measurement of performance and a strategic development plan. If the UGC were to heed the advice of the Audit Commission and carry out an analysis of the budgets, the UGC would find that the HKU's methodology is superior to one based predominantly on student unit cost; and*

- (b) as mentioned in the HKU's general response (see Appendix A), the recommendation to make reference to the student unit cost in overseas countries is fraught with difficulties. Accordingly, any comparisons must only be used for contextual purposes and any judgments made on the cost of higher education in Hong Kong being higher or lower than other countries may only be regarded as anecdotal at best, and should never lead to policy decisions about the funding of tertiary education.

2.16 The **President and Vice-Chancellor, Hong Kong Baptist University** agrees with Audit's recommendation that a review should be carried out by the UGC. He has also said that:

- (a) a meaningful comparison of the student unit cost between that in Hong Kong and that in other parts of the world is difficult; and

- (b) the unique requirements and development of tertiary education in Hong Kong should be taken into account when making comparisons with the student unit cost of tertiary education in similar institutions in overseas countries.

PART 3: FUNDING AND RESOURCE ALLOCATION

3.1 This PART examines the funding and resource allocation for the two core academic activities of the institutions, i.e. teaching and research.

Government funding for the institutions

3.2 Government funding for the institutions comprises:

- (a) **Recurrent grants.** These grants support the institutions' on-going academic and related activities based on approved public policy objectives. For a more detailed discussion of the components of the recurrent grants, see paragraphs 3.3 to 3.9; and
- (b) **Capital grants.** These grants finance major capital works projects and minor campus improvement works. (This audit review did not cover capital grants.)

Recurrent grants

3.3 Recurrent grants are provided as net government subventions, i.e. after deducting the assumed income (see Note 5 in para. 3.14) from the institutions' assessed recurrent funding requirements. They are provided on a triennial basis to coincide with the academic planning cycle of the institutions. Recurrent grants cover:

- the block grant (see para. 3.4); and
- earmarked grants (see para. 3.5).

3.4 **The block grant** is the major component of the recurrent grants (except for the HKIEd). The block grant system provides institutions with maximum flexibility. Once the allocations are approved, institutions have a high degree of freedom in deciding on how the resources available are to be put to the best use. No specific allocation requirements are attached to the block grant and the institutions have the responsibility for determining the best use of the block grant subject to the broad indication of the UGC on the desirable trends of policies and general forms of

development. For example, the allocation of resources between departments, divisions and faculties, or between academic and administrative areas, is entirely a matter for the institutions. Within the block grant, a major component is for the payment of staff salaries. In November 2002, the Government announced the decision to delink the university pay from civil service pay. The institutions now have the option to decide whether and when to introduce their own remuneration systems.

3.5 **Earmarked grants** are for specific purposes, such as the Earmarked Research Grants, Language Enhancement Grants and Teaching Development Grants. Major deviations (both over-spending and under-spending) from the approved budget require the UGC's approval.

Teaching and research are core elements of recurrent grants

3.6 As stated in the UGC's report "*Facts and Figures 2002*" regarding recurrent grants:

"Determination of the grants is largely based on a methodology developed by the UGC in 1994 and improved over the years. In short, the amount of grants comprises three elements:

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

3.7 **The Teaching element** is based on student numbers, their levels (i.e. sub-degree, first degree, taught postgraduate and research postgraduate), mode of study (i.e. part-time and full-time) and programmes/disciplines of study. Some subjects are more expensive than others because they require special equipment, laboratory facilities or more staff time.

3.8 **The Research element** is primarily related to the number of active research workers and the cost of research in respective fields. The number of active research workers in each cost centre is identified in the context of the Research Assessment Exercise (RAE), which assesses the research performance of different cost centres within the institutions.

3.9 **The Professional Activity element** is associated with professional activities (e.g. community services undertaken and advice rendered on societal or professional issues), which the RAE is unable to assess or to assess adequately, but should be undertaken by all members of academic staff. It is calculated based on the number of academic staff.

Funding split between teaching and research

3.10 The current UGC model, which is used to calculate the recurrent grants of the institutions (with reference to a predetermined split of funding between teaching and research, including professional activities which are research related, for the whole tertiary education sector). This model has been adopted since the 1995-96 to 1997-98 triennium and is based on a new funding methodology developed in 1994. Table 1 gives a summary of the intended funding split of the recurrent grants to the institutions to 2003-04.

Table 1

Intended funding split of the recurrent grants for the three triennia

Triennium	Teaching	Research	Professional Activity
1995-96 to 1997-98	76%	21%	3% (Note)
1998-99 to 2000-01	75%	21%	4%
2001-02 to 2003-04	75%	23%	2%

Source: UGC's records

Note: This was called scholastic activities in the 1995-96 to 1997-98 triennium.

3.11 The Administration has decided to roll-over the 2001-02 to 2003-04 triennium for one year to cover 2004-05 to enable the UGC to have more time to work out implementation details of the recommendations of the Higher Education Review

(see paras. 1.11 and 1.12). The funding split remains unchanged, i.e. 75% for teaching, 23% for research and 2% for professional activity (Note 4).

3.12 In February 2001, when seeking commitment of funding for the 2001-02 to 2003-04 triennium, it was clearly stated in the FC paper (Enclosure 4 of FCR(2000-01)72) that the triennial recurrent grants comprised about 75% for teaching, 23% for research and 2% for professional activities. There was a general expectation that the UGC should allocate the recurrent grants broadly in the proportion of 75% for teaching, and 25% for research (including the 2% for professional activities which are also mainly research related). In this regard, it was also stated in the same FC paper that “the UGC formula only serves as a basis for determining the allocation to the UGC-funded institutions. Once allocations are approved, institutions have a high degree of freedom and responsibility for determining the best use of the resources vested in them”.

3.13 Regarding the funding split between teaching and research, Audit has comments on:

- (a) the way by which the UGC allocated the recurrent funding to the institutions – see paragraphs 3.14 to 3.17; and
- (b) transparency of the funding split between teaching and research – see paragraphs 3.18 to 3.22.

Allocation of recurrent funding to institutions

3.14 Audit examined how the UGC allocated the recurrent funding to the institutions in the last three triennia. It was found that the UGC:

- (a) had “top-sliced” a percentage of the recurrent funding for subsequent allocation to the institutions as **earmarked grants** (see para. 3.5) for specific purposes. This “top slice” was **5%** of the recurrent funding in the 2001-02 to 2003-04 triennium;
- (b) starting from the 2001-02 to 2003-04 triennium, had set aside a sum (**about 2%** of the recurrent funding) for allocation to the institutions based on their performance and mission; and

Note 4: *In this connection, Audit has noted from a report of the Organisation for Economic Cooperation and Development (OECD) entitled “Education at a Glance – OECD Indicators 2002” that, on average, one quarter of expenditure at tertiary education institutions is attributable to research and development.*

- (c) had allocated the remaining recurrent funding to the institutions, after netting off their assumed income (Note 5), mainly as **block grant** (see para. 3.4). This was **93%** of the total funding in the 2001-02 to 2003-04 triennium.

Apart from the earmarked grants, when the funds were distributed to the institutions, the funds were assessed based on an assumed split of 75% for teaching and 25% for research.

The “top-sliced funds”

3.15 Because they were earmarked grants for specific purposes, the “top-sliced funds” were not allocated in the proportion of 75% for teaching and 25% for research. Table 2 shows the allocation of the “top-sliced funds” in the 2001-02 to 2003-04 triennium.

Table 2

**Allocation by the UGC of the “top-sliced funds” to the institutions
(2001-02 to 2003-04 triennium)**

	(\$ million)
Total “top-sliced funds”	2,490 (100%)
Allocation	
(a) Earmarked Research Grants	1,632 (66%)
(b) Earmarked grants which are primarily intended for teaching	332 (13%)
(c) Other earmarked grants for specific purposes	526 (21%)

Source: UGC's records

Note 5: According to paragraph 4.39 of the UGC Notes on Procedures, in determining the net funding requirements of the institutions, the UGC will take into account assumed income of the institutions, which comprises:

- (a) assumed tuition fee income based on actual/indicative tuition fees prescribed by the Government; and
- (b) assumed other income of the institutions, such as rents, interest and other income, as estimated by the institutions and agreed with the UGC.

3.16 It can be noted from Table 2 that 66% of the “top-sliced funds” had been allocated in the form of Earmarked Research Grants (item (a)). The other earmarked grants (item (c)) also had an element intended for research. The effect of allocating “top-sliced funds” of more than 25% to research has had the result of increasing the overall proportion of recurrent funds allocated to research (Note 6). The actual allocations exceeded the funding intention of 25% for research (see para. 3.12) by 2.57 percentage points. **This is about one-tenth more than the stated intention of 25% for research (2.57% , 25%).**

Note 6: The proportion of recurrent funding allocated for research and teaching is computed below. This shows that 27.57% of the recurrent funding has been allocated for research, which is 2.57 percentage points more than the intended 25%.

**Allocation of recurrent funding
(2001-02 to 2003-04 triennium)**

	Recurrent funding	Split of recurrent funding	
		For research	For teaching
(a) Block grant, assumed income and allocation based on institutions’ performance and mission	95%	$(95\% \times 25\%)$ = 23.75%	$(95\% \times 75\%)$ = 71.25%
(b) “Top-sliced funds” (see paras. 3.14 and 3.15)	5%	$(5\% \times 76.5\%)$ (Remarks) = 3.82%	$(5\% \times 23.5\%)$ = 1.18%
(c) Total (c) = (a) + (b)	100%	27.57%	72.43%

Source: Audit’s analysis of figures supplied by UGC

Remarks: This 76.5% figure is arrived at as follows. Assuming that half of the other earmarked grants for specific purposes (see Table 2, item (c)) were also for research, the total funding for research in the “top-sliced funds” would be 76.5% [i.e. 66% (Earmarked Research Grants) + half of 21% (Other earmarked grants for specific purposes)].

3.17 To adhere to the funding intention of allocating recurrent grants in the proportion of 75% for teaching and 25% for research, the UGC needs to revise the allocation method. The UGC needs to take into account the fact that a substantial proportion of the “top-sliced funds” had been allocated for research in the 2001-02 to 2003-04 triennium. Therefore, in allocating funding for the block grant, the proportion of funding for research should be less than 25%.

***Transparency of the funding
split between teaching and research***

3.18 Audit notes that in the last three triennia, the UGC did not inform individual institutions in the allocation letter of funding in what proportion the recurrent grants were allocated for teaching, and for research. The UGC only notified the individual institutions:

- (a) the amount of block grant allocated to that institution;
- (b) special consideration made by the UGC; and
- (c) in general terms the methodology for assessment of the recurrent grants, and that teaching and research elements of the recurrent block grants were calculated separately (Note 7).

Note 7: *As an example, when the UGC notified the HKU about the details of the recurrent grants for the 2001-02 to 2003-04 triennium, the UGC stated that the block grant to be provided would be as follows:*

	2001-02	2002-03	2003-04	Total
	(\$ million)	(\$ million)	(\$ million)	(\$ million)
<i>Block grant</i>	<i>2,347.0</i>	<i>2,267.5</i>	<i>2,264.1</i>	<i>6,878.6</i>

There was no specific indication on the proportion of the resources allocated for teaching, and for research.

3.19 In this connection, Audit noted that even the institutions had expressed the view that the funding methodology should be made more transparent (Note 8).

3.20 In September 1999, referring to the UGC's report "*Higher Education in Hong Kong*" (October 1996), the Chairman, UGC advised the SEM that the basic parameters and algorithms for assessing the institutions' recurrent funding requirements, and hence their recurrent grants, were essentially very simple and transparent. The methodology was not transparent only in two respects: the specific weightings used for different disciplines and levels of study (although the ranges were published for the former), and the exercise of the UGC judgment after the calculations had been done. However, the UGC firmly believed that further transparency in these respects would be counter-productive and would actually undermine the institutions' autonomy in the use of their eventual allocations, which were usually provided in the form of block grants. The matter was not pursued further when allocating funding for the 2001-02 to 2003-04 triennium. (See Appendix B.)

3.21 Audit notes that in the last three triennia, the institutions were not given clear and full information on how the recurrent grants for teaching and research were allocated by the UGC. Transparency and openness on how the UGC allocates public funds for tertiary education will help improve the process of public accountability, insofar as the use of public funds by the UGC and the institutions is concerned. It will also assist the institutions in planning their future teaching and research development with a higher degree of certainty.

Note 8: *In July 1999, the SEM invited the UGC "to explore the possibility of further improving its funding methodology by making it more transparent".*

In response to the invitation by the Chairman, UGC for comments on the funding of the 2001-02 to 2003-04 triennium, seven institutions expressed their views on the issue of the funding methodology in August 1999. In summary, they said that there was a need to:

- (a) make the funding methodology more transparent;*
- (b) disclose the funding split between teaching and research; and*
- (c) disclose more detailed information about the relative cost weightings for different programmes and for different levels of study.*

The CUHK and the PolyU also said that due to the lack of transparency, they could make no meaningful suggestion on how the existing methodology could be improved/changed. The HKU said that more transparent funding methodology would enhance the institution's budget planning, and it would be beneficial to the institutions to understand the rationale behind the UGC's funding distribution.

3.22 Currently, in the UK, the data used to calculate the funding allocation are disclosed to the tertiary institutions, and to the wider community, including students, teachers, researchers and the public (Note 9). Audit considers that if the Secretary-General, UGC follows for example the UK practice, it would help him as the Controlling Officer of the public funds disbursed to the institutions, fulfil better his public accountability role.

Audit recommendations

3.23 **Audit has recommended that the Secretary-General, University Grants Committee should:**

- (a) **revise the method of allocating recurrent grants to the institutions so that the funding intention that 75% will be devoted to teaching and 25% to research would be fulfilled (see para. 3.17);**
- (b) **inform each institution of the proportion of the recurrent grants allocated for teaching, and for research (see paras. 3.18 and 3.19); and**
- (c) **inform the institutions and disclose the methodology and data used in assessing the recurrent grants given to each institution (see paras. 3.21 and 3.22).**

Note 9: *Audit has noted that:*

- (a) *in the UK, the Higher Education Funding Council for England (HEFCE) makes it a policy and practice to be open about the funding allocation methods and policies. The HEFCE publishes the data on which calculations are based, so that UK institutions can check the outcomes each year (government funding allocation for higher education is made on a yearly basis). The funding methods, data used and the exact amounts of funding allocation to all institutions for teaching and research are published in public reports and posted on its website. The institutions and the public know how the HEFCE allocates its funds; and*
- (b) *in Australia, public funding to institutions is made on a triennial basis. Full details of the funding arrangements, the amount of block grants for teaching and research, and other grants to each and every institution are published in a public report available on the Internet.*

Response from the Administration and the institutions

3.24 The **Secretary for Education and Manpower** has said that the Education and Manpower Bureau (EMB) agrees that enhanced transparency in the UGC's funding mechanism would help promote better understanding of the institutions and accountability in the use of funds. He has also said that:

- (a) in determining the amounts of funds to be allocated to the individual institutions, the UGC adopts various assumptions to assess the institutions' requirements, the proportion of teaching and research elements in the block grant (i.e. 75% for teaching and 25% for research) being one of them; and
- (b) resources are distributed to the institutions in the form of block grants so that they have the flexibility to allocate resources among individual departments or programmes to suit their development needs. It is part of the institutions' autonomy to decide whether specific assumptions used by the UGC in its funding assessments should be adopted in their internal distribution of resources. The same applies to the distribution of resources for teaching and research activities.

3.25 The **Secretary for Financial Services and the Treasury** has said that:

- (a) in all three FC papers for the last three triennia (up to 2001-02 to 2003-04 triennium), the FC was asked to accept the total recurrent funding requirement of all the institutions in a triennium. The approval was not in respect of funding requirements broken down into teaching and research funding. This understanding was most explicitly stated in FCR(2000-01)73, paragraphs 2 and 3 of which said that the FC's approval was sought for the "*overall amount of Government's subvention to the UGC Issues such as how the UGC intends to apportion the Government's subvention among the institutions, how resources are utilised within the institutions are separate from, and beyond the immediate remit of, the current proposal*";
- (b) although there was an express reference to the 75 : 25 split in Enclosure 4 to FCR(2000-01)72, paragraph 5 of the same enclosure made clear that the UGC funding formula explained in the enclosure "*only serves as a basis for determining the allocation to the UGC-funded institutions. Once allocations are approved, institutions have a high degree of freedom and responsibility*

for determining the best use of the resources vested in them". A similar explanation was included in paragraph 3 of Enclosure 2 to FCR(97-98)111; and

- (c) the Financial Services and the Treasury Bureau is making the above observations to clarify the ambit of the relevant FC papers. This is *separate* from the questions of whether the 75 : 25 split has been a funding intention and, if yes, the extent to which deviation is allowed. These other questions have been addressed in EMB's and UGC's comments (see paras. 3.24 and 3.26).

3.26 The **Secretary-General, University Grants Committee** has said that:

- (a) the comments and recommendations in PART 3 need to be viewed against the general policy and philosophy of higher education funding and the position of higher education institutions in society. As regards the latter, it is recognised that higher education institutions do have a special role and the preservation of academic freedom is one strongly upheld both by the institutions and by the community at large. As regards the policy background, this is the Block Grants concept and broad institutional autonomy to decide how the grant is allocated within an institution. This is a fundamental tenet of the current system. This is of course tempered by the need to be accountable to the public for the funds and trust placed in the institutions and to the UGC in regard to agreed roles for institutions and, *inter alia*, the Academic Development Proposals submitted. It is against this broad framework that Audit's examination must be seen and his comments below framed; and
- (b) the UGC will take into consideration Audit's findings when reviewing the funding methodology for the 2005-06 to 2007-08 triennium to provide more transparency and to ensure that its funding intent is put across clearly to all stakeholders. However, the UGC needs to make the following observations:
 - (i) it should be clarified that the existing 75 : 25 funding split for teaching and research assumed in the UGC funding model is intended to apply only to the calculation of the recurrent funding of the institutions and was therefore *not* intended to be applicable to the

earmarked grants which were set aside for allocation to the institutions for specific purposes (Note 10);

- (ii) the distribution of research funding under the current funding methodology is performance based; it is to *reward* institutions' performance rather than to *limit* institutions' resource input for research. While the UGC's funding methodology has evolved over time to become more performance based, it is, however, *not* the UGC's intention to change the block grant system of allowing institutions to decide their own internal allocation of resources, which underpins the academic freedom of the institutions;

- (iii) the UGC can see the rationale of Audit's recommendation for more transparency in the funding assessment process. This should be pursued gradually and orderly, and in consultation with the institutions. As pointed out by Audit, the overall funding methodology has been disclosed in the UGC's 1996 report "*Higher Education in Hong Kong*". A good balance has to be struck between providing further transparency and the need to preserve institutional autonomy in their internal allocation of resources among various programmes without undue influence imposed on them because of specific cost parameters adopted by the UGC in its funding model; and

Note 10: *As stated in the FC paper (Enclosure 4 of FCR(2000-01)72): "The recurrent grants for the UGC-funded institutions are largely determined based on a methodology developed by the UGC in 1994 and improved over the years. In short, the amount of grant comprises three elements:*

- (a) *Teaching – about 75%;*
- (b) *Research – about 23%; and*
- (c) *Professional Activity – about 2%".*

Similar description of recurrent grants (which cover both the block grant and earmarked grants – see para. 3.3) was also shown in the UGC's report "Facts and Figures 2002" (see para. 3.6). In this regard, Audit notes that the UGC has agreed to provide more transparency and to ensure that its funding intent on the 75 : 25 funding split for teaching and research is put across clearly to all stakeholders in the 2005-06 to 2007-08 triennium (see para. 3.26(b)).

- (iv) the internal allocation of resources is part of the autonomy of the institutions, with reference to the institutions' own priorities, their roles in the higher education sector and the respective needs of their various departments, rather than following the specific weightings of the UGC for allocation of resources among different activities, disciplines and levels of study.

3.27 The **Vice-Chancellor, The University of Hong Kong** has said that:

- (a) the HKU welcomes the endorsement in paragraph 3.12 of the report that "Once allocations are approved, institutions have a high degree of freedom and responsibility for determining the best use of the resources vested in them". This is a manifestation of institutional autonomy. Since the institutions are not a homogeneous group in terms of role and mission, it cannot be automatically deduced that the 75 : 25 split in funding allocation for the sector *as a whole* should be reflected in each institution's expenditure. As a research-led university, it is perfectly legitimate and understandable that the HKU spends more on research than some other institutions. It would be unreasonable to think otherwise;
- (b) the HKU has no difficulty with the recommendation, at paragraph 3.23(a), that the UGC should adhere to the 75 : 25 split in recurrent grant allocation for the sector *as a whole*, but the HKU would argue very strongly that the UGC should have different funding templates for different institutions, allowing flexibility in the relative allocations for individual institutions; and
- (c) the HKU supports the two recommendations at paragraph 3.23(b) and (c), provided that there are different funding templates that reflect the institutions' different roles and missions, and that institutional autonomy would not in any way be compromised. Moreover, these recommendations should not be used to justify any micro-management by the UGC.

3.28 The **President and Vice-Chancellor, Hong Kong Baptist University** has said that the HKBU supports the recommendation of increased transparency on funding methodology.

3.29 The **President, The Hong Kong Institute of Education** has said that the HKIEd has always considered that teaching/learning is the main focus for the HKIEd and has consistently allocated no less than 75% of its academic resources for teaching.

Disclosure of funding allocation of recurrent grants in the Annual Estimates

3.30 Audit notes that the current funding methodology for recurrent grants to institutions has been adopted since 1995-96. The intended provision of recurrent grants has been set at 75% for teaching and the remaining 25% for research and professional activities since 1998-99 (see Table 1 in para. 3.10). However, in the Controlling Officer's Report of the Annual Estimates, only a single sum of the annual recurrent grants is shown in the Annual Estimates, without any indicative breakdown for the provision of funding between teaching and research. In the Annual Estimates for 2003-04, for instance, only a figure of \$13,091 million is shown as the recurrent grants to the institutions. There is no indicative breakdown of the funding split for teaching and research to the institutions as a whole and to each individual institution.

3.31 The Controlling Officer's Report of the Annual Estimates is an important accountability document for Members of LegCo to approve and monitor government expenditure. It is also an established vehicle for Controlling Officers to report to LegCo. Audit considers that more information should be provided in the Controlling Officer's Report about the recurrent grants to the institutions so as to enable Members of LegCo to make fully informed decisions in approving and monitoring annual expenditure on the recurrent grants. Such information may be derived from the Common Data Collection Format (CDCF – Note 11) data collected by the UGC from the institutions on expenditure for teaching and research, which at present are not mentioned in the Controlling Officer's Report. The CDCF data are now only for the UGC's internal consumption.

Audit recommendations

3.32 **Audit has recommended that the Secretary-General, University Grants Committee should, in the Controlling Officer's Report of the Annual Estimates:**

Note 11: *As part of the monitoring of the institutions' use of public funds, the UGC requires annual returns from the institutions on finance, research, students and staff in a standard format, known as the CDCF.*

- (a) **disclose the UGC funding methodology and data used in assessing the block grant to each institution (see para. 3.31); and**
- (b) **provide more information on the block grant allocated to each institution (e.g. how much for teaching and research – see para. 3.31).**

Response from the Administration and the institutions

3.33 The **Secretary-General, University Grants Committee** has said that the UGC notes Audit's recommendations regarding the disclosure of the funding methodology and data in the Controlling Officer's Report of the Annual Estimates. However, it should be noted that detailed justifications for the sum of the triennial recurrent funding to be made available to the UGC sector are provided in the submissions to the FC of LegCo when the funding approval is sought for every triennium. The provision for grants in the Annual Estimates is therefore mainly to reflect the cashflow requirements of the funding that have already been approved by LegCo. The detailed allocations made to each institution, the funding methods as well as other relevant statistics of the sector are also published annually in the UGC's report "*Facts and Figures*". The UGC can examine how these can be further improved to enhance accountability for the use of the funds.

3.34 The **Vice-Chancellor, The University of Hong Kong** has said that the HKU supports the two recommendations at paragraph 3.32.

**PART 4: RESEARCH ASSESSMENT EXERCISE
AND IMPLEMENTATION OF RESEARCH PROJECTS**

4.1 This PART reports findings of Audit's examination of procedural aspects of the RAE and implementation of research projects funded by the Research Grants Council (RGC) of the UGC.

Research Assessment Exercise

4.2 The RAE is an important tool by which public funds for higher education are allocated, with due regard to research performance. It aims to measure the output and quality of research of the institutions by cost centres (e.g. a teaching department) for the purpose of allocating some of the research portion of recurrent grants in a publicly accountable way. In the 2001-02 to 2003-04 triennium, about \$7,590 million (i.e. 23% of the block grant of \$33,000 million) was allocated to the institutions for research.

4.3 So far, three RAEs were conducted (in 1993, 1996 and 1999). The next RAE is planned to be conducted in 2005-06. According to the UGC, the RAE had been effective as a means of:

- (a) informing funding (this means that the results of the RAE were taken into account in determining the research element of the block grant to the institutions);
- (b) symbolising public accountability; and
- (c) inducing improvement in research by raising the quality threshold for assessment.

4.4 The threshold standard mentioned in the UGC's 1999 RAE Guidance Notes was "*Quality of output equates to an attainable level of excellence appropriate to the discipline in Hong Kong, and showing some evidence of international excellence*".

Disclosure of full results of the RAE

4.5 In the 1999 RAE, the UGC was assisted by 12 research assessment panels (comprising 180 members, including 42 prominent academics/professionals from various overseas countries). The full results of the RAE were not disclosed to the institutions and the public. Each institution was informed of the results of the RAE in respect of its own research. Students, teachers and researchers may not know the results of the RAE assessment on the performance of the individual departments of the institutions. The public also does not know the performance of the research activities of the eight institutions (and their individual departments) as assessed by the RAE.

4.6 Audit notes that the UGC has issued a press release on the overall results of the 1999 RAE on the UGC website. However, the results of the 1999 RAE awarded to individual departments of each institution were not mentioned.

4.7 In Audit's view, the RAE can serve another useful purpose of providing information on the quality of the academic research in Hong Kong (in different subject areas and to various stakeholders, including students, teachers, researchers and the public). Availability of such information is an essential part of public accountability. This information also provides assurance and helps maintain the confidence of the stakeholders that the institutions' research projects have reached the quality of output desired by the UGC (see para. 4.4).

4.8 Audit notes that, in the UK, the full results of the RAE conducted jointly by the four funding bodies on institutions and their departments are posted on the Internet. **As Hong Kong has broadly followed the UK system of funding research at tertiary institutions, Audit considers that there is a case for the UGC to disclose the full results of each RAE, indicating the quality of research at tertiary institutions in Hong Kong.**

Comments made by the RAE panels

4.9 Membership of the RAE assessment panels consists of distinguished scholars and experts. The RAE panels and their individual members had made valuable comments on a wide range of issues, including those that might affect the planning and the strategies for academic research. The panels and their individual members also commented on the rating of the research in Hong Kong as compared with the international standards. However, these comments were not disclosed to the general public to inform them of the standing of academic research in Hong Kong at the international level.

4.10 In the UK, the funding bodies publish a short report by each panel, based on its assessment work, commenting in general terms on the strengths and weaknesses in the fields of the work assessed. The reports are posted on the Internet. The reports will enable the institutions to make improvement in the weaker areas of research. A broader beneficial effect of disclosure is that it prompts the institutions to have better strategies for their research and to trim unproductive research activities.

4.11 The UGC, after the RAE, only transmitted to the institutions:

- (a) overall comments made by the panels and general points made by individual members on a particular area of research in Hong Kong as a whole; and
- (b) particular comments made by the panels on a particular area of research of an institution. In the interest of confidentiality, the panels' comments on a particular institution were only given to the institution concerned.

4.12 In providing the panels' comments to the institutions, the UGC notified the institutions that "these comments were only very impressionistic remarks made by the panels and their individual members in the course of their work, and do not represent any form of formal assessment or evaluation of the performance of individual cost centres or institutions. Nor should they be taken to reflect the considered views or judgment of the panels".

4.13 However, from the comments made by the RAE panels and their individual members in the 1999 RAE (some extracts at Appendix C), Audit considers that the RAE results should be taken as a useful and valuable part of the evaluation process to help shape the future planning and strategies of academic research in Hong Kong. **The overall comments and general points made by the RAE panels and their individual members on particular subject areas of the research in Hong Kong as a whole have much validity and value, and would benefit the institutions in future planning and shaping the strategies of academic research. They provide insight of the standing of academic research in Hong Kong at the international level.**

Audit recommendations

4.14 **To enhance public accountability, Audit has recommended that the Secretary-General, University Grants Committee should consider disclosing, including making available on the UGC website:**

- (a) **the full results of each RAE on performance of the departments (cost centres) of the institutions (see para. 4.8); and**
- (b) **the overall comments and general points made by the RAE panels and their members on particular subject areas of research at the institutions in Hong Kong (see para. 4.13).**

Response from the Administration and the institutions

4.15 The **Secretary for Education and Manpower** has said that the EMB agrees with Audit's recommendations to enhance transparency and public accountability, and to ensure more efficient use of public funds.

4.16 The **Secretary-General, University Grants Committee** has said that:

- (a) the UGC shares the general spirit of Audit's recommendation on disclosure of RAE results. This is also in line with the UGC's decision for a greater degree of transparency when conducting the next RAE in 2005-06. But the need for greater transparency should be carefully weighed against the possible danger of misinterpretation or misuse of data. The level of details will be considered by the UGC, in consultation with the institutions, in the context of the planning of the next RAE; and
- (b) in principle, the UGC is prepared to consider publishing more details regarding the RAE results through appropriate channels including the UGC website in future exercises. But it is important that they are published and presented in a way that will help the stakeholders and the public to appreciate how academic research in Hong Kong has been developing and taking shape. The UGC should guard against unwarranted and superficial institutional comparisons which would not contribute to the healthy development of research in Hong Kong. Results should also be presented in the context that different institutions have different roles and, therefore, both the volume and the types of research activities are expected to differ among institutions.

4.17 The **Vice-Chancellor, The University of Hong Kong** has said that the HKU is fully supportive of the two recommendations at paragraph 4.14, as the HKU has been a strong advocate for the full disclosure of the RAE results, at the level of departments/cost centres (not individual researchers), since the inception of the exercise in 1993. The HKU also believes that, in addition, each panel should be required to produce a short report on the strengths and weaknesses in the fields of work assessed, as described in paragraph 4.10.

4.18 The **President and Vice-Chancellor, Hong Kong Baptist University** has said that the HKBU has no objection to the suggestion under paragraph 4.14 of disclosing the full results of each RAE on the performance of the departments of an institution and the comments of the RAE panels, and considers it important that such a disclosure should ensure that proper and meaningful comparisons can be made among institutions and departments.

RAE assessment panels

4.19 In the 1999 RAE, there were 12 research assessment panels comprising 180 members. Audit notes that members of the RAE panels were heavily drawn from the academic field and only eight members (or 4%) were from the non-academic sector. These eight members sat on 6 of the 12 assessment panels. There was little representation from the commerce, industry and other users of research to represent the users.

4.20 According to the 1999 RAE results, the research output items submitted for assessment were classified (Note 12) as shown in Table 3.

Note 12: *The UGC has referred to the Carnegie Foundation's definition of scholarship for classifying research output. The Carnegie Foundation considers that there is a more inclusive view of what it means to be a scholar – a recognition that knowledge is acquired through research, synthesis, practice, and teaching. While scholarship means engaging in original research, scholarship now has a broader and capacious meaning. Beyond the age-old "teaching vs research" debate, there are four separate, yet overlapping functions: they are the scholarship of discovery; the scholarship of integration; the scholarship of application; and the scholarship of teaching. For details, see Appendix D.*

Table 3
Research output items submitted
(1999 RAE)

Category	Items of research output submitted
Discovery	12,155 (65%)
Integration	3,346 (18%)
Application	2,374 (12%)
Teaching	915 (5%)
Total	18,790 (100%)

Source: UGC's records

4.21 It is noted from Table 3 that the “Integration” and “Application” scholarly research output items constituted 30% (18% + 12%) of the submissions. **As these two categories of research output may have more relevance to the needs of commerce and industry, there may be a case to widen the user representation in the composition of membership of the relevant assessment panels. More representation from commerce, industry and other users of research may provide more useful views to the assessment process.**

Audit recommendation

4.22 **Audit has recommended that the Secretary-General, University Grants Committee should consider widening the membership of the RAE assessment panels to obtain input from people outside of the academia who have useful knowledge and expertise (see para. 4.21).**

Response from the Administration and the institutions

4.23 The **Secretary for Education and Manpower** has said that the EMB agrees with Audit’s recommendation in paragraph 4.22 to enhance transparency and public accountability.

4.24 The **Secretary-General, University Grants Committee** has said that the aim of RAE is to measure the academic quality of research outputs and all output items, irrespective of their nature and categories, are subject to the same standards of academic scrutiny. The UGC agrees that, for certain disciplines which are close to industry, there is a need for appointing people from industry to provide a user perspective to the assessment and will ensure that panels are adequately equipped with the necessary expertise to assess the academic merits of the output items submitted. Indeed such persons are already appointed where appropriate. The UGC will examine the issue in more detail in the context of planning the next RAE.

4.25 The **Vice-Chancellor, The University of Hong Kong** has said that the HKU supports the recommendation, at paragraph 4.22, on the inclusion of experts from outside academe to serve on the RAE assessment panels.

4.26 The **President and Vice-Chancellor, Hong Kong Baptist University** has said that while the HKBU supports the suggestion under paragraph 4.22 of widening the membership of the RAE assessment panels, it must stress that the assessments to be conducted by the panels should be based on academic merit, and not application, as their **primary** consideration.

Terminated research projects

4.27 Hong Kong adopts a dual funding system for research at the institutions. Recurrent grants basically provide the institutions with the research infrastructure (including staff time and overhead costs associated with faculty research). For the conduct of major research projects, the institutions have to seek additional funding from the RGC of the UGC, or from other sources such as the Innovation and Technology Fund and the private sector. In the 2001-02 to 2003-04 triennium, the Government has provided Earmarked Research Grants of \$1,632 million for the institutions, which are administered by the RGC.

4.28 The RGC is established under the aegis of the UGC and functions as a semi-autonomous advisory body within the organisational structure of the UGC. It works in close partnership with the UGC and advises and reports to the Government through the UGC on matters within its purview. The RGC is assisted in its work by four specialist subject panels: Physical Sciences; Engineering; Biology and Medicine; and Humanities, Social Sciences and Business Studies. The RGC and its panels are supported by the staff of the UGC Secretariat.

4.29 The Competitive Earmarked Research Grant (CERG) represents the largest portion of the Earmarked Research Grants and is distributed to the institutions in response to applications received from individual academic staff. The allocation of the CERG is the biggest annual funding exercise to support academic research in Hong Kong and the project grants enable academic staff to maintain a necessary level of activity in research. Based on the UGC's records, between 1995-96 and 2002-03, the CERG awarded funding for a total of 4,671 research projects. As at 23 July 2003, of these 4,671 research projects, 4,452 (or 95.3%) were on-going or completed, and 219 (or 4.7%) were terminated before completion. See Table 4.

Table 4
Number of approved projects and terminated projects
(1995-96 to 2002-03)

Year	Number of approved projects (a)	Number of terminated projects out of the projects in (a) (b)	
1995-96	454	25	
1996-97	463	24	
1997-98	584	49	
1998-99	566	28	
1999-00	578	36	
2000-01	642	27	}
2001-02	693	22	
2002-03	691	8	
Total	4,671	219	(Note)

**(4.7% of 4,671
approved projects)**

Source: UGC's records

Note: This was the position as at 23 July 2003. As the maximum time allowed for completing a research project is normally three years, there is a possibility that, as in the past, some on-going projects may be terminated.

4.30 Audit examined the 57 projects approved in 2000-01, 2001-02 and 2002-03, which were terminated. The CERG funds spent on these 57 terminated projects are largely nugatory, as most of the objectives of these projects could not be achieved. Audit found that \$9.2 million had been spent on the direct costs of 54 of these terminated projects (Note 13).

4.31 Audit analysed the reasons for terminating the 57 projects. The results are summarised in Table 5.

Table 5

**Major causes of termination of 57 terminated projects
(2000-01, 2001-02 and 2002-03)**

Major cause	Number of projects
<ul style="list-style-type: none"> • Principal Investigator left the UGC-funded institution and did not join another UGC-funded institution to continue the work, or Principal Investigator left Hong Kong 	45 (79%)
<ul style="list-style-type: none"> • Principal Investigator failed to comply with reporting requirements 	6 (10.5%)
<ul style="list-style-type: none"> • Others 	6 (10.5%)
Total	<u>57 (100%)</u>

Source: UGC's records

Note 13: *The expenditure represents only the direct cost for funding the projects. The costs for the infrastructure of the institutions funded by the recurrent grants have not been taken into account. For the remaining three terminated projects, their accounts were not finalised at the time of audit.*

4.32 Table 5 shows that the major cause was that the Principal Investigators had left in 45 projects (out of 57 projects). As regards the time the Principal Investigators had been involved before leaving the institutions, see Table 6.

Table 6
Principal Investigators' time involvement
before leaving the institutions

		Number of projects
• Principal Investigator left within six months after commencement of project	20	} 30
• Between 6 and 12 months	10	
• After 12 months	15	
	Total	45

Source: UGC's records

4.33 Table 6 shows that the departure of the Principal Investigators within a year after the commencement of a project is a matter of concern. The vetting and approving of a research project have gone through a rigorous process of internal screening and vetting by the institutions concerned, and by the RGC panels and external assessors. Considerable administrative work is also involved at the institution and the UGC Secretariat level. The time span from planning and submitting the project proposal by the Principal Investigator for endorsement of the institution to the commencement of the research is about 12 months (Note 14).

Note 14: *The CERG calls for applications once a year. Applications endorsed by the institutions are submitted to the RGC by October/November. The applications received are examined by the subject panels of the RGC between December and May with assistance from specialist academic assessors/referees either in Hong Kong or overseas. The panels then select proposals to be recommended for funding support to the RGC. The RGC holds meetings in June to decide how the CERG should be distributed. A research project normally commences within six months on approval of grant (i.e. by 31 December).*

4.34 At the time of the application, the institution concerned is required to satisfy itself that the Principal Investigator will complete the project. The policy of the RGC is that no change in the Principal Investigator will be approved within the first year of the project's duration. Audit considers that the UGC, in consultation with the RGC, needs to ascertain from the institution concerned at the time of research grant award whether the duration of employment of the Principal Investigator is less than one year. This could be a risk factor which should be taken into consideration for funding the project. The institution should be asked to indicate whether the duration of employment of the Principal Investigator (say less than one year) would affect the outcome of the research project.

4.35 In response to Audit's enquiry as to whether sufficient administrative safeguards are in place to ensure that Principal Investigators would complete approved research projects, the Secretary-General, UGC has provided Audit with the following further information:

- (a) RGC grants are only available to the full-time staff of the institutions. At present, appropriate control measures already exist to require institutions to confirm at the time of application and at some subsequent stages before funding that applicants, if employed on fixed term contracts, are eligible for RGC grants for at least the first year of the projects' planned duration;
- (b) projects are terminated for a variety of reasons and, as pointed out in the Audit Report, early departure of the Principal Investigators is the cause in the majority of the cases. Under the present RGC policy, a change of Principal Investigator is strictly not allowed within the first 12 months. Even after the first 12-month period, a change of Principal Investigator would only be approved under very exceptional circumstances. This policy is important to ensure that the Principal Investigator, who is the "soul" of the project, is sufficiently committed to the work and can steer the project through to maturation;
- (c) the existing application procedures require the institutions to confirm at the time of application that a staff member employed on a fixed term contract will be eligible for at least the first year of the project's planned duration. There is also a clear stipulation in the explanatory notes accompanying the application form to remind the institutions that they should, to the best of

their knowledge, satisfy themselves that the Principal Investigator is available to complete the project if funded. Shortly before the annual RGC June meeting, which decides on the final allocation of research grants, the institutions are required to provide an update, indicating among other things whether or not there has been or will be any change in terms of the eligibility of the applicants. If there are clear signs that an applicant's contract will be terminated or will not be renewed, the institutions are obliged to report and, according to the rules, the application concerned should normally be withdrawn in such cases. Furthermore, before actually releasing the grants after the June meeting, as a standing practice, the institutions are requested, again, to confirm if there are any projects which need to be withdrawn due to the ineligibility, including early departure, of the Principal Investigators; and

- (d) in sum, the UGC believes there are sufficient administrative safeguards as part of the eligibility rules to ensure that research grants are only awarded to projects for which there is reasonable assurance about the Principal Investigators' availability to complete the projects.

Audit recommendations

4.36 **Audit has recommended that the Secretary-General, University Grants Committee, in consultation with the RGC, should, in the assessment process, consider also the risk factor that a research project may be terminated if the Principal Investigator leaves the institution before project completion (see para. 4.34). In this regard, the UGC needs to keep this risk factor under review and consider taking more effective measures to address it if necessary.**

Response from the Administration and the institutions

4.37 The **Secretary for Education and Manpower** has said that the EMB agrees with Audit's recommendations to ensure more efficient use of public funds.

4.38 The **Secretary-General, University Grants Committee** has said that:

- (a) the UGC understands the arguments behind Audit's recommendations on termination of funded research projects and recognises the need to keep the matter under constant review;
- (b) there are many reasons accounting for the early departure of the Principal Investigators and, in many cases, the circumstances are beyond the control of the Principal Investigators and institutions and are unforeseen. Even for a long contract, there is no way to predict or prevent a staff member from giving notice to terminate his employment. Contract renewal is basically a personnel decision, involving complex considerations including finance and performance. While such information, if known and available, is a valid consideration, it is not appropriate to attach undue weight to the "certainty" of employment; and
- (c) when examining the subject, one should avoid conveniently equating "terminated" projects with "failure" or "waste of money". Research is usually done in stages and, depending on progress, some results, though partial or limited, are available in some terminated projects. These results would add to existing knowledge and contribute to future research. Furthermore, for research, both the results and the process are valuable and, in this regard, the training and educational benefits which could be derived from the process should not be ignored.

4.39 The **Vice-Chancellor, The University of Hong Kong** has said that:

- (a) the HKU has no difficulty with the provision of more information on a Principal Investigator's employment duration, but it has to be remembered that the environment in which the HKU now operates requires a significant and increasing number of staff being employed on short term (i.e. 2- or 3- year) contracts, rather than on permanent terms, although the HKU is addressing this very issue in its strategy for human resource management. Even so, the renewal of fixed term contracts is dependent upon the level of block grant available from the UGC which announces the triennial grant allocations at a very late stage in an institution's planning process. Accordingly, the risk factor referred to at paragraph 4.36 is not only affected by institutional policy, but also the UGC's timetable for announcing the recurrent grants; and

- (b) termination of a research project would be avoided in some cases if the RGC could relax its policy on the change of Principal Investigator during the first year. The institution concerned would of course be required to provide assurance that the successful completion of the project and its original aims and objectives would not be unduly affected by the change of Principal Investigator.

4.40 The **President and Vice-Chancellor, Hong Kong Baptist University** has said that the HKBU supports a review of the procedures, to take into account the practical difficulties faced by the RGC and the institutions. Caution must be exercised against prejudicing those researchers whose employment contracts are up for renewal.

4.41 The **President, The Hong Kong Institute of Education** has said that the HKIED would like to point out that none of HKIED's CERG projects were terminated over the years.

Extension of time of research projects

4.42 The maximum time allowed for completing a research project is normally three years. For approved projects, the RGC has delegated the authority to the institutions to approve project extension of 12 months or less in aggregate. The RGC must be notified of such changes. Where an extension of time exceeding 12 months in aggregate is sought, the Principal Investigator must apply through the institution concerned to the RGC for approval. The RGC normally does not grant, in addition to any period(s) approved by an institution, further extension of more than six months.

4.43 Audit notes that the institutions granted extensions of time on many occasions from 1999-2000 to 2002-03. See Table 7.

Table 7

Extensions of time approved by the institutions

Year	Number of projects approved in the year	Number of projects granted extension of time by the institutions in the year
1999-00	578	432
2000-01	642	480
2001-02	693	408
2002-03	691	515
Total	2,604	1,835
Average	651	459 (71% of 651)

Source: UGC's records and Audit's analysis

4.44 An extension of time for completion of project may increase the total project cost. **The figures in Table 7 show that the UGC needs to consider, in consultation with the RGC, introducing appropriate control measures to ensure that research projects are completed on time.**

4.45 Audit notes that annual progress reports have to be submitted to the RGC by the Principal Investigators at end of March each year to report the progress (up to December of the preceding year) as a measure to monitor the progress. Progress reports are not required in the first year for newly funded projects. **However, there is no requirement, at the application stage of a project, to state the key milestones to be achieved at different stages of the project.** Without this requirement, it is not easy to monitor the actual progress made (Note 15).

Audit recommendations

4.46 **Audit has recommended that the Secretary-General, University Grants Committee, in consultation with the RGC, should:**

- (a) **review and take measures to tighten the control over the granting of extension of time by the institutions (see para. 4.44);**
- (b) **consider requiring the setting of key milestones at the application and planning stage of projects to provide a benchmark against the progress made (see para. 4.45); and**
- (c) **seek explanations from the institutions if the key milestones are not achieved (see para. 4.45).**

Response from the Administration and the institutions

4.47 The **Secretary for Education and Manpower** has said that the EMB agrees with Audit's recommendations to ensure more efficient use of public funds.

4.48 The **Secretary-General, University Grants Committee** has said that:

- (a) the RGC attaches importance to timely completion of projects but acknowledges the need for flexibility in adjusting the timeline of research. The RGC will take into account Audit's suggestions and consider if there is

Note 15: *For illustration, Audit noted that the RGC has recently issued a reminder to an institution that it should take "prompt corrective action" to submit outstanding progress/completion reports, which "reflected badly" on the Principal Investigators' ability to manage their research projects.*

room to strengthen the existing monitoring mechanism. The RGC keeps the policy under constant review and has since 2001 tightened the relevant rules to cap all project extensions at the maximum of 18 months (the previous policy allowed up to 24 months). The RGC will continue to keep in view the situation and, where required, remind the institutions to adopt a consistently stringent standard in handling applications for extension. As a general comment, it must be stressed that project extension does not necessarily mean a delay of work in all cases. To the contrary, in many cases, project extension is well justified on the strength that the original work plan would need to be adjusted so as to take account of recent and unanticipated developments in the research fields. Such adjustment of the work plan and, hence, the timeline is needed for maximisation of outputs and value; and

- (b) the existing monitoring policy requires Principal Investigators to submit annual progress reports to account for the progress which has been achieved with respect to the approved project objectives. The progress reports are scrutinized by members of the RGC's subject panels who take pains to judge if the projects are making reasonable progress towards the accomplishment of the objectives. Whenever irregularities are detected, comments are fed back and the Principal Investigators are required to follow up as appropriate. Serious explanations would be sought from the Principal Investigators if the projects have deviated from or failed to accomplish any of the objectives. The system has been working well. While it is accepted that setting of key milestones could generally contribute to effective monitoring, practicability and cost effectiveness are doubtful for small-scale research projects like the ones funded in the RGC's CERG exercises. Nevertheless, the monitoring mechanism is under constant review and the RGC will take into account Audit's recommendations in striving for improvements.

4.49 The **Vice-Chancellor, The University of Hong Kong** has said that the HKU has no objections to the recommendations, at paragraph 4.46, on the extension of the duration of research projects. However, it should be remembered that there are three variables to each project: time, cost and quality. The HKU does not agree that an extension of time necessarily increases the cost. A simple analysis of the research proposals and the grants awarded would reveal that in most cases the grant awarded is substantially less than the amount requested. In order to maintain quality and to accomplish the research aims, it is sometimes necessary to lengthen the duration of a project, but if extensions are not granted for an under-funded project, then, quality and research aims may be compromised. Accordingly, the milestones set at the application stage might no longer be appropriate for planning the execution of an under-funded project that has to be completed in time.

PART 5: FUNDING OF SELF-FINANCING ACTIVITIES

5.1 This PART examines the charging of overhead to self-financing activities of the institutions.

Background

5.2 Tertiary institutions have two basic core functions, namely teaching and research. A third critical element is their place in the community. In Hong Kong, tertiary education is largely government funded. Recurrent grants are provided by the Government to the UGC-funded institutions to support the core functions and activities based on approved public policy objectives (hereinafter referred to as **UGC-funded activities**).

5.3 Like many universities elsewhere, in Hong Kong the institutions also undertake some other business activities outside of the two basic core functions. These include commercial/quasi-commercial activities, which are not government-funded and are basically operating on commercial or self-financing basis. These activities help to diversify an institution's sources of income. Other examples of such activities include full-fee-paying academic programmes (including continuing and professional education programmes), commercial research and consultancy work, and student-related and other commercial services (hereinafter referred to as **self-financing activities**).

UGC policy on the funding of self-financing activities

5.4 The UGC policy governing the operation of self-financing activities is set out in the UGC Notes on Procedures (Note 16), as follows:

- (a) **Overhead charges levied by the institutions.** Recurrent grants are provided to the institutions to support the UGC-funded activities. To avoid hidden subsidy to non-UGC-funded activities, the institutions should, as a matter of principle, levy overhead charges on such activities, including projects funded by other government departments/agencies. Furthermore, where institutions are competing with the private sector, any hidden subsidy should be removed to avoid unfair competition;

Note 16: *The UGC Notes on Procedures form the basis of the understanding among the UGC, the Government and the institutions of their mutually dependent roles. The notes are for compliance by officers of the institutions, government officers and staff of the UGC Secretariat for handling the affairs of the institutions.*

- (b) **Overhead charging rates.** When determining the level of overhead charges to be levied, the institutions should aim to reflect the full costs of the activities concerned; and
- (c) **Waiving of overhead charges.** The institutions may waive overhead charges, in whole or in part, or take on projects where charging full overheads is not possible because of the rules imposed by the funding agency, if they are satisfied that the value of the projects to their academic development justifies exceptional treatment. In such cases, however, they should be prepared, if so required, to assure the UGC that this is the case. Where a UGC-funded institution is competing with the private sector for funding support, the guiding principle should be competition on an equal footing. It should be competing on the same basis as a commercial organisation would do.

Types of self-financing activities

5.5 Self-financing activities operated by the tertiary institutions broadly fall into the following main categories:

- (a) **Continuing and professional education programmes.** All the institutions have established separate bodies or units for operating continuing and professional education programmes, which provide learning opportunities for personal, professional and career advancement (see Appendix E for details). In 2001-02, the total income from these activities amounted to \$594 million (excluding income from the HKU School of Professional and Continuing Education, which has been operating as a separate legal entity since 1999);
- (b) **Non-UGC-funded academic programmes.** These are usually taught postgraduate programmes and sub-degree/associate degree programmes. In 2002-03, there were 543 such non-UGC-funded academic programmes (comprising 94 sub-degree/associate degree programmes, 79 degree programmes, 194 postgraduate programmes, and 176 upper secondary and other programmes). In 2001-02, the total income from these activities amounted to \$663 million;
- (c) **Non-UGC-funded research and consultancy work.** These are commercial contracts of research and consultancy work, including outside practice conducted by staff of the institutions. In 2001-02, the total income from these activities amounted to \$649 million;

- (d) **Student hostels.** Student hostels include all undergraduate/postgraduate halls/hostels and guest quarters. As stipulated in paragraph 5.2 of the UGC Notes on Procedures, no matter the student hostels are publicly or privately funded, they should be operated *on a self-financing basis* using student hostel fees. In 2001-02, the total income from these activities amounted to \$282 million; and
- (e) **Other activities.** These include student-related and other commercial services, such as canteens, hospital pathology services, Chinese medicine pharmacy and the institutions' publishing facilities. In 2001-02, the total income from these activities amounted to \$410 million.

Determination of the standard overhead recovery rate

5.6 Audit has noted that each institution has its own policy of charging overhead on the self-financing activities. The overhead charge has a significant impact on the pricing of such activities, especially in relation to research/consultancy work and full-fee-paying academic programmes, including the continuing and professional education programmes. Given the keen competition among the institutions for both funding and clients of these activities, the institutions considered that there was a need to have a uniform approach of overhead charging. In 1998, in the context of determining the overhead charging for non-UGC-funded research projects, the institutions agreed amongst themselves that:

- (a) they should normally charge overhead at a standard flat rate of 15% (based on total of expenditure other than overhead, i.e. direct costs) for non-UGC-funded projects; and
- (b) in exceptional cases, an institution might consider waiving or lowering the 15% rate.

5.7 The 15% charge on direct costs represents *the minimum standard flat rate* of overhead recovery from non-UGC-funded research projects under normal circumstances. In July 1999, the UGC was informed of the institutions' views that setting an overhead ceiling of 15% would drive the overhead charge to a bare minimum (most likely to zero percent) due to keen competition among the institutions. Therefore, instead of a ceiling, a minimum rate of 15% should be adopted.

Audit observations

5.8 The UGC Notes on Procedures require that the institutions should aim to reflect the full costs of the activities concerned when determining the level of overhead charges to be levied on the self-financing activities (see para. 5.4(b)). In June 1999, when discussing with the institutions about the adoption of the 15% standard overhead recovery rate (see paras. 5.6 and 5.7), the UGC advised the institutions that:

- (a) it would be important for them to have clear and reliable information on the full costs of their activities when assessing the percentage to be charged as overhead; and
- (b) the institutions should conduct thorough annual reviews of the overhead charging rates.

5.9 Audit could not find out the basis on which the institutions reached the decision in 1998 on the 15% standard overhead recovery rate. Around that time, the institutions already noted that:

- (a) a costing exercise of university indirect expenses on each project (indirect expenses included, in general, computer facilities, library usage, etc.) had indicated that these indirect components would constitute *around 38%* in 1997-98; and
- (b) elsewhere, the overhead recovery rates charged by universities reached a high of 50% (40% in Canada, 46% uniform rate in the UK, and some 50% in the USA).

5.10 Despite the institutions' own findings in paragraph 5.9, they decided to set a uniform minimum overhead recovery rate of only 15%. This standard rate has not been revised since then. On the other hand, it is noted that, in June 1999 the UGC advised the institutions that:

- (a) they should conduct *thorough annual reviews* of the overhead charging rates; and
- (b) they should have clear and reliable information on the "full costs" of their activities when assessing the percentage to be charged as overhead.

5.11 Based on the information in the UGC CDCF database (see para. 3.31), Audit analysed the overhead cost structures of the institutions for the three-year period 1999-2000 to 2001-02. Audit found that the weighted average percentage of overhead (i.e. indirect costs) to direct costs for the institutions in this three-year period ranged from 47.3% to 97.2%. The overall weighted average overhead percentage (on direct costs) for all the institutions was 59.2%. This was equivalent to about 37.2% on total costs (see Table 8).

Table 8

**Audit analysis of the overhead cost structures of the institutions
(1999-2000 to 2001-02)**

Institution	Average percentage of direct costs to total costs (Note 1)	Average percentage of overhead (or indirect costs) to total costs (Note 2)	Average percentage of overhead (or indirect costs) to direct costs
	(a)	(b)	(c) = (b) ÷ (a)
LU	50.7%	49.3%	97.2%
HKIED	52.0%	48.0%	92.3%
HKUST	61.5%	38.5%	62.6%
CUHK	62.6%	37.4%	59.7%
CityU	63.1%	36.9%	58.5%
HKU	63.1%	36.9%	58.5%
HKBU	64.6%	35.4%	54.8%
PolyU	67.9%	32.1%	47.3%
Overall	62.8%	37.2%	59.2%

Source: UGC CDCF database

Note 1: All the departmental expenditure of the institutions is classified as direct costs.

Note 2: All the central expenditure (e.g. central administration, academic support including central libraries, maintenance of premises, and student facilities and amenities) of the institutions is classified as overhead (or indirect costs).

5.12 **The audit analysis in Table 8 suggests that the standard overhead recovery rate of 15% set by the institutions is on the low side, having regard also to the practices elsewhere (see para. 5.9(b)). Given that the standard overhead recovery rate of 15% has not been revised since 1999, Audit considers that it is now time for the UGC to ensure that the institutions will conduct a thorough review to find out whether this rate is still appropriate.**

5.13 In 1999, the institutions agreed that the standard rate of 15% should be the minimum rate of overhead recovery from non-UGC-funded activities they would use under normal circumstances (see paras. 5.6 and 5.7). This uniform approach would create a level playing field and also reduce hidden subsidy from the block grant to non-UGC-funded activities. But it would only work provided all the institutions honour their mutual agreement.

5.14 Audit has reviewed the overhead recovery rates adopted by individual institutions for their self-financing activities to see whether the charging of the standard rate of 15% overhead has been followed by the institutions. Table 9 is a summary of the overhead recovery rates (as a percentage on direct cost) adopted by the institutions for such activities in 2002-03.

Table 9

**Overhead recovery rates for self-financing activities adopted by the institutions
(2002-03)**

Institution	Overhead recovery rates (on direct costs) (Note)	Remarks
CityU	20%	The rate is not less than 16.5% of total budgeted costs (or income if budgeted costs are not available), which is equivalent to about 20% on direct costs.
HKBU	11% or 18%	The rates are 15% on income for non-UGC-funded academic programmes, and 10% on income for research and consultancy work and other self-financing activities. The rates are equivalent to about 18% or 11% respectively on direct costs.
LU	18% or 25%	The rates are 20% on income for the associate degree programmes and the Yi Jin full-time programme, and 15% on income for all other self-financing activities. The rates are equivalent to about 25% and 18% respectively on direct costs.
CUHK	15% to 35%	The rates (on direct costs) are 15% for part-time off-campus programmes, 20% for part-time on-campus programmes, 25% for full-time off-campus programmes and 35% for full-time on-campus programmes.
HKIED	15%	—
PolyU	33%	The rate is 25% on income, which is equivalent to about 33% on direct costs.
HKUST	11% to 43%	The rates range from 15% to 30% on income (or about 18% to 43% on direct costs) for research and consultancy work, and 10% on income (or about 11% on direct costs) for all other self-financing activities.
HKU	18%	The rate is 15% on total costs/income, which is equivalent to about 18% on direct costs.
Overall	11% to 43%	—

Source: Information provided by the institutions

Note: These overhead recovery rates are used by the institutions in normal circumstances. They may be waived or lowered if the institutions are satisfied that the value of the projects to academic development justifies exceptional treatment. For continuing and professional education programmes, overhead is normally charged as lump sum fees based on the actual use of services.

5.15 As shown in Table 9, in 2002-03 two institutions (i.e. HKBU and HKUST) adopted overhead recovery rates below 15% (on direct costs) for some of their self-financing activities. In response to Audit's enquiry, the heads of the institutions have clarified that the 15% overhead charging rate was intended to be a rate normally charged to non-UGC-funded research projects only, and was not meant to be used for all self-financing activities (see para. 5.20(b)). However, it was noted that one of the institutions (i.e. HKBU) adopted an overhead charging rate of less than 15% on its non-UGC-funded research and consultancy work. Audit has also noted that nearly all institutions do not charge any overhead costs to their student hostels, despite that the UGC Notes on Procedures have clearly stated that student hostels should be operated on a self-financing basis (see para. 5.5(d)). **Audit appreciates the value of student hostels in tertiary education. It would appear that the UGC needs to reconsider whether student hostels should be exempted from overhead recovery.**

5.16 As the institutions are competing with the private sector in research and consultancy work, it is unsatisfactory for an institution to adopt a lower rate of overhead recovery for these non-UGC-funded activities. **Audit considers that non-compliance with the agreed standard rate of overhead recovery by some institutions has cast doubt on the effectiveness of the existing arrangements.**

Audit recommendations

5.17 **Audit has recommended that the Secretary-General, University Grants Committee should:**

- (a) **ask the institutions to conduct a thorough review to find out whether the standard overhead recovery rate of 15% is still appropriate, having regard to the latest overhead cost structures of each institution (see paras. 5.10, 5.12 and 5.16);**
- (b) **ensure that the institutions always have reliable information on the full costs of their self-financing activities for assessing the rate of recovery of overhead (see paras. 5.10 and 5.12); and**
- (c) **reconsider whether student hostels should be subject to overhead charging or not and, if necessary, revise the UGC Notes on Procedures (see para. 5.15).**

Response from the Administration and the institutions

5.18 The **Secretary for Education and Manpower** agrees with Audit that the UGC should ask the institutions to review the appropriateness of adopting a 15% standard overhead recovery rate for their various types of self-financing activities. He considers that as a matter of principle, there should be no hidden subsidy to self-financing activities, so as not to dilute resources intended for the UGC-funded endeavours, and unfair competition with the private sector should be avoided.

5.19 The **Secretary-General, University Grants Committee** accepts Audit's recommendation to ask the institutions to conduct a thorough review to see whether the standard overhead recovery rate of 15% is still appropriate, based on the actual overhead cost involved in the different kinds of activities. He has also said that, as different kinds of self-financing activities (e.g. student hostels or non-UGC-funded programmes) may have very different calls on the central supporting services, the UGC considers that a deviation from the standard overhead rate for certain activities may be justified.

5.20 The **heads of the institutions** have provided a joint response to the audit findings in PART 5. They said that the institutions would agree to conduct a thorough review of the overhead charging policy with the UGC. They have also said that:

- (a) all the institutions support the principle of cost recovery in that overheads, where applicable, should be recovered from self-financing activities. However, strict application of a standard overhead recovery rate without taking into account the nature and actual cost structure of an activity is questionable;
- (b) the general 15% overhead rate agreed among the institutions in 1998 was intended to be a rate normally charged to research projects funded by non-UGC government department/agencies. It was never meant nor would it be appropriate to assume that this rate be used for all self-financing activities;
- (c) the cost structures of various self-financing activities are very different. Whereas the institutions do not usually dedicate self-financed resources to

administer non-UGC-funded government departments/agencies research projects, the institutions usually establish separate self-contained operating unit residing in self-financed office employing self-financed staff to run their continuing and professional education programmes. Similar expenditure for the UGC-funded activities, which would have appeared as overheads, are direct costs under such self-financing activities. The same observations can easily be made of other commercial research contracts, consultancies and private practices. These activities therefore should not have to bear the full institutional overhead on top of their own direct and indirect cost outlays;

- (d) the practice of the institutions of recovering full relevant costs (including variable overhead costs) for these activities has been followed;
- (e) for other non-UGC-funded academic programmes, e.g. Master of Business Administration programmes, there was an explicit understanding with the UGC that these programmes would need a transition period of several years before they could become self-financing;
- (f) student hostel operation is part of a university's core activity. Student hostels are run as separate self-financing operations without the usual overheads of the regular academic and research activities of the universities. It is questionable to suggest charging the same overhead costs of the universities. Needless to say, charging full overhead to their student hostel operations would result in substantially higher hostel fees and is entirely contrary to the encouragement of students to participate in campus life as an integral part of university education (Note 17); and
- (g) the institutions are autonomous bodies having multi-dimensional objectives instead of singularly and narrowly focused on financials alone. Academic positioning, stages of strategic development, academic and scholarly benefits, market responsiveness, assisting the local economy as well as

Note 17: *Audit fully appreciates and has not questioned the value of student hostels in tertiary education. Audit has recommended in para. 5.17(c) that the UGC should reconsider whether student hostels should be subject to overhead charging or not because it is stated in the UGC Notes on Procedures that it is a UGC policy that student hostels should be operated on a self-financing basis using student hostel fees (see para. 5.5(d)).*

bringing benefits to society at large are among some of the factors that have to be considered when the institutions undertake to engage in a particular activity. Where appropriate, the institutions should be allowed to exercise their judgment to waive the overhead charge, in whole or in part.

5.21 The **Vice-Chancellor, The University of Hong Kong** has said that he supports Audit's recommendations on reviewing the determination of a standard overhead recovery rate. He has also said that the HKU is keen to see that overheads are recovered, as far as practicable, for all self-financing activities.

5.22 The **President and Vice-Chancellor, Hong Kong Baptist University** agrees that a review should be carried out regularly to ensure that cost recovery is in line with the Government/UGC policies and, in that connection, the HKBU welcomes the idea of clearer guidelines for overhead recovery. He has also said that:

- (a) the 15% overhead recovery rate was configured for projects supported by government funding and contract research with industries only. It was never meant to cover all the non-UGC-funded activities, because of the vast differences in the cost structure of the various kinds of such activities; and
- (b) the HKBU has been carrying out annual reviews of the overhead charges levied on its School of Continuing Education, and completed in 2002 a review on the level of overhead charges for other non-UGC-funded academic programmes, following the suggestion made by the UGC in June 1999.

PART 6: REFUND OF GOVERNMENT RENTS AND RATES

6.1 This PART examines the administrative arrangements for the refund of government rents and rates to the tertiary institutions.

Refund of government rents and rates to the institutions

6.2 Prior to January 1972, the only two universities in Hong Kong were exempted from liability to rates (Note 18). In January 1972, the FC of LegCo decided that the exemption from liability to rates in respect of premises occupied by the universities should be withdrawn. Instead, sufficient funds would be made available for reimbursement to the universities for rates paid in respect of properties owned or leased and occupied by them.

6.3 The policy of the refund of rates was subsequently extended to the other UGC-funded institutions. In July 1997, the FC of LegCo approved a proposal to also refund *government rents* to the UGC-funded institutions.

6.4 Before the UGC was established, the former Education Department was responsible for the refund of rates. The following criteria were adopted to determine which institutions would qualify for refund:

- (a) whether the premises concerned were occupied for educational purpose; and
- (b) whether the institutions (including kindergartens and schools in the non-tertiary sectors) had been registered under section 88 of the Inland Revenue Ordinance (Cap. 112) as non-profit-making, charitable organisations exempted from the payment of taxes.

Note 18: *Prior to January 1972, the HKU and the CUHK were exempted from liability to rates by virtue of the then Rating (Miscellaneous Exemptions) Order of 1915, or by the decision of the then Governor in Council made under the Rating Ordinance (Cap. 116).*

6.5 The UGC followed the same practice. The institutions are required to prepare schedules of properties and, on a quarterly basis, submit to the UGC applications for refund of government rents and rates. In 2002-03, the total refund amounted to \$139.4 million. Table 10 shows the refunds made in the last three financial years.

Table 10
Refund of government rents and rates to the institutions
(2000-01 to 2002-03)

Institution	2000-01	2001-02	2002-03
	(\$ million)	(\$ million)	(\$ million)
HKU	31.5	32.5	40.0
CUHK	28.7	29.3	30.4
HKUST	20.0	21.6	18.5
CityU	15.0	15.0	14.3
PolyU	13.8	12.2	14.2
HKBU	9.7	12.2	10.2
HKIEd	4.2	10.3	9.0
LU	3.1	2.7	2.8
Total	<u>126.0</u>	<u>135.8</u>	<u>139.4</u>

Source: Information provided by the institutions

Refund of government rents and rates for self-financing activities

6.6 Institutions use premises owned or leased by them for a variety of purposes, including UGC-funded and self-financing activities. In 2002-03, \$23.3 million was refunded to the institutions in respect of government rents and rates for those premises used for their self-financing activities. This represented 17% of the total refund of \$139.4 million made. For details, see Table 11.

Table 11

Analysis of refund of government rents and rates to the institutions (2002-03)

Institution	UGC-funded activities		Self-financing activities		All activities
	(a)		(b)		(c) = (a) + (b)
	(\$ million)		(\$ million)		(\$ million)
HKU	31.5	(79%)	8.5	(21%)	40.0
CUHK	25.9	(85%)	4.5	(15%)	30.4
HKUST	13.8	(75%)	4.7	(25%)	18.5
CityU	13.0	(91%)	1.3	(9%)	14.3
PolyU	14.2	(100%)	0.0 (Note)	(0%) (Note)	14.2
HKBU	8.2	(80%)	2.0	(20%)	10.2
HKIED	7.7	(86%)	1.3	(14%)	9.0
LU	1.8	(64%)	1.0	(36%)	2.8
Total	116.1	(83%)	23.3	(17%)	139.4

Source: Information provided by the institutions

Note: Since the Professional Complex and the student hostels of the PolyU commenced operation in 2002, almost all the self-financing activities of the PolyU have been provided in these new buildings. As at September 2003, it did not seem that the PolyU had paid government rents and rates for these buildings.

6.7 *The UGC Notes on Procedures require that all non-UGC-funded activities should be operated on a self-financing basis (see para. 5.4(a)).* Based on the criteria used by the former Education Department (see para. 6.4), it appears that it was the Government's intention to assist non-profit-making educational institutions by giving them refund of government rents and rates, regardless of whether their activities were government-funded or not. The UGC has followed the same practice. However, the UGC Notes on Procedures made no mention of any criteria for assessing the circumstances in which premises of the institutions would be eligible for refund of government rents and rates.

6.8 With the diversified development of the institutions in recent years, nowadays almost all of them undertake some form of commercial/quasi-commercial activities, which are operated on a self-financing basis (see para. 5.3). Audit has found that, generally speaking, the institutions have assumed that all the premises owned or leased by them are eligible for refund of government rents and rates, irrespective of whether the premises are used for the UGC-funded or self-financing activities (Note 19). The total refund made for the self-financing activities was \$23.3 million in 2002-03.

6.9 **As far as Audit could ascertain, there is no clear UGC guideline on whether these self-financing commercial/quasi-commercial activities operated by the institutions are eligible for refund of government rents and rates. Audit considers that, by their nature and taking into account the UGC's guiding principle in paragraph 6.7, the UGC needs to address the issue whether these self-financing commercial/quasi-commercial activities qualify for refund of government rents and rates.**

6.10 By way of example, it is noted that the Social Welfare Department (SWD) has published a set of detailed guidelines on the refund of government rents and rates to non-governmental organisations operating **non-subsidised** welfare services. These guidelines set out clearly the application procedures, eligibility criteria, and method of

Note 19: *Audit noted that two institutions (CityU and HKIEd) did not claim refund of government rents and rates for their off-campus sites used for self-financing educational activities. In 2002-03, the CityU paid \$550,000 in rates on four off-campus sites used exclusively for self-financing activities. It did not claim any refund from the UGC. Similarly, the HKIEd paid \$96,000 in rates on premises used for its continuing education programmes, without claiming any refund from the UGC.*

assessment. Refunds by the SWD are granted subject to the availability of funds (Note 20).

Audit recommendations

6.11 **Audit has recommended that the Secretary for Education and Manpower should promulgate the Government's policy on refund of government rents and rates to all educational institutions in Hong Kong (see para. 6.9).**

6.12 **Audit has also recommended that the Secretary-General, University Grants Committee should incorporate into the UGC Notes on Procedures clear guidelines on the eligibility criteria for refund of government rents and rates and the related administrative procedures. In doing so:**

- (a) **special attention should be paid to those premises used for self-financing activities (see para. 6.9); and**
- (b) **reference should be made, for example, to the SWD's guidelines on the refund of government rents and rates (see para. 6.10).**

Response from the Administration and the institutions

6.13 The **Secretary for Education and Manpower** agrees that the Government's policy on refund of government rents and rates should be promulgated to all educational institutions in Hong Kong. He has also said that:

Note 20: *In order to ensure that subsidies are granted to the most needy organisations, the eligibility criteria used by the SWD in its financial assessments include the following:*

- (a) **Surplus.** *The organisation will not be eligible for a subsidy if the income and expenditure account submitted to the SWD shows that there is a surplus (after deduction of the subsidy given in the same financial year) greater than \$100,000 or three times the amount of the subsidy to be given; and*
- (b) **General accumulated surplus/net current assets.** *The organisation will not be eligible for a subsidy if the balance sheet submitted to the SWD shows that 10% of the general accumulated surplus or 10% of the net current assets, whichever is lesser, is greater than the subsidy to be given.*

- (a) the Government has been providing such refunds to private non-profit-making kindergartens, schools and post-secondary colleges, including those operating on a self-financing basis; and
- (b) provided that the criteria set out in paragraph 6.4 are met, refund of government rents and rates for off-campus sites used for self-financing activities would be applicable.

6.14 The **Secretary-General, University Grants Committee** accepts Audit's recommendations to set out in the UGC Notes on Procedures guidelines on the eligibility criteria for refund of government rents and rates and the related administrative procedures, in consultation with the Administration and the institutions.

6.15 The **Vice-Chancellor, The University of Hong Kong** has said that he has no objection to the general directions of the recommendations on the refund of government rents and rates, which are to be implemented by the Government and the UGC respectively. He has also said that:

- (a) it should be borne in mind that the Government's support for the infrastructure of the continuing education arms of the institutions is crucial to their development and functioning; and
- (b) the granting of lands for building community colleges to develop the associate degree, and the long-held practice of refunding government rents and rates associated with continuing education and non-UGC-funded courses are measures that show the Government's determination to promote continuing education and lifelong learning activities. The HKU supports this determination.

6.16 The **President and Vice-Chancellor, Hong Kong Baptist University** agrees that clearer guidelines should be promulgated by the Government on the refund of government rents and rates to all educational institutions in Hong Kong and these guidelines should be incorporated into the UGC Notes on Procedures.

HKU's general remarks on the audit review

1. The HKU accepts that a value for money audit is a valid mechanism of addressing issues of cost effectiveness, but if it were used as a basis for policy decisions, then, the impact must be viewed with caution and circumspection. It cannot be emphasised too strongly that the "value" the higher education institutions provide is multifaceted. Our mission for the discovery and transmission of knowledge and understanding entails a continuum of academic activities. As such, teaching/learning and research cannot be separated on a proportional basis. A defining characteristic of a university is that those academics who work in it must be engaged in both teaching and research, because research informs teaching and the learning and teaching enterprise, involving as it does intellectual interaction with young minds, stimulates ideas for research. Moreover, academic research nowadays is undertaken by teams of multi-disciplinary researchers, many of whom are candidates for a research postgraduate degree. It is not easy to say in particular instances whether their activities constitute teaching or research, or both.

2. As a campus-based university, the provision of hall education is part and parcel of our efforts in fostering leadership skills and cultivating a holistic, whole-person education for the benefit of our society.

3. An important factor that has to be borne in mind, when benchmarking the cost of tertiary education in Hong Kong with that in overseas countries, is that the pool of talents available locally is limited. Higher education institutions in Hong Kong will, for the foreseeable future, have to continue to recruit internationally for academic staff if they are to compete at the highest level. Some of these candidates, especially from developed countries like Australia, Canada, the USA and the UK, are used to a quality of living that is not available in Hong Kong and which accordingly has to be compensated for by other means that contribute to a higher cost of tertiary education in Hong Kong. Moreover, the capping of student numbers in Hong Kong, and the requirement that sufficient staff expertise is available to provide the necessary courses for degree programmes, effectively fixes a staff/student ratio. However, in some other overseas countries, universities are free to enroll students above target at minimal cost, thereby decreasing staff/student ratios. Likewise, institutional target enrolments may themselves be very different elsewhere. Without comparing staff/student ratios as part of the equation, it is not appropriate to generalize on cost per student, since higher education institutions in Hong Kong do not have the capacity to reduce the student unit cost in a similar way. These are significant factors that cannot be dismissed in a simple comparison of cost that purports to lead to a conclusion of worth.

4. As a key player in transforming Hong Kong into a knowledge-based society and economy, the HKU and our sister institutions will continue to pursue and excel in our academic endeavours. The higher education institutions hope that the community would value their contributions and trust that the investments in them are indeed value for money and worthy of continual support.

**Information from UGC to the institutions in
the 2001-02 to 2003-04 funding exercise**

1. Audit noted that in the 2001-02 to 2003-04 funding exercise, the data of the funding allocation for teaching were not fully made known to the individual institutions. An important cost factor in the funding formula for the 75% teaching element was the relative cost weightings of different academic programmes/disciplines. Some academic programmes (e.g. Medicine and Dentistry) were more expensive to teach than others because of the needs of special equipment, laboratory facilities, or more staff time. The UGC broadly classified the academic programmes into 17 categories. Relative cost weightings were assigned to individual categories which would form the basic input into the funding model. Taking also into account the student numbers of different levels and modes, and the unit cost of a full-time first degree student, the teaching element of the block grant for each institution was determined.

2. When notifying the institutions of the amount of the block grant, the UGC only provided the institutions a table showing the range of relative cost weightings for the 17 Academic Programme Categories. The UGC believed the range reflected both the current practice in Hong Kong and the wider international practice. The relative cost weightings used for the 2001-02 to 2003-04 triennium are summarised in the table below.

Relative cost weightings of 17 Academic Programme Categories

Programme Category	Relative cost weightings	Range difference
1. Medicine	4.0 – 5.0	1.0
2. Dentistry	3.5 – 5.0	1.5
3. Studies Allied to Medicine & Health	1.4 – 2.4	1.0
4. Biological Sciences	1.3 – 3.8	2.5
5. Physical Sciences	1.3 – 3.2	1.9
6. Mathematical Sciences	0.9 – 1.5	0.6
7. Computer Science & IT	0.9 – 1.5	0.6
8. Engineering & Technology	1.2 – 2.3	1.1
9. Architecture & Town Planning	1.0 – 1.6	0.6
10. Business & Management Studies	0.8 – 1.6	0.8
11. Social Sciences	1.0 – 1.6	0.6
12. Law	1.0 – 1.6	0.6
13. Mass Communication & Documentation	1.0 – 1.6	0.6
14. Languages & Related Studies	0.8 – 1.5	0.7
15. Humanities	0.9 – 1.2	0.3
16. Arts, Design & Performing Arts	1.3 – 1.8	0.5
17. Education	0.9 – 1.4	0.5

3. The range of the relative cost weightings of Academic Programme Categories varied. The range of relative cost weightings of Biological Sciences (item 4 in the table above) varied from 1.3 to 3.8, and it had a wide difference of 2.5 between the two extremes. The institutions were only informed of the range, but not informed of the specified relative cost weightings of the 17 Academic Programme Categories.

4. These 17 specified relative cost weightings of the Academic Programme Categories were applied in the funding formula with the cost weightings assigned to different levels of study. The UGC did not disclose to the institutions the cost weightings assigned to different levels of study.

5. The specified relative cost weightings of the Academic Programme Categories and the cost weightings of the different levels of study were used by the UGC across the board for calculating funding for teaching to the institutions.

6. As the UGC did not inform individual institutions of the specified relative cost weightings used by the UGC for different programmes and for different levels of study, the institutions could not know whether the amount allocated to each programme correctly reflected the cost of providing the programme.

Source: UGC's records

**Extracts of comments made by
the RAE panels and their individual members in the 1999 RAE**

Biology Panel

Individual members' comments

“The level of research attained by top laboratories in Hong Kong is excellent and comparable to that seen in second tier universities in the US and Canada (e.g. University of Michigan, University of Illinois, Purdue University, Calgary University, etc.).”

“For historical reasons, some mission-oriented universities have narrowly focused research activities and therefore overrepresentation of academics in extremely specialized areas. This strategy has serious repercussions on the training of their students. An important role of a university is to teach students the skills to think and to learn in new situations. University students that lack a broad-based training do not have the necessary tools to be innovative or creative in their approach to problem solving – a trait that is critical for the citizens of Hong Kong to survive in an ever changing climate, both economically and technologically. The bottom line is that even mission-oriented departments need to teach basic science to their students. Since Hong Kong is small and has limited resources, cross-registration between universities to ensure a well-rounded curriculum for all university students should be seriously considered.”

Electrical and Electronic Engineering (EEE) Panel

Overall comments

“To the overseas members, the research threshold seems reasonable and the research standard in EEE disciplines adopted in Hong Kong is comparable to that in their own country, and among the higher ones in US.”

Individual members' comments

“The performance of Hong Kong universities compares well with universities in Australia, Japan, UK and US. The level and standard of research output in Hong Kong are impressive in comparison with similar departments in the UK

“It does not exist a significant difference of research performance between Hong Kong and Japan. However, the researches linked with industrial sector were small.”

Computer Science/Information Technology Panel

Individual members' comments

“Hong Kong institutions are definitely catching up rapidly with US institutions in both journal and conference publications. It is now common to see technical papers written by Hong Kong researchers which are published in top international journals and conferences.”

“The publication rate of an active researcher in the US is higher than that of an active researcher in Hong Kong, but the trend is not to increase the rate. Rather, the impact of the publications is more important.”

Business Studies and Economics Panel

Overall comments

“... .. Full credit should be given to all UGC-funded institutions, which have made a strong commitment to raising their research performance, both in terms of quantity and quality of the research output. They should all be congratulated for these enviable achievements over a short span of time. The results of this round of the RAE will firmly place Hong Kong in the world league of universities occupying a leadership position in Business and Economics research

Individual members' comments

“There are individual scholars and academic departments in Hong Kong whose research performances are clearly on par with those found among the top 20–25 research universities in the US. This is quite an accomplishment given the short history that high quality research (as measured by faculty publications in international refereed journals) has been emphasized and promoted among universities in Hong Kong.”

“In order for the universities in Hong Kong to be recognized as leading research institutions with unique value-added, they must not just follow and copy what is done in other countries. Instead, scholars in Hong Kong must identify research topics that have both local relevance and global impact. This has not been done much in Hong Kong. Most of the published research included in this round of RAE seems to either have a local focus or deal with topics that were started in the West. Neither of these two research approaches are desirable. Their goal should be to conduct research that capitalizes on unique location advantages and yet addresses issues that have worldwide application.”

Scholarship as defined by the Carnegie Foundation

Scholarship of Discovery

The scholarship of discovery, at its best, contributes not only to the stock of human knowledge but also to the intellectual climate of an institution. It is a scholarly investigation, closest to what is meant when academics speak of “research”, that confronts the unknown and creates new knowledge. Not just the outcomes, but the process, and especially the passion, give meaning to the effort.

Scholarship of Integration

It is a serious, disciplined work that seeks to interpret, draw together and bring new insight to bear on original research. The scholarship is closely related to discovery. Such work is increasingly important as traditional disciplinary categories prove confining, forcing new topologies of knowledge. This scholarship also means interpretation, fitting one’s own research – or the research of others – into larger intellectual patterns. A variety of scholarly trends – interdisciplinary, interpretive, integrative, are examples of scholarship of integration.

Scholarship of Application

It is a dynamic process of creating new intellectual understandings arising out of theory and practice. The term itself may be misleading if it suggests that knowledge is first “discovered” and then “applied”. The process is in fact more dynamic; new intellectual understanding can arise out of vital interaction between theory and practice, and one renews the other.

Scholarship of Teaching

It is a process that transforms and extends knowledge while transmitting an intelligible account of knowledge to the learners.

Source: UGC’s records

**Bodies/units providing self-financing continuing
and professional education programmes in the institutions**

Institution	Bodies/units providing continuing and professional education programmes	Remarks
CityU	The School of Continuing and Professional Education	The School was established in 1991 to provide quality continuing education for professional practice, retraining, and self-development that anticipate and respond to community needs and the effects of social and technological changes. It offers courses leading to associate, undergraduate and postgraduate awards offered by the CityU and overseas institutions. Additional courses leading to continuing education certificates and diplomas are also offered.
HKBU	The School of Continuing Education	The School offers programmes to meet the demands and aspirations for education of people in employment. It offers short courses, diploma and certificates programmes, correspondence courses, tailor-made in-house training courses for local organisations, bachelor and master degree programmes collaborated with overseas universities.
LU	The Lingnan Institute of Further Education	The Institute was officially established in 2001 to coordinate and integrate developments in continuing and lifelong education. It offers courses to equip students with practical expertise in information and communication technology, pre-school education, banking and caring of old people through partnership with professional bodies. It also offers courses in arts, humanities and social science to meet people's aspiration in those fields.
CUHK	The School of Continuing Studies	The School was established in 1965 under the former name of Department of Extramural Studies. In 1994, it was changed to its present name. It provides continuing and professional education programmes and services in order to meet the needs of the changing society. Its programmes are: general short courses and award-bearing programmes at postgraduate, undergraduate, diploma and certificate level, and cover various disciplines such as art and culture, business administration, the humanities, information technology, languages and social sciences.

Institution	Bodies/units providing continuing and professional education programmes	Remarks
HKIED	The Division of Continuing Professional Education	The Division was established to extend the range of courses, consultancies and other services that the HKIED is able to provide, and to respond rapidly and flexibly to professional development needs and requests as they arise. It offers a wide range of courses, consultancies and other services to teachers, heads of schools, teacher educators, trainers, schools and education and training bodies.
PolyU	The School of Professional Education and Executive Development	The School was established to dedicate to the provision of professional, continuing education and executive development courses particularly for mature learners. It offers courses that can lead to awards of certificates, diplomas or degrees.
HKUST	The Office of Continuing and Professional Education	The Office was established to offer different types of continuing and professional education programmes mostly in part-time mode of study to cater for the lifelong learning needs of the workforce in Hong Kong. It offers short courses, workshops and degree as well as diploma programmes in business and management; engineering; arts and science; and learning and teaching.
HKU	HKU School of Professional and Continuing Education	The School was formally established in 1992. It was incorporated in 1999 as a wholly owned subsidiary of HKU, providing quality professional and continuing programmes. Its predecessor, the Department of Extra-Mural Studies, was established in 1956. It offers over 200 award-bearing programmes and over 1,000 non-award-bearing courses each year. With 700 full-time and 2,060 part-time staff, it is the leading provider in the field of continuing education. In 2001-02, the enrolment figure exceeded 100,000 for the first time (equivalent to about 17,550 full-time students).

Source: *The institutions' records*

Acronyms and abbreviations

CDCF	Common Data Collection Format
CERG	Competitive Earmarked Research Grant
CityU	City University of Hong Kong
CUHK	Chinese University of Hong Kong
EC	Education Commission
EEE	Electrical and Electronic Engineering
EMB	Education and Manpower Bureau
FC	Finance Committee
FTE	Full time equivalent
FYFD	First-year first-degree
HEFCE	Higher Education Funding Council for England
HKBU	Hong Kong Baptist University
HKIEd	Hong Kong Institute of Education
HKU	University of Hong Kong
HKUST	Hong Kong University of Science and Technology
LegCo	Legislative Council
LU	Lingnan University
OECD	Organisation for Economic Cooperation and Development
PolyU	Hong Kong Polytechnic University
RAE	Research Assessment Exercise
RGC	Research Grants Council
SEM	Secretary for Education and Manpower
SWD	Social Welfare Department
UGC	University Grants Committee