

HONG KONG ACADEMY FOR PERFORMING ARTS

Executive Summary

1. The Hong Kong Academy for Performing Arts (HKAPA) was established in 1984 by The Hong Kong Academy for Performing Arts Ordinance (Cap. 1135) to foster and provide training, education and research in the performing arts and related technical arts. The HKAPA offers undergraduate degree programmes, sub-degree programmes and junior programmes with government funding. It also offers self-financing Master's degree programmes. The Home Affairs Bureau (HAB) oversees the funding and operations of the HKAPA. In the financial year 2014-15 (ended on 30 June 2015), government subvention to the HKAPA amounted to \$309 million, accounting for 66% of the HKAPA's total income of \$467 million. With a total expenditure of \$437 million, the HKAPA recorded a surplus of \$30 million in 2014-15. The Audit Commission (Audit) has recently conducted a review of the HKAPA.

Provision of academic programmes

2. *Enrolment shortfall in government-funded programmes.* As at 31 October 2015, there were 643 students enrolled for the HKAPA's undergraduate degree programmes and 142 students for sub-degree programmes. The 785 enrolled students comprised 698 (89%) local students and 87 (11%) non-local students. The HKAPA sets student enrolment targets every year. For undergraduate degree and sub-degree programmes, there were enrolment shortfalls in the academic years 2012/13 to 2015/16, increasing from 14 places (2%) in 2012/13 to 40 places (5%) in 2015/16. In 2015/16, local students only filled 85% of the enrolment target of 825. The shortfall was partially made up by non-local students (see para. 3). Among the HKAPA's six Schools, the School of Chinese Opera had the highest number (16) and percentage (26%) of enrolment shortfall in 2015/16. With increasing competition from other higher education institutions against the trend of a falling student population, the HKAPA needs to plan strategically to meet the challenges in student enrolment (paras. 1.7, 2.6, 2.8, 2.10 and 2.13).

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3. ***Need to review HKAPA policy on admission of non-local students.*** The Government has adopted a policy to attract quality non-local students to study in Hong Kong as a way to internationalise the local higher education sector. In December 2014, the Government refined the policy such that for education institutions funded by the University Grants Committee (UGC), starting from 2016/17, all new non-local students should be admitted through over-enrolment outside the approved student number targets, capped at 20% of the targets. The refined policy ensures that all UGC-funded places are for local students only. The HKAPA has adopted a policy of admitting non-local students up to 20% of the total student number, with no differentiation of its student number target between local students and non-local students. The HAB needs to review whether and to what extent the principles of the refined policy for UGC-funded institutions would apply to the HKAPA, and to draw up a policy on admission of non-local students for the HKAPA (paras. 2.20, 2.23, 2.26 and 2.27).

4. ***Tuition fee for non-local students not recovering all additional direct costs.*** For undergraduate degree programmes, the HKAPA has adopted the policies of aligning the tuition fee with that of UGC-funded institutions (set for some years at \$42,100 a year), and charging non-local students the same tuition fee. By contrast, UGC-funded institutions are required to charge non-local students tuition fee at a level that was at least sufficient to recover all additional direct costs. In 2015/16, their fees ranged from \$110,000 to \$146,000. In response to the HAB's request of February 2015 for the HKAPA to review its tuition fee policy for non-local students, the HKAPA indicated that it was formulating a proposal of phased introduction of fee increase (paras. 2.28 and 2.29).

5. ***Increasing student unit cost.*** The HKAPA's student unit cost, being an important performance indicator, is published in the HAB's Controlling Officer's Report. There has been an increasing trend in the HKAPA's student unit cost, which increased by 80% from \$171,000 in 2005/06 to \$308,000 in 2014/15. The HAB and the HKAPA need to examine the underlying reasons and monitor the student unit cost closely (paras. 2.34 and 2.36).

6. ***Decreasing number of graduates.*** In line with the new academic structure, the HKAPA started in 2012/13 to migrate to a four-year undergraduate degree structure. In the transition, the HKAPA expanded its enrolment of undergraduate degree programmes and phased out some sub-degree programmes. As a result, the total number of graduates decreased by 47% from the peak of 418 in

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2011/12 to 222 in 2014/15. This has reduced the supply of HKAPA graduates to the performing arts sector (paras. 2.42 to 2.44).

Governance and government monitoring

7. *Lower meeting attendance rates of some committees and Council members.* The Council, supported by seven committees, is the governing body of the HKAPA. While from 2011 to 2015 the overall attendance rates at meetings of the Council and its committees were generally above 70%, one committee in 2013 and another in 2011, 2013 and 2015 had lower overall attendance rates (ranging from 60% to 69%). Furthermore, two Council members had low attendance rates (29%) at Council meetings during their term from 2013 to 2014. However, both were re-appointed for another term from 2015 to 2016 (paras. 3.2, 3.3, 3.7 and 3.8).

8. *Need to impose additional requirements for monitoring.* In 2001, the HAB and the HKAPA entered into a Memorandum of Administrative Arrangements (MAA) setting out the framework of administrative arrangements between them. As the MAA has not been updated, some important reporting requirements specified in subvention guidelines issued by the Government after 2001 are not incorporated, such as the requirement to submit an audited annual financial report on subvented programmes with an auditor's opinion on the compliance with all government requirements and subvention guidelines (paras. 3.22, 3.24 and 3.25).

9. *Unspent balances not returned to the reserve.* The HKAPA may keep as reserve any savings from its annual recurrent subvention, up to a limit. It might make allocation from the reserve for a specific purpose. When the purpose has been accomplished, the unspent balance should be returned to the reserve. However, there were cases where the unspent balances totalling some \$18 million were not duly returned to the reserve (paras. 3.26 and 3.29).

Administrative issues

10. *Low utilisation rates of some teaching venues.* Audit analysis based on available records indicated that the average utilisation rates of the HKAPA's teaching venues in 2014-15 were: (a) 32% to 79% for those at the Wanchai Campus; (b) 3% to 28% for those at the Bethanie Campus; and (c) 12% to 35% for

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those at leased premises at commercial buildings. The utilisation rates recorded for some teaching venues were low, although according to HKAPA records there have been repeated comments of acute shortage in teaching space (paras. 4.5 to 4.7).

11. *Low utilisation rates of some performance venues.* The HKAPA has a number of performance venues, which are available for hiring by outside parties when they are not being used for teaching purposes. Based on statistics compiled by the HKAPA, the utilisation rates of these performance venues in 2014-15 were: (a) 50% to 94% for those at the Wanchai Campus; and (b) 19% to 31% for those at the Bethanie Campus. There is scope for promoting the hiring of the performance venues with low utilisation rates (paras. 4.12 to 4.14).

Campus improvement and expansion

12. In June 2012, the Finance Committee of the Legislative Council (LegCo) approved a funding of \$444.8 million for the HKAPA to carry out an expansion and improvement project of the Wanchai Campus. The core part of the project was an on-campus expansion (OCE) project, scheduled for completion in December 2015. As at January 2016, the OCE project was expected to be completed in December 2017, two years behind schedule (paras. 5.3 and 5.5).

13. *Change in project design after funding approval.* The HKAPA's original plan was to invite tenders in January 2013. However, it only did so in October 2013 after making design changes found necessary in: (a) a strategic review initiated in November 2012, which concluded in April 2013 that a digital technology enhanced educational environment would be a key priority; and (b) a value re-engineering exercise conducted from January to March 2013 with a view to reducing the project cost, after it found from the pre-tender estimate in December 2012 that the approved project estimate (APE) of \$444.8 million might be exceeded. However, the returned tender prices were still higher than the estimates. In March 2014, the HAB made a proposal to the Financial Services and the Treasury Bureau (FSTB) to seek supplementary provision of \$150 million to cover the increased cost of the OCE project (about \$105 million) and to meet the expenditure for specialist equipment (about \$45 million) not included in the original project scope. The FSTB commented that it was highly undesirable for the HKAPA to initiate changes that would affect the APE after funding approval, and asked the HAB and the HKAPA to critically review the project scope and works specifications to contain the project cost within the APE (paras. 5.6 and 5.8).

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14. ***Project scope reduction not reported to LegCo.*** In June 2014, the HAB and the HKAPA worked out a cost containment proposal to bring about savings of \$68 million to contain the project cost within the APE by excluding the construction of a one-storey lightweight structure on the roof of an existing block. The original total construction floor area of 10,889 square metres would be reduced by about 10%. According to a Financial Circular, LegCo approval should be sought for changes that constitute a significant deviation from the approved project scope and the FSTB may approve minor changes to project scope. There are currently no guidelines and procedures for determining what constitutes a significant change in project scope where LegCo approval has to be sought. In this case, the FSTB deferred to the HAB to consider whether and, if so, how to report the reduction in project scope to LegCo. The HAB considered it not necessary to report to LegCo as the proposal would not constitute a substantial change in project scope. In August 2014, the HKAPA awarded the contract according to the cost containment proposal. Up to February 2016, the HAB had not informed LegCo of the project delay and reduction in scope (paras. 5.6 and 5.9 to 5.13).

Audit recommendations

15. **Audit recommendations are made in the respective sections of the Audit Report. Only the key ones are highlighted in the Executive Summary. Audit has *recommended* that the HKAPA should:**

- (a) **closely monitor the student enrolment situation and address the enrolment shortfall (para. 2.17(a));**
- (b) **in conjunction with the Secretary for Home Affairs, closely monitor the student unit cost and take effective measures to contain the increasing trend (para. 2.38);**
- (c) **in conjunction with the Secretary for Home Affairs, review the effects of the reduction in number of graduates (para. 2.51);**
- (d) **take measures to improve the attendance rates at Council and committee meetings (para. 3.18(a) and (b));**
- (e) **return to the reserve the unspent balance of an allocation when the purpose of the allocation has been accomplished (para. 3.39(b));**

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- (f) **monitor the utilisation rates of teaching venues and performance venues, and improve the utilisation of those with low utilisation rates (paras. 4.10 and 4.17); and**
 - (g) **implement future government-subsented capital works projects in strict accordance with the approved scope, and avoid making changes to the design and specifications that would increase the APE (para. 5.16(b)).**
16. **Audit has *recommended* that the Secretary for Home Affairs should:**
- (a) **draw up a policy on admission of non-local students for the HKAPA (para. 2.31(a));**
 - (b) **pursue further with the HKAPA on setting a tuition fee level for non-local students to recover all additional direct costs (para. 2.31(b));**
 - (c) **update the MAA with the Government's prevailing subvention guidelines (para. 3.40(a));**
 - (d) **follow up the return of unspent balances of allocations made from the HKAPA's reserve (para. 3.40(b));**
 - (e) **provide timely guidance to subsented organisations to remind them to implement subsented capital works projects in strict accordance with the approved scope, and complete the projects on time and within budget (para. 5.17(b)); and**
 - (f) **report the progress of the OCE project to LegCo with a detailed account of the delay and reduction in scope (para. 5.17(c)).**

Response from the HKAPA and the Government

17. The Director, HKAPA and the Secretary for Home Affairs generally accept the audit recommendations.