

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.

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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

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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).

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 (m²) 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 m² 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 m² 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 m²) 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

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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

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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).

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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));**

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- (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));**

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- (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.