

Chapter 4 – Recurrent Grants and Disbursement

Recurrent Grants

Introduction

4.1 The total recurrent funding of the UGC sector for a funding period (usually a triennium), recommended by the UGC and accepted by the Finance Committee of the Legislative Council, is referred to as the total **Recurrent Grant** (usually called the **Triennial Recurrent Grant**). The total Recurrent Grant covers **Block Grants** and **Earmarked Grants**. Depending on circumstances, **Indicated Grants** may be specified and included in the Block Grants. The various types of recurrent grants are explained in detail in the following paragraphs. An overview of the relationship between the various types of recurrent grants is shown in **Annex 4A**.

4.2 Once the total Recurrent Grant is approved and agreed between the UGC and the Government, there will normally be no adjustment to the Grant, except in the following circumstances, all of which require separate funding approval by the Government:

- (a) by means of **Supplementary Grants/Adjustments** to reflect the price adjustment of the relevant portion of the total Recurrent Grant during a triennium in line with civil service pay revisions or to reconcile differences in tuition fee income due to the Government's decision to set tuition fee at levels different from those assumed in the triennial recurrent grant cycle (paragraphs 4.9 to 4.13 below); and
- (b) to support new developments called for by the Government, which may have to be implemented in a grant period and may be covered by additional funds if necessary. If provided, these additional funds will be earmarked for that particular development and will be subject to appropriate controls.

Block Grants

4.3 The Block Grant is the major component of a Recurrent Grant. Whenever possible, and as soon as practicable, the UGC will try to subsume grant items of a specific purpose into the Block Grant. While this may not always be effected during a particular funding period, it is the preferred course.

4.4 The Block Grant system in theory provides for a one-line allocation of resources to the institutions for a funding period (usually a triennium) without precise requirements attached as to how it should be spent. The allocation of Block Grant between Departments, Divisions, or Faculties, or between academic and administrative areas are entirely matters for the institution. The responsibility for

day-to-day decisions, and the detailed workings for almost all use of the Block Grant, is placed on the institutions. There is, however, one case within the Block Grants where special limitations may apply. This is the Indicated Grants explained in paragraph 4.5 below.

Indicated Grants

4.5 An Indicated Grant is a small portion within the Block Grant that is designated for special purpose. The UGC takes a general view of levels of expenditure for a particular purpose, and through the allocation of an Indicated Grant indicates to the institution certain emphasis and importance. Examples of this are the Language Enhancement Grant and Teaching Development Grant, which starting from the 2005-08 triennium, are subsumed within the Block Grant as Indicated Grants. The institution is expected to spend the funding within the Block Grant for that particular purpose at approximately the level indicated by the UGC. The institution does not need to adhere to the level or sum indicated as a target, unlike that required for Earmarked Grants for Specific Purposes (paragraphs 4.7 to 4.8), but the UGC will normally require an explanation from the institution if there is significant departure from the indicated level in regular reports of the grant. The UGC, in awarding the Indicated Grants to institutions, may specify what constitute a “significant departure” from the indicated level. Unless specified, normally less than or equal to 20% variation either way is acceptable.

Earmarked Recurrent Grants

4.6 An Earmarked Recurrent Grant replaces or complements the recurrent Block Grant. It is more closely controlled than Block Grant. The use of Earmarked Recurrent Grant places the burden of detailed decisions on the UGC. The general rule therefore is that Earmarked Recurrent Grant is used sparingly, for the minimum practical time, and as quickly as possible is merged or converted into the normal Block Grant – an example is when an institution first joins the UGC sector and requires close attention and monitoring at the initial stage. More details of Earmarked Recurrent Grant can be found in **Annex 4A**.

Earmarked Grants for Specific Purposes

4.7 Earmarked Grants for Specific Purposes are used when:

- (a) an expensive major area (such as a medical school) is being developed and where, although the general form of development is clear it is usually complex, and the course of development expenditure cannot safely be assumed in the Block Grant assessments; or
- (b) a possibly less expensive, and perhaps less complex, but still important area (for example, a joint computer facility) is being developed, which

is beyond what the institution would be expected to do within the freedom of the Block Grant; or

- (c) a specific purpose is envisaged which the UGC considers it worthwhile promoting / supporting outside the Block Grant system.

Examples of Earmarked Grants for Specific Purposes are Earmarked Research Grants, grants for Knowledge Transfer activities, grants for Areas of Excellence Scheme and Central Allocation Vote project grants. The basic system for this type of grants is that there is a separate budget which must be approved by the UGC; reports on spending position should be submitted for the UGC's scrutiny; and major causes to deviation from approved budget will need to be identified and accounted for.

4.8 Budget control and project monitoring for each specific grant depend on the specific circumstances of the case and will be set out in the allocation letter. Earmarked Grants for Specific Purposes are usually allocated on the basis of a one-line budget. Institutions may incur expenditure in whatever way they consider appropriate. They may also be granted on the basis of a financial year, a triennium or other period of time, and the period in question will be communicated to the institutions by the UGC in the allocation letter. In other circumstances, the UGC may consider that closer monitoring of an Earmarked Grant for Specific Purposes is required. In such case, the procedures applicable to Earmarked Recurrent Grants as stated in Annex 4A will apply and the institution(s) concerned will be informed by the grant allocation letter accordingly.

Supplementary Grants/Adjustments

4.9 The Recurrent Grant of each institution is assessed by the UGC based on a formulaic approach.

4.10 Supplementary Grants/Adjustments are variations made to the Recurrent Grants to institutions, and are wholly merged in the Block Grant (or the Earmarked Recurrent Grant as the case may be). As with the Recurrent Grants to institutions, these grants are assessments based on a formulaic approach.

4.11 Supplementary Grants/Adjustments require approval from the Secretary for Financial Services and the Treasury under delegated authority on the overall revised funding level of the UGC.

- (a) *Supplementary Grants/Adjustments for price adjustment on the basis of civil service pay adjustment*

4.12 This category of Supplementary Grants/Adjustments is to reflect price adjustment of the relevant portion of the Recurrent Grant on the basis of any civil service pay adjustment. This means that if the Government revises civil service pay

upward, a supplementary grant will be provided to reflect an upward price movement. Conversely, if the Government revises civil service pay downward, a downward adjustment will be made to the relevant portion of the Recurrent Grant, and the excess in the Recurrent Grant will be clawed back. The amounts concerned are calculated based on a predetermined ratio of the pay-related expenditure to the total recurrent expenditure of the institutions, the percentage of civil service pay adjustment and the assessed recurrent funding requirement (i.e. Recurrent Grant plus assumed income) of individual institutions for the year.

(b) Supplementary Grants/Adjustments for tuition fee levels

4.13 The Block Grant or Earmarked Recurrent Grants to institutions are determined after deducting from the estimated gross expenditure an assumed income of tuition fees and other sources. The assumed tuition fee income is assessed on the basis of an assumed tuition fee level that has to be reconciled with the actual indicative levels subsequently announced by the Government. This means that if the actual indicative fee levels subsequently approved by the Government for a certain academic year are lower than those assumed in determining the Block Grant or Earmarked Recurrent Grant, a non-accountable supplement to the Recurrent Grant will normally be provided to meet the shortfall. Conversely, if there is a surplus income as a result of the actual indicative fee levels being higher than that assumed, the excess in Block Grants/Earmarked Recurrent Grants will be clawed back.

Reserve

4.14 Surplus Block Grants and Supplementary Grants/Adjustments received from UGC and not yet dealt with at the year end date are transferred to a General and Development Reserve Fund of an institution. Further details on the operation and restriction of this reserve are set out in paragraphs 7.7 to 7.12 of Chapter 7.

4.15 Any surplus of Earmarked Grants for Specific Purposes after the close of financial year or the approved funding period (depending on the period of approval as stated in paragraph 4.8) must be forfeited and cannot be transferred to Reserve Fund. Nevertheless, subject to the ambit being maintained, institutions may extend the funding period of *one-line budget projects* by up to 6 months with advance notification to the UGC. Any other cases of carry-over of the unspent balance of an allocated Earmarked Grant for Specific Purposes must be approved by the UGC.

Disbursement of UGC Grants

4.16 The UGC does not have a separate account or funds of its own, but the Secretary - General UGC is the Vote Controller in respect of funds approved by the Finance Committee of Legislative Council and entered in the Government Estimates for subventions to the UGC-funded institutions, as well as the operations of the UGC Secretariat. He is therefore formally answerable for all grant releases to:

- the Director of Accounting Services in respect of the correctness of authorisations for releases;
- the Director of Audit in respect of audit queries (see paragraph 7.16 of Chapter 7); and
- ultimately to the Public Accounts Committee of Legislative Council in respect of general principles, non-academic policies and systems.

Releases of Block Grants and Earmarked Recurrent Grants

4.17 Unless the institutions request otherwise, Block Grants, Supplementary Grants/Adjustments and Earmarked Recurrent Grants releases will be made automatically each month in roughly equal payments based on a payment schedule communicated to the institutions before the start of a financial year and upon approval of any Supplementary Grants/Adjustments. Releases can however be made in accordance with the institution's cash flow requirements, but these must be agreed with the UGC Secretariat when the payment schedule is issued.

4.18 As a general rule, the monthly releases of Block Grants, Supplementary Grants/Adjustments and Earmarked Recurrent Grants are paid in advance, in the first one or two days of the month to which they refer. When a Block Grant release is about to be made, the institution will be notified by letter of the amounts, as set out in the previously agreed payment schedule.

Releases of Earmarked Grants for Specific Purposes

4.19 These will be released in accordance with the terms of the allocation letters.

Releases of Capital Grants

4.20 Detailed procedures in the disbursement of capital grants are set out under Chapter 5 "Capital Matters".

4.21 These are grants to meet expenditure on building and associated works, professional fees, and furniture and equipment (other than teaching equipment) for building projects. The timing of these grants is a matter for the institutions. They are released only at the request of the institution and normally paid in advance.

4.22 To apply for the release of capital grants, institution has to complete a separate application form for each capital works project (see paragraph 5.44 and Annex 5G) and AA&I project (see paragraph 5.64 and Annex 5K). Once received, it takes a few days to clear from the UGC Secretariat, and then up to a further week for funds to be paid by the Director of Accounting Services to the institution's bank

account. Approximately two weeks should therefore be allowed from delivery to the UGC Secretariat before funds are available.

Recovery of excessive Recurrent Grants and Capital Grants

4.23 All Recurrent Grants releases which turn out to be in excess of requirements may at any time be adjusted in consultation with the institution by reductions in subsequent releases or by the institutions making out a cheque for the appropriate amount payable to the Government of the Hong Kong Special Administrative Region. For Earmarked Grants for Specific Purposes and capital grants, recovery by a refund cheque is the preferred method.

Disbursement of other government funding through UGC

UGC Home Financing Scheme and virement-out arrangements

4.24 The UGC Home Financing Scheme (HFS) was introduced on 1 October 1998 to replace other housing benefits such as quarters, Private Tenancy Allowance (PTA) and Home Purchase Allowance (HPA), etc as the only form of housing benefits for staff of institutions.

4.25 To implement the UGC HFS, part of the UGC Block Grant has been set aside (known as “virement out”) for the purpose of creating earmarked grants for HFS housing benefits and non-HFS housing benefits, based on the expenditure pattern of housing benefits and the related number of recipients prior to the introduction of HFS. Separate accounts for these HFS and non-HFS housing benefits under UGC have been formed to account for the institutions’ contribution. In addition, the Government has been providing extra funding outside the Block Grant to top up the additional funding required for HFS.

4.26 Following the deregulation of salary scales for staff of UGC-funded institutions with effect from 1 July 2003, institutions are free to determine the remuneration packages and housing benefits for their own staff having regard to their individual needs and circumstances. The UGC HFS is no longer available to staff appointed on or after 1 July 2003.

4.27 Provisional adjustments to the UGC HFS since deregulation have been made in accordance with some common understanding with institutions. Final adjustments will be made when an agreement has been reached with institutions on the amount of virement-out of Block Grants and the reinstatement after deregulation.

Refund of Rates and Government Rent

(a) *Buildings/Properties solely or partly used for UGC-funded activities*

4.28 Rates and government rent paid by the institution will be refunded upon application in respect of the buildings and properties owned/leased and occupied by the institution **for UGC-funded activities** that fall within the following broad categories:

- (a) All buildings, including staff quarters and student hostels, occupied by the institution and within the precincts of the institution.
- (b) Off-campus properties owned/leased and occupied by the institution as staff quarters/student hostels or used for educational purposes.
- (c) Off-campus properties owned/leased and occupied by the institution's subsidiary or associate as staff quarters/student hostels or used for educational purposes, provided that the subsidiary or associate is exempted from the payment of taxes as registered under section 88 of the Inland Revenue Ordinance (Cap. 112).

4.29 The UGC Secretariat will specify the list of supporting documents required from institutions in substantiating the application for refund from time to time. In addition, the UGC Secretariat may conduct further post-payment checking by requesting additional information from institutions. Upon receipt of the application for refund from institution, the UGC Secretariat will endeavour to make refund to institutions within two weeks.

4.30 On-campus buildings (paragraph 4.28(a) refers) or off-campus properties (paragraph 4.28(b) refers) may be partly used for non-UGC-funded activities. In enforcing paragraphs 3.15 and 3.16 of Chapter 3 where the overhead consumed by the non-UGC-funded activities should be fully recovered, an element on rates and government rent should be appropriately included in institutions' overhead costs. In this connection, the UGC will refund the full amount of rates and government rent to the institutions.

(b) Buildings/Properties solely used for non-UGC-funded activities

4.31 Refund of rates and government rent in respect of on-campus buildings or off-campus properties solely used for non-UGC-funded activities are not within the ambit of paragraph 4.28. Such refund should be handled by the Education Bureau (EDB) under a separate scheme provided that the buildings/properties are used for educational purposes, and the institution (or its subsidiary or associate which owns/leases the properties) is exempted from the payment of taxes as registered under section 88 of the Inland Revenue Ordinance (Cap. 112).

4.32 As an arrangement to provide a one-stop service to institutions, the UGC Secretariat has agreed to process (on behalf of EDB) the rates and government rent refund to institutions in respect of buildings/properties solely used for non-UGC-funded activities. For this purpose, the UGC Secretariat will request

institutions to prepare an estimate of their annual requirements and request the corresponding funds from EDB to effect the reimbursements. In order to identify separately the amount of rates and government rent for those buildings/properties solely used for non-UGC-funded activities under paragraph 4.31, institutions are advised to approach the Rating and Valuation Department for conducting separate assessments of such buildings/properties.