

# **University Grants Committee**

## **Cost Allocation Guidelines for UGC-funded and non-UGC-funded Activities**

**September 2015**

## UGC Secretariat Note

| Serial No. | Date           | Subject   | Reference(s) in the Cost Allocation Guidelines | Description  | Remarks   |
|------------|----------------|---|--|--|---|
| 1          | 22 May 2017    | Cost allocation practices of non-UGC-funded research projects                     | Paragraph 2.2.4[1]                             | “Government bureaux / departments” and “non-governmental organisations (NGOs)” in paragraph 2.2.4[1] of the Guidelines should cover both local <u>and</u> non-local Government bureaux / departments and NGOs.   | Agreed by the FAG and the FAEWG. The Groups’ decision was reported to and agreed by UGC at its meeting in May 2017.       |
| 2          | 29 August 2017 | Cost allocation practices of research projects funded by commercial organisations | Paragraph 2.2.4[1]                             | <p>For research projects funded by commercial organisations <u>with unrestricted manner in outputs</u> (i.e. the research output should be publicly available without restriction; and no commercial advantage should accrue to any parties (other than the university)), which do <u>not</u> allow the charging of faculty principal investigators (PI) costs and overhead costs to research projects, the relevant costs may be charged to the UGC vote. The related research grants as well as any income generated from these research projects (including royalties and income arising from intellectual property rights) should correspondingly be reported as UGC income for the purpose of cost allocation.</p> <p>Notwithstanding the foregoing, universities may, having regard to their own financial position, opt to charge the relevant PI and overhead costs to the non-UGC vote, and hence the research grants as well as any income generated from these research projects (including royalties and income arising from intellectual property rights) are to be reported as non-UGC income.</p> | Agreed by the FAG and the FAEWG. The Groups’ decision was reported to and agreed by UGC at its meeting in September 2017. |
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# 1 Introduction

## 1.1 Background

[1] The University Grants Committee (“UGC”) is an independent and non-statutory advisory committee which advises the Government of the Hong Kong Special Administrative Region of the People’s Republic of China (“the Government”) on the funding and strategic development of the Higher Education (“HE”) sector in Hong Kong (“HK”). It established the Financial Affairs Working Group (“FAWG”) in 2011 following the assessment of the eight UGC-funded institutions’ financial status in 2010 owing to the substantial deficits recorded by the institutions in the 2008/2009 academic year. The main objective of the FAWG is to obtain a better understanding of the institutions’ finances, through review of the financial transparency and cost charging mechanisms etc. in the UGC-funded institutions with a view to ensuring that UGC funds are not utilised in funding of non-UGC-funded activities. At present, there are eight institutions of higher education, collectively referred to as “the Institutions” which are funded through the UGC:

- City University of Hong Kong (“CityU”);
- Hong Kong Baptist University (“HKBU”);
- Lingnan University (“LU”);
- The Chinese University of Hong Kong (“CUHK”);
- The Education University of Hong Kong (“EdUHK”) (updated in June 2016);
- The Hong Kong Polytechnic University (“PolyU”);
- The Hong Kong University of Science and Technology (“HKUST”); and
- The University of Hong Kong (“HKU”).

[2] FAWG’s findings and recommendations in relation to cost allocation practices and financial transparency are detailed in their report published in 2013. The recommendations, especially those that address the appropriateness and consistency of cost allocations, staff cost recovery practices, overhead charging practices and references to overseas best practices (Recommendations 1, 2, 4, 5), have led to the development of these Cost Allocation Guidelines (“CAGs”). Refer to Appendix B for more details on how each specific recommendation has been dealt with within the CAGs.

[3] To take forward the implementation of FAWG Report recommendations, the UGC set up the Financial Affairs Group (“FAG”) to advise the UGC and oversee the implementation of the FAWG Report recommendations; and the Financial Affairs Expert Working Group (“FAEWG”) under the FAG to advise the FAG on technical matters and to work with the Institutions on the implementation of recommendations in respect of cost allocation and financial transparency.

## 1.2 Purpose of this document

[1] The purpose of the CAGs is to provide a set of guidelines for the Institutions to ensure there is no cross-subsidisation of UGC resources to non-UGC-funded activities. The CAGs define the principles and the approach to cost allocation across the Institutions by standardising definitions of key terminology, measurement and application of cost drivers, and processes of cost allocation. This will then allow the UGC to perform more complete, objective and consistent analysis of the HE sector year on year.

[2] The guidelines detailed in the subsequent sections represent the basic features that each institution should demonstrate in their cost allocation models. They serve as inputs to the design and implementation of their cost allocation mechanism and should improve consistency, accuracy, and transparency of cost-related information collected by UGC. Moreover, the cost allocation practices and methods set out in the guidelines are principle-based rather than rule-based. Considering practicality, the guidelines are not intended to cover the full range of cost allocation treatments for the multifarious nature of institutional activities. Institutions should make reasonable judgment on the cost allocation treatments of specific activities based

on principles set out in the CAGs when such activities are not specifically listed in the documents and where necessary, consult professional advice.

[3] Aside from achieving the adequate level of disclosure with regards to the usage of public funding in the HE sector, the introduction of the CAGs (and any future amendments) provides valuable management information for both the UGC and the Institutions themselves. This will be beneficial for decision making and strategic planning for each institution as well as the HE sector itself.

### **1.3 Development of this document**

[1] In order to create the CAGs and ensure that they are both feasible and suitable for meeting the cost reporting requirements and objectives for the HK HE sector, various stages of research, discussions and consultations have transpired. Multiple discussions were held between the FAG, FAEWG, and the UGC Secretariat to align the objectives and agree on the scope during the development of the CAGs.

[2] The Institutions' aspirations and concerns regarding the new cost allocation mechanism are important inputs to the development of the CAGs. In order to obtain a more comprehensive understanding of the existing practices, extensive interviews were conducted with each institution's Finance Department. Forums were also held with the Institutions to discuss the approach, key findings and address concerns that arose in the development process.

[3] In developing these guidelines, research was conducted on cost allocation and activity-based costing ("ABC") best practices in HE sectors overseas. Key references were made in particular to methods applied in the United Kingdom ("UK") – Transparent Approach to Costing ("TRAC") and HE sectors in other relevant countries (such as United States and Australia).

[4] Other references used in the development of this document include previous working papers and reports published for the UGC over the past 10 years. This includes third party reports on activity based costing, review of approaches to ABC, review on UGC's Common Data Collection Format ("CDCF"), overhead recovery practices and the FAWG Report (2013). A full list of references has been listed at Appendix A.

### **1.4 Document structure**

[1] This document sets out the principles and detailed guidelines of cost allocation for the Institutions. In particular:

- Section 1 details the background and purpose of the document. It also documents the development of the guidelines themselves
- Section 2 provides an overview of the key objectives and principles of cost allocation, defines the Institutional Activities, the key costing terminology used in the remainder of the document and a general overview of the cost allocation methods used
- Section 3 explains the detailed cost allocation guidelines for each of the cost pools as defined in Section 2 in order to separate and report by UGC and non-UGC activities
- Section 4 outlines recommendations for next steps and future action points noted during the development of these CAGs
- An Appendix is attached to the back of this document

## **1.5 Administration**

**[1]** This document encompasses the best fit methods for cost allocation in the HK HE sector at the time of initial distribution by the UGC. Should there be changes to the objectives and requirements of reporting, or any significant changes to the HK HE sector, discrepancy between the CAGs and the Institutions' models may develop. In view of such potential situations arising, review and revision to this document should be performed on a regular basis, e.g. annually.

**[2]** For any enquiries regarding specific sections or items in the document, please contact the document owner for clarification.

## 2 Principles and Overall Approach of Cost Allocation

### 2.1 Design principles

[1] In the design of the CAGs, five key principles have been applied to come up with the overall framework. To ensure that the reported costing information is of high quality and fit to purpose, each institution has the responsibility to consider and incorporate these principles when developing their own individual cost allocation models. The key principles are:

#### i) Transparency

The allocation methods defined are designed to encourage transparency. Costs that are attributed to relevant cost pools should be traceable back to the original source within the institution's accounting records. The Institutions must maintain the ability to disclose and explain methods of calculation that resulted in the respective cost-related information upon request. The cost figures reported are to be traceable to supporting documentation and reconcilable to the audited consolidated financial statements.

#### ii) Consistency

The guidelines should be consistently applied across each of the Institutions. Moreover, upon the identification of an agreed approach and procedures for the cost allocation model in accordance with the CAGs, it is expected that each institution would apply the same model from year to year. The Institutions should also design their cost allocation model to be consistent with the definitions and approaches set out in the CAGs. This will improve comparability and allow benchmarking of financial performance both across years for each institution and within the year amongst the Institutions.

#### iii) Fairness and Reasonableness

Cost-related information should be an accurate representation of the actual financial separation between UGC-funded and non-UGC-funded programmes. The accuracy should be high enough to provide the UGC and the Institutions and their Councils with the appropriate level of comfort to present such information to their key internal and external stakeholders. In certain cases, the allocation of costs will require estimation; and while some can be easily estimated with a high degree of accuracy, certain costs may require varying degrees of judgement. The reliability of reporting is based on each cost being calculated with a degree of relevance and accuracy. Therefore each cost needs to be fair and reasonably stated based on relevant and available data (e.g. salaries based on time analysis data collected from academic staff).

#### iv) Materiality

A cost item (see Section 2.3.1) is generally defined as material if the omission or misstatement of that cost item could affect the representativeness of financial information reported and hence any decisions made based on the information. The Institutions should develop their cost allocation model and focus their efforts to apply robust cost allocation methods to all material costs. The greater the materiality of the cost item, the more effort that should be made for an accurate cost allocation, which may result in more complex allocations. The general concept of applying materiality is to assess whether proper effort and consideration have been applied based on the importance of the costs. For HK HE in general, the most significant operating costs are academic staff salaries and premises.

#### v) Causality and Relevance

Costs are attributed to activities and allocated to cost objects on the basis of how those cost pools cause the costs to be incurred. Where it is not possible to attribute costs on a causal basis, the attribution is on a reasonable basis. In addition, costs captured in these CAGs should only be costs in relation to Institutional Activities (see Section 2.2). This means total costs of all direct or indirect resources used in facilitating these activities need to be captured within the allocated amounts.

## 2.2 Cost definitions

[1] Definitions and examples of key cost terminology are provided in this section which will be referred to throughout the remainder of the document.

### 2.2.1 Institutional Activities

[1] The CAGs are designed to capture expenditures that contribute towards Institutional Activities, which are defined as activities that consume institution resources (including time). Table 1 below provides a list of different types of Institutional Activities as defined within the latest CDCF.

Table 1: Institutional Activities

| Main Academic activities   |
|--|
| <p><b>Teaching</b> – <i>teaching or preparation of teaching of students on taught programmes</i></p> <p>Delivery of teaching:</p> <ul style="list-style-type: none"> <li>• holding lectures, seminars and tutorials (including remedial classes);</li> <li>• dissertation, project, workshop, laboratory, field work supervision;</li> <li>• placement organisation and visit;</li> <li>• student contact time on educational matters.</li> </ul> <p>Teaching / class preparation:</p> <ul style="list-style-type: none"> <li>• preparing and updating teaching material for existing/new programmes.</li> </ul> <p>Supervision of Research Postgraduates:</p> <ul style="list-style-type: none"> <li>• coaching research post graduates students on research methodologies, research progress and thesis preparation and writing.</li> </ul> <p>Programmes / course planning and development:</p> <ul style="list-style-type: none"> <li>• conducting programme / course review and preparing new programme / course proposals;</li> <li>• participating in curriculum and teaching methodologies review, planning and development;</li> <li>• timetabling;</li> <li>• preparing prospectuses.</li> </ul> <p>Assessment and examination:</p> <ul style="list-style-type: none"> <li>• continuous assessment of different forms of student work including dissertation, essays and projects;</li> <li>• preparation and conduct (including invigilation) of written and oral examinations and the marking of examination papers;</li> <li>• other forms of scholarly and / or administrative work related to teaching not covered by the above.</li> </ul> <p><b>Research and other creative outputs</b> – <i>creative work of research and experimental development undertaken on a systematic basis</i></p> <ul style="list-style-type: none"> <li>• conduct of research that are academic research oriented and the production of papers, reports, conference papers and scholarly books thereof;</li> <li>• conduct of institutional contract research and consultancies;</li> <li>• attending conferences, seminars and society meetings that are research project oriented;</li> <li>• research-oriented academic collaboration with departments within or outside of each institution;</li> <li>• supervision of research staff (including recruitment of research staff where applicable) and projects;</li> </ul> |



| Main Academic activities   |
|--|
| <ul style="list-style-type: none"> <li>• editorship or serving on editorial boards of academic publications;</li> <li>• preparatory work for research grants application;</li> <li>• preparatory work for research assessment and review;</li> <li>• work associated with technology transfer / invention, including patents application;</li> <li>• other creative outputs not mentioned above such as performances, works of art, textbooks, case studies, scholarly translations, software, and multimedia works.</li> </ul>  |
| Other Institutional Activities   |
| <p><b>Other Institutional Activities</b> – activities that consume institution resources and / or time that are not teaching or research.</p> <p>This includes:</p> <ul style="list-style-type: none"> <li>• public services – services to the community that are of professional or general in nature;</li> <li>• consultancy that is contracted to the institution, including time spent on drafting proposals and supporting bids for consultancy works;</li> <li>• service provided to hospitals by departments of clinical medicine and dentistry;</li> <li>• outside practice that consumes institution resources and time;</li> <li>• institutional administration e.g. internal meetings.</li> </ul> |

[2] This list of activities under each category are illustrative only and not exhaustive. Any other appropriate activities should be included within the relevant categories, as assessed by each institution. In subsequent sections, other specific activities may be defined further under these main types of activities.

## 2.2.2 Cost Items

[1] A cost item refers to an expenditure recorded in the financial systems. Each cost item can represent a charge on a single transaction (e.g. a visiting professor's bill payment) or a combination of transactions (e.g. the monthly electricity bill for a building, which includes various classrooms and laboratories). All relevant cost items should be examined and assigned to one of the four cost pools defined below. It should be noted that relevant cost items should be fully allocated, regardless of whether the fund source allows or prohibits the charging of overhead amounts.

## 2.2.3 Cost Pools

[1] In order to facilitate the cost allocation methodology, relevant costs have been segmented into four key cost pools. The cost pools represent groups of cost items that are similar in nature and require the same treatment. The four cost pools identified are as follows:

### i. Academic Staff Cost:

These are the staff related costs incurred such as remuneration and benefits of the academic staff. Refer to Section 3.1 for further details.

### ii. Departmental Premises and Related Cost:

These are defined as all expenditure incurred as a result of usage of physical area in academic buildings by an academic department. This includes the use of equipment and furniture which may be found in these locations. Refer to Section 3.2 for further details.

### iii. Departmental Shared Cost:

These are all other academic department costs not classified as academic staff or premises and related costs. Refer to Section 3.3 for further details.

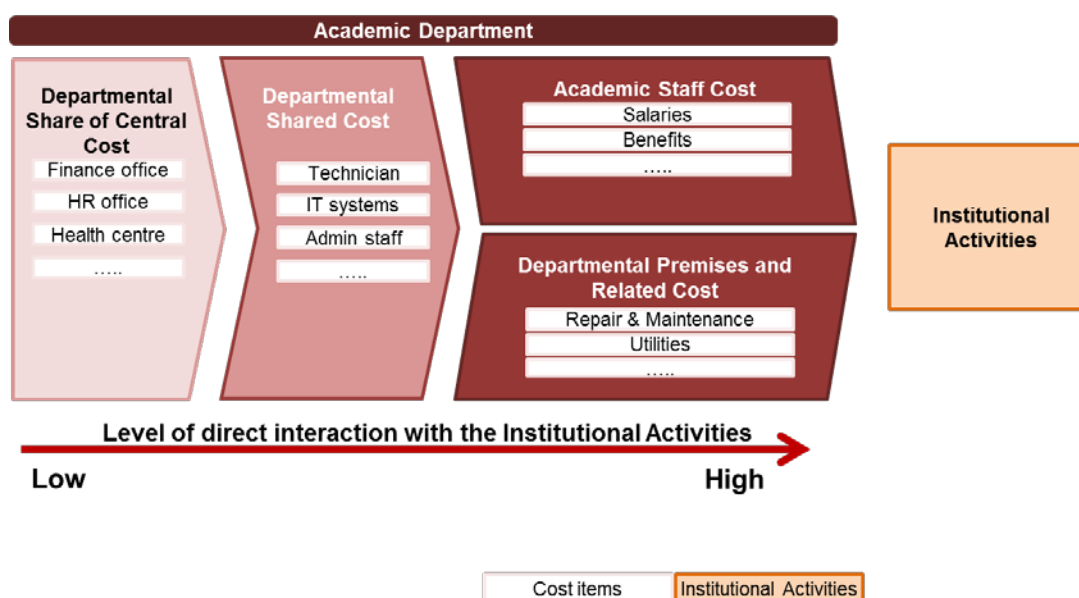
**iv. Departmental Share of Central Cost:**

This refers to the relevant share of central cost (all expenditures incurred as a result of central activities) that each department should bear. Central activities are all those activities performed by the central department (e.g. Finance, HR, Marketing etc.). Refer to Section 3.4 for further details.

[2] These CAGs do not make use of terminology such as 'direct' and 'indirect' costs as defined in the CDCF process under the UGC. Instead, the level of interaction (high to low) between the cost items and cost pools are used as an indicator as to how correlated the cost is to a UGC-funded programme or project.

[3] The cost pools are broadly segmented in this way to represent their level of direct interaction with the Institutional Activities defined in Section 2.2.1 above. Figure 1 below illustrates the level of interaction between each cost pool and Institutional Activities.

Figure 1: Interaction between cost pools and Institutional Activities



[4] As illustrated by the diagram above, Academic Staff Cost and Departmental Premises and Related Cost are directly related to academic activities as they represent resources (e.g. teachers and equipment) devoted to specific Institutional Activities. Departmental Shared Cost facilitates the academic activities through the management of departmental resources (e.g. administration staff who manage academic staff schedules). Lastly, the central department supports the functioning of the whole institution and hence each department but have a low correlation to individual activities. Therefore the central department indirectly supports Institutional Activities, and each department will be allocated a portion of the overall central cost.

## 2.2.4 Cost Objects

[1] Cost allocation involves linking groups of cost items to one or more cost objects. As the key purpose of the CAGs is to ensure no cross subsidisation of UGC resources to non-UGC-funded activities, the cost objectives, or "objects" have been defined as below:

- **UGC vote:** all costs for which the UGC provides funding, whether directly (e.g. for specified teaching programmes or research projects) or indirectly (e.g. via block grants). Specifically, please note the treatment of the following activities for the purpose of the CAGs:

- For research projects funded by Government bureaux / departments other than UGC and non-governmental organizations (“NGOs”), which in general do not allow the charging of faculty principal investigators (“PI”) costs and overhead costs to their research projects, these costs should be charged to the UGC vote.
  - For activities (e.g. consultancy, outside practices, clinical service, and collaborative work) other than self-financed activities conducted under the “one day per week” arrangement, the relevant staff costs and overhead costs should be charged to the UGC vote.
  - For donations designated for use in scholarships and bursaries for students studying in UGC-funded programmes, research activities and capital projects in which donors / funding agencies do not allow the charging of relevant costs incurred in administering these activities, the relevant costs incurred in administering these activities should be charged to the UGC vote.
  - For student exchanges / activities, conferences, consultancies and services, college activities funded by Government bureaux / departments other than UGC and NGOs, which in general do not allow the charging of staff costs and overhead costs, the costs incurred should be charged to the UGC vote.
- **Non-UGC vote:** all other events that are not classified as UGC vote. Examples include self-financed programmes and any other institution-wide costs not funded by the UGC. Specifically, please note the treatment of the following activities for the purpose of the CAGs:
    - For research projects funded by Government bureaux / departments other than UGC and NGOs, which allow the charging of PI costs and overhead costs to their research projects, the relevant costs should be charged to the non-UGC vote.
    - For research projects funded by commercial organisations irrespective of whether the charging of PI costs and overhead costs to research projects are allowed, the relevant costs should be charged to the non-UGC vote.
    - The relevant costs for self-financed activities conducted under the “one day per week” arrangement should be charged to the non-UGC vote.
    - For donations designated for all other activities not covered in UGC vote above, the costs incurred on administering these activities should be charged to the non-UGC vote.
    - For all other activities funded by Government bureaux / departments other than UGC and NGOs, which in general allow the charging of staff costs and overhead costs, the costs incurred should be charged to the non-UGC vote.

**[2]** The costs allocated to these two cost objects respectively represent the ultimate benefits which are required under UGC reporting that indicate the actual cost of UGC-funded activities and non-UGC-funded activities in each institution. Non-Institutional Activities are excluded from the calculation, whether or not they are under UGC Vote or non-UGC Vote.

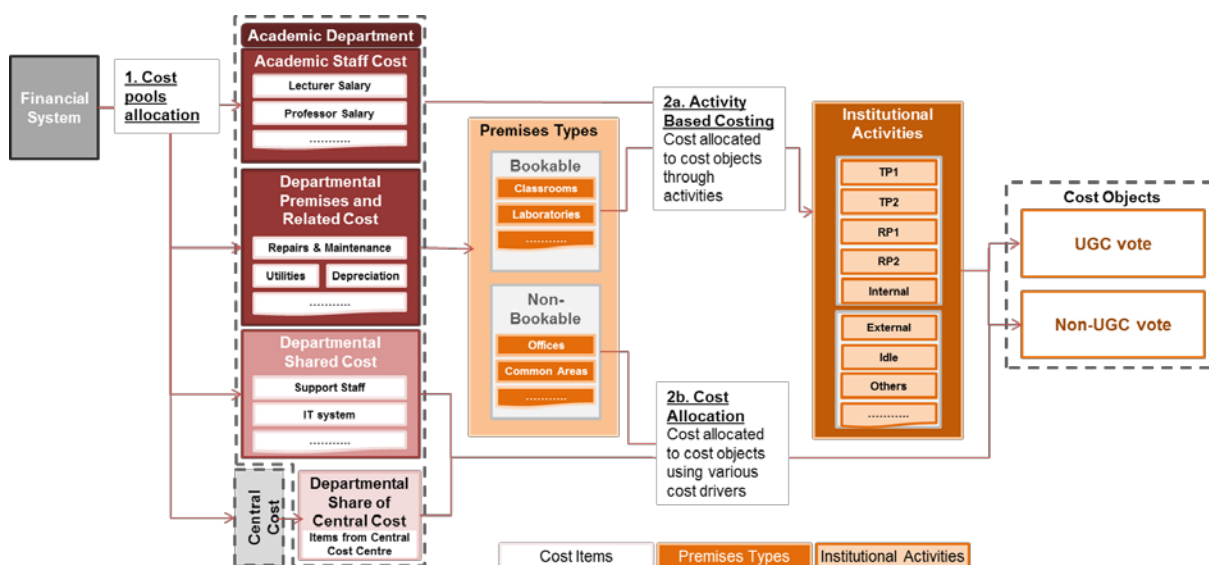
|                                     | UGC Vote                                       | Non-UGC Vote                                   |
|-------------------------------------|--|--|
| <b>Institutional Activities</b>     | To be addressed in Section 3 of the CAGs       | To be addressed in Section 3 of the CAGs       |
| <b>Non-Institutional Activities</b> | Excluded from the calculation required in CAGs | Excluded from the calculation required in CAGs |

## 2.3 Overview and approach of the cost allocation mechanism

[1] The general approach to the cost allocation mechanism is to focus more resources on recovering the more significant and relevant costs to academic activities. This involves the splitting of costs at a departmental level, before aggregating the respective departmental costs at an institutional level for reporting. Furthermore, to maximise efficiency and accuracy, cost items that can be directly attributed to UGC or non-UGC vote should not be subjected to the cost allocation procedures. Direct attribution should be performed instead. It should be noted, however, that there must be valid supporting documentation to justify a direct attribution.

[2] For cost items not directly attributable, a process of cost allocation will be required. Figure 2 below illustrates the approach of the overall allocation steps required in the allocation of costs from cost pools to cost objects.

Figure 2: Overview of cost allocation mechanism



[3] The allocation process is summarised as follows:

**Step 1:** Allocate cost items to relevant cost pools in accordance with definitions in Section 2.2.

**Step 2a:** Activity based costing methodologies are used to split Academic Staff Cost and bookable facilities under Departmental Premises and Related Cost.

**Step 2b:** Various cost drivers are used to allocate non-bookable premises under Departmental Premises and Related Cost, Departmental Shared Cost and Departmental Share of Central Cost to the two cost objects.

[4] For details regarding the cost allocation guidelines for treatment of cost items in each cost pools, refer to Section 3.

### 3 Cost Pools

[1] This section describes, in detail, the cost allocation guidelines for the treatment of cost items classified under each of the four cost pools.

#### 3.1 Academic Staff Cost

##### 3.1.1 Cost identification

[1] Academic staff costs are staff related costs incurred such as remuneration and benefits. Academic staff comprise of staff members from the academic departments, whose main functions of employment are teaching and / or research. They hold academic titles such as Professor, Reader, Lecturer, Research Assistant, Research Officer, etc. Academic Staff Cost also include those staff costs associated with academic supporting staff, such as Instructors, Demonstrators and technical research staff (e.g. Senior / Junior Technical Research Staff). These titles are aligned with those defined within the latest CDCF. Also taken from the CDCF the relevant cost items should include:

**i) Salary:**

Salary is the monetary benefit or basic payment made by the institution to the academic staff, as agreed within their individual employment contract.

**ii) Superannuation, gratuities and Mandatory Provident Fund:**

This includes the employer's contribution to academic staff's pension plans.

**iii) Housing benefit:**

Housing benefits are benefits in relation to accommodation for academic staff. These include private tenancy allowances, leased quarters, home purchase allowances, rates and government rent (on non-surplus quarters), and other housing benefits.

**iv) Fringe benefits other than housing:**

These cover all other benefits that academic staff are entitled to but not related to housing. These can include education allowances, medical and dental benefits, passages, etc.

**v) Other staff related expenditures:**

Any other cost items that meet the definition of Academic Staff Cost. These include:

- Hospital Authority ("HA") equivalent term relevant to clinical academic staff; and
- Other miscellaneous expenses in connection to staff.

[2] Each academic staff should be identified as one of the three cost sub-categories listed below by reference to the activities on which their time was spent throughout the reporting period. The identification must be supported by sufficient supporting documentation (e.g. booking system or time analysis data) and evidences (e.g. principal contract of employment) which are verifiable on a periodic basis.

**1. UGC-funded staff**

UGC-funded staff are defined as academic staff that work solely on UGC-funded Institutional Activities. They do not work on any non-UGC-funded activities or on mix-funded activities such as co-teaching courses. This includes staff that work full-time on UGC-funded Institutional Activities but may work on non-UGC-funded Institutional Activities within their own personal time.

**2. Non-UGC-funded staff**

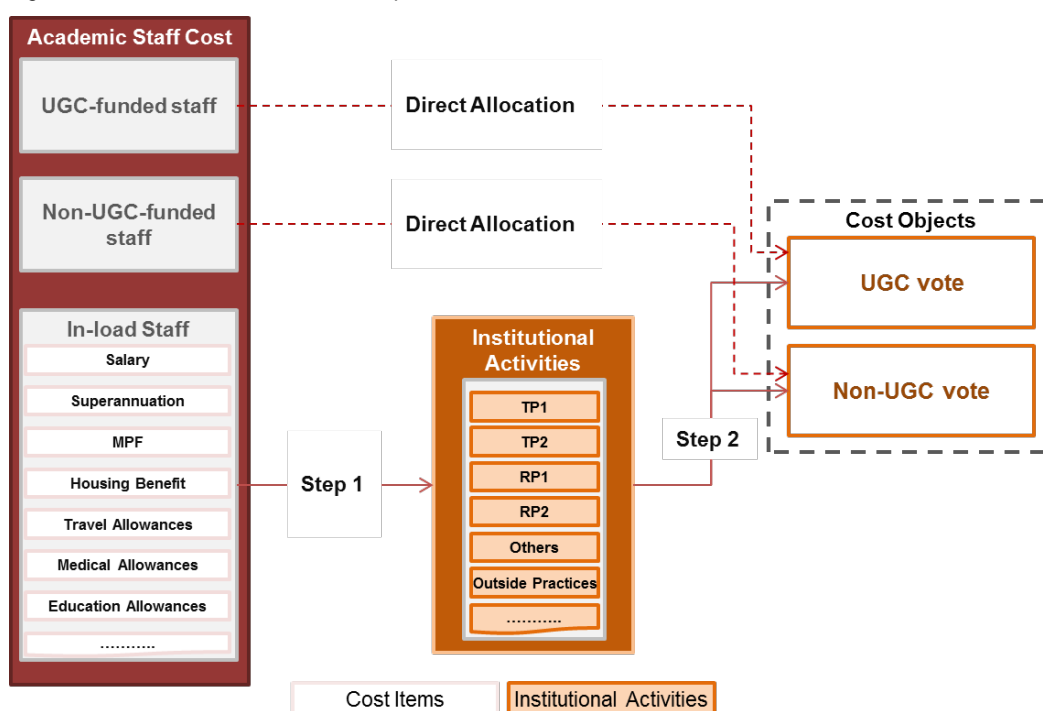
Non-UGC-funded staff are defined as academic staff that work solely on non-UGC-funded Institutional Activities. They do not work on any UGC-funded activities or mix-funded activities such as co-teaching courses.

### 3. In-load staff

In-load staff are those who work on both UGC-funded Institutional Activities and non-UGC-funded Institutional Activities and / or co-teaching courses. Commercial research activities are classified as non-UGC-funded activities, any staff that work only on UGC-funded projects / programmes but still conducts commercial research activities would be categorised in this cost sub-category.

[3] The costs under the cost sub-categories of UGC-funded staff and non-UGC-funded staff should be allocated directly to UGC and non-UGC vote respectively. The costs for in-load staff require allocation to the academic staff activities using time spent as cost drivers and then to UGC / non-UGC vote. When allocating costs, the gross amount of staff costs should be used in any such calculations, that is, there should be no netting off of amounts of staff costs associated with non-Institutional Activities. Figure 3 below highlights the key steps in the cost allocation process.

Figure 3: Academic Staff Cost allocation process



[4] The allocation process is outlined in more details below in Section 3.1.2.

#### 3.1.2 Cost allocation process

[1] The allocation basis for all academic staff-related costs is time spent by activities, based on actual hours. Once it has been determined that UGC-funded staff and non-UGC-funded staff spend all their time solely on either UGC-funded activities or non-UGC-funded activities respectively, they may be exempted from the time allocation collection process involving detailed time analysis, at the discretion of each individual Institution. The academic staff's time spent on academic activities for in-load staff however, will need to be identified first through a time allocation collection process in order to allocate academic staff costs to UGC and non-UGC vote. The time allocation collection process is based on statistical sampling of actual hours spent on specific activities by staff across a sample of weeks.

[2] The sample taken should be acceptable as a representation of all academic departments and grades / types of staff. Through the use of a statistician, the results should be to an acceptable level of statistical accuracy, based on sample size and response rate. The design of the collection process should be overseen by a statistician, as should the review of results to ensure that they are statistically sound and representative of the institution as a whole.

[3] For academic staff costs, the allocation steps are summarised as follows:

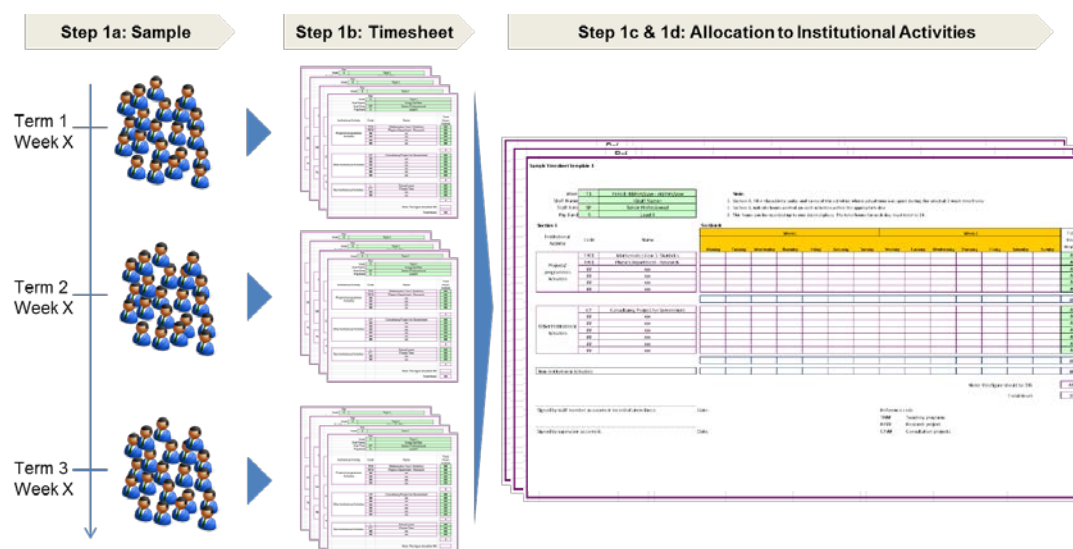
- **Step 1:** Allocate staff cost to Institutional Activities based on actual time analysis, i.e. actual hours spent on each activity
  - **Step 2:** Allocate costs from Institutional Activities to UGC / non-UGC vote
- **Step 1: Allocate staff cost to Institutional Activities based on time analysis**

[i] The percentage used in staff cost allocation is determined based on time analysis using a statistical approach. The analysis involves allocating staff costs by grade to individual teaching programmes, research projects or other Institutional Activities using time spent as a percentage of total working time, which excludes the time spent on 'non-Institutional Activities'(see table 2 below).

#### Process for time analysis

[ii] Figure 4 below illustrates the process for time analysis. Details of each step are discussed further below.

Figure 4: Time analysis



#### - Step 1a:

A representative sample of academic staff should be selected to complete the time analysis survey. The analysis of staff should be performed by grades. The sample should be proportional to the grade mix for each academic department. As a minimum requirement, this process should be completed at least three times throughout the whole year, with each survey covering a period of 2 weeks, recording the actual time spent on each activity in standard intervals (e.g. 60 minutes). The actual sample selected at each Institution should be agreed with a statistician to ensure it is sufficiently representative year on year. Throughout the academic year, there will be varying periods of activity for each grade of staff. The sample used should ensure that any time spent within the periods of selection are representative of the full year and take into account considerations such as examinations and holidays which may affect the overall outcomes based on the sampling methodology.

#### - Step 1b:

Each sampled academic staff is required to complete and submit a time analysis survey for the actual hours spent on each Institutional Activity listed in Table 1. For illustrative examples of the time analysis surveys, please see Appendix D for reference. For ease of data management, each teaching programme and research project should



have a standardised programme or project code. 'Other Institutional Activities' should have designated codes.

**- Step 1c:**

Collate time analysis surveys for each staff grade and calculate the total working time (i.e. excluding non-Institutional Activities). Convert the total academic time spent on each academic staff activity in hours to a percentage of total working time.

**- Step 1d:**

Allocate staff cost of each relevant grade to the Institutional Activities based on the percentages calculated in Step 1c. These should then be aggregated to arrive at the total academic cost per activity.

**[iii]** Non-institutional Activities performed by staff are to be identified in the time analysis survey so they can be removed from the calculation of total working time percentages. Table 2 below provides a list of examples of non-Institutional Activities.

Table 2: Non-Institutional Activities

| Non-Institutional Activities  |
|---|
| <p><b>Non-Institutional Activities</b> – activities that do not consume the actual resources of the institution performed by staff. These may include:</p> <ul style="list-style-type: none"> <li>• holidays;</li> <li>• sick leave;</li> <li>• private paid consultancies conducted in private time;</li> <li>• non-professional work;</li> <li>• private time.</li> </ul> |

**[iv]** An illustrative example around time analysis is detailed below in Section 3.1.3.

• **Step 2: Allocate costs from Institutional Activities to UGC / non-UGC vote**

**[i]** For Main Academic Activities (see Table 1) that are either 100% UGC-funded, or 100% non-UGC-funded, associated costs should be directly allocated to either UGC or non-UGC vote accordingly.

**[ii]** For teaching programmes taken by both students of UGC-funded programmes and non-UGC-funded programmes (often referred to as “co-teaching”), the associated academic staff costs should be allocated to the UGC vote and non-UGC vote based on the number of registered students from UGC-funded programmes and non-UGC-funded programmes for that course, assuming that their loading of time are the same or predominantly similar. If not, then the Full Time Equivalent or FTE of the student number for UGC and non-UGC-funded programmes should be used.

**[iii]** Costs associated with 'Other Institutional Activities' are allocated to UGC vote or non-UGC vote on a case by case basis, depending on the nature of the activity.



Table 3: Treatment for other Institutional Activities

| Other Institutional Activities                    | Allocation basis and methods  |
|---|---|
| Public services                                   | By fund source - 100% to UGC vote                                       |
| Consultancy*                                      | Allocate based on fund source   |
| Service provided to hospitals / clinical service* | Allocate based on fund source   |
| Outside practice*                                 | Allocate based on fund source   |
| Institutional administration*                     | Allocate based on the allocation ratio for time spent by academic staff |

\*Please refer to treatments for specific institutional activities as mentioned in Section 2.2.4.

### 3.1.3 Illustrative example

[1] This illustrative example is based on collected time data that covers a week for two professors. The time spent on each activity reported on the time analysis surveys for each professor should be consolidated in order to identify the total hours spent on each activity. The total academic time spent on UGC-funded and non-UGC-funded activities (identified as part of Step 2) can then be converted into percentages of total working time.

Example 1: Academic staff time analysis

|                           | Category | Professor A | Professor B | Total No. of hours | Total % share | Total share of cost |
|---------------------------|----------|-------------|-------------|--------------------|---------------|---------------------|
| TP A*                     | UGC      | 9           | -           | 9                  | 8%            | UGC: 52%            |
| RP B*                     | UGC      | -           | 20          | 20                 | 19%           |                     |
| TP C*                     | UGC      | 12          | 15          | 27                 | 25%           |                     |
| TP D*                     | Non-UGC  | -           | 30          | 30                 | 28%           | Non-UGC: 48%        |
| RP E*                     | Non-UGC  | 16          | -           | 16                 | 15%           |                     |
| Consultancy work          | Non-UGC  | 6           | -           | 6                  | 5%            |                     |
| <b>Total working time</b> |          | <b>43</b>   | <b>65</b>   | <b>108</b>         | <b>100%</b>   |                     |

\* includes all hours spent on administration, preparation and other scholarly activities in relation to the programme or research project

## **3.2 Departmental Premises and Related Cost**

### **3.2.1 Cost identification**

**[1]** Departmental Premises and Related Cost is defined as all expenditure incurred as a result of the usage of a physical area by an academic department. The following cost items are highly correlated to the degree and nature of usage of physical area, hence both UGC-funded and non-UGC-funded activities should bear their respective portion of such costs. The relevant cost items should include:

#### **i) Repairs and maintenance:**

This covers expenditure incurred to keep departmental premises at a reasonable operational condition. This includes replacement cost of equipment parts, maintenance of existing systems and payments to external workers.

#### **ii) Utilities:**

This covers recurrent expenditure incurred by energy consumption (e.g. fuel, gas and electricity), water and sewerage.

#### **iii) Rates and Government rent:**

Rates are expenses paid to the HK Government on properties, usually charged at a percentage of the rental value of a property. Government rents are paid by the Institutions for the right to hold and occupy land held by the Government for a specific period of time.

#### **iv) Depreciation of buildings:**

Depreciation is a type of expenditure that represents the portion of a building that is deemed to have been deteriorated, consumed or expired during the concerned time period. Depreciation spans across the economic life of each individual building.

#### **v) Other cost of servicing the buildings:**

This includes:

- Insurance expense in relation to building or equipment
- Costs of cleaning (e.g. salaries, wages and materials, and / or payments for contract cleaning)
- Cost of portering and security services

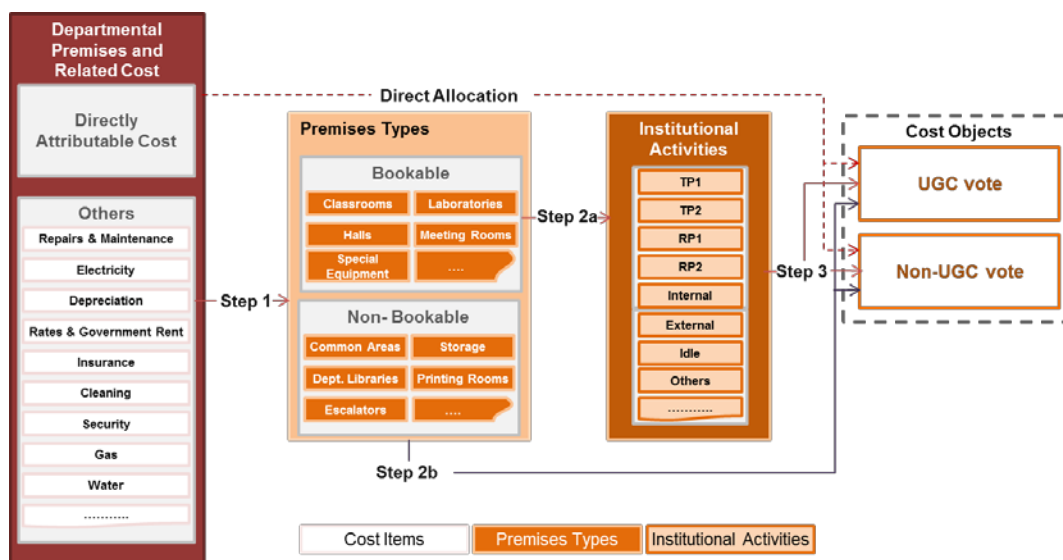
**[2]** Due to differences in nature of the Institutions and their various coding structures, this list of items is neither definitive nor exhaustive. Should there be any other cost items that fall under the definition of Departmental Premises and Related Cost; such cost items should be included in the cost allocation process.

**[3]** This section does not cover premises and related costs relating to the central department, as the relevant cost items listed above should have already been clearly segregated between academic departments and the central department through the use of cost centres within the financial systems. If this is not the case, a separate step within the cost allocation framework will be required to split the premises and related costs between academic departments and the central department.

**[4]** For relevant cost items relating to the premises and related costs owned by the central department refer to Section 3.4.

**[5]** Figure 5 below outlines the steps required to allocate costs to different types of premises, then to the various Institutional Activities, and subsequently to the UGC or non-UGC vote cost objects.

Figure 5: Departmental Premises and Related Cost allocation process



[6] Each detailed allocation step is further discussed in Section 3.2.2 below.

### 3.2.2 Cost allocation process

[1] The cost items that can be associated directly with either UGC or non-UGC vote (e.g. maintenance cost for a building solely dedicated to self-financed activities) should be directly attributed to that cost object. For the other cost items, the step-by-step cost allocation process should be followed.

[2] The following steps provide detailed guidance on how to allocate costs that are not directly attributable:

- **Step 1:** Allocate costs to premises types by location
  - **Step 2a:** Allocate bookable premises and related costs to Institutional Activities
  - **Step 2b:** Allocate non-bookable premises and related costs to UGC and non-UGC vote via appropriate driver/s
  - **Step 3:** Allocate costs from Institutional Activities to UGC / non-UGC vote
- **Step 1: Allocate costs to premises types**
  - [i] All premises related cost items are allocated to 'premises types' by location. Premises types refer to the standard categorisation of each physical area, e.g. Classroom, Laboratories, Lecture Halls, etc. The individual premises types may differ between the Institutions.
  - [ii] For cost items that correspond to multiple premises types, e.g. an electricity bill for an entire building, the expenditure should be allocated across the different premises types using the most appropriate allocation driver (e.g. floor area by individual location). In some cases, the Estates Office may have other records on specific cost items such as property management records of repairs and maintenance conducted by the property technicians. If the data is readily available in the format required, and the monetary amount is material, a more specific allocation methodology could be applied to such cost items. This specific allocation methodology may involve allocating the costs to each type of premises using more suitable drivers such as property technician man-hours spent at each specific premises type. The Institutions should consider the level of materiality and additional administrative effort before pursuing other options.

### Further categorisation of premises types

[iii] All premises types should be broadly classified into two types: bookable or non-bookable. A bookable area refers to a physical area of which the rights to occupy and use is subject to a documented reservation through a universal booking system. Any area that does not fall under the definition of a bookable area is classed as a non-bookable area. Examples of bookable premises and non-bookable premises are listed in Example 2 below.

Example 2: Premises types

| Premises Types      |                    | Premises  |
|---------------------|--------------------|---|
| <b>Bookable</b>     |                    | Classrooms<br>Laboratories<br>Lecture Halls<br>Meeting Rooms<br>Special Equipment   |
| <b>Non-bookable</b> | Student-facing     | Common Areas<br>Study Area<br>Storage Capacities<br>Departmental Libraries<br>Green Houses<br>Printing Rooms<br>Escalators<br>Elevators |
|                     | Non-student-facing | Department Offices<br>Department Pantries<br>Toilets  |

[iv] For bookable premises, refer to Step 2a and Step 3 for further details on the allocation. For non-bookable premises, refer to Step 2b for cost allocation procedures.

#### • Step 2a: Allocate bookable premises and related costs to Institutional Activities

[i] Costs associated with bookable premises should be further allocated to the Institutional Activities using booked time as an allocation driver. In addition to the list of Institutional Activities defined in Section 2.2, two other illustrative activities specifically related to premises usage are shown in Table 4 below:

Table 4: Other premise-related activities

| External activities   |
|---|
| <p><b>External activities</b> – events organised by third parties outside of the institution. This includes a variety of activities. Examples of such include:</p> <ul style="list-style-type: none"> <li>• Public Lectures</li> <li>• Research projects not conducted by the institution</li> <li>• Corporate recruitment events</li> <li>• Conferences</li> </ul> |
| Idle time   |
| <p><b>Idle time</b> – periods of time when the premise is available but are not booked.<br/>e.g. if bookable hours per day is 12 hours and total booked time is 7 hours, then 5 hours are considered Idle time.</p>   |

[ii] The record of usage should be tracked through a reservation in the booking system, whether paper-based or through an online system. The Institutions should ensure booking parties to specify which Institutional Activity the bookings relate to. The use of standardised teaching programme codes and research project codes to facilitate referencing is strongly encouraged.

[iii] The share of cost of each activity should be determined by the proportion of booked time spent on each activity, i.e. if 5% of the total available booking time for classroom A is booked under Teaching Programme 1, then Teaching Programme 1 should bear 5% of total costs allocated to classroom A. Example 3 below illustrates how the cost allocation could be performed in practice.

Example 3: Allocation of booked time – Illustrative

| Lecture Hall 2 (LH2) | February bookings        | Booked Times (Hrs) | Share of LH2 Cost |
|----------------------|--------------------------|--------------------|-------------------|
|                      | BBA Law – Y1 lecture     | 100                | 40%               |
|                      | Mathematics – Y3 seminar | 90                 | 36%               |
|                      | External events          | 10                 | 4%                |
|                      | Idle                     | 50                 | 20%               |
|                      | <b>Total</b>             | <b>250</b>         | <b>100%</b>       |

- **Step 2b: Allocate non-bookable premises and related costs to UGC / non-UGC vote**

[i] Due to the practical difficulties in measuring the actual usage for non-bookable premises, proxies should be used to allocate cost to UGC or non-UGC vote.

[ii] Two suggested proxies that could be reliably measured and relevant to the consumption or usage of premises are:

- a. Student headcount registered in UGC-funded programmes and non-UGC-funded programmes
- b. Number of UGC-funded programmes and non-UGC-funded programmes

[iii] To determine the appropriate driver, non-bookable premises are classified into two general categories: Student-facing and non-student-facing premises. Refer to Example 2 above for an illustrative example on how these may be defined within an institution. Selected drivers for allocations should be based on actual figures obtained for the year. Where these may vary throughout the year (e.g. number of UGC-funded students may differ from month to month), these should be based on an average of appropriate periods (e.g. monthly), which are representative of the actual figures throughout the time period to be allocated. Additional adjustments may be required to recognise variables, such as access to premises, on a case by case basis.

[iv] **Student-facing premises:** relative usage is related to the number of students for each academic department using the premise; hence the allocation ratio should be determined by the following suggested ratio:

$$\text{Number of UGC-funded students} : \text{Number of non-UGC-funded students}$$

[v] **Non-student-facing premises:** relative usage is generally not related to the number of students using the premise but according to the effort to administer the programmes per academic department, hence the allocation ratio should be determined by the following suggested ratio:

$$\text{Number of UGC-funded programmes} : \text{Number of non-UGC-funded programmes}$$

- **Step 3: Allocate cost from Institutional Activities to UGC and non-UGC votes**

[i] For Main Academic Activities (refer to Table 1) that are either 100% UGC-funded or 100% non-UGC-funded, associated costs should be directly allocated to either UGC or non-UGC vote accordingly.

**[ii]** For teaching programmes taken by both students of UGC-funded programmes and non-UGC-funded programmes (often referred to as “co-teaching”), the associated Departmental Premises and Related Costs should be allocated to the UGC vote and non-UGC vote based on the number of registered students from UGC-funded programmes and non-UGC-funded programmes for that course.

**[iii]** Costs associated with Other Institutional Activities should be allocated to UGC vote or non-UGC vote on a case by case basis, depending on the specific nature of the activity. Suggested methods are summarised in Table 5 below:

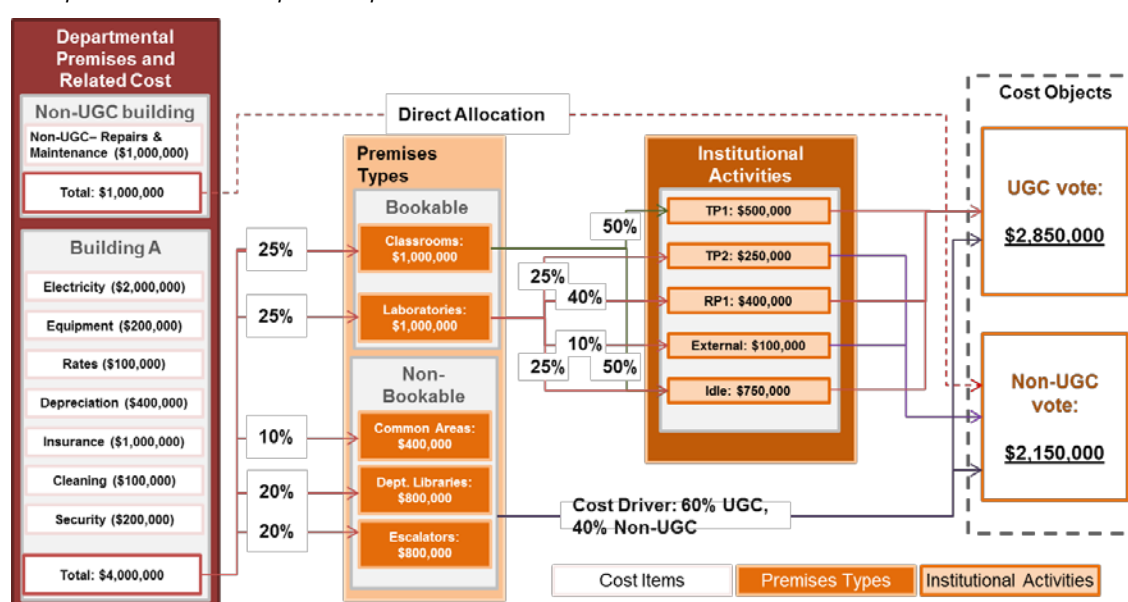
Table 5: Treatment of Activities

| Activities  | Treatment   |
|---|---|
| <b>Main Academic Activities</b>                         | By fund source  |
| <b>Other Institutional Activities</b>                   |   |
| <b>Public services</b>                                  | By fund source - 100% to UGC vote   |
| <b>Consultancy</b>                                      | Allocate based on fund source   |
| <b>Service provided to hospitals / clinical service</b> | Allocate based on fund source   |
| <b>Outside practice</b>                                 | Allocate based on fund source   |
| <b>Institutional administration</b>                     | Allocate based on the allocation ratio for time spent by academic staff                       |
| <b>External events</b>                                  | Attribute to non-UGC vote   |
| <b>Idle time</b>  | Attribute directly to UGC vote or non-UGC vote based on the source of funding of the building |

### 3.2.3 Illustrative example

**[1]** Consider costs specifically assigned to two buildings: a building solely used for non-UGC-funded programmes (non-UGC building), and a building used for both UGC-funded and non-UGC-funded programmes (Building A). Example 4 below illustrates the overall allocation process for these cost items.

Example 4: Illustrative example for Departmental Premises and Related Cost



Note: the percentages should be calculated according to the methods described in Step 1, Step 2a and Step 2b.

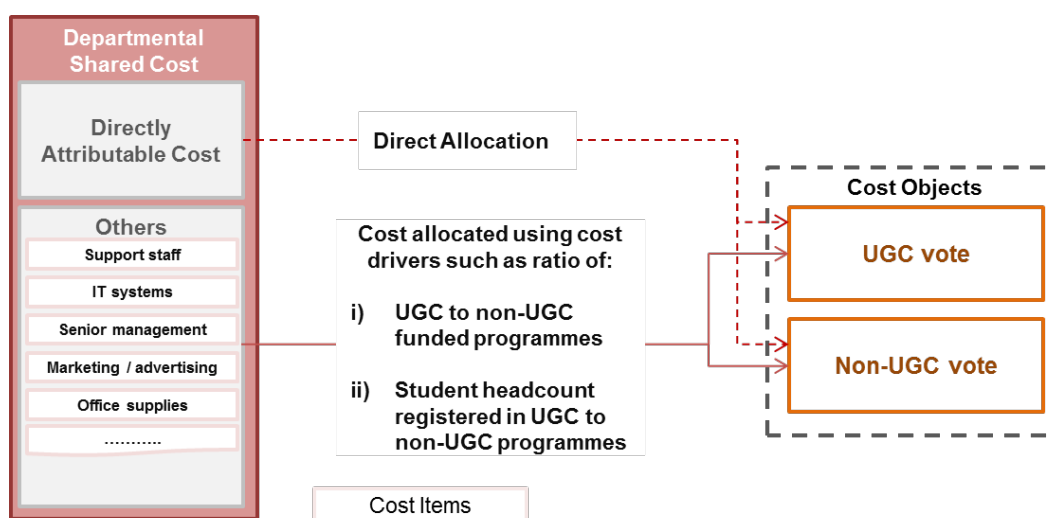
### 3.3 Departmental Shared Cost

#### 3.3.1 Cost identification

[1] Departmental shared costs are all other academic department costs not classified as either academic staff or premises and related costs. They typically represent expenditures incurred in the functional support of each academic department. Relevant cost items include non-academic staff costs (i.e. the administrative, clerical and technical staff costs within academic departments), IT systems, senior management (e.g. Faculty Dean), marketing / advertising, office supplies, etc.

[2] Figure 6 below outlines the allocation steps required to allocate Departmental Shared Costs to UGC and non-UGC vote.

Figure 6: Departmental Shared Cost allocation process



[3] Details of the allocation process are discussed below in Section 3.3.2.

#### 3.3.2 Cost allocation process

[1] By the general nature of these cost items in relation to the cost objects, it is difficult to directly allocate the support costs to either the UGC and non-UGC vote, thus these support costs should be allocated based on relevant drivers. The suitability of the cost driver for allocating each cost item should be considered on a case-by-case basis, balancing the total value or materiality of each against the effort required to allocate the cost items.

[2] As suggested in Step 2b of Section 3.2.2, relevant cost drivers identified may include:

- a. Student headcount registered in UGC-funded and non-UGC-funded programmes
- b. Number of UGC-funded and non-UGC-funded programmes
- c. Time spent by Academic staff / Academic staff headcount

[3] For cost items that tend to be driven by student headcount, the associated costs items should be allocated to the UGC vote and non-UGC vote based on the ratio:

***Number of UGC-funded students : Number of non-UGC-funded students***

[4] For cost items that are deemed more suitable to be shared evenly across the different activities conducted in the academic department, the associated costs items should be allocated to the UGC vote and non-UGC vote based on the ratio:

***Number of UGC-funded programmes : Number of non-UGC-funded programmes***

**[5]** For cost items that tend to be driven by time spent by academic staff, the Institutions should utilise the allocation ratio for time spent by academic staff calculated in Example 1 in Section 3.1 to allocate the associated cost.

**[6]** A list of suggested allocation drivers is provided in Example 5 below. The Institutions should leverage their detailed knowledge on the nature of the costs within their own Chart of Accounts to derive the most appropriate allocation driver for that cost item. Selected drivers for allocations should be based on actual figures obtained for the year. Where these may vary throughout the year e.g. staff headcount may differ from month to month, these should be based on an average of appropriate periods e.g. monthly, which are representative of the actual figures throughout the time period to be allocated. Additional adjustments may be required to recognise variables on a case by case basis.

*Example 5: Suggested cost drivers*

| Cost Items                       | Suggested Cost Drivers                                  |
|----------------------------------|---|
| <b>Support Staff Cost</b>        | Time spent by Academic Staff / Academic Staff headcount |
| <b>IT systems</b>                | Time spent by Academic Staff / Academic Staff headcount |
| <b>Senior Management</b>         | Number of Programmes                                    |
| <b>Marketing / Advertisement</b> | Student headcount                                       |
| <b>Office Supplies</b>           | Time spent by Academic Staff / Academic Staff headcount |



### 3.4 Departmental Share of Central Cost

#### 3.4.1 Cost identification

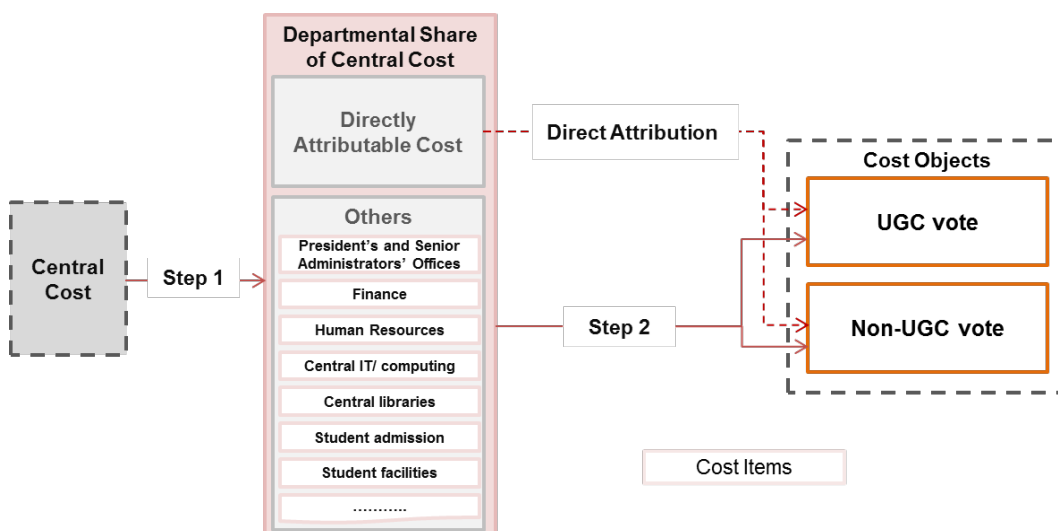
[1] Unlike the departmental cost components described in Section 3.1 to 3.3, central costs are not directly associated to specific academic departments. Central costs are defined as all expenditure incurred as a result of central activities. These are activities performed by the central department which may include:

- i) **Management and general** – includes President's and Senior Administrators' Offices, Finance, Human Resources, Estates, etc.
- ii) **Academic support** – includes central computing / IT systems, central libraries and other academic services
- iii) **Student and General Education Services** – includes marketing / promotion and student admissions
- iv) **Institutional premises relevant to central departments** - includes student premises and amenities

[2] This list is comparable to the list of Central Expenditure set forth within the CDCF. The main distinction is that expenditures on institutional premises borne by academic departments are separately recorded under Section 3.2 Departmental Premises and Related Cost.

[3] Figure 7 below outlines the steps required to allocate central cost to academic departments, before allocating to UGC and non-UGC vote.

Figure 7: Departmental Share of Central Cost allocation process



[4] Details of each allocation step are discussed below in Section 3.4.2.

#### 3.4.2 Cost allocation process

[1] The following steps provide detailed guidance on how to allocate costs that are not directly attributable:

- Step 1: Allocate central cost to academic departments
- Step 2: Allocate Departmental Share of Central Cost to UGC and non-UGC vote

- **Step 1: Allocate Central Cost to academic departments**

[i] Since central costs facilitate the functioning of the academic departments and contributes to the welfare of students, each academic department should bear an appropriate portion of the total central cost. This allocation should be performed using appropriate cost drivers such as number of students or programmes for each academic department. The use of number of student per department as a cost driver can be illustrated in Example 6 below:

Example 6: Allocating Central Cost to academic departments using number of students

| HR department Cost | Departments  | # of students | Share of HR cost per department |
|--------------------|--------------|---------------|---------------------------------|
|                    | Mathematics  | 60            | 15%                             |
|                    | Economics    | 160           | 40%                             |
|                    | Medicine     | 80            | 20%                             |
|                    | Law          | 100           | 25%                             |
|                    | <b>Total</b> | <b>400</b>    | <b>100%</b>                     |

[ii] Each institution should determine which cost driver to use and how the values of such cost drivers are determined. Once determined, these should be consistently applied year on year.

- **Step 2: Allocate Departmental Share of Central Cost to UGC and non-UGC vote**

[i] Once the relevant share of central cost has been allocated to specific departments, this cost should be allocated to UGC and non-UGC vote using relevant cost drivers. Since this cost is not directly associated with any specific departmental activity, the apportionment is best represented by how the actual departmental cost pools are shared. The suggested driver to use in this allocation would be the actual percentage share of the three departmental cost pools (i.e. Academic Staff Cost, Departmental Premises and Related Cost and Departmental Shared Cost). An illustrative example is displayed in Example 7 below:

Example 7: Determination of ratio to split Departmental Share of Central Cost – Illustrative

| University of [XYZ]<br>Mathematics Department | Cost Pools   | UGC Vote (HKD millions) | Non-UGC Vote (HKD millions) |
|---|--|-------------------------|-----------------------------|
|   | Academic Staff Cost  | 3,200                   | 1,800                       |
|   | Departmental Premises and Related Cost                       | 1,800                   | 1,000                       |
|   | Departmental Shared Cost                                     | 1,400                   | 800                         |
|   | <b>Total</b>   | <b>6,400</b>            | <b>3,600</b>                |
|   | <b>% split applied to Departmental Share of Central Cost</b> | <b>64%</b>              | <b>36%</b>                  |

[ii] Under this cost allocation mechanism, the allocation for the departmental cost should be performed before the treatment of Departmental Share of Central Cost.

## 4 Recommendations for Next Steps

**[1]** This section describes a list of suggested actions that should be considered by each institution in order to maximise the effectiveness and efficiency of initial implementation and ongoing annual application of the CAGs.

Table 6: Considerations for implementation

|    | Aspects        | Action Points   |
|----|----------------|---|
| 1. | <b>People</b>  | <p><b>Review resource requirements</b></p> <ul style="list-style-type: none"> <li>Each Head of Department should assess the level of staff commitment required for the various tasks required by the CAGs. The department should determine whether current resources are sufficient and allocate resources in the most efficient manner.</li> </ul> <p><b>Assess skills requirement and design formal staff trainings</b></p> <ul style="list-style-type: none"> <li>Specific technical knowledge may be required for this exercise (e.g. sampling techniques for time analysis). It is essential to ensure all working units have a clear understanding of the cost allocation exercise. Training materials and workshops should be considered if deemed necessary by the Institutions.</li> </ul> <p><b>Define roles and responsibilities</b></p> <ul style="list-style-type: none"> <li>Designated individuals should be deemed responsible for each key activity within the cost allocation process. A suitable degree of supervision and monitoring should also be included in the design of the process.</li> </ul>   |
| 2. | <b>Process</b> | <p><b>Perform cost identification</b></p> <ul style="list-style-type: none"> <li>Departments should ensure that each cost item from the Chart of Accounts are mapped to the four cost pools in accordance with definitions set out in Section 3 of this document.</li> </ul> <p><b>Develop data collection procedures</b></p> <ul style="list-style-type: none"> <li>Process of collecting staff time information should be designed and communicated to each department. This includes designing a user-friendly timesheet which includes all required data, establishing a process for timesheet submission and ensuring the sampling methodology is adequate to meet requirements.</li> <li>Coordinate with any other parties (e.g. the Estates Office) to determine efficient procedures for extracting data to facilitate cost allocation exercise.</li> </ul> <p><b>Standardise activities</b></p> <ul style="list-style-type: none"> <li>During design and implementation, the various activities within the process should be agreed and adopted by all departments across each institution to ensure consistency. Initial surveying and continuous annual review and update are expected to be required.</li> </ul> <p><b>Determine appropriate cost drivers</b></p> <ul style="list-style-type: none"> <li>The determination and calculation of different cost drivers (e.g. student ratios, programme ratios) should be applied consistently across departments within each institution. This includes the source of the data itself (e.g. use of year-end actual figures or monthly average figures for student numbers)</li> </ul> |

|    | Aspects                   | Action Points   |
|----|---------------------------|---|
| 3. | <b>Technology</b>         | <p><b>Assess requirements for implementation</b></p> <ul style="list-style-type: none"> <li>IT Department should assess whether the current IT infrastructure can support the requirements of the CAGs after discussions with department staff. System enhancements should be considered if necessary.</li> </ul> <p><b>Automate allocation process</b></p> <ul style="list-style-type: none"> <li>Certain steps in the CAGs could be automated to maximise the efficiency of performing the cost allocations (e.g. collation of time analysis data from academic staff could potentially be performed by HR system). The possibilities of automation of the cost allocation processes should be considered throughout the design phase.</li> </ul> |
| 4. | <b>Project Management</b> | <p><b>Designate Project Management Office</b></p> <ul style="list-style-type: none"> <li>A Project Management Office with a designated Project Manager should be set up to facilitate the implementation of the CAGs. It should oversee the progress and coordinate the actions of different working parties.</li> </ul> <p><b>Establish communication channels</b></p> <ul style="list-style-type: none"> <li>Effective communication channels should be set up amongst departments within each institution, between the Institutions and with the UGC. This would allow for a sharing of experience or enquiries regarding the design or implementation of the CAGs amongst the stakeholders.</li> </ul>  |
| 5. | <b>Governance</b>         | <p><b>Establish adequate governance structure for CAGs</b></p> <ul style="list-style-type: none"> <li>The cost allocation process should be overseen and governed by a designated body within the institution to promote accuracy and relevancy of the report figures. This includes clearly defining the roles and responsibilities of all users within the process.</li> </ul> <p><b>Design review mechanism</b></p> <ul style="list-style-type: none"> <li>The effectiveness and accuracy of the CAGs should be reviewed at least annually. The Institutions should continue to update and mandate their practice to achieve the objectives of the allocation.</li> </ul>  |

## Appendix

### A. References

[1] Below is a list of specific documents that were used as a reference during the development of the CAGs:

- *“Common Data Collection Format (CDCF) Data Collection for Academic Year 2013/2014 Guidance Notes”* – University Grants Committee
- *“Financial Affairs Working Group Report (2013)”* – University Grants Committee
- *“Transparent Approach to Costing (TRAC) Guidance”* – J M Consulting Ltd

## B. FAWG Report recommendations

[1] The following table reconciles the recommendations related to cost allocation practices from the FAWG Report to the treatment as found in the CAGs.

Table 7: FAWG recommendations

| Recommendations from FAWG Report   | Section Ref  |
|--|--|
| <p><b>Recommendation 1:</b></p> <p>The FAWG recommends as a matter of general principle that:</p> <p>(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.</p> <p>(b) indirect overheads charged to non-UGC-funded research projects and all other self-financed activities be charged on exactly the same basis.</p>  | <p>Refer to Section 3 for consistent cost allocation basis and process</p>   |
| <p><b>Recommendation 4:</b></p> <p>The FAWG recommends that the Institutions 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. The staff benefits, the costs of research and other scholarly activities should be taken into account when calculating the charge to self-financed programmes. The charge for the time spent by UGC-funded faculty to teach self-financed programmes should be reviewed, and if necessary, recalculated on an annual basis in light of any change to the pay scale of academic staff.</p> | <p>Refer to Section 3.1 for Academic Staff Cost allocation</p>   |
| <p><b>Recommendation 5:</b></p> <p>The FAWG recommends that the Institutions amend their overhead charging practices to recognise that the cost of buildings is a direct cost to be charged to a self-financed programme.</p>  | <p>Refer to Section 3.2 for Departmental Premises and Related Cost allocation, which cover the depreciation of buildings</p> |

## C. Glossary of terms

Table 8: Definitions of key terminologies

| Terminology                                   | Definition  |
|---|---|
| <b>Academic Staff</b>                         | staff members from the academic departments, whose main functions of employment are teaching and / or research  |
| <b>Academic Staff Cost</b>                    | staff related costs incurred as remuneration and benefits of the academic staff   |
| <b>Bookable area</b>                          | a physical area of which the rights to occupy and use is subject to a documented reservation through a universal booking system   |
| <b>Booked time</b>                            | actual time recorded for usage of a specific physical area in the booking system  |
| <b>Central activities</b>                     | activities performed by the central department  |
| <b>Central cost</b>                           | all expenditure incurred as a result of central activities  |
| <b>Common areas</b>                           | all those areas which are available for use to all students and staff e.g. lift lobby, corridors, bathrooms, etc.   |
| <b>Cost drivers</b>                           | factors with units of measure that drive the cost of an activity  |
| <b>Cost items</b>                             | an expenditure recorded in the financial systems  |
| <b>Cost objects</b>                           | cost objectives in which costs items are allocated to   |
| <b>Cost pools</b>                             | groups of cost items that are similar in nature and require the same cost allocation treatment  |
| <b>Co-teaching courses</b>                    | courses that are taken by students of both UGC-funded programmes and non-UGC-funded programmes  |
| <b>Departmental Share of Central Cost</b>     | relevant share of central cost that each department should bear   |
| <b>Departmental Shared Cost</b>               | all other academic department costs not classified as either academic staff or premises and related costs   |
| <b>Departmental Premises and Related Cost</b> | all expenditure incurred as a result of usage of physical area in academic buildings by an academic department  |
| <b>External activities</b>                    | events organised by third parties outside of the Institutions   |
| <b>Idle time</b>                              | periods of the available booking times in which a bookable area are not booked  |
| <b>In-load staff</b>                          | staff who work on both UGC-funded Institutional Activities and non-UGC-funded Institutional Activities and / or co-teaching courses. Commercial research activities are classified as non-UGC-funded activities, any staff that work only on UGC-funded projects / programmes but still conduct commercial research activities would be categorised in this cost sub-category |
| <b>Institutional Activities</b>               | activities that consume institution resources and / or time   |
| <b>Non-bookable area</b>                      | any area that does not fall under the definition of a bookable area   |
| <b>Non-Institutional Activities</b>           | activities that do not consume the actual resources of the institution performed by staff   |
| <b>Non-student-facing premises</b>            | premises not subject to usage by students   |
| <b>Non-UGC vote</b>                           | all other costs that are not classified as UGC Vote   |

| Terminology                    | Definition   |
|--------------------------------|--|
| <b>Non-UGC-funded Staff</b>    | academic staff that work solely on non-UGC-funded Institutional Activities. They do not work on any UGC-funded activities or mix-funded activities such as co-teaching courses   |
| <b>Outside practice</b>        | participation in academic activities outside of the Institutions curriculum  |
| <b>Premises types</b>          | standard categorisation of each physical area  |
| <b>Student-facing premises</b> | premises subject to usage by students  |
| <b>UGC vote</b>                | all costs for which UGC provides funding   |
| <b>UGC-funded Staff</b>        | academic staff that work solely on UGC-funded Institutional Activities. They do not work on any non-UGC-funded activities or on mix-funded activities such as co-teaching courses. This includes staff that work full-time on UGC-funded Institutional Activities but may work on non-UGC-funded Institutional Activities within their own personal time |
| <b>Working time</b>            | the time spent on 'Institutional Activities'   |



#### D. Timesheet template (Illustrative)

# Sample Timesheet Template 1

|            |                     |                                 |
|------------|---------------------|---------------------------------|
| Week       | T1                  | Period: dd/mm/yyyy - dd/mm/yyyy |
| Staff Name | <Staff Name>        |                                 |
| Staff Role | Senior Professional |                                 |
| Pay Band   | 4                   | Level 4                         |

**Note:**

1. Section A, fill in the activity codes and name of the activities where actual time was spent during the selected 2 week time frame. Institutions may insert the time for non-institutional activities as appropriate.
2. Section B, indicate hours worked on each activities within the appropriate day
3. This hours can be recorded up to one decimal place.

## Section A

Section A

| Institutional Activity                | Code | Name                           | Week 1 |       |       |       |       | Week 2 |       |       |       |       | Total Hours Worked |    |
|---------------------------------------|------|--------------------------------|--------|-------|-------|-------|-------|--------|-------|-------|-------|-------|--------------------|----|
|                                       |      |                                | Day 1  | Day 2 | Day 3 | Day 4 | Day 5 | Day 1  | Day 2 | Day 3 | Day 4 | Day 5 |                    |    |
|                                       |      |                                |        |       |       |       |       |        |       |       |       |       |                    |    |
| Projects/<br>programmes<br>Activities | TP01 | Mathematics Year 1- Statistics |        |       |       |       |       |        |       |       |       |       |                    | ## |
|                                       | RP01 | Physics Department - Research  |        |       |       |       |       |        |       |       |       |       |                    | ## |
|                                       | ##   | xxx                            |        |       |       |       |       |        |       |       |       |       |                    | ## |
|                                       | ##   | xxx                            |        |       |       |       |       |        |       |       |       |       |                    | ## |
|                                       | ##   | xxx                            |        |       |       |       |       |        |       |       |       |       |                    | ## |
|                                       | ##   | xxx                            |        |       |       |       |       |        |       |       |       |       |                    | ## |

Section B

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Total Hours

Signed by staff member as a correct record of attendance.

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Signed by supervisor as correct.

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Reference code

TP## Teaching programs

| RP##  | Research project |
|-------|------------------|
| 11111 | Learning program |

| CP ## | Research project      |
|-------|-----------------------|
| CP ## | Consultation projects |