

## **CHAPTER 2**

### **University Grants Committee Secretariat**

<p><b>Funding of universities by University Grants Committee</b></p>
--

**Audit Commission  
Hong Kong  
28 October 2016**

*This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.*

Report No. 67 of the Director of Audit contains 10 Chapters which are available on our website at <http://www.aud.gov.hk>

Audit Commission  
26th floor, Immigration Tower  
7 Gloucester Road  
Wan Chai  
Hong Kong

Tel : (852) 2829 4210  
Fax : (852) 2824 2087  
E-mail : [enquiry@aud.gov.hk](mailto:enquiry@aud.gov.hk)

# FUNDING OF UNIVERSITIES BY UNIVERSITY GRANTS COMMITTEE

## Contents

	<b>Paragraph</b>
<b>EXECUTIVE SUMMARY</b>	
<b>PART 1: INTRODUCTION</b>	1.1
Background	1.2 – 1.12
Audit review	1.13 – 1.14
General response from the Government	1.15
Acknowledgement	1.16
<b>PART 2: ADMINISTRATION OF RECURRENT GRANTS</b>	2.1
Provision of recurrent grants	2.2 – 2.15
Audit recommendations	2.16
Response from the Government	2.17
Review of tuition fees	2.18 – 2.22
Audit recommendation	2.23
Response from the Government	2.24
Compliance with enrolment rules	2.25 – 2.34
Audit recommendations	2.35
Response from the Government	2.36

	<b>Paragraph</b>
<b>PART 3: ADMINISTRATION OF CAPITAL GRANTS</b>	3.1
Capital grants	3.2 – 3.5
Shortfall in student hostel places and academic space	3.6 – 3.12
Audit recommendations	3.13
Response from the Government	3.14
Assessment of academic space and student hostel needs	3.15 – 3.21
Audit recommendations	3.22
Response from the Government	3.23
Finalisation of project final accounts	3.24 – 3.32
Audit recommendations	3.33
Response from the Government	3.34
 <b>PART 4: GOVERNANCE AND OTHER ADMINISTRATIVE ISSUES</b>	 4.1
Governance of the UGC	4.2 – 4.11
Audit recommendations	4.12
Response from the Government	4.13
Meeting expenses	4.14 – 4.24
Audit recommendations	4.25
Response from the Government	4.26 – 4.28
Internationalisation of the universities	4.29 – 4.34
Audit recommendations	4.35 – 4.36
Response from the Government	4.37 – 4.38

	<b>Paragraph</b>
Governance of the universities	4.39 – 4.45
Audit recommendations	4.46
Response from the Government	4.47
Quality Assurance Council	4.48 – 4.57
Audit recommendations	4.58
Response from the Government	4.59
<b>Appendices</b>	<b>Page</b>
A : UGC Secretariat: Organisation chart (extract) (30 June 2016)	90
B : Total number of students (FTE) enrolled in UGC-funded programmes by level of study (2010/11 to 2015/16)	91 – 92
C : Total number of staff (FTE) in academic departments of the universities by staff grade (2010/11 to 2015/16)	93 – 94
D : Recurrent grant funding methodology	95
E : List of recommendations of the review report on universities’ financial affairs (Published in October 2013)	96 – 97
F : List of recommendations of the review report on institutional governance (Published in March 2016)	98
G : Acronyms and abbreviations	99



# **FUNDING OF UNIVERSITIES BY UNIVERSITY GRANTS COMMITTEE**

## **Executive Summary**

1. In Hong Kong, there are eight universities funded by the University Grants Committee (UGC) (all universities mentioned hereinafter refer to UGC-funded universities). The UGC was established as a non-statutory advisory body in 1965. It advises the Government on the development and funding of higher education in Hong Kong, advances the quality of teaching and learning, research and knowledge transfer at the universities, and monitors the efficiency and cost-effectiveness of the universities' UGC-funded activities. The UGC mediates interests between the universities and the Government. On one hand, the UGC safeguards the academic freedom and institutional autonomy of the universities, while on the other it ensures value for money for the taxpayers. As at 30 June 2016, the UGC had 20 members comprising a Chairman and 19 other members.

2. The UGC is supported by seven Sub-Committees and Groups. The UGC has under its aegis two non-statutory advisory bodies, namely the Research Grants Council (RGC) and the Quality Assurance Council (QAC). The UGC (as well as its Sub-Committees, Groups and Councils) is supported by the UGC Secretariat (a government department), which is headed by the Secretary-General, UGC. The Secretariat assists the UGC in carrying out its functions and administers the grants provided to the universities. As at 30 June 2016, the Secretariat had a staff establishment of 84. For the financial year 2016-17, the estimated expenditure of the UGC amounted to \$17,966 million (\$144 million for the Secretariat's expenses and \$17,822 million for grants/reimbursements provided to the universities). The Education Bureau (EDB) is the policy bureau of the UGC Secretariat. Recommendations on recurrent grants to the universities are submitted by the UGC, through the Secretary for Education, to the Chief Executive in Council for endorsement. The annual recurrent grants are examined by the Finance Committee of the Legislative Council and approved by the Legislative Council in the context of the Appropriation Bill.

## Executive Summary

---

3. In the academic year 2015/16 (all years mentioned hereinafter refer to academic years), the total number of students (full-time equivalent) enrolled in the UGC-funded programmes was 95,520 and the total number of staff (full-time equivalent) in academic departments of the universities was 13,074. The actual recurrent grants to the universities amounted to \$16,072 million in 2014/15 (figures for 2015/16 were not yet available as at 31 August 2016), while the actual capital grants amounted to \$845 million in 2015/16. The Audit Commission (Audit) has recently conducted a review on the funding of universities by the UGC.

### Administration of recurrent grants

4. *Provision of recurrent grants.* Recurrent grants are provided to the universities to support their academic work and related administrative activities. The recurrent grants comprise block grants and earmarked grants. Block grants comprise “two pots of money”, namely the “existing pot of money” and the “new pot of money”. The “existing pot of money” is the funding for the three years of undergraduate study and other levels of study. This pot of money comprises the teaching element (about 75%), the research element (about 23%) and the professional activity element (about 2%). The “new pot of money” is the recurrent funding for an additional year of undergraduate study under the “3+3+4” new academic structure introduced since 2012/13 and is allocated wholly as “teaching funding”. Earmarked grants are for specific purposes (e.g. grants for knowledge transfer activities). Audit noted that: (a) for the part of funding for the research element that was based on the universities’ performance in the Research Assessment Exercise, the UGC did not include the universities’ research impact as one of the elements of assessment in the Exercise; and (b) in allocating the earmarked grants for knowledge transfer activities (\$62.5 million per annum in the 2016-19 triennium) to the universities, the UGC did not take into consideration the achievements of knowledge transfer activities of the universities (paras. 2.2 to 2.4, 2.11, 2.12 and 2.14).

5. *Review of tuition fees.* In January 1991, the then Governor in Council decided that the target cost recovery rate for tuition fee for degree courses should be set at 18%. This target was achieved in 1997/98 when the indicative tuition fee for UGC-funded programmes at undergraduate degree level or above was raised to \$42,100 per student per year. In October 2011, the Chief Executive in Council decided that the target rate should be revisited in the context of a review. Audit noted that: (a) the tuition fee had remained unchanged and had not been reviewed



## Executive Summary

---

since 1997; (b) the cost recovery rates dropped to 17.6%, 16.9% and 15.8% in 2013/14, 2014/15 and 2015/16 respectively; (c) the EDB envisaged that with the indicative tuition fee maintained at its current level, the cost recovery rate was expected to continue to fall in the 2016-19 triennium; and (d) it was only in June 2015 that the EDB invited the UGC to launch a review of tuition fee policies in other jurisdictions and propose options to the EDB for consideration with due regard to the situation in Hong Kong (paras. 2.18 to 2.22).

6. ***Compliance with enrolment rules.*** The universities should adhere to the approved student number targets set by the UGC as far as possible in each triennial funding cycle. Nevertheless, the UGC has laid down a number of enrolment rules in the Notes on Procedures (NoP) that allow the universities to have some flexibility in enrolling students. Audit noted that: (a) there were cases of non-compliance with the enrolment rules in the 2009-12 and 2012-15 triennia. For instance, three universities exceeded the 4% limit of over-enrolment of local students in three manpower-planned programmes by 1.2% to 15.1% in the 2012-15 triennium. However, there was no documentary evidence showing that the UGC had taken follow-up action; (b) in December 2014, the EDB expressed to the UGC its concern that actual enrolment by the universities in certain streams subject to specific manpower requirements had deviated significantly from the approved student numbers (e.g. the enrolments of a stream of teacher education programme had been lower than 50% of the approved student numbers since 2010/11). The EDB commented that serious under-enrolment of this scale defeated the purpose of setting such requirements and represented a misuse of UGC funds. Accordingly, the EDB suggested that the various streams of teacher education programme should be treated as distinct manpower-planned programmes for the purpose of applying the limits on enrolment. As at 31 July 2016, the UGC was still deliberating on the appropriate limits on under-enrolment on individual streams of teacher education programmes; and (c) in December 2014, to effect the policy change for admission of non-local students (i.e. students should only be admitted through over-enrolment capped at 20% of the approved UGC-funded student numbers) in 2016/17, the EDB requested the UGC to make corresponding changes to the NoP and, where necessary, to the enrolment rules. As at 31 July 2016, the NoP had still not yet been updated and the changes to the enrolment rules had not yet been finalised (paras. 2.25 to 2.27 and 2.30 to 2.33).

## Executive Summary

---

### Administration of capital grants

7. *Shortfall in student hostel places and academic space.* In 2015/16, there was a total shortfall of 8,660 student hostel places and 133,292 square metres (m<sup>2</sup>) of academic space for the universities. The UGC had 16 capital works projects (exceeding \$30 million per project — hereinafter referred to as major CWPs) under planning, which would provide a total of 9,380 student hostel places and 76,712 m<sup>2</sup> academic space. Audit noted that the slow progress in campus and student hostel development would affect the operation and development of the universities. For example: (a) due to the shortfall in hostel places, the student hostel policy (e.g. research postgraduate students should be provided with student hostel places) could not be met; (b) the shortfall in hostel places would impede the strategic goal of the universities in pursuing internationalisation; and (c) the shortfall in academic space would adversely affect the research development of the universities (paras. 3.3, 3.6 to 3.8, 3.10 and 3.11).

8. *Assessment of academic space and student hostel needs.* In 2015/16, the eight universities were provided with some 1 million m<sup>2</sup> of publicly-funded academic space and 29,000 publicly-funded student hostel places. Audit examined the UGC's assessment of academic space and student hostel needs of the universities and found that: (a) the last review of the space requirement formulae for assessing the universities' academic space needs was conducted ten years ago in 2006; (b) in the latest space inventory updating exercise conducted in November 2014, there were differences (of 6,871 m<sup>2</sup>) between the academic space inventory records maintained by the UGC and those submitted by the universities. As at 30 June 2016, the reconciliation of the records had not yet been completed by the UGC Secretariat; (c) no audit of the space inventories of the universities by an external party to verify the accuracy of the inventories has been conducted since 2006; and (d) the UGC Secretariat has not conducted any space utilisation surveys nor requested the universities to provide information on their space utilisation since 2006 (paras. 3.5, 3.15, 3.16, 3.19 and 3.21).

9. *Finalisation of project final accounts.* Audit examined the finalisation of project final accounts for major CWPs and Alterations, Additions, Repairs and Improvements (AA&I) projects. Audit found that: (a) project final accounts should be submitted by the universities to the UGC Secretariat and finalised not later than three years after “commissioning of the facilities” for major CWPs. The Secretariat included the defect rectification period in the determination of “commissioning of

## Executive Summary

---

the facilities”. It was not clear whether the Secretariat’s practice was proper as there was no elaboration of the meaning of the term “commissioning of the facilities” in the Financial Circular from which the Secretariat adopted the term; (b) as at 30 June 2016, the finalisation of project final accounts for 36 completed major CWPs and 98 completed AA&I projects had been overdue; and (c) the finalisation of project final accounts for 29 (81%) of the 36 major CWPs and 43 (44%) of the 98 AA&I projects had been overdue for more than three years. The longest overdue periods were some 18 years for major CWPs and some 15 years for AA&I projects (paras. 3.24 to 3.26 and 3.28 to 3.31).

### Governance and other administrative issues

10. **Governance of the UGC.** Audit examined the governance of the UGC and found that: (a) 26 Register of Interests forms for the period 2011/12 to 2015/16 of three existing UGC members, two existing QAC members, seven ex-UGC members and eight ex-QAC members could not be located by the UGC Secretariat. Different from the practice for RGC members, members of the UGC, the UGC Sub-Committees/Groups and the QAC were not required to submit annually an updated Register of Interests form to the Secretariat; (b) as at 30 June 2016, one local QAC member attended 2 (29%) out of 7 QAC meetings since his appointment in April 2014. Another non-local QAC member attended 2 (50%) out of 4 meetings since his appointment in April 2015; and (c) the UGC Secretariat had not promulgated rules of procedure governing the conduct of meetings of the UGC, the UGC Sub-Committees/Groups and the QAC (paras. 4.6 to 4.9).

11. **Meeting expenses.** Meeting expenses mainly include expenses on hotel accommodation, air passage and per-diem allowance for non-local members of the UGC, the RGC and the QAC (as well as their Committees, Sub-Committees, Groups and Panels). Public entities need to pay due regard to controlling meeting expenses for public accountability in the use of public funds and ensuring value for money. In the period 2005-06 to 2015-16, the annual meeting expenses of the UGC, the RGC and the QAC increased from \$3.9 million to \$16.2 million. The increase in expenses over the years was mainly due to increased number of non-local RGC Council/Panel/Committee members and increased number of meetings with the introduction of new funding schemes. Audit examined 30 payments of meeting expenses incurred in the period 2014-15 and 2015-16, and found that: (a) the 30 payments covered the procurement of 2,402 hotel room-nights booked after obtaining quotations from the same five upmarket hotels. There was

## Executive Summary

---

no documentary evidence showing justifications for choosing the same five upmarket hotels and that less expensive hotels were not suitable or not available to provide the room-nights; (b) it is a practice of the UGC Secretariat that all non-local members are provided with Business Class return air tickets for travelling to Hong Kong to attend meetings. Furthermore, if the spouse of a non-local member wishes to accompany the member, the member's Business Class passage entitlement will be used to cover the cost of two return air tickets provided that any excess airfare will be borne by the member; and (c) although some procurement batches could have been consolidated to achieve possible economies of scale, the UGC Secretariat conducted 12 procurement batches for a total of 110 return air tickets costing about \$7.1 million (paras. 4.14 to 4.17 and 4.21 to 4.22).

12. *Internationalisation of the universities.* The UGC sees internationalisation as the key to Hong Kong's future and a matter of priority for the universities. According to the 2010 higher education review report published by the UGC, while it is important to encourage Mainland students to enter Hong Kong universities, true internationalisation requires a much greater diversity of nationalities and cultural background. In 2015/16, there were 15,730 non-local students enrolled in UGC-funded programmes. They represented 16% of total student enrolment in 2015/16. Audit analysed the mix of non-local students at the universities enrolled in UGC-funded programmes and noted that Mainland students made up 76% of the non-local students at the universities in 2015/16. There were 3,837 non-local students other than Mainland students, accounting for 3.9% of total student enrolment. Audit also noted that greater efforts could be made in implementing the recommendations of the 2010 higher education review report. For example, the review report recommended that the universities should actively maintain an international mix of their academic staff. While the UGC Secretariat had been collecting from the universities information on their student mix, it had not collected information on their academic staff mix (e.g. qualifications, experience and countries of origin). Furthermore, a set of key performance indicators on internationalisation was yet to be agreed with the universities (paras. 4.29 to 4.32 and 4.34).

13. *QAC.* The QAC assists the UGC in providing oversight of the quality of the universities' educational provision by conducting quality audits. Audit noted that there were insufficient local academic auditors for conducting quality audits of the universities. In a case of appointment of local auditors, the QAC took seven months to form an audit panel (paras. 4.48, 4.49 and 4.55).

## Executive Summary

---

### Audit recommendations

14. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has recommended that the Secretary-General, University Grants Committee should:**

#### *Administration of recurrent grants*

- (a) **explore whether there are merits in including the impact of research as one of the elements of assessment in the conduct of future Research Assessment Exercises (para. 2.16(a));**
- (b) **consider taking into account the universities' achievements of knowledge transfer activities in future allocation of knowledge transfer funding (para. 2.16(b));**
- (c) **set out in the NoP the action that would be taken by the UGC in cases of non-compliance with the UGC's enrolment rules and take appropriate action on cases of non-compliance accordingly (para. 2.35(a));**
- (d) **expedite the imposition of limits on under-enrolment on individual streams of teacher education programmes and keep in view the need to impose limits on under-enrolment on individual streams of other manpower-planned programmes (para. 2.35(b));**
- (e) **expedite the updating of the NoP to reflect the policy change for admission of non-local students and the changes to the enrolment rules (para. 2.35(c));**

#### *Administration of capital grants*

- (f) **continue to pursue funding for major CWPs of the universities (para. 3.13(a));**
- (g) **consider the need to conduct a review on the space requirement formulae, taking into account the changes and developments in the UGC sector (para. 3.22(a));**

## Executive Summary

---

- (h) **make efforts to resolve the space inventory differences and promptly finalise the space inventory updating exercise (para. 3.22(b));**
- (i) **consider the need to conduct audit of the space inventories of the universities on a periodic basis (para. 3.22(c));**
- (j) **consider the need to conduct periodically surveys of space utilisation of the universities (para. 3.22(d));**
- (k) **seek clarification from the Secretary for Financial Services and the Treasury on the definition of “commissioning of the facilities” for the purpose of finalising final accounts for capital works projects (para. 3.33(a));**
- (l) **ascertain the reasons for the delay in finalising project final accounts for major CWPs and AA&I projects, and take measures to promptly finalise the accounts (para. 3.33(b));**

### *Governance and other administrative issues*

- (m) **locate the missing Register of Interests forms and take remedial action for those forms that cannot be located, and take measures to ensure the safekeeping of the Register of Interests forms in future (para. 4.12(a) and (b));**
- (n) **consider requiring members of the UGC, the UGC Sub-Committees/Groups and the QAC to submit annually updated Register of Interests forms to the UGC Secretariat (para. 4.12(c));**
- (o) **take measures to improve the attendance rates of members with low attendance records (para. 4.12(d));**
- (p) **promulgate rules of procedure for meetings of the UGC, the UGC Sub-Committees/Groups and the QAC (para. 4.12(e));**

## Executive Summary

---

- (q) keep under review the appropriateness of the UGC Secretariat's hotel accommodation arrangement and passage arrangement for non-local members and explore whether there are less expensive alternative options that are acceptable to the non-local members (para. 4.25(a));
  - (r) in consultation with the Director of Government Logistics and the Secretary for Financial Services and the Treasury, review whether the UGC Secretariat's current arrangement of procuring air tickets complies with the Stores and Procurement Regulations (para. 4.25(b));
  - (s) further encourage the universities to continue their efforts to attract more non-local students, in particular those other than Mainland students, and promote more diversity at the universities (para. 4.35(a));
  - (t) consider including information on the mix of academic staff (e.g. qualifications, experience and countries of origin) in the regular data collection from the universities (para. 4.35(b));
  - (u) agree with the universities on a set of key performance indicators on internationalisation and continue to monitor the universities' performance on internationalisation (para. 4.35(c)); and
  - (v) take measures to ensure that there are sufficient local academic auditors to facilitate the formation of audit panels for conducting QAC quality audits for the universities in future (para. 4.58(a)).
15. Audit has also *recommended* that the Secretary for Education should, in consultation with the Secretary-General, University Grants Committee, formulate the way forward for the tuition fee policy with a view to ensuring that an appropriate policy is in place in a timely manner (para. 2.23).

## Response from the Government

16. The Government agrees with the audit recommendations.





# **PART 1: INTRODUCTION**

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

## **Background**

### *University Grants Committee*

1.2 In Hong Kong, there are eight universities funded by the University Grants Committee (UGC). These UGC-funded universities (unless otherwise stated, all universities mentioned in this Audit Report hereinafter refer to UGC-funded universities) 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 Education University of Hong Kong (EdUHK — Note 1);
- (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).

---

**Note 1:** *The Hong Kong Institute of Education was officially renamed The Education University of Hong Kong on 27 May 2016.*

## **Introduction**

---

1.3 The UGC was established as a non-statutory advisory body in 1965. The terms of reference of the UGC are:

- (a) to keep under review in the light of the community's needs:
  - (i) the facilities in Hong Kong for education in universities, and such other institutions as may from time to time be designated by the Chief Executive of the Hong Kong Special Administrative Region;
  - (ii) such plans for development of such institutions as may be required from time to time; and
  - (iii) the financial needs of education in such institutions; and
- (b) to advise the Government:
  - (i) on the application of such funds as may be approved by the Legislature for education in such institutions; and
  - (ii) on such aspects of higher education which the Chief Executive may from time to time refer to the Committee.

1.4 According to the Controlling Officer's Report of the UGC in the annual Estimates of the Government, the UGC:

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

- 1.5 According to the UGC's Notes on Procedures (NoP — Note 2):
- (a) the UGC has neither statutory nor executive powers;
  - (b) each of the universities is an autonomous body with its own ordinance and governing council. The universities have autonomy in and responsibility for the control of curricula and academic standards, the selection of staff and students, the initiation and acceptance of research, and the internal allocation of resources. Nevertheless, because the universities are largely supported by public funds, and in view of the social, cultural and economic importance of higher education, the Government and the community at large have a legitimate interest in the operation of the universities to ensure that they are providing the highest possible standards of education in the most cost-effective manner. The UGC seeks to maintain an appropriate balance in these matters; and
  - (c) the UGC mediates interests between the universities and the Government. On one hand, the UGC safeguards the academic freedom and institutional autonomy of the universities, while on the other it ensures value for money for the taxpayers.
- 1.6 As at 30 June 2016, the UGC had 20 members comprising a Chairman and 19 other members (6 non-local academics, 6 local academics and 8 local lay persons). Members of the UGC are appointed by the Chief Executive. The UGC meets three times a year and is supported by seven Sub-Committees and Groups:
- (a) ***General Affairs and Management Sub-Committee.*** The responsibilities of this Sub-Committee include considering matters relating to the space and accommodation requirements of the universities, considering ad hoc proposals requiring funding and monitoring progress, and advising the UGC on all matters relating to public relations and publicity. As at 30 June 2016, there were 10 members in this Sub-Committee;

---

**Note 2:** *The NoP explains and sets down the major operational procedures (e.g. on funding matters) of the interplay between the UGC, the universities and the Government (as represented by the Education Bureau). The NoP is for observance by responsible officers of the universities, the UGC Secretariat (see para. 1.8) and the Government.*

## Introduction

---

- (b) ***Strategy Sub-Committee.*** The responsibilities of this Sub-Committee include advising the UGC on emerging policy issues and directions pertaining to the development of the local higher education sector having cognizance of the international dimension, considering matters relating to the institutional and academic development of the universities in a holistic and comprehensive manner, and devising methodologies to assess the funding requirements of the universities. As at 30 June 2016, there were nine members in this Sub-Committee;
- (c) ***Research Group.*** This Group is mainly responsible for advising the UGC on the strategy to promote research within the UGC sector. As at 30 June 2016, there were nine members in this Group;
- (d) ***Financial Affairs Group.*** This Group is mainly responsible for advising the UGC on the implementation of the recommendations in the review report on universities' financial affairs (see paras. 4.40 and 4.41) and overseeing the implementation of the recommendations, and advising the UGC on any issues relating to the good financial governance and sound financial planning of the universities. As at 30 June 2016, there were six members in this Group;
- (e) ***Financial Affairs Expert Working Group.*** This Working Group is mainly responsible for working with the universities on the implementation of the recommendations (concerning cost allocation between the universities' UGC-funded and non-UGC-funded activities, and financial transparency of the universities) in the review report on universities' financial affairs (see paras. 4.40 and 4.41), and advising the Financial Affairs Group (see (d) above) on drawing up and updating guidelines, and on financial matters in connection with the implementation of the recommendations in the review report. As at 30 June 2016, there were four members in this Working Group;
- (f) ***Task Force on Implementation of the Governance Report Recommendations.*** This Task Force is established under the Strategy Sub-Committee (see (b) above) and is mainly responsible for providing guidance and assistance to the universities on the implementation of the recommendations of the review report on institutional governance (see paras. 4.44 and 4.45), monitoring progress on the implementation of

the recommendations, and advising the Strategy Sub-Committee on matters relating to the implementation of the recommendations of the review report. As at 30 June 2016, there were five members in this Task Force; and

- (g) ***Task Force on the Review of the Research Grants Council (Phase I)***. This Task Force is responsible for overseeing the implementation of Phase I of the Research Grants Council Review, reporting progress and findings of the study to the Research Group (see (c) above) and the UGC, and submitting comments and recommendations on findings to the Research Group and the UGC. Upon its formation in July 2016, eight members were appointed into this Task Force.

The UGC members also sit in the Sub-Committees and Groups. Non-UGC members may also be appointed to the Sub-Committees and Groups where necessary.

1.7 The UGC also has under its aegis two non-statutory advisory bodies:

- (a) ***Research Grants Council (RGC)***. The RGC was established in 1991. It is responsible for advising the needs of the institutions of higher education in Hong Kong in the field of academic research, inviting and receiving applications for research grants, studentships and post-doctoral fellowships and approving such applications, and monitoring the implementation of such grants. As at 30 June 2016, the RGC comprised a Chairman and 24 members (12 non-local academics, 10 local academics, 2 local lay persons and an ex-officio member who is the Science Advisor of the Innovation and Technology Commission); and
- (b) ***Quality Assurance Council (QAC)***. The QAC was established in 2007. It is responsible for advising on quality assurance matters in the higher education sector in Hong Kong, including the conduct of quality audits of the universities. As at 30 June 2016, the QAC comprised a Chairman and 7 members (2 non-local academics, 2 local academics, 3 local lay persons and an ex-officio member who is the Secretary-General of the UGC).

## Introduction

---

### *UGC Secretariat*

1.8 The UGC (as well as its Sub-Committees, Groups and Councils) is supported by the UGC Secretariat (a government department), which is headed by the Secretary-General, UGC. The Secretariat assists the UGC in carrying out its terms of reference (see para. 1.3) and functions (see para. 1.4), and administers the grants provided to the universities. As at 30 June 2016, the Secretariat had a staff establishment of 84 (including 16 non-civil service contract staff). For 2016-17, the estimated expenditure of the UGC amounted to \$17,966 million (\$144 million for the Secretariat's expenses and \$17,822 million for grants/reimbursements provided to the universities). The organisation chart of the UGC Secretariat is shown at Appendix A.

1.9 The Education Bureau (EDB) is the policy bureau of the UGC Secretariat. Recommendations on recurrent grants (see para. 1.12(a)) to the universities are submitted by the UGC, through the Secretary for Education, to the Chief Executive in Council for endorsement. The annual recurrent grants are examined by the Finance Committee of the Legislative Council (LegCo) in the context of the annual Estimates and approved by LegCo in the context of the Appropriation Bill.

### *Student enrolment*

1.10 The Government had been striving to provide secondary school leavers with flexible and diversified articulation pathways with multiple entry and exit points through promoting the quality and sustainable development of the publicly-funded and self-financing post-secondary education sectors. Through the development of both sectors, in 2015/16 (unless otherwise specified, all years mentioned in this Audit Report refer to academic years, which start on 1 July of a year and end on 30 June of the following year), about 46% of young people in the relevant cohort had access to degree-level education. And with sub-degree education, about 70% of them had access to post-secondary education. Table 1 shows the total number of students (full-time equivalent (FTE) — Note 3) enrolled in the UGC-funded programmes in the period 2010/11 to 2015/16. Student enrolment (FTE) had increased by 35.3% from 70,611 in 2010/11 to 95,520 in

---

**Note 3:** *FTE is a unit used for measuring the number of students to report the approximate size of a university. An FTE of 1.0 is equal to a full-time student while 0.5 signals half of a study load (e.g. the study load of a part-time student).*

2015/16. Appendix B shows, for the same period, the total number of students (FTE) enrolled in these programmes by level of study. From 2010/11 to 2015/16, while undergraduate students (FTE) had grown by 44.8% from 56,442 to 81,732 and research postgraduate students (FTE) had grown by 15.8% from 6,355 to 7,360, sub-degree students (FTE) had decreased by 23.6% from 5,437 to 4,156 and taught postgraduate students (FTE) had decreased by 4.5% from 2,378 to 2,271.

Table 1

**Total number of students (FTE) enrolled in UGC-funded programmes  
(2010/11 to 2015/16)**

University	2010/11	2011/12	2012/13 (Note)	2013/14	2014/15	2015/16	Percentage increase in the period 2010/11 to 2015/16
CityU	10,126	10,328	12,698	12,922	13,725	14,198	40.2%
HKBU	5,166	5,155	6,600	6,673	6,752	7,019	35.9%
LU	2,290	2,213	2,687	2,644	2,613	2,608	13.9%
CUHK	13,453	13,801	17,723	18,228	18,801	19,084	41.9%
EdUHK	5,090	5,382	6,222	6,141	6,063	6,221	22.2%
PolyU	13,987	13,977	16,955	17,074	17,204	17,345	24.0%
HKUST	7,197	7,526	9,829	10,128	10,220	10,391	44.4%
HKU	13,302	13,413	17,210	17,613	18,241	18,655	40.2%
Overall	70,611	71,793	89,923	91,424	93,619	95,520	35.3%

*Source: Audit analysis of UGC records*

*Note: To tie in with the implementation of the new academic structure, the universities had admitted two cohorts of students under the old and new academic structures in 2012/13.*

*Remarks: Figures may not add up to total due to rounding.*

## Introduction

---

### *Staff in academic departments of the universities*

1.11 Table 2 shows the total number of staff (FTE) in academic departments of the universities in the period 2010/11 to 2015/16. Staff (FTE) in academic departments of the universities had increased by 9.5% from 11,935 in 2010/11 to 13,074 in 2015/16. Appendix C shows, for the same period, the total number of staff (FTE) by staff grade. From 2010/11 to 2015/16, while technical research staff (FTE) for the universities had remained unchanged at about 1,590, academic staff (FTE) had increased by 11.7% from 6,258 to 6,992, and administrative, technical and other staff (FTE) had increased by 9.9% from 4,087 to 4,492.



Table 2

**Total number of staff (FTE) in academic departments of the universities  
(2010/11 to 2015/16)**

University	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	Percentage increase/ (decrease) in the period 2010/11 to 2015/16
CityU	1,814	1,783	1,914	1,940	1,866	1,748	(3.6%)
HKBU	745	767	802	834	852	887	19.1%
LU	220	219	260	253	254	248	12.7%
CUHK	2,596	2,555	2,653	2,722	2,712	2,857	10.1%
EdUHK	549	534	590	616	659	696	26.8%
PolyU	2,161	2,018	2,082	2,114	2,148	2,191	1.4%
HKUST	1,233	1,243	1,399	1,461	1,485	1,552	25.9%
HKU	2,616	2,556	2,740	2,848	2,862	2,894	10.6%
Overall	11,935	11,674	12,440	12,788	12,838	13,074	9.5%

*Source: Audit analysis of UGC records*

*Remarks 1: Staff in this table refer to those with salaries wholly funded by General Funds, which include, for example, block grants (see para. 2.3), supplementary grants/adjustments (see para. 2.5) and tuition fees.*

*2: To tie in with the implementation of the new academic structure, the universities had admitted two cohorts of students under the old and new academic structures in 2012/13.*

*3: Figures may not add up to total due to rounding.*

## Introduction

---

### *UGC grants to the universities*

1.12 Grants provided to the universities comprise:

- (a) ***Recurrent grants.*** Assessment of recurrent funding and allocation of recurrent grants to the universities are largely based on approved student number targets and are usually allocated to the universities on a triennial basis to tie in with the academic planning cycle to support the universities' academic work and related administrative activities. For example, the 2012-15 triennium comprised the three years from 2012/13 to 2014/15. Table 3 shows the actual amounts of recurrent grants provided to the universities in the period 2010/11 to 2014/15. The grants to the universities had increased by 52.4% from \$10,543 million in 2010/11 to \$16,072 million in 2014/15 (actual recurrent grants information for 2015/16 was not available as at 31 August 2016); and

**Table 3**  
**Actual recurrent grants to the universities**  
**(2010/11 to 2014/15)**

University	2010/11 (\$ million)	2011/12 (\$ million)	2012/13 (Note) (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	Percentage increase in the period 2010/11 to 2014/15
CityU	1,255	1,337	1,600	1,709	1,950	55.4%
HKBU	612	658	826	878	984	60.8%
LU	261	280	347	358	401	53.6%
CUHK	2,406	2,613	3,295	3,490	3,764	56.4%
EdUHK	510	526	619	643	700	37.3%
PolyU	1,736	1,875	2,269	2,338	2,529	45.7%
HKUST	1,332	1,432	1,746	1,831	2,000	50.2%
HKU	2,431	2,647	3,239	3,451	3,744	54.0%
Overall	10,543	11,368	13,942	14,698	16,072	52.4%

*Source: Audit analysis of UGC records*

*Note: To tie in with the implementation of the new academic structure, the universities had admitted two cohorts of students under the old and new academic structures in 2012/13.*

*Remarks 1: The above figures do not include the RGC's Earmarked Research Grants (see para. 2.3(a)(ii)) and grants on Theme-based Research Scheme.*

*2: Figures for 2015/16 were not yet available as at 31 August 2016.*

*3: Figures may not add up to total due to rounding.*

## Introduction

---

- (b) *Capital grants.* The UGC supports capital works projects of the universities by seeking annually funds from the Government. For projects costing more than \$30 million each, funding is provided from the Capital Works Reserve Fund (CWRF) (Head 708 — Capital Subventions and Major Systems and Equipment). For projects costing not more than \$30 million each, funding is provided through the block allocation vote of Alterations, Additions, Repairs and Improvements (AA&I) of the CWRF Head 708. Table 4 shows the amounts of capital grants provided to the universities in the period 2010/11 to 2015/16.

**Table 4**

**Capital grants to the universities  
(2010/11 to 2015/16)**

<b>University</b>	<b>2010/11 (\$ million)</b>	<b>2011/12 (\$ million)</b>	<b>2012/13 (\$ million)</b>	<b>2013/14 (\$ million)</b>	<b>2014/15 (\$ million)</b>	<b>2015/16 (\$ million)</b>
CityU	303	486	308	136	46	60
HKBU	176	407	219	127	120	127
LU	19	196	27	36	31	42
CUHK	367	978	670	197	160	103
EdUHK	34	96	12	24	41	59
PolyU	282	802	902	368	154	129
HKUST	181	369	255	337	254	217
HKU	704	1,244	637	193	202	108
<b>Total</b>	<b>2,066</b>	<b>4,578</b>	<b>3,030</b>	<b>1,418</b>	<b>1,008</b>	<b>845</b>

Source: UGC records

### **Audit review**

1.13 In late April 2016, the Audit Commission (Audit) commenced a review on the funding of universities by the UGC. The review has focused on the following areas:

- (a) administration of recurrent grants (PART 2);
- (b) administration of capital grants (PART 3); and
- (c) governance and other administrative issues (PART 4).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

1.14 This audit review does not cover the work of the RGC (see para. 1.7(a)). A separate review concerning the RGC is covered in Chapter 6 of the Director of Audit's Report No. 67.

### **General response from the Government**

1.15 The Secretary-General, University Grants Committee agrees with the audit recommendations. He has also thanked Audit for providing constructive recommendations to the UGC's work.

### **Acknowledgement**

1.16 Audit would like to acknowledge with gratitude the assistance and full cooperation of the staff of the UGC Secretariat and the EDB during the course of the audit review.

## **PART 2: ADMINISTRATION OF RECURRENT GRANTS**

2.1 This PART examines the administration of recurrent grants provided to the universities, focusing on the following issues:

- (a) provision of recurrent grants (paras. 2.2 to 2.17);
- (b) review of tuition fees (paras. 2.18 to 2.24); and
- (c) compliance with enrolment rules (paras. 2.25 to 2.36).

### **Provision of recurrent grants**

2.2 Assessment of recurrent funding and allocation of recurrent grants to the universities are largely based on approved student number targets and are usually allocated to the universities on a triennial basis to tie in with the academic planning cycle to support their academic work and related administrative activities. Recurrent grants are provided as net government subventions, i.e. after deducting the assumed income (Note 4) from the universities' assessed gross recurrent funding requirements. The recurrent grants comprise block grants and earmarked grants.

---

**Note 4:** *According to the NoP (see Note 2 to para. 1.5), in determining the net recurrent funding requirements of the universities, the UGC takes into account:*

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

2.3 **Block grants.** The block grant is the major component of the recurrent grant. With the introduction of the “3+3+4” new academic structure (Note 5) in 2012/13, the block grant comprises “two pots of money”:

- (a) **“Existing pot of money”.** “Existing pot of money” is the funding for the three years of undergraduate study and other levels of study. The block grant under the “existing pot of money” comprises three elements:
  - (i) **Teaching element (about 75%).** Funding for the teaching element is based on student numbers, students’ study levels (i.e. sub-degree, undergraduate, taught postgraduate and research postgraduate), modes of study (i.e. part-time and full-time) and disciplines of study (e.g. medicine and business). Some subjects are more expensive than the others because they require, for example, special equipment and laboratories. The UGC broadly classifies the academic programmes into 17 categories in three price groups, namely medicine and dentistry, engineering and laboratory based studies, and others. Relative cost weightings are assigned to each price group as shown in Table 5;

---

**Note 5:** *The “3+3+4” academic structure refers to three years of junior secondary education, three years of senior secondary education and four years of undergraduate study. Prior to 2012/13, it was “3+4+3”.*

## Administration of recurrent grants

**Table 5**

**Relative cost weightings**

<b>Academic programme category</b>	<b>Price group</b>	<b>Teaching programme (Note 1)</b>	<b>Research programme (Note 2)</b>
1. Medicine 2. Dentistry	Medicine and dentistry	3.6	1.8
3. Studies allied to medicine and health 4. Biological sciences 5. Physical sciences 6. Engineering and technology 7. Arts, design and performing arts	Engineering and laboratory based studies	1.4	1.4
8. Mathematical sciences 9. Computer science and information technology 10. Architecture and town planning 11. Business and management studies 12. Social sciences 13. Law 14. Mass communication and documentation 15. Languages and related studies 16. Humanities 17. Education	Others	1.0	1.0

*Source: UGC records*

*Note 1: Teaching programmes comprise sub-degree, undergraduate and taught postgraduate programmes.*

*Note 2: Research programmes comprise only research postgraduate programmes.*



- (ii) **Research element (about 23%).** Funding for the research element is disbursed to the universities notionally as infrastructure funding to enable the universities to provide staffing and facilities (e.g. accommodation and equipment) necessary to carry out research, and to fund a certain level of research. Funding for the research element comprises two parts. One part is based on the universities' performance in the Research Assessment Exercise (RAE — see para. 2.10). Another part is based on the universities' success in obtaining peer reviewed the RGC's Earmarked Research Grants; and
- (iii) **Professional activity element (about 2%).** Funding for the element of professional activity is based on the number of academic staff undertaking professional activities; and
- (b) **“New pot of money”.** “New pot of money” is the recurrent funding for an additional year of undergraduate study under the new academic structure and is allocated wholly as “teaching funding” among faculties of the universities. The funding for this additional year has been calculated at 62.5% of the funding for a year of undergraduate study.

The block grant system provides the universities with maximum flexibility in internal deployment. Once allocations are approved, the universities have the autonomy in and responsibility for deciding how the resources available are put to use.

2.4 **Earmarked grants.** Earmarked grants are for specific purposes, such as grants for knowledge transfer activities (see para. 2.12) and funding for the Areas of Excellence Scheme (Note 6). Allocation of each earmarked grant to the universities depends on the specific circumstances of the case. For example, the grants for knowledge transfer activities are allocated based on the amount of block grant and research funding received by a university vis-à-vis the total amount of block grants and research funding provided to all universities.

---

**Note 6:** *The Areas of Excellence Scheme is a research funding scheme administered by the RGC. The scheme seeks to build upon Hong Kong's existing research strengths and develop them into areas of excellence.*

## **Administration of recurrent grants**

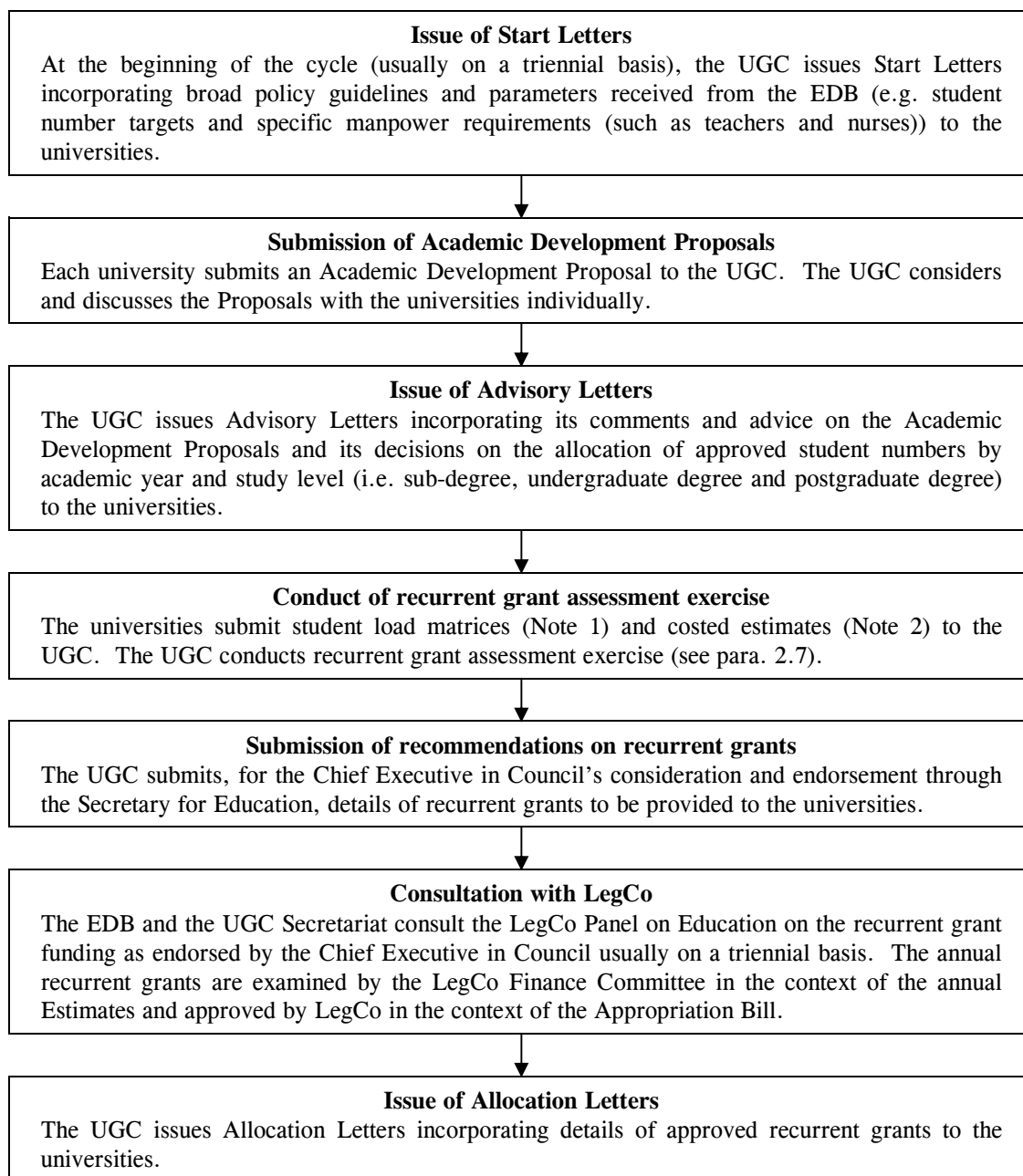
---

2.5 The amount of recurrent grants for a university is usually determined on a triennial basis (while the actual payment of grants to the university is made on a monthly basis). Once determined, the amount of recurrent grants will not be revised during the triennium except for adjustments to take into account, for example, new initiatives from the Government and annual pay adjustments.

2.6 A recurrent grant cycle involves a number of stages, which are illustrated in Figure 1.

Figure 1

Recurrent grant cycle



Source: UGC records

Note 1: Student load matrices show the allocation of approved student numbers by academic year and study level to individual programmes with reference to the UGC's advice contained in the Advisory Letters. They are used by the UGC as a basis for the determination of the teaching element of block grant to the universities.

Note 2: Costed estimates include, for example, information on the estimates of assumed income for the funding period and any special factors that the universities would like to draw the UGC's attention in conducting the recurrent grant assessment exercise.

## **Administration of recurrent grants**

---

2.7 The UGC's existing funding methodology used in the recurrent grant assessment exercise for assessing the provision of recurrent grants to the universities together with the factors considered is shown at Appendix D. Generally speaking, the UGC calculates the cash limit (i.e. net recurrent funding requirements) for the UGC sector based on the student number targets (see Figure 1 in para. 2.6) and the student unit funding rates as weighted by the relative cost of different levels of study, with necessary adjustment to price and salary levels, if any. The UGC then allocates the resources among the eight universities in accordance with the funding methodology, which assesses the resources required to meet the teaching and research requirements of each university. Determination of the recurrent grants to the universities is largely based on established formula. Nevertheless, in finalising its funding recommendations, the UGC also takes into account the special needs of individual universities and other factors not captured by the formula and introduces adjustments where required.

2.8 Table 6 shows, in the period 2014/15 to 2018/19, the approved recurrent grants for the eight universities.

## Administration of recurrent grants

**Table 6**

**Approved recurrent grants for the universities  
(2014/15 to 2018/19)**

University	2014/15 (\$ million)	2015/16 (\$ million)	2016/17 (\$ million)	2017/18 (\$ million)	2018/19 (\$ million)
<i>Block grants</i>					
CityU	1,736	2,207	2,285	2,283	2,288
HKBU	831	1,060	1,085	1,090	1,102
LU	335	411	408	399	393
CUHK	3,289	3,843	3,894	3,876	3,877
EdUHK	600	708	809	805	802
PolyU	2,221	2,679	2,838	2,861	2,880
HKUST	1,720	2,023	2,119	2,140	2,157
HKU	3,215	3,916	3,982	4,012	4,039
Sub-total	13,947	16,847	17,420	17,466	17,538
<i>Earmarked grants</i>	374	259	431	341	361
Total	14,321 (Note)	17,106	17,851	17,807	17,899

*Source: UGC records*

*Note: The 2014/15 recurrent grants for the universities were approved by the LegCo Finance Committee in January 2012. The approved amounts were at 2011 price level and therefore, different from the amounts shown at Table 3 in paragraph 1.12(a), which were actual amounts after salary adjustments for the period 2012 to 2015.*

2.9 Table 7 shows the average student unit cost of UGC-funded programmes by level of study as reported by the universities in the period 2005/06 to 2014/15.

## Administration of recurrent grants

---

Table 7

**Average student unit cost of UGC-funded programmes by level of study  
(2005/06 to 2014/15)**

Academic year	Sub-degree (\$'000)	Undergraduate (\$'000)	Taught postgraduate (\$'000)	Research postgraduate (\$'000)	All levels (\$'000)
2005/06	124	204	203	429	208
2006/07	149	209	198	470	220
2007/08	166	227	195	512	240
2008/09	178	240	208	532	253
2009/10	155	225	203	521	239
2010/11	147	222	195	511	235
2011/12	147	233	204	516	247
2012/13	137	203	193	469	215
2013/14	139	209	202	475	222
2014/15	156	222	215	511	237

Source: UGC records

Remarks: According to the UGC Secretariat, student unit costs are affected by a variety of factors such as different costs for different programmes, different modes and levels of study, different stages of development of individual universities, etc.

### ***Research impact not accounted for in RAE***

2.10 Before 1999, the UGC conducted two RAEs (see para. 2.3(a)(ii)) in 1993 and 1996. Subsequent to the completion of the RAE in 1999, the UGC decided that future RAEs should be undertaken at an interval of about six years. Since 2000, RAEs were conducted in 2006 and 2014. The Exercise assessed the research quality of the universities in order to encourage world-class research and drive for excellence. In conducting the RAE in 2014, the basis of assessment, which was determined after extensive consultation with the sector, comprises:

- (a) **Research outputs.** Research outputs account for 80% of the weighting. They include, for example, publications, patents awarded, published patent applications, artefacts, performance recordings, architectural drawings and any creative work that can be evaluated for merit and an assessment obtained; and
- (b) **Research inputs and esteem measures.** Research inputs and esteem measures account for 20% of the weighting (the split for this 20% weighting varied across panels). Research inputs include, for example, the amount of competitive peer reviewed research grants received from the RGC. Esteem measures include, for example, research-based awards and editorship of academic journals.

2.11 Audit found that while it took into consideration the universities' research outputs in conducting the RAE, the UGC did not consider their research impact in the Exercise. Audit noted that, in the United Kingdom, the higher education funding bodies adopted the Research Excellence Framework in 2014 (Note 7) for assessing the quality of research in the higher education institutions of the United Kingdom. In the Framework, the impact of research, which is "*any effect on, change or benefit to the economy, society, culture, public policy or services, health, the environment or quality of life, beyond academia*", accounts for 20% of the overall assessment results. To recognise the universities' efforts in generating research impact and to encourage them to make such impact, Audit considers that the UGC needs to explore whether there are merits in including the impact of research as one of the elements of assessment in the conduct of future RAEs.

### ***Knowledge transfer achievements not taken into account in funding allocation***

2.12 According to the UGC, knowledge transfer is "*the systems and processes by which knowledge, including technology, know-how, expertise and skills are transferred between higher education institutions and society, leading to innovative, profitable or economic or social improvements*". In 2009/10, the UGC introduced a new recurrent earmarked funding for the universities to strengthen and broaden their

---

**Note 7:** *The Research Excellence Framework 2014 replaced the previous Research Assessment Exercise (last conducted in 2008) of the higher education funding bodies in the United Kingdom.*

## Administration of recurrent grants

endeavours in knowledge transfer. In the 2016-19 triennium, this funding for knowledge transfer amounts to \$62.5 million per annum. Table 8 shows the allocation of knowledge transfer funding to the eight universities in the period 2009/10 to 2015/16.

**Table 8**

**Allocation of knowledge transfer funding  
(2009/10 to 2015/16 — Note)**

University	2009/10 (\$ million)	2010/11 (\$ million)	2011/12 (\$ million)	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)	2015/16 (\$ million)
CityU	7	7	7	6	6	6	8
HKBU	3	3	3	3	3	3	4
LU	1	1	1	1	1	1	1
CUHK	12	12	12	13	13	14	14
EdUHK	1	2	1	2	2	2	2
PolyU	8	8	8	7	7	7	8
HKUST	7	7	7	7	7	8	8
HKU	12	12	12	14	13	12	16
Total	51	52	51	53	52	53	61

Source: UGC records

Note: The period 2009/10 to 2015/16 covered the 2009-12 triennium, the 2012-15 triennium, and 2015/16 which was a roll-over year. The roll-over arrangement was implemented for 2015/16 to allow more time for the universities to study the impact of the new academic structure in the higher education sector and to take into account the results of the RAE 2014 in funding allocation in the next full triennium.

2.13 The UGC recognises the importance of knowledge transfer in bringing about socio-economic impacts to the community and businesses. With the introduction of the knowledge transfer funding, the universities are required to submit annual reports on their knowledge transfer activities to the UGC. Audit noted from these reports that the universities had made efforts in developing such activities. Examples of achievements of knowledge transfer activities are shown in Tables 9 to 11.



**Table 9**

**Number of patents granted  
(2010/11 to 2014/15)**

<b>University</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
CityU	17	41	19	22	25
HKBU	1	2	4	6	6
LU	0	0	0	0	0
CUHK	68	41	65	136	58
EdUHK	0	0	0	0	0
PolyU	43	52	57	46	73
HKUST	50	52	80	80	93
HKU	31	24	33	24	50
Total	210	212	258	314	305

*Source: Annual reports on knowledge transfer activities submitted by the universities to the UGC*

**Table 10**

**Number of licences granted  
(2010/11 to 2014/15)**

<b>University</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
CityU	10	15	39	44	47
HKBU	1	1	1	1	14
LU	0	0	0	0	0
CUHK	26	24	48	61	57
EdUHK	0	0	0	0	0
PolyU	18	55	54	76	89
HKUST	34	28	33	41	54
HKU	45	68	63	66	75
Total	134	191	238	289	336

*Source: Annual reports on knowledge transfer activities submitted by the universities to the UGC*

## Administration of recurrent grants

---

Table 11

**Income generated from intellectual property rights  
(2010/11 to 2014/15)**

University	2010/11 (\$ million)	2011/12 (\$ million)	2012/13 (\$ million)	2013/14 (\$ million)	2014/15 (\$ million)
CityU	5	19	6	1	2
HKBU	3	3	4	7	7
LU	0	0	0	0	0
CUHK	19	19	19	43	85
EdUHK	0	0	0	0	0
PolyU	7	5	2	3	7
HKUST	2	4	3	4	5
HKU	3	9	7	3	21
Total	39	59	41	61	127

*Source: Annual reports on knowledge transfer activities submitted by the universities to the UGC*

2.14 Audit noted that the UGC recognises the importance of the universities' knowledge transfer activities. However, the existing method of allocating knowledge transfer funding to a university is based on the amount of block grant and research funding it received vis-à-vis the total amount of block grants and research funding provided to all universities. The existing method does not take into consideration the achievements of knowledge transfer activities of the universities. Given that the knowledge transfer funding has already been introduced for a number of years, to give recognition to the universities' efforts on knowledge transfer activities and to encourage them to make further efforts, the UGC needs to consider taking into account the universities' achievements of knowledge transfer activities in future allocation of knowledge transfer funding.

2.15 In response to Audit's enquiry, the UGC Secretariat informed Audit in September 2016 that:

- (a) regarding the knowledge transfer funding of \$62.5 million per year in 2016-19 triennium, the Research Group under the UGC decided in April 2016 to retain the funding mechanism in use in the 2012-15 triennium for the 2016-19 triennium;
- (b) noting that the knowledge transfer culture had already been fully embedded in the universities' strategies and operations, the Research Group agreed in September 2016 to consider changing the way knowledge transfer funding was to be provided to the universities for the next triennium;
- (c) the Secretariat would review the earmarked knowledge transfer funding allocation and Audit's views would be taken into account in the review; and
- (d) "societal needs", which included knowledge transfer, was one of the four criteria for assessment of the 2016-19 Academic Development Proposals which determined a much more significant block of funding (i.e. the block grant).

### **Audit recommendations**

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

- (a) **explore whether there are merits in including the impact of research as one of the elements of assessment in the conduct of future RAEs; and**
- (b) **consider taking into account the universities' achievements of knowledge transfer activities in future allocation of knowledge transfer funding.**

### Response from the Government

2.17 The Secretary-General, University Grants Committee agrees with the audit recommendations. He has said that:

- (a) the UGC Secretariat will continue to provide full support to the UGC in considering conducting another RAE with the inclusion of research impact as one of the elements of assessment taking into consideration that the assessment of impact in Hong Kong should be distinct from that in the United Kingdom. It would be inappropriate to replicate fully the Research Excellence Framework 2014 model in the United Kingdom in developing the parameters for the next RAE in Hong Kong; and
- (b) the UGC Secretariat will invite the UGC to review the earmarked knowledge transfer funding allocation in due course, and Audit's views and recommendation will be taken into account in the review.

### Review of tuition fees

2.18 For funding purposes, the Government sets indicative tuition fee for UGC-funded programmes (see Note 4 to para. 2.2). In January 1991, the then Governor in Council decided that the target cost recovery rate for tuition fee for degree courses should be set at 18%. This target was achieved in 1997/98 when the indicative tuition fee for UGC-funded programmes at undergraduate degree level or above was raised to \$42,100 per student per year. While the cost recovery rates have fluctuated around 18% over the years, the indicative tuition fee has remained unchanged since then.

#### *Tuition fee not reviewed since 1997*

2.19 In 2005, the then Education and Manpower Bureau informed the LegCo Panel on Education that it would conduct a public consultation on the proposed tuition fee for the "3+3+4" new academic structure and arrive at a decision in the last quarter of 2011 at the latest for implementation in 2012/13.

2.20 In November 2011, in dealing with the recurrent funding for the universities in the 2012-15 triennium, the EDB informed the LegCo Panel on Education that the cost recovery target should be revisited and it would embark on a tuition fee review, taking into account the latest development in the higher education sector, locally and overseas. In January 2012, in view of the concerns about possible increase in tuition fees raised by members of the LegCo Panel on Education and the LegCo Finance Committee, the EDB undertook that it would take into account the experience in the early years of implementing the new academic structure before embarking on any review of the tuition fee. It also indicated that the tuition fee would be maintained at the current level pending the outcome of the future review, if any, which would likely be available not earlier than the end of the 2012-15 triennium or the beginning of the triennium that followed.

2.21 In June 2015, the EDB invited the UGC to launch a review of tuition fee policies in other jurisdictions and propose options to the EDB for consideration with due regard to the situation in Hong Kong. The EDB suggested that the review be completed in around 12 to 18 months (i.e. by December 2016). Meanwhile, the EDB also informed LegCo that it would maintain the indicative tuition fee at the existing level during the 2016-19 triennium. As at 31 July 2016, the review was underway and a firm completion date had not been set.

2.22 According to the UGC Secretariat, the cost recovery rate (see para. 2.18) was 18% in 2012/13. The cost recovery rates then dropped to 17.6%, 16.9% and 15.8% in 2013/14, 2014/15 and 2015/16 respectively. The EDB envisaged that with the indicative tuition fee maintained at its current level, the cost recovery rate was expected to continue to fall in the 2016-19 triennium. The EDB therefore considered that there was a need to conduct a comprehensive review of the current tuition fee policy after almost two decades of status quo so that more updated information and parameters would be used for assessing the appropriateness of the current tuition fee policy. In response to Audit's enquiry, the UGC Secretariat informed Audit that a consultancy study report as endorsed by the UGC had been submitted to the EDB in late September 2016. The EDB informed Audit in October 2016 that the Chief Executive in Council decided in October 2011 that the target cost recovery rate should be revisited in the context of a review. Thus, there was no longer any prevailing "target rate" as at this moment. Audit considers that the EDB needs to, in consultation with the UGC, formulate the way forward for the tuition fee policy with a view to ensuring that an appropriate policy is in place in a timely manner.

### **Audit recommendation**

2.23 Audit has *recommended* that the Secretary for Education should, in consultation with the Secretary-General, University Grants Committee, formulate the way forward for the tuition fee policy with a view to ensuring that an appropriate policy is in place in a timely manner.

### **Response from the Government**

2.24 The Secretary for Education agrees with the audit recommendation.

### **Compliance with enrolment rules**

2.25 According to the NoP, the approved student number targets by level of study (i.e. sub-degree, undergraduate, taught postgraduate and research postgraduate) is a primary factor in the allocation of the block grant. There are two types of approved student number targets, one for manpower-planned programmes and the other for non-manpower-planned programmes:

- (a) manpower-planned programmes are those programmes that are required to meet specific manpower requirements as determined by the relevant government bureaux/departments (e.g. medicine, nursing, occupational therapy, radiography and teacher education); and
- (b) non-manpower-planned programmes are programmes such as business, engineering, humanities, and social sciences.

The universities should adhere to the approved student number targets as far as possible in each triennial funding cycle. Nevertheless, the UGC has laid down a number of enrolment rules in the NoP that allow the universities to have some flexibility in enrolling students.

### ***Non-compliance with enrolment rules***

2.26 Audit examined the universities' actual student enrolment in the 2009-12 and 2012-15 triennia and found that there were cases of non-compliance with the enrolment rules (see Table 12).

**Table 12**

**Non-compliance with enrolment rules  
(2009-12 and 2012-15 triennia)**

Enrolment rule		2009-12 triennium	2012-15 triennium
<i>Non-manpower-planned sub-degree, undergraduate and taught postgraduate programmes</i>			
1.	Over-enrolment of local students should not exceed 4% across the whole university	Two universities exceeded the 4% limit by 0.4% (39.7 students) and 26% (24.3 students) respectively	Two universities exceeded the 4% limit by 0.8% (96.4 students) and 8.9% (47.6 students) respectively
2.	Enrolment of non-local students should not exceed 20% by study level	Nil	One university exceeded the 20% limit by 2.4% (238.1 students) at undergraduate level
<i>Manpower-planned sub-degree, undergraduate and taught postgraduate programmes</i>			
3.	Over-enrolment of local students should not exceed 4% by programme	Three universities exceeded the 4% limit in three programmes by 2.5% (3.6 students), 6.0% (27 students) and 6.7% (18.2 students) respectively	Three universities exceeded the 4% limit in three programmes by 1.2% (2.9 students), 2.6% (5 students) and 15.1% (37.9 students) respectively
4.	Enrolment of non-local students should not exceed 4% in Chinese medicine programmes	One university exceeded the 4% limit by 9.6% (14.3 students)	One university exceeded the 4% limit by 20.1% (36.1 students)
5.	No over-enrolment in Chinese medicine programmes	One university had over-enrolment of 1.9% (2.3 students)	Two universities had over-enrolment of 5.7% (10.3 students) and 10.2% (15.3 students) respectively
6.	Over-enrolment of local students should not exceed 4% in western medicine programmes	One university exceeded the 4% limit by 1.6% (11.2 students)	Nil
7.	A general reference of 4% under-enrolment is tolerated	Four universities exceeded the 4% tolerance level in five programmes by 1.4% (3.5 students), 3.3% (26.7 students), 6.0% (1.4 students), 14.6% (17.5 students) and 32.3% (25.5 students) respectively	Two universities exceeded the 4% tolerance level in two programmes by 0.5% (2.6 students) and 5.5% (7.9 students) respectively

*Source: Audit analysis of UGC records*

*Remarks: The number of students (FTE) in brackets is the average number per year by which the over-enrolment/under-enrolment exceeded the limit/tolerance level and is equal to one-third of that in the triennium.*

## **Administration of recurrent grants**

---

2.27 Audit also noted that:

- (a) according to the NoP, for all programmes (i.e. non-manpower-planned and manpower-planned programmes), under-enrolment across the whole university exceeding 4% of approved student numbers may lead to a claw back of recurrent funding, as considered appropriate by the UGC. For manpower-planned programmes, 4% of under-enrolment will be tolerated and the UGC may decide on appropriate action on warranted under-enrolment cases having regard to the merits of individual cases;
- (b) except for mentioning that no extra resources will be provided by the UGC for over-enrolment of students, the NoP is silent on the consequences of non-compliance with over-enrolment rules. The cases of non-compliance with over-enrolment rules (see items 1 to 6 in Table 12) were therefore not followed up; and
- (c) in the 2009-12 and 2012-15 triennia, for manpower-planned programmes, there were cases of under-enrolment exceeding the tolerance level of 4% by 0.5% to 32.3% (see item 7 in Table 12). There was, however, no documentary evidence showing that the UGC had given consideration to taking appropriate action on these cases.

2.28 Audit considers that the UGC needs to set out in the NoP the action the UGC would take on cases of non-compliance with the enrolment rules, and take action according to the laid-down procedures.

### ***Need to revise the application of under-enrolment rule for manpower-planned programmes***

2.29 As mentioned in paragraph 2.27(a), according to the NoP, for manpower-planned programmes, 4% of under-enrolment will be tolerated. There is, however, no mention in the NoP of whether this enrolment rule applies to a manpower-planned programme as a whole (e.g. teacher education) or whether it applies to individual streams of a manpower-planned programme (e.g. Early Childhood Education Programme and Primary Education Programme of teacher education). In practice, the UGC Secretariat applies the enrolment rule to a manpower-planned programme as a whole.



2.30 In December 2014, the EDB expressed to the UGC its concern on the fact that actual enrolment by the universities in certain streams subject to specific manpower requirements had deviated significantly from the approved student numbers by the UGC, notwithstanding the NoP's explicit requirement that the universities are expected to meet the requested local manpower requirements as closely as possible. The EDB quoted an example that the enrolments of a stream of teacher education programme had been consistently lower than 50% of the approved student numbers since 2010/11, and commented that serious under-enrolment of this scale had not only defeated the purpose of setting manpower requirements, but also represented a misuse of UGC funds. Accordingly, the EDB suggested that the various streams of teacher education programme should be treated as distinct manpower-planned programmes for the purpose of applying the limits on enrolment.

2.31 As at 31 July 2016, the UGC was still deliberating on the appropriate limits on under-enrolment on individual streams of teacher education programmes. Audit considers that the UGC needs to expedite the setting of the limits and the timing for applying the limits. The UGC also needs to keep in view the need to set limits on under-enrolment on individual streams of other manpower-planned programmes.

### ***Need to update NoP and enrolment rules upon policy change for admission of non-local students***

2.32 Prior to 2016/17, the universities may enroll non-local students to their UGC-funded sub-degree, undergraduate and taught postgraduate programmes up to 4% within and 16% outside the approved UGC-funded student numbers by study level (i.e. the 4%-in-16%-out policy — Note 8). To address the community's concerns that non-local students were taking up precious public resources at the expense of local students, the Chief Executive in Council approved in December 2014 that starting from 2016/17, all new non-local students should only be admitted through over-enrolment capped at 20% of the approved UGC-funded student numbers (i.e. the 20%-out policy).

---

**Note 8:** *4%-in policy means that the approved UGC-funded student numbers by study level might include up to 4% of non-local students while 16%-out policy means that non-local students might be admitted through over-enrolment up to 16% of UGC-funded student numbers by study level.*

## **Administration of recurrent grants**

---

2.33 In December 2014, to effect the policy change for admission of non-local students, the EDB requested the UGC to make corresponding changes to the NoP and, where necessary, to the enrolment rules. As at 31 July 2016, the NoP had still not yet been updated. Furthermore, the UGC Secretariat had considered that changes to the enrolment rules were required but the proposed changes had not yet been finalised.

2.34 In response to Audit's enquiry, the UGC Secretariat informed Audit in September 2016 that:

- (a) to effect the policy change for admission of non-local students to the UGC-funded sub-degree, undergraduate and taught postgraduate programmes to only through over-enrolment capped at 20% of the approved UGC-funded student numbers (i.e. the 20%-out policy), all the changes to the over-enrolment rules were finalised (except for the part concerning the Chinese and western medicine programmes as the advice from the Food and Health Bureau was pending then) and promulgated to the universities by email in February 2016. The universities were required to adhere to the new arrangements for their 2016/17 admission. No operational difficulties were raised by the universities; and
- (b) following the receipt of advice from the Food and Health Bureau, the adjusted over-enrolment arrangements for Chinese and western medicine programmes to effect the 20%-out policy were promulgated to the universities by email in August 2016.

## **Audit recommendations**

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

- (a) **set out in the NoP the action that would be taken by the UGC in cases of non-compliance with the UGC's enrolment rules and take appropriate action on cases of non-compliance accordingly;**

- (b) **expedite the imposition of limits on under-enrolment on individual streams of teacher education programmes and keep in view the need to impose limits on under-enrolment on individual streams of other manpower-planned programmes; and**
- (c) **expedite the updating of the NoP to reflect the policy change for admission of non-local students and the changes to the enrolment rules.**

## **Response from the Government**

2.36 The Secretary-General, University Grants Committee agrees with the audit recommendations. He has said that:

- (a) for cases of non-compliance with the UGC's rules on over-enrolment of students, the UGC Secretariat has been monitoring the situation and will consult the UGC to consider setting out in the NoP the action that would be taken in cases of non-compliance with the UGC's rules on over-enrolment of students in consultation with the universities. For non-compliance with the UGC's under-enrolment rules, action has already been set out in section 3.12 of the NoP; and
- (b) the UGC Secretariat will expedite the updating of the NoP to reflect the policy change for admission of non-local students and the finalisation of the changes to be made to the enrolment rules.

## **PART 3: ADMINISTRATION OF CAPITAL GRANTS**

3.1 This PART examines the administration of capital grants provided to the universities, focusing on the following issues:

- (a) shortfall in student hostel places and academic space (paras. 3.6 to 3.14);
- (b) assessment of academic space and student hostel needs (paras. 3.15 to 3.23); and
- (c) finalisation of project final accounts (paras. 3.24 to 3.34).

### **Capital grants**

3.2 The UGC provides capital grants to the universities for carrying out capital works projects. The sources of capital grants are as follows:

- (a) **CWRF.** The CWRF (Head 708 — Capital Subventions and Major Systems and Equipment) provides funding for UGC projects. For projects costing more than \$30 million each (e.g. construction of an academic building or a student hostel), the universities submit works proposals in September each year for consideration by the UGC. Projects supported by the UGC will be submitted to the EDB which will in turn determine their priorities in relation to projects proposed by the Bureau. For those projects which have eventually received earmarked funding within the Government, they will be submitted to the LegCo Finance Committee for approval (after obtaining support from the LegCo Panel on Education and the LegCo Public Works Subcommittee); and

- (b) ***CWRF AA&I block allocation.*** For projects costing not more than \$30 million each, the universities submit AA&I (see para. 1.12(b)) proposals in May each year for consideration by the UGC. Projects supported by the UGC will be funded through the AA&I block allocation vote of the CWRF Head 708 (Note 9). The Secretary-General, UGC may approve AA&I projects up to a budget ceiling of \$30 million per project.

3.3 In the period 2011-12 to 2015-16, three capital works projects (exceeding \$30 million per project — hereinafter referred to as major CWPs) had been approved by the LegCo Finance Committee:

- (a) academic building project of the HKUST approved in 2011-12 (project estimate: \$360 million);
- (b) student hostel project of the HKUST approved in 2012-13 (project estimate: \$198 million); and
- (c) student hostel project of the CUHK approved in 2015-16 (project estimate: \$466 million).

3.4 For AA&I projects, in the period 2011-12 to 2015-16, 160 projects (total project estimate: \$3,128 million) had been approved by the Secretary-General, UGC (see Table 13).

---

**Note 9:** *The ambit of the AA&I block allocation vote is as follows:*

- (a) *alterations, additions, repairs and improvements (including slope inspections and minor slope improvement works) to the campuses of the universities requiring a subsidy of not more than \$30 million each; and*
- (b) *for studies for proposed UGC-funded building projects, including consultants' design fees and charges, preparation of tender documents and site investigation costs and major in-house investigations costing up to \$30 million for each project.*

## Administration of capital grants

---

Table 13

**Approved AA&I projects  
(2011-12 to 2015-16)**

<b>Financial year</b>	<b>No. of projects</b>	<b>Total approved project estimate (\$ million)</b>	<b>Average approved project estimate (\$ million)</b>
2011-12	28	427	15.3
2012-13	33	536	16.2
2013-14	38	780	20.5
2014-15	35	757	21.6
2015-16	26	628	24.2
Overall	160	3,128	19.6

*Source: Audit analysis of UGC records*

*Remarks: Withdrawn AA&I projects are excluded.*

3.5 According to the UGC's records, in 2015/16, the eight universities were provided with 1,060,552 square metres (m<sup>2</sup>) of publicly-funded academic space and 29,204 publicly-funded student hostel places. Table 14 shows the provision of academic space while Table 15 shows that of student hostel places for the universities in the period 2011/12 to 2015/16.

**Table 14**

**Provision of academic space  
(2011/12 to 2015/16)**

<b>University</b>	<b>2011/12 (m<sup>2</sup>)</b>	<b>2012/13 (m<sup>2</sup>)</b>	<b>2013/14 (m<sup>2</sup>)</b>	<b>2014/15 (m<sup>2</sup>)</b>	<b>2015/16 (m<sup>2</sup>)</b>
CityU	114,293	132,703	132,703	132,703	132,703
HKBU	63,486	78,384	78,384	80,684	80,684
LU	24,096	27,664	27,664	27,664	27,664
CUHK	171,052	224,173	224,173	224,173	224,173
EdUHK	53,061	55,073	55,073	55,073	55,073
PolyU	158,156	195,176	195,176	195,176	195,176
HKUST	105,514	137,170	137,170	137,170	137,170
HKU	164,159	207,909	207,909	207,909	207,909
Total	853,817	1,058,252	1,058,252	1,060,552	1,060,552

*Source: UGC records*

**Table 15**

**Provision of student hostel places  
(2011/12 to 2015/16)**

<b>University</b>	<b>2011/12 (No.)</b>	<b>2012/13 (No.)</b>	<b>2013/14 (No.)</b>	<b>2014/15 (No.)</b>	<b>2015/16 (No.)</b>
CityU	3,485	3,485	3,485	3,485	3,485
HKBU	1,710	1,860	1,860	1,860	1,711
LU	1,300	1,300	1,300	1,300	1,300
CUHK	6,182	6,182	6,182	6,182	6,182
EdUHK	2,003	2,003	2,003	2,003	2,003
PolyU	4,654	4,654	4,654	4,654	4,654
HKUST	3,581	3,951	3,951	3,951	4,141
HKU	5,725	5,725	5,725	5,725	5,728
Total	28,640	29,160	29,160	29,160	29,204

*Source: UGC records*

### Shortfall in student hostel places and academic space

3.6 Under the student hostel policy promulgated in 1996, the provision of publicly-funded student hostels in the universities is subject to availability of land and resources and is calculated in accordance with the following criteria (Note 10):

- (a) all undergraduate students who have enrolled in UGC-funded programmes should be given the opportunity to stay in student hostels for at least one year of their courses; and
- (b) the following students who have enrolled in UGC-funded programmes should be provided with student hostel places:
  - (i) non-local students;
  - (ii) research postgraduate students; and
  - (iii) undergraduate students whose daily travelling time exceeds four hours.

3.7 According to the UGC's records, in 2015/16, there was a total shortfall (i.e. the difference between the student hostel place requirement of the universities and the UGC's existing provision) of 8,660 student hostel places for the universities. Table 16 shows the shortfall/surplus of student hostel places in the period 2011/12 to 2015/16.

---

**Note 10:** *The criteria are applicable to all the universities, except the LU and the EdUHK. The LU has been provided with publicly-funded hostel places for 50% of its full-time degree student population having regard to its remote location in Tuen Mun and its aspiration to develop itself into a fully residential liberal arts university. The EdUHK has been provided with publicly-funded hostel places for 50% of its full-time degree student population projected at the time of its establishment having regard to the potential benefits that hostel life would bring to the quality of pre-service teacher education.*



**Table 16**

**(Shortfall)/surplus of student hostel places  
(2011/12 to 2015/16)**

University	2011/12		2012/13		2013/14		2014/15		2015/16	
	(No.)	(Note) (%)	(No.)	(Note) (%)	(No.)	(Note) (%)	(No.)	(Note) (%)	(No.)	(Note) (%)
CityU	(797)	(18.61%)	(1,164)	(25.04%)	(1,426)	(29.04%)	(1,898)	(35.26%)	(2,011)	(36.59%)
HKBU	(544)	(24.13%)	(633)	(25.39%)	(723)	(27.99%)	(881)	(32.14%)	(1,128)	(39.73%)
LU	230	21.50%	0	N/A	0	N/A	0	N/A	0	N/A
CUHK	(107)	(1.70%)	(957)	(13.41%)	(1,111)	(15.23%)	(1,271)	(17.05%)	(1,304)	(17.42%)
EdUHK	3	0.15%	3	0.15%	3	0.15%	3	0.15%	3	0.15%
PolyU	(100)	(2.10%)	(533)	(10.28%)	(774)	(14.26%)	(1,250)	(21.17%)	(1,406)	(23.20%)
HKUST	(669)	(15.74%)	(938)	(19.19%)	(1,054)	(21.06%)	(1,159)	(22.68%)	(953)	(18.71%)
HKU	(666)	(10.42%)	(1,769)	(23.61%)	(1,848)	(24.40%)	(1,891)	(24.83%)	(1,858)	(24.49%)
Overall: (Shortfall)	(2,883)	(9.21%)	(5,994)	(17.05%)	(6,936)	(19.22%)	(8,350)	(22.26%)	(8,660)	(22.87%)
Surplus	233	0.74%	3	0.01%	3	0.01%	3	0.01%	3	0.01%

*Source: Audit analysis of UGC records*

*Note: The figures denote percentages of shortfall/surplus to student hostel place requirement.*

*Remarks: The above shortfall excluded student hostel places of projects that were under construction.*

3.8 Both the UGC and the universities consider that the provision of student hostel places for both local and non-local students is a key factor in promoting internationalisation. However, Audit noted that in 2015/16, contrary to the student hostel policy:

- (a) not all non-local students (see para. 3.6(b)(i)) who had applied for hostel places were provided with the places (3,611 (20%) of 17,915 applications were unsuccessful);
- (b) for applications made by local research postgraduate students (see para. 3.6(b)(ii)) for hostel places, 42% (122 out of 289 applications) of the applications were unsuccessful; and

## **Administration of capital grants**

---

- (c) for applications made by undergraduate students:
  - (i) for hostel places for one year of stay during their courses (see para. 3.6(a)), 45% (8,275 out of 18,199 applications) of the applications were unsuccessful; and
  - (ii) whose daily travelling time exceeded four hours (see para. 3.6(b)(iii)), 45% (2,115 out of 4,747 applications) of the applications were unsuccessful.

3.9 In response to Audit's enquiry, the UGC Secretariat informed Audit in September 2016 that:

- (a) allocation of student hostel places to individual students was a matter for the universities as autonomous bodies. The universities allocated their hostel places (including the publicly-funded, privately-funded and temporary hostel places) to their students (local and non-local students enrolled in the UGC-funded or non-UGC-funded programmes, as well as exchange students) in accordance with their own sets of criteria and procedures; and
- (b) shortage of hostel places might be one of the reasons that not all non-local students and research postgraduate students were provided with hostel places.

3.10 As regards the academic space, according to the UGC's records, the total shortfall for the universities was 133,292 m<sup>2</sup> in 2015/16. Table 17 shows the shortfall/surplus of academic space in the period 2011/12 to 2015/16.

**Table 17**

**(Shortfall)/surplus of academic space  
(2011/12 to 2015/16)**

University	2011/12		2012/13		2013/14		2014/15		2015/16	
	(m <sup>2</sup> )	(Note) (%)	(m <sup>2</sup> )	(Note) (%)	(m <sup>2</sup> )	(Note) (%)	(m <sup>2</sup> )	(Note) (%)	(m <sup>2</sup> )	(Note) (%)
CityU	(13,079)	(10.268%)	(15,454)	(10.431%)	(18,215)	(12.069%)	(21,714)	(14.062%)	(29,445)	(18.159%)
HKBU	(7,352)	(10.379%)	(6,368)	(7.514%)	(7,497)	(8.730%)	(4,461)	(5.239%)	(9,042)	(10.077%)
LU	350	1.474%	464	1.706%	704	2.611%	1,322	5.019%	15	0.054%
CUHK	(42,011)	(19.718%)	(19,354)	(7.947%)	(26,430)	(10.547%)	(22,114)	(8.979%)	(25,754)	(10.305%)
EdUHK	(1,391)	(2.555%)	(6,189)	(10.103%)	(7,469)	(11.942%)	(5,757)	(9.464%)	(6,203)	(10.123%)
PolyU	(38,280)	(19.487%)	(17,427)	(8.197%)	(16,779)	(7.916%)	(10,919)	(5.298%)	(18,555)	(8.681%)
HKUST	(8,143)	(7.165%)	5,860	4.463%	5,347	4.056%	6,072	4.632%	(271)	(0.197%)
HKU	(44,108)	(21.179%)	(33,375)	(13.832%)	(40,562)	(16.325%)	(39,268)	(15.887%)	(44,022)	(17.474%)
Overall: (Shortfall)	(154,364)	(15.316%)	(98,167)	(8.536%)	(116,952)	(10.003%)	(104,233)	(9.006%)	(133,292)	(11.165%)
Surplus	350	0.035%	6,324	0.550%	6,051	0.518%	7,394	0.639%	15	0.001%

*Source: Audit analysis of UGC records*

*Note: The figures denote percentages of shortfall/surplus to academic space requirement.*

*Remarks: The above shortfall excluded academic space of projects that were under construction.*

3.11 The UGC now has 16 major CWPs under planning. These 16 projects will provide a total of 9,380 student hostel places and 76,712 m<sup>2</sup> academic space. The slow progress in undertaking major CWPs would affect the operation and development of the universities. For example:

- (a) due to the shortfall in publicly-funded hostel places, the student hostel policy could not be met (see para. 3.8);
- (b) the shortfall in hostel places would adversely affect the competitiveness of the universities in attracting non-local students to study at the universities and to attend exchange programmes, and therefore would impede the strategic goal of the universities in pursuing internationalisation; and

## **Administration of capital grants**

---

- (c) the shortfall in academic space would adversely affect the recruitment of overseas scholars, the enrolment of high calibre research students, and the research development of the universities.

3.12 Given the limited resources and the many other government funding priorities, the competition for CWRF funding for major CWPs is naturally very keen. Nevertheless, the slow progress in campus and student hostel development would affect the development (e.g. research development and internationalisation) of the universities and the overall competitiveness of the higher education sector.

## **Audit recommendations**

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

- (a) **continue to pursue CWRF funding for major CWPs of the universities; and**
- (b) **consider the need to conduct space utilisation surveys of the universities to ensure that the space of the universities are optimally used (see also audit recommendation in para. 3.22(d)).**

## **Response from the Government**

3.14 The Secretary-General, University Grants Committee agrees with the audit recommendations. He has said that:

- (a) both the UGC and the universities consider that the provision of hostel places for both local and non-local students according to the established policy is a key factor in promoting internationalisation. He also agrees with the views of Audit that the slow progress in undertaking major CWPs for hostels and academic facilities would affect the operation and development of the universities. Despite the keen competition for CWRF funding, the UGC Secretariat has been working very hard to pursue funding under CWRF from the Government for major CWPs for hostels and academic facilities, and will continue the endeavour; and

- (b) under the existing NoP, the universities are required to update space inventories on a regular basis and provide such inventories to the UGC Secretariat every three years, i.e. once during each triennium. Regarding the space utilisation survey as mentioned in the UGC's Space Inventory Manual, the UGC Secretariat will consider requesting the universities to provide information under a space utilisation survey in addition to updating of the space inventories, and report to the UGC Secretariat every three years upon consulting the universities.

### Assessment of academic space and student hostel needs

#### *Need to review space requirement formulae*

3.15 The UGC uses space requirement formulae (Note 11) to assess the universities' academic space needs (e.g. classroom facilities, study space, research laboratories, office facilities and library facilities). The formulae were developed by a consultant in 2000. In view of the rapid changes in the UGC sector, the formulae were reviewed and updated in 2006. In the process of the 2006 review, the consultant met with representatives of the universities, considered the universities' written submissions, performed a study on the space utilisation situation at the universities, studied experience in other overseas jurisdictions, and considered issues such as the "3+3+4" new academic structure, whole person development and internationalisation.

3.16 It has been ten years since the space requirement formulae were reviewed in 2006. In the past decade, the UGC sector had gone through changes and developments, which might have impacts on the academic space needs of the universities. Examples of the changes and developments are as follows:

- (a) in the 2006 review, the academic space requirements for the "3+3+4" new academic structure was estimated. Since its inception in September 2012, the new academic structure has been implemented in the UGC sector for four years with the first batch of students studying under the

---

**Note 11:** *There are ten formulae for assessing the universities' academic space needs for ten space categories respectively. The ten space categories are classrooms, study space, teaching laboratories, open laboratories, research laboratories, offices, libraries, indoor sports facilities, student and staff amenities, and support space.*

## **Administration of capital grants**

---

new academic structure graduated in 2016. It might be an opportune time to review the appropriateness of the existing formulae based on the actual experience of the implementation of the new academic structure; and

- (b) the 2010 higher education review report of the UGC entitled “Aspirations for the Higher Education System in Hong Kong” (hereinafter referred to as the 2010 Report) recommended further and deeper internationalisation in the UGC sector. As a result, internationalisation has become a matter of priority of the UGC and a strategic goal of the universities (see also para. 4.29). It would be desirable to revisit the appropriateness of the existing formulae upon the development of internationalisation in recent years.

In view of these changes and developments, the UGC should consider the need to undertake a review on the space requirement formulae to facilitate more effective provision of academic space to the universities.

3.17 In response to Audit’s enquiry, the UGC Secretariat informed Audit in September 2016 that:

- (a) internationalisation might come in many forms including international strategies, curriculum development, international networks, non-local student recruitment and integration, international staff, etc. Therefore, development of internationalisation might not necessarily rely on the academic space provided;
- (b) for provision or improvement of teaching facilities to meet the demands arising from internationalisation, the universities might apply for capital works funding under AA&I block allocation; and
- (c) concerning the capital works matters, the critical factor which had an impact on the universities’ efforts in internationalisation currently seemed to be the limited number of student hostel places to meet the demands from the increasing number of non-local students. This shortage had a knock-on effect on the campus life of local students.

***Need to improve the updating of space inventories***

3.18 According to the NoP, space inventories provide useful information for assessing the provision of space to the universities. The UGC requires the universities to update their space inventories on a regular basis and provide updated space inventory lists to the UGC Secretariat every three years.

3.19 In the latest space inventory updating exercise conducted in November 2014, the UGC Secretariat asked the universities to submit their updated student hostel and academic space inventories by the end of January and mid-March 2015 respectively. Audit examination of this exercise revealed that:

- (a) there were differences between the academic space inventory records maintained by the UGC and those submitted by the universities (see Table 18);

**Table 18**

**Differences between academic space inventory records of  
the UGC and the universities  
(June 2016)**

University	UGC records (a) (m <sup>2</sup> )	University submission (b) (m <sup>2</sup> )	Difference (c) = (a) – (b) (m <sup>2</sup> )
CityU	132,703	132,685	18
HKBU	80,684	81,187	(503)
LU	27,664	26,073	1,591
CUHK	224,173	215,773	8,400
EdUHK	55,073	53,890	1,183
PolyU	195,176	193,531	1,645
HKUST	137,170	137,241	(71)
HKU	207,909	213,301	(5,392)
Total	1,060,552	1,053,681	6,871

*Source: Audit analysis of UGC records*

## **Administration of capital grants**

---

- (b) as at 30 June 2016, the reconciliation of the space inventory records maintained by the UGC and the universities was not yet completed by the UGC Secretariat. In response to Audit's enquiry, the Secretariat informed Audit in July 2016 that it had completed the comparison and would discuss with the universities to confirm the records; and
- (c) according to the NoP, the UGC may appoint an external party to audit the space inventories of the universities so as to verify the accuracy of the inventories. Audit, however, noted that no such audit has been conducted since 2006.

3.20 Maintaining an accurate and up-to-date database of the inventories would facilitate the assessment of provision of space to the universities. The UGC Secretariat needs to make efforts to resolve the differences and finalise the space inventory updating exercise. The Secretariat also needs to conduct space inventory audit on a periodic basis.

### ***Need to obtain information on space utilisation***

3.21 According to the Space Inventory Manual, space utilisation surveys are a useful tool to measure whether the universities' facilities are used at an optimal level and an additional source of information for evaluation of the universities' capital works project proposals. However, since 2006, the UGC Secretariat has not conducted any such surveys. The Secretariat also has not requested the universities to provide information on their space utilisation.

## **Audit recommendations**

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

- (a) **consider the need to conduct a review on the space requirement formulae, taking into account the changes and developments in the UGC sector;**



- (b) **make efforts to resolve the space inventory differences and promptly finalise the space inventory updating exercise;**
- (c) **consider the need to conduct audit of the space inventories of the universities on a periodic basis; and**
- (d) **consider the need to conduct periodically surveys of space utilisation of the universities.**

## **Response from the Government**

3.23 The Secretary-General, University Grants Committee agrees with the audit recommendations. He has said that:

- (a) the UGC Secretariat will consider when and how to conduct another review on the space requirement formulae;
- (b) the UGC Secretariat has already started the discussions with the universities in confirming the records and aims to finalise the space inventory updating exercise by the end of 2016; and
- (c) the UGC Secretariat will consult the universities and consider the need to conduct space utilisation surveys, and consider requesting the universities to provide information under a space utilisation survey in addition to updating of the space inventories and report to the UGC Secretariat every three years.

### Finalisation of project final accounts

#### *Need to clarify the deadline for finalisation of project final accounts*

3.24 According to the NoP, upon completion of major CWPs, the project final accounts should be submitted to the UGC Secretariat and finalised as soon as possible and in any event not later than three years after “commissioning of the facilities”. For AA&I projects, the project final accounts should be submitted and finalised not later than three months after the “physical completion” of the AA&I projects. Upon finalising the project final accounts, the universities are required to return to the Government any unspent project balances and unsupported expenses. In the period 2010/11 to 2015/16, the total of unspent project balances and unsupported expenses of 37 major CWPs refunded to the Government amounted to \$183 million (ranged from \$23,000 to \$59 million, averaging \$4.9 million per project) while those of 134 AA&I projects refunded to the Government amounted to \$70 million (ranged from \$1 to \$5 million, averaging \$0.5 million per project).

3.25 In June 2016, Audit enquired with the UGC Secretariat about the definitions of “commissioning of the facilities” and “physical completion”. The Secretariat replied that the definitions were the same, i.e. the “practical completion” of all facilities under the project with all defects rectified upon the issue of defect rectification certification by the project architect (according to the UGC Secretariat, the defect rectification period was usually one year). This definition has been used for the purpose of finalisation of project final accounts since the revision of the NoP in February 2007, and that the Secretariat was considering changing the term “physical completion” used for AA&I projects to “commissioning of the facilities” in future to avoid possible confusion between the two terms.

3.26 Audit noted that the UGC Secretariat adopted the term “commissioning of the facilities” from a Financial Circular relating to capital works issued by the Financial Services and the Treasury Bureau (FSTB) whereby Directors of Bureaux and their works directors should finalise project final accounts as soon as possible and in any event no later than three years after “commissioning of the facilities”. Nevertheless, in the Financial Circular, there is no elaboration of the meaning of “commissioning of the facilities”, for example, whether it takes into account the defect rectification period. It is therefore not clear whether the Secretariat’s practice of including the defect rectification period in the determination of “commissioning of the facilities” is proper.

3.27 The definition of “commissioning of the facilities” would affect the deadline for finalising project final accounts, which in turn would affect the timing of refund of unspent project balances and unsupported expenses by the universities to the Government. Audit considers that the UGC Secretariat needs to seek clarification from the FSTB on the definition of “commissioning of the facilities”.

### *Delay in finalisation of project final accounts*

3.28 As at 30 June 2016, the final accounts of 36 completed major CWPs could not be finalised within three years after “commissioning of the facilities”. Audit analysed the progress of finalisation of final accounts of these 36 projects. Audit found that, up to 30 June 2016, of the 36 completed major CWPs:

- (a) for 1 (3%) project, final account had not been submitted;
- (b) for 21 (58%) projects, final accounts had been submitted but were awaiting submission of additional information requested by the UGC Secretariat or the Architectural Services Department (ArchSD — Note 12); and
- (c) for 14 (39%) projects, final accounts were being checked by the UGC Secretariat or the ArchSD. Some of the checking had been in progress for over one year (ranged from 1.4 to 5.6 years, averaging 2.7 years).

3.29 Audit’s ageing analysis further shows that as at 30 June 2016, the finalisation of final accounts for 29 (81%) of the 36 major CWPs had been overdue for more than three years (the longest overdue period was some 18 years) (see Table 19).

---

**Note 12:** *The ArchSD is the technical advisor of the UGC for capital works projects and other related matters.*

## Administration of capital grants

---

Table 19

**Completed major CWPs with finalisation of final accounts overdue  
(30 June 2016)**

No. of years overdue	No. of projects
>0 to 3	7 (19%)
>3 to 5	2 (6%)
>5 to 7	5 (14%)
>7 to 10	5 (14%)
>10 to 15	9 (25%)
>15 to 18	8 (22%)
Total	36 (100%)

Source: Audit analysis of UGC records

3.30 For completed AA&I projects, as at 30 June 2016, the final accounts of 98 completed projects could not be finalised within three months after the “physical completion” of the projects. Audit analysed the progress of finalisation of final accounts of these 98 projects. Audit found that, up to 30 June 2016, of the 98 completed AA&I projects:

- (a) for 80 (82%) projects, final accounts had not been submitted;
- (b) for 3 (3%) projects, final accounts had been submitted but were awaiting submission of additional information requested by the UGC Secretariat or the ArchSD; and
- (c) for 15 (15%) projects, final accounts were being checked by the UGC Secretariat or the ArchSD. Some of the checking had been in progress for over one year (ranged from 1.4 to 5.1 years, averaging 1.9 years).

3.31 Audit's ageing analysis further shows that as at 30 June 2016, the finalisation of final accounts for 43 (44%) of the 98 AA&I projects had been overdue for more than three years (the longest overdue period was some 15 years) (see Table 20).

**Table 20**

**Completed AA&I projects with finalisation of final accounts overdue  
(30 June 2016)**

No. of years overdue	No. of projects	
> 0 to 1	14 (14%)	
> 1 to 2	27 (28%)	
> 2 to 3	14 (14%)	
> 3 to 5	21 (22%)	} 43 (44%)
> 5 to 7	12 (12%)	
> 7 to 10	8 (8%)	
> 10 to 15	2 (2%)	
Total	98 (100%)	

*Source: Audit analysis of UGC records*

3.32 The UGC Secretariat needs to ascertain the reasons for the delay in finalisation of project final accounts for major CWPs and AA&I projects and to take measures to promptly finalise the final accounts in order to ensure that unspent project balances and unsupported expenses are returned to the Government in a timely manner.

### Audit recommendations

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

- (a) seek clarification from the Secretary for Financial Services and the Treasury on the definition of “commissioning of the facilities” for the purpose of finalising final accounts for capital works projects; and
- (b) ascertain the reasons for the delay in finalising project final accounts for major CWPs and AA&I projects, and take measures to promptly finalise the accounts.

### Response from the Government

3.34 The Secretary-General, University Grants Committee agrees with the audit recommendations. He has said that:

- (a) the UGC Secretariat is seeking clarification from the FSTB on the definition of “commissioning of the facilities”;
- (b) the UGC Secretariat is working hard to ascertain the reasons for the delay in finalising the project final accounts for major CWPs and AA&I projects. The UGC Secretariat agrees that the finalisation of project accounts should be expedited, and will take appropriate measures in consultation with the ArchSD and the universities with a view to finalising the project final accounts as soon as practicable. In order to expedite the finalisation of project final accounts, the UGC Secretariat has taken the following measures since 2010:
  - (i) devising new procedural work flow and time frame in consultation with the ArchSD to streamline the processing of final account submissions;

## Administration of capital grants

---

- (ii) conducting meetings/briefings with the universities concerned and the ArchSD with a view to resolving the outstanding final accounts and expediting the vetting process; and
  - (iii) urging the universities concerned to take prompt actions to expedite the submission of final accounts and supporting documents for processing by the ArchSD and the UGC Secretariat. Letters have been issued to the Director of Estates or higher level officers of the universities in 2010, 2012, 2013, 2014 and 2016 respectively; and
- (c) with the concerted efforts of the universities, the ArchSD and the UGC Secretariat, the latest progress of finalisation of final accounts is shown at the Table below.

	<b>Major CWPs</b>	<b>AA&amp;I projects</b>
Total number of projects with finalisation of final accounts overdue as at 30 June 2016	36	98
Total number of projects with final accounts finalised since 1 July 2016	5	25
Total number of projects pending finalisation of final accounts as at 11 October 2016	31	73

## **PART 4: GOVERNANCE AND OTHER ADMINISTRATIVE ISSUES**

4.1 This PART examines the UGC's governance and other administrative issues, focusing on the following issues:

- (a) governance of the UGC (paras. 4.2 to 4.13);
- (b) meeting expenses (paras. 4.14 to 4.28);
- (c) internationalisation of the universities (paras. 4.29 to 4.38);
- (d) governance of the universities (paras. 4.39 to 4.47); and
- (e) the QAC (paras. 4.48 to 4.59).

### **Governance of the UGC**

4.2 As at 30 June 2016, the UGC had 20 members comprising a Chairman and 19 other members (6 non-local academics, 6 local academics and 8 local lay persons). Members of the UGC are appointed by the Chief Executive. The UGC meets three times a year and is supported by seven Sub-Committees and Groups (see para. 1.6). The UGC members also sit in the Sub-Committees and Groups. Non-UGC members may also be appointed to the Sub-Committees and Groups where necessary.

4.3 The RGC and the QAC are non-statutory advisory bodies established under the aegis of the UGC (see para. 1.7). As at 30 June 2016, the RGC comprised a Chairman and 24 members (12 non-local academics, 10 local academics, 2 local lay persons and an ex-officio member who is the Science Advisor of the Innovation and Technology Commission), while the QAC comprised a Chairman and 7 members (2 non-local academics, 2 local academics, 3 local lay persons and an ex-officio member who is the Secretary-General of the UGC). The audit review on the RGC is covered in Chapter 6 of the Director of Audit's Report No. 67.



## **Governance and other administrative issues**

---

4.4 Local members of the UGC and all its Councils and Sub-Committees/Groups/Panels receive no remuneration for their extensive voluntary service, save for a \$215 travel allowance per meeting day. Non-local members receive annual honoraria. The rates of honoraria effective from 1 January 2016 are:

- (a) \$147,750 per annum for UGC non-local members;
- (b) \$93,100 per annum for RGC/QAC non-local members;
- (c) \$71,900 per annum for UGC Sub-Committees/Groups and RGC Panels non-local members (who are co-opted and do not serve on UGC/RGC proper); and
- (d) \$51,450 per quality audit for QAC audit panel non-local auditors (see para. 4.53).

### ***Need to improve management of conflicts of interest***

4.5 The UGC adopts the following practice for managing conflicts of interest. The reporting of conflicts of interest is two-tiered. Full declaration in a Register of Interests form should be made upon first appointment, reappointment or significant change of circumstances. At the second tier, it is incumbent upon the member to declare interest whenever he/she sees a reason to do so. This practice is applicable to members of the UGC, the UGC Sub-Committees/Groups, the RGC and the QAC.

4.6 Audit examined the UGC's management of conflicts of interest in the period 2011/12 to 2015/16. Audit found that:

- (a) 26 Register of Interests forms of three existing UGC members, two existing QAC members, seven ex-UGC members and eight ex-QAC members upon their appointments/reappointments could not be located by the UGC Secretariat; and

## **Governance and other administrative issues**

---

- (b) members of the RGC are required to submit annually an updated Register of Interests form to the UGC Secretariat. There is, however, no such requirement for members of the UGC, the UGC Sub-Committees/Groups and the QAC.

### ***Attendance rates of members***

4.7 Attendance at meetings is a key indicator to reflect members' commitment to serving an organisation. Table 21 shows, in the period 2013/14 to 2015/16, the overall attendance rates of members at meetings of the UGC, the UGC Sub-Committees/Groups and the QAC.

## Governance and other administrative issues

**Table 21**

**Overall attendance rates of members at meetings of  
the UGC, the UGC Sub-Committees/Groups and the QAC  
(2013/14 to 2015/16)**

	No. of members as at 30 June 2016	2013/14		2014/15		2015/16	
		No. of meetings held	Attendance rate	No. of meetings held	Attendance rate	No. of meetings held	Attendance rate
UGC	20	3	91%	3	94%	3	93%
General Affairs and Management Sub-Committee	10	2	75%	2	80%	1	90%
Strategy Sub-Committee	9	3	96%	3	89%	3	89%
Research Group	9	3	96%	3	96%	3	89%
Financial Affairs Group	6	1	100%	2	100%	1	83%
Financial Affairs Expert Working Group	4	1	100%	4	100%	1	100%
Task Force on Implementation of the Governance Report Recommendations	(Note 1)						
Task Force on the Review of the Research Grants Council (Phase I)	(Note 2)						
QAC	8	3	81%	3	81%	3	77%

*Source: Audit analysis of UGC records*

*Note 1: The first meeting of the Task Force was conducted in July 2016.*

*Note 2: The first meeting of the Task Force was conducted in September 2016.*

## **Governance and other administrative issues**

---

4.8 As shown in Table 21, the overall attendance rates of members were in general satisfactory. Audit, however, noted that the attendance rates of two QAC members were on the low side. As at 30 June 2016, one local QAC member attended 2 (29%) out of 7 QAC meetings since his appointment in April 2014. The member last attended the QAC meeting in early January 2015. Another non-local QAC member attended 2 (50%) out of 4 meetings since his appointment in April 2015.

### ***Need to promulgate rules of procedure for meetings***

4.9 The UGC Secretariat has not promulgated rules of procedure governing the conduct of meetings of the UGC, the UGC Sub-Committees/Groups and the QAC. The UGC Secretariat needs to promulgate such rules of procedure (e.g. quorum of meetings and voting requirements).

### ***Need to produce a strategic plan***

4.10 Effective strategic planning is vital to an organisation in meeting new demands and the challenges of a changing environment. An organisation needs to review its objectives, examine its strengths, weaknesses and strategic direction regularly, and develop a strategic plan for establishing what it intends to achieve over a period of time. Without an established strategic plan to guide the actions, valuable resources may not be used in an optimal manner in meeting the objectives of the organisation. The strategic plan would also serve to provide new members an overview of the UGC's strategic direction. Overseas university funding bodies (e.g. funding bodies in the United Kingdom and New Zealand) have produced and revised their strategic plans periodically and published their plans on their websites.

4.11 The UGC, however, has not produced a document in the form of a strategic plan. In response to Audit's enquiry, the UGC Secretariat informed Audit in September 2016 that:

- (a) the UGC had strategies as a result of planning, although it did not have a single document entitled the strategic plan;

- (b) the terms of reference and mission statement published by the UGC stated clearly the principles and strategic priorities that guided the work of the UGC;
- (c) the UGC's principles and strategies were also further elaborated in the NoP, which was updated as necessary and appropriate;
- (d) issues in specific strategic areas were discussed in detail, in the context of the latest development of the higher education sector, in the major reports published by the UGC over the years; and
- (e) all these publications and documents were published on the UGC's website.

Audit considers that the UGC needs to consider preparing a document in the form of a strategic plan setting out the principles, priorities and practices of the UGC. The strategic plan needs to be updated periodically and made available on its website. The strategic plan will facilitate the public's understanding of the direction, work and performance of the UGC.

### **Audit recommendations**

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

- (a) **locate the missing Register of Interests forms and take remedial action for those forms that cannot be located;**
- (b) **take measures to ensure the safekeeping of the Register of Interests forms in future;**
- (c) **consider requiring members of the UGC, the UGC Sub-Committees/Groups and the QAC to submit annually updated Register of Interests forms to the UGC Secretariat;**

## **Governance and other administrative issues**

---

- (d) **take measures to improve the attendance rates of members with low attendance records (e.g. urging them to make efforts to attend meetings as far as possible);**
- (e) **promulgate rules of procedure for meetings of the UGC, the UGC Sub-Committees/Groups and the QAC (e.g. quorum of meetings and voting requirements); and**
- (f) **consider preparing a document in the form of a strategic plan, update it periodically and make it available on the UGC's website.**

## **Response from the Government**

4.13 The Secretary-General, University Grants Committee agrees with the audit recommendations. He has said that:

- (a) the UGC Secretariat has been following up with the Register of Interests forms found to be pending/missing and will continue to locate the forms; and although the UGC Secretariat has stopped chasing the members for the forms when their UGC/QAC appointment ended, the UGC Secretariat will continue to take remedial action regarding the existing members;
- (b) the UGC Secretariat will consider ways to enhance the safekeeping of the Register of Interests forms;
- (c) the UGC Secretariat will consider stepping up measures to invite members of the UGC, the UGC Sub-Committees/Groups as well as the QAC to submit annually updated Register of Interests forms to the Secretariat;
- (d) action will be taken to remind the members concerned to attend meetings as far as possible; and when considering reappointment to the QAC, the UGC and the UGC Sub-Committees/Groups, contribution and commitment of the member, including his/her attendance rates, will be taken into consideration;

- (e) the UGC Secretariat will consider promulgating rules of procedure for the meetings; and
- (f) the UGC Secretariat will invite the UGC to consider the need for preparing a document in the form of a strategic plan which will set out, amongst other things, the principles, strategies, strategic priorities of the UGC; and in the case that the UGC considers that there is such a need, the Secretariat will prepare the document, update it periodically and make it available on the UGC's website.

### **Meeting expenses**

4.14 Meeting expenses mainly include expenses on hotel accommodation, air passage and per-diem allowance for non-local members of the UGC, the RGC and the QAC (as well as their Committees, Sub-Committees, Groups and Panels). Public entities need to pay due regard to controlling meeting expenses for public accountability in the use of public funds and ensuring value for money. In the period 2005-06 to 2015-16, the annual meeting expenses of the UGC, the RGC and the QAC increased from \$3.9 million to \$16.2 million (see Table 22). The increase in expenses over the years was mainly due to increased number of non-local RGC Council/Panel/Committee members and increased number of meetings with the introduction of new funding schemes.

**Table 22**

**Meeting expenses of the UGC, the RGC and the QAC  
(2005-06 to 2015-16)**

Financial year	Meeting expenses			
	UGC (\$ million)	RGC (\$ million)	QAC (Note 1) (\$ million)	Total (\$ million)
2005-06	2.3	1.6	0.0	3.9
2006-07	4.9 (Note 2)	1.6	0.2	6.7
2007-08	3.3	2.8	0.7	6.8
2008-09	2.9	4.4	1.0	8.3
2009-10	2.6	5.4	1.5	9.5
2010-11	2.6	8.8	1.7	13.1
2011-12	3.5	9.8	0.5	13.8
2012-13	3.8	10.7	0.5	15.0
2013-14	3.9	13.6	0.4	17.9
2014-15	18.3 (Note 2)	13.2	0.7	32.2
2015-16	2.0	12.8 (Note 3)	1.4	16.2

*Source: UGC records*

*Note 1: The QAC was established in 2007 with its first meeting in April 2007. The meeting expenses included those incurred for QAC meetings and quality audit activities. The increase in meeting expenses was mainly due to the conduct of the first and second QAC audit cycles in 2008 to 2011 and in 2015 to 2016 respectively.*

*Note 2: The increases in meeting expenses in 2006-07 and 2014-15 were mainly due to the conduct of RAEs in 2006 and 2014 respectively. In these two financial years, many non-local academics were invited to attend meetings in Hong Kong.*

*Note 3: As at 30 June 2016, the RGC had 12 non-local Council members and 367 non-local Committee/Panel members (served by 193 persons — a person may serve as a member of more than one Council/Committee/Panel).*



***Need to improve procurement practices***

4.15 Audit examined 30 payments of meeting expenses incurred in the financial years 2014-15 and 2015-16. Audit found that there is scope for improvement in the procurement practices, as shown in paragraphs 4.16 to 4.24.

4.16 ***Hotel accommodation and passage arrangements.*** Audit examination of the 30 payments covered the procurement of 2,402 hotel room-nights at a total cost of some \$4.4 million. Audit found that for all these room-nights, the daily room rates ranged from \$1,430 to \$3,300 (on average \$1,830). Audit noted that for all the 2,402 room-nights, quotations were obtained from the same five upmarket hotels before booking. However, there was no documentary evidence showing:

- (a) justifications for choosing the same five upmarket hotels; and
- (b) that less expensive hotels were not suitable or not available to provide the room-nights.

4.17 It is a practice of the UGC Secretariat that all non-local members are provided with Business Class return air tickets for travelling to Hong Kong to attend meetings. Furthermore, if the spouse of a non-local member wishes to accompany the member, the member's Business Class passage entitlement will be used to cover the cost of two return air tickets provided that any excess airfare will be borne by the member.

## Governance and other administrative issues

---

4.18 The UGC Secretariat has adopted the practices of the Government as stipulated in the Civil Service Regulations in respect of subsistence allowance to arrange per-diem allowance (Note 13) for non-local members travelling to Hong Kong to attend meetings. However, the Secretariat has not adopted the practices of the Government on passage arrangements applicable to public officers (Note 14).

4.19 In response to Audit's enquiry, the UGC Secretariat informed Audit in September 2016 that:

- (a) the terms of appointment of non-local members did not offer a fee, and an honorarium was an award unrelated to the time spent on UGC activities, services offered or expertise made available;
- (b) in recognition that overseas members' time was being given normally without payment, and that the UGC wished to continue to attract top university leaders from around the world, it was believed to be appropriate that the standard of hotel accommodation offered to them when attending meetings in Hong Kong would be commensurate with their standing and would not deter candidates from accepting an offer of appointment; and
- (c) non-local members travelled to Hong Kong to attend meetings on a voluntary basis and often had to take leave from their own full-time jobs. The UGC recognised that there were immense benefits in drawing the best academic talents from around the world to serve Hong Kong, and the difficulty involved in persuading them to do so should not be under-estimated. Therefore, the UGC facilitated non-local members to attend meetings in Hong Kong through a package of hotel accommodation and passage arrangements.

---

**Note 13:** *The per-diem allowance is \$1,080 per day, which is equivalent to 40% of the applicable subsistence allowance rate of \$2,700 at present.*

**Note 14:** *When travelling on duty outside Hong Kong, only public officers on Directorate ranks of D4 or above are provided with passages of Business Class air travel. Subject to the approval by the Head of Department, the passage for an officer of D3 or below may be upgraded to Business Class under prescribed circumstances (e.g. where the flying time exceeds nine hours). If the spouse of an officer wishes to accompany the officer, the passage entitlement for the officer cannot be used to cover the passage of the spouse.*

4.20 In view of the upward trend of meeting expenses, Audit considers that the UGC Secretariat needs to keep under review the appropriateness of its hotel accommodation arrangement and passage arrangement for non-local members and explore whether there are less expensive alternative accommodation and passage options (e.g. travelling on classes other than Business Class for short flights) that are acceptable to the non-local members.

4.21 ***Procurement requirements for air tickets divided into instalments.*** Being a government department, the UGC Secretariat is required to abide by the Government's Stores and Procurement Regulations (SPRs) for procurement of stores or services. According to the SPRs, quotations are required to be sought for procurement of stores or services with a value over \$5,000 but not exceeding \$1.43 million. For procurements with a value over \$1.43 million, open tendering should be conducted. The SPRs have also stipulated the following principles and requirements:

*“The financial limits set out in these Regulations refer to the total value of stores or services of a similar nature or total value of revenue which, in normal practice, are obtained or generated in a single purchase or contract. Controlling Officers should ensure that public officers responsible for procurement matters interpret these limits strictly, and that they do not evade the limits by dividing procurement requirements into instalments ..... In making procurement, Controlling Officers should consolidate requirements of stores and services of similar nature as far as possible to achieve better economies of scale.”*

4.22 In reviewing the meeting expenses, Audit found that there were cases where the UGC Secretariat might not have followed the above principles and requirements in conducting the procurements (see Case 1).

**Case 1**

**Procurement of air tickets**

1. In 2014, the UGC conducted an RAE to assess the research quality of the universities (see para. 2.10). A total of 13 assessment panels were set up by broad disciplines (e.g. Business & Economics, Engineering and Humanities). The panels comprised 307 members, of which 214 (70%) were non-local academics. The panel meetings all took place in August and September 2014. The total expenditure spent on return air tickets amounted to \$11.8 million, comprising \$7.1 million for air tickets procured by the UGC Secretariat and \$4.7 million for reimbursements to non-local academics who bought their own air tickets.

2. The UGC Secretariat conducted 12 batches of procurements for return air tickets through seeking quotations (see Table below).

<b>Procurement batch</b>	<b>Number of return air tickets procured</b>	<b>Date of procurement</b>	<b>Number of calendar days since last batch of procurement</b>	<b>Total amount (\$)</b>
1	2	2 May 2014	N/A	80,287
2	5	6 June 2014	35	395,227
3	24	13 June 2014	7	1,730,993
4	9	27 June 2014	14	619,298
5	1	7 July 2014	10	49,588
6	16	11 July 2014	4	929,298
7	9	18 July 2014	7	496,856
8	3	25 July 2014	7	132,161
9	10	7 August 2014	13	584,848
10	11	12 August 2014	5	750,043
11	10	21 August 2014	9	540,799
12	10	27 August 2014	6	742,802
<b>Total</b>	<b>110</b>			<b>7,052,200</b> (say \$7.1 million)

### Case 1 (Cont'd)

#### *Audit comments*

3. As shown in the Table above, the value of Procurement batch 3 of 13 June 2014 exceeded \$1.43 million. However, open tendering had not been conducted. Furthermore, some procurement batches could have been consolidated to achieve possible economies of scale (e.g. Procurement batches 9 to 11 in August 2014 which were conducted within two weeks).

4. Moreover, Audit noted that the UGC Secretariat had issued quotation invitations to the same five travel agents for each of the 12 procurement batches. However, of these five agents, two had not responded to any of the invitations. The UGC Secretariat needs to avoid seeking quotations from agents that have shown no interest in the past procurement exercises and invite quotations from other travel agents in future procurement. In response to Audit's enquiry, the Government Logistics Department commented in October 2016 that as a rule, government bureaux/departments should invite the last successful service provider, if its performance was satisfactory, to quote and other service providers on the supplier list, by rotation, to give the remaining quotations. Those service providers who rarely responded to invitations should be removed from the supplier list.

*Source: Audit analysis of UGC records*

4.23 In response to Audit's enquiry regarding Case 1 above, the UGC Secretariat informed Audit in September 2016 that:

- (a) unlike the purchase of stores with routine/similar specifications, the procurement of air tickets for non-local members involved items with different specifications in terms of the departing countries/cities/departure period, etc., and the variations of which would determine the price of the air ticket. Therefore, each air ticket was treated as an individual item in a quotation exercise with value less than \$1.43 million, and no tendering arrangement should be required according to the SPRs;

## **Governance and other administrative issues**

---

- (b) under the current arrangement, the travel agents were required to submit quotation for each air ticket. The Secretariat accepted the lowest quote from the travel agent concerned. The Secretariat saw the benefit of considering each air ticket as an individual item and to secure the lowest quoted price for each of them under the quotation exercise; and
- (c) the Secretariat needed to obtain confirmation of non-local members about the routing of the flights before it could invite submission of quotation from the travel agents. In order not to defer the passage arrangement of some members who had already provided the required information, it could not avoid inviting quotations by batches.

4.24 In view of the number and nature of air ticket procurements by the UGC Secretariat, Audit considers that the UGC Secretariat needs to, in consultation with the Government Logistics Department and the FSTB, review whether its current arrangement of procuring air tickets complies with the SPRs.

### **Audit recommendations**

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

- (a) **keep under review the appropriateness of the UGC Secretariat's hotel accommodation arrangement and passage arrangement for non-local members and explore whether there are less expensive alternative options that are acceptable to the non-local members;**
- (b) **in consultation with the Director of Government Logistics and the Secretary for Financial Services and the Treasury, review whether the UGC Secretariat's current arrangement of procuring air tickets complies with the SPRs; and**
- (c) **as far as practicable, avoid inviting quotations from travel agents that have shown no interest in the past procurement exercises.**

## **Response from the Government**

4.26 The Secretary-General, University Grants Committee generally agrees with the audit recommendations. He has said that:

- (a) it is believed to be appropriate that the standard of hotel accommodation offered to non-local members would be commensurate with their standing and would not deter candidates from accepting appointment (see para. 4.19);
- (b) the Secretariat has been following the SPRs to invite suitable hotels, i.e. hotels near the meeting venue, to submit quotations for cost comparison. In principle, the lowest quotation would be accepted as the appointed hotel for non-local members;
- (c) the procurement of air tickets for non-local members involved items with different specifications and therefore each ticket was treated as an individual item (see para. 4.23); and
- (d) the UGC Secretariat will review the arrangement of inviting travel agents for submission of quotations and make any changes as appropriate.

4.27 Regarding the audit recommendation in paragraph 4.25(b), the Secretary for Financial Services and the Treasury has said that:

- (a) under the SPRs, Controlling Officers have been delegated the authority for procurement of stores, services (excluding services for construction and engineering works) and revenue contracts up to \$5 million. It is the Controlling Officer's responsibility to ensure that procurements within this financial limit are made in accordance with the SPRs;
- (b) as provided under the SPRs, the Controlling Officer may approach the Director of Government Logistics, who is responsible for advising government bureaux/departments on implementing good practice on their management of stores and procurement activities and for conducting compliance checks on such activities according to prescribed criteria to ensure compliance with the SPRs and other relevant instructions; and

## **Governance and other administrative issues**

---

- (c) while the Secretary for Financial Services and the Treasury, as the authority of issuing and interpreting the SPRs, has no objection to the audit recommendation and can offer advice from the procurement policy perspective, it is for the Controlling Officer to justify the current air tickets procurement arrangements in the light of the operational needs of the UGC Secretariat.

4.28 The Director of Government Logistics has said that she agrees with the audit recommendation in paragraph 4.25(b).

### **Internationalisation of the universities**

4.29 In an age of rapid globalisation and intense regional and international competition, the UGC sees internationalisation (e.g. international mix of students and staff) as the key to Hong Kong's future and a matter of priority for the universities. The UGC considers that internationalisation should be actively pursued by the universities.

#### ***Imbalance in the mix of non-local students***

4.30 In 2015/16, there were 15,730 non-local students enrolled in UGC-funded programmes (sub-degree, undergraduate and postgraduate programmes), a 56% growth from 10,074 in 2010/11. The 15,730 non-local students represented 16% of total student enrolment in 2015/16 (see Table 23).



**Table 23**

**Number of non-local students (headcount)  
enrolled in UGC-funded programmes  
(2010/11 to 2015/16)**

<b>University</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13 (Note)</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
CityU	1,250 (12%)	1,281 (12%)	1,601 (13%)	1,715 (13%)	1,889 (14%)	<b>1,994 (14%)</b>
HKBU	617 (11%)	628 (11%)	840 (12%)	895 (13%)	917 (13%)	<b>949 (13%)</b>
LU	239 (10%)	226 (10%)	230 (9%)	221 (8%)	211 (8%)	<b>225 (9%)</b>
CUHK	2,117 (15%)	2,300 (16%)	2,930 (16%)	3,118 (17%)	3,318 (17%)	<b>3,514 (18%)</b>
EdUHK	260 (4%)	249 (3%)	259 (3%)	276 (4%)	294 (4%)	<b>336 (4%)</b>
PolyU	1,379 (9%)	1,398 (10%)	1,756 (10%)	1,891 (11%)	2,015 (12%)	<b>2,117 (12%)</b>
HKUST	1,599 (22%)	1,815 (24%)	2,257 (23%)	2,458 (24%)	2,493 (24%)	<b>2,562 (25%)</b>
HKU	2,613 (19%)	2,873 (21%)	3,787 (22%)	3,936 (22%)	4,015 (22%)	<b>4,033 (21%)</b>
Overall	10,074 (14%)	10,770 (14%)	13,661 (15%)	14,510 (15%)	15,151 (16%)	<b>15,730 (16%)</b>

*Source: UGC records*

*Note: To tie in with the implementation of the new academic structure, the universities had admitted two cohorts of students under the old and new academic structures in 2012/13.*

*Remarks 1: Figures in brackets denote percentages of non-local students to total student enrolment.*

*2: Figures may not add up to total due to rounding.*

## **Governance and other administrative issues**

---

4.31 The issue of mix of non-local students at the universities had been deliberated in the 2010 Report (see para. 3.16(b)). According to the Report:

- (a) internationalisation is not the same thing as encouraging Mainland students to study in Hong Kong; and
- (b) although it is important to encourage Mainland students to enter Hong Kong universities, true internationalisation requires a much greater diversity of nationalities and cultural background.

4.32 Audit analysed the mix of non-local students at the universities and noted that Mainland students made up the largest group of non-local students at the universities (e.g. 87% in 2010/11 and 76% in 2015/16), albeit that non-local students other than Mainland students also grew by 184% from 1,350 in 2010/11 to 3,837 in 2015/16. In 2015/16, non-local students other than Mainland students accounted for 3.9% of total student enrolment (see Table 24). The UGC needs to further encourage the universities to continue their efforts to attract more non-local students, in particular those other than Mainland students, and promote diversity at the universities.

**Table 24**

**Number of non-local students other than Mainland students (headcount)  
enrolled in UGC-funded programmes  
(2010/11 to 2015/16)**

<b>University</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13 (Note)</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
CityU	126 (1.2%)	161 (1.5%)	283 (2.2%)	421 (3.2%)	534 (3.9%)	<b>578 (4.1%)</b>
HKBU	24 (0.4%)	27 (0.5%)	41 (0.6%)	43 (0.6%)	50 (0.7%)	<b>55 (0.7%)</b>
LU	24 (1.0%)	31 (1.4%)	43 (1.6%)	41 (1.6%)	38 (1.5%)	<b>36 (1.4%)</b>
CUHK	204 (1.5%)	271 (1.9%)	392 (2.1%)	482 (2.6%)	546 (2.8%)	<b>637 (3.2%)</b>
EdUHK	4 (0.1%)	10 (0.1%)	13 (0.2%)	17 (0.2%)	20 (0.3%)	<b>24 (0.3%)</b>
PolyU	146 (1.0%)	207 (1.4%)	290 (1.7%)	339 (2.0%)	418 (2.4%)	<b>470 (2.7%)</b>
HKUST	306 (4.2%)	439 (5.8%)	629 (6.4%)	720 (7.1%)	797 (7.8%)	<b>873 (8.4%)</b>
HKU	516 (3.8%)	687 (5.0%)	1,007 (5.7%)	1,073 (6.0%)	1,139 (6.2%)	<b>1,164 (6.2%)</b>
Overall	1,350 (1.8%)	1,833 (2.4%)	2,698 (2.9%)	3,136 (3.3%)	3,542 (3.7%)	<b>3,837 (3.9%)</b>

*Source: Audit analysis of UGC records*

*Note: To tie in with the implementation of the new academic structure, the universities had admitted two cohorts of students under the old and new academic structures in 2012/13.*

*Remarks: Figures in brackets denote percentages of non-local students other than Mainland students to total student enrolment.*

## **Governance and other administrative issues**

---

4.33 In response to Audit’s enquiry, the UGC Secretariat informed Audit in October 2016 that:

- (a) internationalisation might come in many forms (see para. 3.17(a));
- (b) the UGC had all along been encouraging, and would continue to encourage, universities to internationalise in ways that fit its institutional context. In the 2012-15 triennium, the UGC put together a “tripartite” funding scheme (funding from the EDB, the UGC and the participating universities) of \$30 million to support four new initiatives on internationalisation and engagement with the Mainland, all of which were implemented in 2013/14 and 2014/15. Funding would continue to be provided to the universities in the 2016-19 triennium. Apart from the major international education conferences, the universities were given some additional funding to expand into new markets they consider to be desirable, for example, conferences in South America; and
- (c) in any case, it was worth noting that the universities in Hong Kong were regarded to be doing well in terms of internationalisation.

### ***Issues concerning implementation of internationalisation and self-financing operations outside Hong Kong***

4.34 In the 2010 Report, a number of recommendations were made on the internationalisation of the universities. In November 2011, the EDB informed the LegCo Panel on Education that the EDB/UGC would implement the recommendations together with some other EDB initiated measures on internationalisation. Audit noted that greater efforts could be made in implementing the recommendations/measures:

- (a) ***Mix of universities’ academic staff.*** Internationalisation of the universities is not confined to the mix of students. The 2010 Report stated that “*Hong Kong needs a good mixture of academics: those who have done their doctoral work abroad, those who have worked in universities abroad, and those whose ethnic origins are not in Hong Kong*”, and that “*a true diversity of cultural background is conducive to the creation of an internationalised learning environment*”. The Report recommended that the universities should actively maintain an

international mix of their academic staff. In response to Audit's enquiry, the UGC Secretariat informed Audit in September 2016 that strategic dialogues on internationalisation were conducted with the universities during April to September 2012 which covered discussions of the issue on staff mix, and good practices to maintain the diversity of staff identified from the discussions were shared with the universities in January 2013. Furthermore, the second cycle of QAC quality audits (see para. 4.50) also examined the contribution of the international staff and staff recruitment policies of the universities. Nevertheless, Audit noted that while the UGC Secretariat has been collecting from the universities on a regular basis information on the mix of their students, it has not collected information on the mix of their staff (e.g. qualifications, experience and countries of origin). The UGC needs to consider if there is merit in including information on staff mix in the regular data collection from the universities;

- (b) ***Key performance indicators on internationalisation.*** The 2010 Report recommended that the UGC should agree with individual universities on a set of key performance indicators relating to internationalisation and monitor the universities' performance on internationalisation. In response to Audit's enquiry, the UGC Secretariat informed Audit in September 2016 that the universities had set key performance indicators on internationalisation. In addition, in the second cycle of QAC quality audits, the audit panels also looked into the impact of international developments on the students' learning experience and the steps taken by the universities to ensure that students are prepared for participation in the international community. Furthermore, the UGC was following up on the review report on institutional governance (see para. 4.45), in which one of the recommendations was the establishment of a written accountability framework. It was contemplated that internationalisation would be one of the agreed domains of performance measurements/key performance indicators for the proposed accountability framework. Audit considers that the UGC needs to ensure that a set of key performance indicators on internationalisation are agreed with the universities. The UGC also needs to continue to monitor the universities' performance on internationalisation as recommended by the 2010 Report;

- (c) ***Guidelines on the universities' self-financing operations outside Hong Kong.*** In November 2011, the EDB informed the LegCo Panel on Education that operation of an off-shore full-fledged institution or branch campus would involve significant commitment, and acknowledged that there were legitimate concerns about financial and human resources implications on the parent institution and potential dilution of brand name. The EDB undertook to invite the UGC to take stock of the universities' self-financing operations outside Hong Kong and recommend guidelines on the operations as appropriate. In a subsequent UGC meeting in January 2012, the UGC agreed to take on the matter. In response to Audit's enquiry, the UGC Secretariat informed Audit in September 2016 that it had taken stock of the universities' self-financing operations and had drawn up guidelines on the operations (i.e. the NoP and the cost allocation guidelines — see para. 4.41). Audit considers that the UGC Secretariat, in collaboration with the EDB, needs to keep in view the latest developments of the universities' self-financing operations outside Hong Kong and consider the need to draw up additional guidelines; and
- (d) ***Setting up an internationalisation forum.*** Also in November 2011, the EDB committed to the LegCo Panel on Education that it would set up an internationalisation forum (with representatives from the universities, the UGC Secretariat and other stakeholders) to determine strategies, foster collaboration and share best practices on internationalisation. As at 31 July 2016, the forum had not been set up. In response to Audit's enquiry in June 2016, the EDB contended that at present, most non-local students in the post-secondary education sector were enrolled in the eight universities and these universities had already established a platform to share best practices on internationalisation. Hence, the EDB did not see any imminent need to set up an internationalisation forum for the time being. Audit considers that the EDB needs to keep in view the latest developments in the internationalisation of the higher education sector and revisit the need to set up an internationalisation forum in due course.

## Audit recommendations

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

- (a) **further encourage the universities to continue their efforts to attract more non-local students, in particular those other than Mainland students, and promote more diversity at the universities;**
- (b) **consider including information on the mix of academic staff (e.g. qualifications, experience and countries of origin) in the regular data collection from the universities;**
- (c) **agree with the universities on a set of key performance indicators on internationalisation and continue to monitor the universities' performance on internationalisation; and**
- (d) **in collaboration with the Secretary for Education, keep in view the latest developments of the universities' self-financing operations outside Hong Kong and consider the need to draw up additional guidelines.**

4.36 **Audit has recommended that the Secretary for Education should keep in view the latest developments in the internationalisation of the higher education sector and revisit the need to set up an internationalisation forum in due course.**

## Response from the Government

4.37 The Secretary-General, University Grants Committee agrees with the audit recommendations in paragraph 4.35. He has said that:

- (a) the UGC Secretariat will invite the UGC to consider ways to further encourage the universities to continue their efforts to attract non-local students from different countries with a view to promoting diversity at the universities. As a related matter, the UGC Secretariat is pleased to note that, starting from 2012/13, up to ten targeted scholarships per annum

## **Governance and other administrative issues**

---

under the HKSAR Government Scholarship Fund are offered to first-year non-local full-time students from ASEAN countries, India and Korea, who are enrolled in publicly-funded degree programmes in Hong Kong. Besides, starting from 2016/17, up to ten additional scholarships under the Fund and bearing the name “Hong Kong Scholarship for ‘Belt and Road’ Students (Indonesia)” are made available for first-year Indonesian students to pursue full-time study in publicly-funded degree programmes in Hong Kong. The UGC Secretariat believes that these efforts undertaken by the EDB are conducive to attracting more talented non-local students from different countries to join our universities;

- (b) the UGC Secretariat will consider including information on the mix of academic staff in the regular data collection from the universities;
- (c) the UGC will, under the context of accountability framework, discuss with the universities key performance indicators including those on internationalisation, and continue to monitor the universities’ performance on internationalisation; and
- (d) the purpose of the recently promulgated cost allocation guidelines (see para. 4.41) is to ensure there is no cross-subsidisation of UGC resources to non-UGC-funded activities, including universities’ self-financing operations conducted within or outside Hong Kong. Notwithstanding this, the UGC Secretariat will, in collaboration with the EDB, keep in view the latest developments of the universities’ self-financing operations outside Hong Kong and consider the need to draw up additional guidelines.

4.38 The Secretary for Education agrees with the audit recommendation in paragraph 4.36.

## **Governance of the universities**

4.39 The UGC stated in its 2015-16 Annual Report that the UGC strongly believes that effective governance is the fundamental key to sustain the public confidence in the universities. At its meeting in May 2014, the UGC’s Strategy Sub-Committee agreed that the UGC must satisfy itself as to the effectiveness of the governance of the universities it funded in order to assure itself that its investment was properly stewarded.



### *Need to monitor implementation of recommendations of review report on universities' financial affairs*

4.40 In January 2011, the UGC established a Financial Affairs Working Group (FAWG) to undertake a review of the finances of the universities. The purpose of the review was to offer recommendations on the universities' cost allocation practices and financial transparency, so as to provide more assurance to the public that the use of public funds was appropriate, i.e. the universities should only use the UGC funds for the activities eligible for public support.

4.41 In October 2013, the FAWG completed its review and published a review report. The FAWG considered that there was room for improvement in the cost allocation practices and the level of financial transparency of the universities, and put forward nine recommendations (see Appendix E). The recommendations on cost allocation practices were mainly related to the methods for allocation of costs, in particular, indirect overheads of non-UGC-funded activities and premises as well as staff cost recovery. The recommendations on financial transparency concerned the requirement to incorporate segment reporting in the financial statements of the universities, appropriate disclosures in respect of allocation of costs to UGC-funded and non-UGC-funded activities and exemption of overhead charges. To implement the recommendations, a new set of cost allocation guidelines (for the universities to comply with in their financial statements for 2018/19) and an updated version of the Statement of Recommended Practice (for the universities to comply with in their financial statements for 2015/16, except for segment reporting between UGC-funded and non-UGC-funded activities, which would be put into effect in the financial statements for 2016/17) were promulgated to the universities in October 2015.

4.42 Audit noted that the cost allocation guidelines were originally planned to be effective from 2017/18. However, recognising the comprehensive nature of the guidelines and to facilitate the universities' preparation, the implementation of the guidelines had been deferred to 2018/19, which would still be within the next funding triennium (i.e. 2016-19) and in line with the implementation date stipulated in the review report. In 2016, the UGC engaged a consultant to provide technical support and professional advice to the universities regarding the implementation of the aforesaid guidelines as well as accounting and disclosure practices. As at 31 August 2016, the consultant's comments on the universities' implementation

plans had been sent to each university for their follow-up. The UGC needs to continue to monitor the implementation of the guidelines and the accounting and disclosure practices by the universities to ensure that the guidelines and practices are adopted by the universities in the designated timeframes.

4.43 In addition, in response to the comments raised by the universities during the consultation of the draft cost allocation guidelines in March 2015, the UGC Secretariat advised the universities that “student unit costs fluctuate every year and that the proposed cost charging may lead to changes in student unit costs. At this stage, however, the Secretariat is unable to estimate the amount of the change, if any, in the student unit costs arising from the implementation of the new guidelines, though it is not unreasonable to envisage that part of the UGC costs (not charged out under the existing cost allocation mechanism) would be re-allocated to non-UGC-funded activities under the proposed cost allocation mechanism.” According to the UGC Secretariat, it undertook in June 2015 to pay particular attention to the effect of this when assessing the recurrent funding of the universities after the guidelines’ requirements are incorporated in the universities’ financial statements in 2018/19. The Secretariat needs to keep in view the actual impacts on the recurrent funding to the universities after requirements of the guidelines are incorporated in the universities’ financial statements in 2018/19.

### ***Need to monitor implementation of recommendations of review report on institutional governance***

4.44 At the request of the EDB in December 2013, the UGC conducted a consultancy study on the governance of the universities focusing on the roles of the university councils. The study aimed to identify good international practices on the governance of higher education institutions so as to draw up pointers and advice to help enhance the effectiveness and transparency of the councils of the universities, and to better prepare members of the councils to fulfill their roles.

4.45 In March 2016, the UGC released its report on institutional governance entitled “Governance in UGC-funded Higher Education Institutions in Hong Kong” after the EDB had endorsed the overall direction and recommendations of the report. The report pointed out that the core values of institutional autonomy and academic freedom, balanced with public accountability, were underpinned and protected by effective governance of the universities. Good governance would help ensure that the universities would continue to flourish in the future. A list of the

report recommendations is at Appendix F. The UGC will monitor the implementation of all the recommendations (Note 15), which should be completed before the start of the 2019-22 triennium. As at 30 June 2016, the UGC had established a task force to follow up the implementation of the recommendations in consultation with the universities. A timetable had also been drawn up for the implementation of the recommendations.

### **Audit recommendations**

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

- (a) **continue to monitor the implementation of the cost allocation guidelines and the accounting and disclosure practices by individual universities to ensure that the guidelines and practices are adopted by the universities in the designated timeframes;**
- (b) **keep in view the impacts on the recurrent funding to individual universities after the requirements of the cost allocation guidelines are incorporated in the universities' financial statements in 2018/19; and**
- (c) **continue to closely monitor the progress of the implementation of the recommendations of the UGC's report on institutional governance of individual universities.**

### **Response from the Government**

4.47 The Secretary-General, University Grants Committee agrees with the audit recommendations. He has said that:

---

**Note 15:** *According to the UGC Secretariat, recommendation 6 of the review report, i.e. the UGC should undertake a review of university governance on a regular basis, ideally every five years, will be implemented by the UGC in conjunction with the universities in due course.*

## **Governance and other administrative issues**

---

- (a) the UGC Secretariat has all along been working hard to monitor the implementation of the cost allocation guidelines and the accounting and disclosure practices by the universities, to ensure that the guidelines and practices will be adopted by the universities in the designated timeframes. The UGC Secretariat will continue the efforts in this regard. The universities will continue to be required to report on the implementation progress as necessary;
- (b) year on year changes in recurrent funding are caused by various factors (such as change in approved student number targets, price adjustment etc.). The impact of change in student unit costs as a result of incorporating the new cost allocation guidelines requirements on recurrent funding, if any, will only affect the funding period after 2018/19, and along with the impact of other factors, will be difficult, if not impossible, to be clearly identified; and
- (c) the UGC will continue to monitor the progress of the implementation of the recommendations of the UGC's report on institutional governance in accordance with the timetable drawn up.

## **Quality Assurance Council**

4.48 The QAC (see para. 1.7(b)) assists the UGC in providing oversight of the quality of the universities' educational provision. The QAC is supported by the QAC Secretariat. As at 30 June 2016, the Secretariat was headed by a Deputy Secretary-General, UGC, who was assisted by three staff of the UGC Secretariat.

### ***QAC mission***

4.49 The mission of the QAC (Note 16) is:

- (a) "To assure that the quality of the educational experience in all programmes at the levels of sub-degree, first degree and above (however funded) offered in UGC-funded institutions is sustained and improved, and is at an internationally competitive level"; and

---

**Note 16:** *Prior to mid-September 2016, paragraph 4.49(a) was not applicable to sub-degree programmes.*

- (b) “To encourage institutions to excel in this area of activity”.

The QAC conducts quality audits and issues audit reports with recommendations for the universities to make improvements. The QAC’s audit findings also include features of good practice and confirmation of progress with actions already in place.

### *QAC quality audits*

4.50 The principal aims of the QAC quality audit are to confirm that:

- (a) existing arrangements for quality assurance are fit for purpose;
- (b) the quality of provision is comparable to international best practices;
- (c) the universities are committed to continuously improving the quality of their academic programmes; and
- (d) students are well taught and well supported, to ensure that they are able to achieve the expected academic standards.

4.51 Under the first and the second QAC audit cycles (the second one is currently being conducted), quality audits cover all first degree programmes and above, however funded, offered by the universities (including their continuing education arms and community colleges). The sub-degree audit cycle, planned to commence in end 2016, will cover sub-degree programmes.

## Governance and other administrative issues

---

4.52 The QAC has compiled an Audit Manual for each of its audit cycle. According to its Audit Manual for the second audit cycle:

- (a) a QAC audit starts with the Institutional Submission (Note 17) submitted by the university to the QAC;
- (b) this is followed by a QAC audit visit, which normally lasts for three days and involves meetings with various representative groups (e.g. teaching staff, academic support staff, students and stakeholders) of the university; and
- (c) a QAC audit report is then compiled and published, thereby concluding the audit process.

Following the completion of a QAC audit, the university is expected to reflect on the outcomes of the audit in order to identify areas for institutional improvement. In this regard, the university is required to submit an action plan and a progress report, three months and 18 months respectively, after the publication of the QAC audit report.

### *Insufficient local academic auditors*

4.53 Before a QAC audit is conducted, an audit panel is formed by auditors drawn from a Register of Auditors. The Register of Auditors comprises senior academics from outside of Hong Kong with experience in external quality audit in higher education (non-local auditors), local academics and lay persons from the business and professional communities (local auditors). As at 30 June 2016, the Register of Auditors had 54 auditors, comprising 37 (69%) non-local auditors and 17 (31%) local auditors (16 academics and one lay person).

---

**Note 17:** *Before the conduct of a QAC quality audit, the university is required to perform an institutional self-evaluation (i.e. a self-review of its current arrangements for the management of quality assurance and an assessment of their effectiveness). The outcomes of the institutional self-evaluation will be the central component of the Institutional Submission. The Submission covers various topics (e.g. mission, organisational structure, and policies and procedures for quality enhancement) and forms the principal source of information for the conduct of the QAC audit.*

4.54 According to the QAC's Audit Manual for the second audit cycle, for each QAC quality audit, four auditors, comprising two local academics and two non-local auditors, are drawn from the Register of Auditors to form an audit panel. As each audit panel required two local academics, a total of 16 local academics were required for the eight audit panels of QAC quality audits (for the eight universities).

4.55 Audit examined the QAC's records of appointment of eight local academics to four audit panels (two panels in each audit cycle). Audit noted that in one appointment case, as a result of the limited number of local academics in the Register of Auditors, the appointment was not as smooth as expected, and the QAC took seven months to form the audit panel. In this case, when the QAC tried to line up an audit panel in mid-January 2015, due to various reasons (e.g. local academics having conflicts of interest with the university to be audited or unavailability owing to work commitments), the two local academics could only be appointed to the audit panel in mid-August 2015. Moreover, Audit examined the membership of the 16 QAC audit panels in the first and second audit cycles. Audit noted that in each of the two audit cycles, one local academic had been appointed to serve two QAC audit panels.

### *Need to improve checking of conflicts of interest before appointing auditors*

4.56 According to the QAC's practices on managing conflicts of interest:

- (a) for appointment to the Register of Auditors, an auditor (local or non-local) has to complete a registration form specifying his/her personal details and quality audit experience; and
- (b) when an auditor is drawn from the Register of Auditors for forming an QAC audit panel, the university to be audited will be asked whether the auditor has any conflicts of interest with the university. After obtaining the university's view, the QAC will form its own view on whether the auditor has any conflicts of interest, and will approach the auditor and offer him appointment to the QAC audit panel if it considers that the auditor has no conflicts of interest. If the auditor accepts the offer, he/she is asked to complete a declaration form declaring that he/she has no conflicts of interest. Upon receipt of the completed declaration form, the QAC will appoint the auditor to the audit panel.

## **Governance and other administrative issues**

---

4.57 According to the QAC's declaration forms, circumstances in which conflicts of interest may exist or be perceived to exist include an auditor being a graduate of the university. Audit examined the QAC's records of ten local auditors on four of the 16 QAC audit panels (two panels in each audit cycle). Audit found that of the three local auditors on one audit panel in the first audit cycle, one local lay person had conflicts of interest. According to the lay person's curriculum vitae submitted to the QAC, he was a graduate of the continuing education arm of the university. However, in his declaration form submitted to the QAC, the lay person declared that he had no conflicts of interest with the university.

### **Audit recommendations**

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

- (a) **take measures to ensure that there are sufficient local academic auditors in the Register of Auditors to facilitate the formation of audit panels for conducting QAC quality audits for the universities in future; and**
- (b) **improve the checking of conflicts of interest to ensure that auditors appointed to an QAC audit panel do not have conflicts of interest with the university to be audited.**

### **Response from the Government**

4.59 The Secretary-General, University Grants Committee agrees with the audit recommendations. He has said that the following measures have already been implemented for the upcoming audit cycle on sub-degree operations:

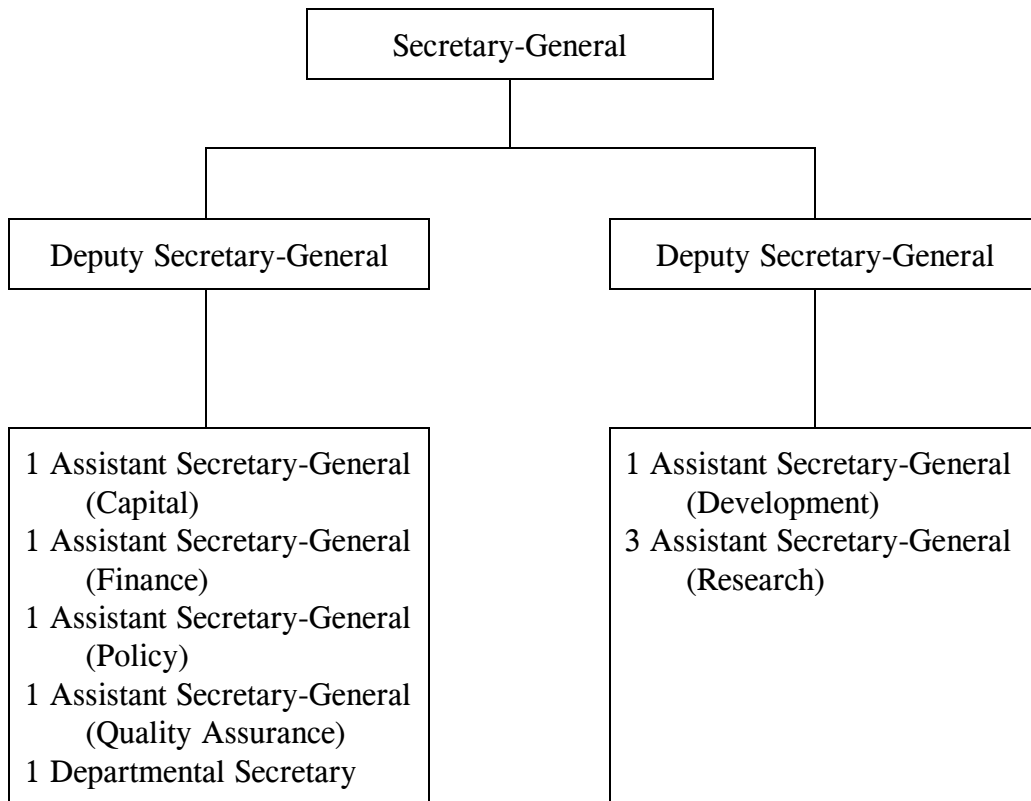
- (a) in view of the situation in the second audit cycle, and with a view to alleviating the burden of auditors to serve on more than one audit panel, each university has been asked to nominate three local academics for appointment to the Register of Auditors (instead of two as in the second audit cycle) in order to increase the size of the pool of local auditors.



There will also be a review on the audit arrangements and processes, including the audit panel composition, upon the completion of the second audit cycle. The QAC always attempts to be self-critical of its own arrangements and strives for improvement; and

- (b) to facilitate the universities in making their decisions, recent graduates, i.e. within the last three years, will be debarred from being appointed to the particular audit panels before the nominations are passed to the universities for consideration. The QAC Secretariat will continue with the efforts to ensure that auditors appointed to an audit panel do not have conflicts of interest with the university to be audited.

**UGC Secretariat: Organisation chart (extract)**  
**(30 June 2016)**



*Source: UGC records*

**Appendix B**  
(para. 1.10 refers)

**Total number of students (FTE)  
enrolled in UGC-funded programmes by level of study  
(2010/11 to 2015/16)**

University/ Level of study	2010/11	2011/12	2012/13 (Note)	2013/14	2014/15	2015/16
<b><i>CityU</i></b>						
Sub-degree	900	1,102	1,052	916	903	913
Undergraduate	8,518	8,497	10,912	11,288	12,028	12,423
Taught postgraduate	52	53	53	53	53	53
Research postgraduate	656	676	681	665	741	809
Sub-total	10,126	10,328	12,698	12,922	13,725	14,198
<b><i>HKBU</i></b>						
Undergraduate	4,649	4,655	6,109	6,198	6,259	6,515
Taught postgraduate	279	278	254	224	226	227
Research postgraduate	238	222	237	251	268	277
Sub-total	5,166	5,155	6,600	6,673	6,752	7,019
<b><i>LU</i></b>						
Undergraduate	2,233	2,152	2,622	2,570	2,532	2,532
Research postgraduate	57	61	65	74	82	76
Sub-total	2,290	2,213	2,687	2,644	2,613	2,608
<b><i>CUHK</i></b>						
Undergraduate	11,069	11,343	15,138	15,729	16,241	16,408
Taught postgraduate	695	731	799	710	735	701
Research postgraduate	1,689	1,728	1,786	1,790	1,825	1,976
Sub-total	13,453	13,801	17,723	18,228	18,801	19,084
<b><i>EdUHK</i></b>						
Sub-degree	983	977	924	841	763	1,012
Undergraduate	3,571	3,867	4,753	4,756	4,747	4,644
Taught postgraduate	525	509	508	507	524	526
Research postgraduate	10	29	36	36	29	38
Sub-total	5,090	5,382	6,222	6,141	6,063	6,221

**Appendix B**  
(Cont'd)  
(para. 1.10 refers)

University/ Level of study	2010/11	2011/12	2012/13 (Note)	2013/14	2014/15	2015/16
<b><i>PolyU</i></b>						
Sub-degree	3,553	3,527	3,481	3,212	2,634	2,231
Undergraduate	9,798	9,827	12,833	13,171	13,861	14,388
Taught postgraduate	29	18	15	15	15	13
Research postgraduate	607	604	626	677	694	713
Sub-total	13,987	13,977	16,955	17,074	17,204	17,345
<b><i>HKUST</i></b>						
Undergraduate	6,127	6,368	8,608	8,777	8,867	9,005
Research postgraduate	1,070	1,158	1,222	1,351	1,354	1,386
Sub-total	7,197	7,526	9,829	10,128	10,220	10,391
<b><i>HKU</i></b>						
Undergraduate	10,477	10,602	14,291	14,710	15,382	15,817
Taught postgraduate	798	791	801	763	748	752
Research postgraduate	2,027	2,020	2,118	2,141	2,112	2,086
Sub-total	13,302	13,413	17,210	17,613	18,241	18,655
<b><i>All universities</i></b>						
Sub-degree	5,437	5,606	5,457	4,969	4,300	4,156
Undergraduate	56,442	57,311	75,267	77,199	79,916	81,732
Taught postgraduate	2,378	2,379	2,428	2,271	2,299	2,271
Research postgraduate	6,355	6,496	6,771	6,985	7,103	7,360
Total	70,611	71,793	89,923	91,424	93,619	95,520

Source: UGC records

Note: To tie in with the implementation of the new academic structure, the universities had admitted two cohorts of students under the old and new academic structures in 2012/13.

Remarks: Figures may not add up to total due to rounding.

**Total number of staff (FTE) in academic departments  
of the universities by staff grade  
(2010/11 to 2015/16)**

<b>University/ Staff grade</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
<b><i>CityU</i></b>						
Academic staff	1,012	1,009	1,082	1,056	1,047	1,022
Administrative, technical and other staff	504	498	509	531	530	501
Technical research staff	298	275	323	354	289	225
Sub-total	1,814	1,783	1,914	1,940	1,866	1,748
<b><i>HKBU</i></b>						
Academic staff	423	443	494	484	485	501
Administrative, technical and other staff	159	156	163	178	182	186
Technical research staff	163	167	145	172	186	201
Sub-total	745	767	802	834	852	887
<b><i>LU</i></b>						
Academic staff	170	170	203	195	196	190
Administrative, technical and other staff	43	41	47	50	47	47
Technical research staff	7	8	10	8	10	10
Sub-total	220	219	260	253	254	248
<b><i>CUHK</i></b>						
Academic staff	1,233	1,240	1,321	1,362	1,377	1,384
Administrative, technical and other staff	1,123	1,110	1,161	1,170	1,159	1,222
Technical research staff	240	205	171	191	176	252
Sub-total	2,596	2,555	2,653	2,722	2,712	2,857
<b><i>EdUHK</i></b>						
Academic staff	388	372	420	442	448	462
Administrative, technical and other staff	96	106	111	117	122	129
Technical research staff	65	57	59	57	88	104
Sub-total	549	534	590	616	659	696

**Appendix C**  
(Cont'd)  
(para. 1.11 refers)

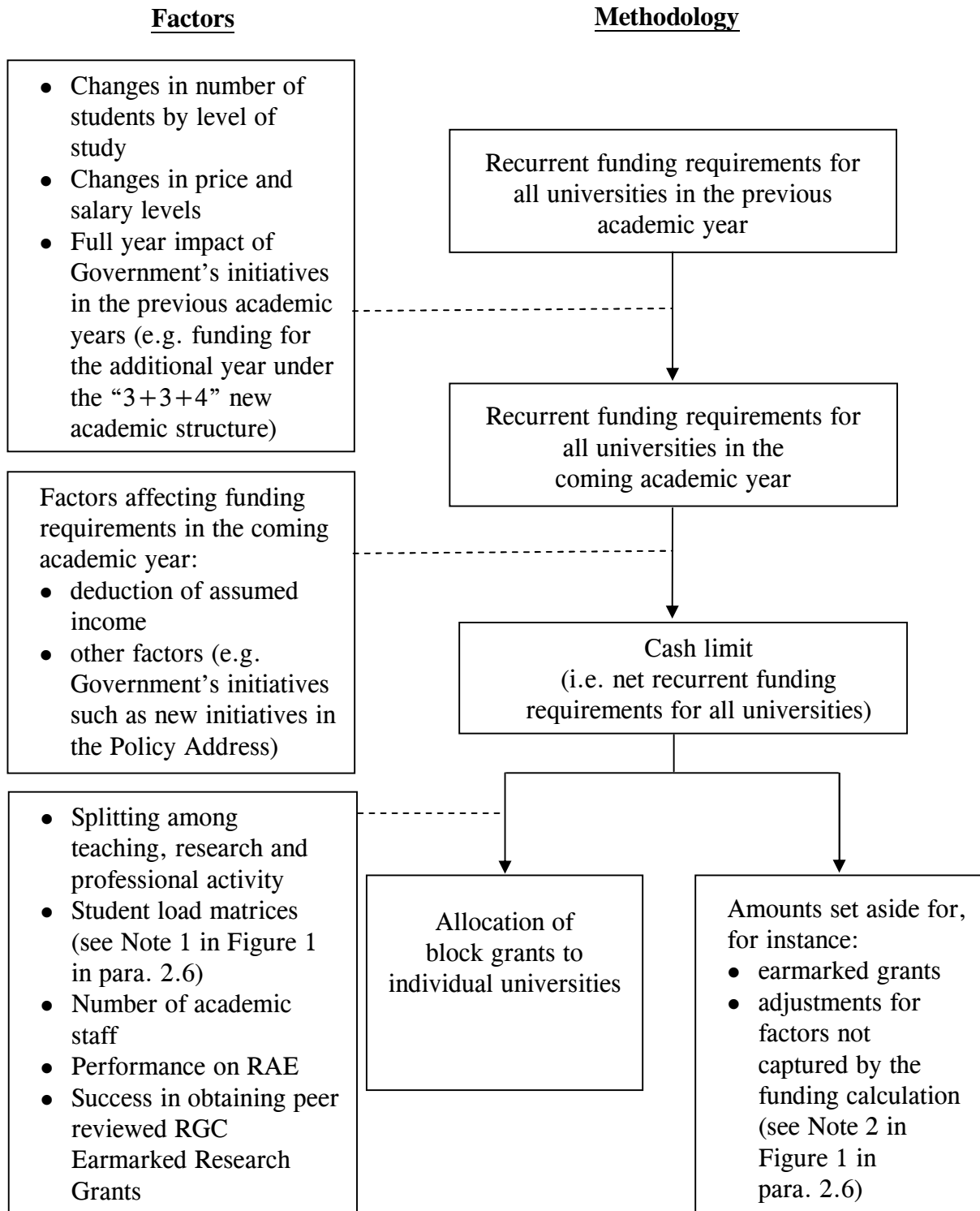
University/ Staff grade	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
<b><i>PolyU</i></b>						
Academic staff	1,157	1,100	1,191	1,201	1,190	1,174
Administrative, technical and other staff	651	640	671	673	677	671
Technical research staff	353	278	220	240	281	346
Sub-total	2,161	2,018	2,082	2,114	2,148	2,191
<b><i>HKUST</i></b>						
Academic staff	654	669	728	783	806	802
Administrative, technical and other staff	344	346	398	406	424	470
Technical research staff	236	228	274	271	255	281
Sub-total	1,233	1,243	1,399	1,461	1,485	1,552
<b><i>HKU</i></b>						
Academic staff	1,220	1,222	1,373	1,409	1,433	1,456
Administrative, technical and other staff	1,166	1,153	1,201	1,251	1,254	1,266
Technical research staff	229	181	166	188	175	172
Sub-total	2,616	2,556	2,740	2,848	2,862	2,894
<b><i>All universities</i></b>						
Academic staff	6,258	6,224	6,813	6,931	6,982	6,992
Administrative, technical and other staff	4,087	4,051	4,260	4,375	4,395	4,492
Technical research staff	1,591	1,400	1,366	1,481	1,461	1,590
Total	11,935	11,674	12,440	12,788	12,838	13,074

*Source: UGC records*

*Remarks 1: Staff in this table refer to those with salaries wholly funded by General Funds, which include, for example, block grants (see para. 2.3), supplementary grants/adjustments (see para. 2.5) and tuition fees.*

*2: Figures may not add up to total due to rounding.*

**Recurrent grant funding methodology**



Source: Audit analysis of UGC records

**List of recommendations of the review report on universities' financial affairs  
(Published in October 2013)**

**Cost allocation practices**

1. As a matter of general principle:
  - (a) costs should be allocated to both the UGC vote and the non-UGC vote using appropriate and consistent methods such that the amounts charged to the UGC-funded activities are calculated using the same methodology as that used to calculate the cost of overheads to be charged to the non-UGC-funded activities; and
  - (b) indirect overheads charged to non-UGC-funded research projects and all other self-financed activities be charged on exactly the same basis (*Recommendation 1*).
2. The universities should re-examine their practices concerning staff cost recovery along the principles set out in the report to move towards the requirement of full staff cost recovery (*Recommendation 4*).
3. The universities should amend their overhead charging practices to recognise that the cost of buildings is a direct cost to be charged to a self-financed programme (*Recommendation 5*).

**Financial transparency**

4. The UGC establishes a Working Group to review the cost allocation recommendations with a view to establishing detailed guidance for the universities (*Recommendation 2*).
5. An appropriate disclosure in the documents submitted to the university's council and an annual declaration submitted to the UGC explaining the nature of the research projects for which exemptions on overhead charge have been applied together with a note of the quantum involved (*Recommendation 3*).



**Appendix E**  
(Cont'd)  
(para. 4.41 refers)

6. The way in which the university allocates costs to UGC-funded and non-UGC-funded activities should be explained clearly in a publicly available document (*Recommendation 6*).

7. Segment reporting by funding source should be mandated, and should be implemented in the universities' audited financial statements for the year ended 30 June 2017 (*Recommendation 7*).

8. The Statement of Recommended Accounting Practice for UGC-funded universities should be updated to reflect both current and recommended accounting practices and disclosures (*Recommendation 8*).

9. The UGC identifies an appropriate mechanism by which the cost allocation practices of the universities can be periodically reviewed and endorsed (*Recommendation 9*).

*Source: UGC records*

**List of recommendations of the review report on institutional governance  
(Published in March 2016)**

1. Consideration should be given by the universities and the Government to the processes of training and continuing professional development of council members, so that they may discharge their duties in a more informed manner. The identification of candidates should be made with regard to a skills template which each university should draw up and keep under review. Induction should be undertaken by both the UGC, with regard to sector-wide issues, and by each university in respect of individual universities.
2. In order to ensure that the fiduciary responsibilities of council members strike an appropriate and sustainable balance between institutional autonomy and public accountability, the UGC should create a mechanism to explore, drawing upon international good practice, the establishment of a written accountability framework on which the vice-chancellor/president and the council report annually.
3. Council has a vital role in strategic planning, the latter seen as a process which clearly sets out institutional priorities and forms the basis of the council's assessment of institutional performance. In order to discharge this role each university should draw up a set of key performance indicators which are timely and relevant and which allow council to assess the progress towards the priorities agreed in the strategic plan.
4. The oversight of risk management, whereby the council is satisfied that major institutional risks — both financial and reputational — have been clearly identified and are being effectively managed, is an irreducible responsibility of council. Each council should therefore draw up a risk register which is reviewed at least annually and, ideally, more frequently.
5. Each council should publish a scheme of delegation which sets out the sub-structure of its committees and includes the mechanism whereby council is satisfied that the related managerial oversight of university activities is being effectively handled, including appropriate delegation and reporting mechanisms.
6. The UGC should undertake a review of university governance on a regular basis, ideally every five years.

*Source: UGC records*

### Acronyms and abbreviations

AA&I	Alterations, Additions, Repairs and Improvements
ArchSD	Architectural Services Department
Audit	Audit Commission
CityU	City University of Hong Kong
CUHK	The Chinese University of Hong Kong
CWP	Capital works project
CWRF	Capital Works Reserve Fund
EDB	Education Bureau
EdUHK	The Education University of Hong Kong
FAWG	Financial Affairs Working Group
FSTB	Financial Services and the Treasury Bureau
FTE	Full-time equivalent
HKBU	Hong Kong Baptist University
HKU	The University of Hong Kong
HKUST	The Hong Kong University of Science and Technology
LegCo	Legislative Council
LU	Lingnan University
m <sup>2</sup>	Square metres
NoP	Notes on Procedures
PolyU	The Hong Kong Polytechnic University
QAC	Quality Assurance Council
RAE	Research Assessment Exercise
RGC	Research Grants Council
SPRs	Stores and Procurement Regulations
UGC	University Grants Committee