

# UNIVERSITY GRANTS COMMITTEE HONG KONG, CHINA

## NOTES ON PROCEDURES

### *Foreword*

*The UGC “Notes on Procedures” explain and set down the major operational procedural elements of the interplay between the UGC, the Government and the institutions. The “Notes” are for observance by officers of the institutions, Government officers and staff of the UGC Secretariat for handling affairs of the UGC-funded institutions.*

*This edition of the “Notes” replaces all previous editions.*

***2024 Edition***

# **UNIVERSITY GRANTS COMMITTEE**

## **Notes on Procedures**

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# ***Chapter 1 – Introduction***

## **University Grants Committee**

### *Terms of Reference*

1.1 The University Grants Committee of Hong Kong (UGC) is appointed by the Chief Executive of the HKSAR. Its main function is to offer impartial and expert advice to the Government on the funding and development of higher education in Hong Kong, and to provide assurance to the Government and the community on the standards and cost-effectiveness of the operations and activities of the UGC-funded institutions. The terms of reference of the UGC are:

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

### *Brief History*

1.2 When the UGC was first established in 1965, the Committee was known as the University Grants Committee and was responsible for advising the Government on the development and funding of the then two institutions of higher education, namely The University of Hong Kong and The Chinese University of Hong Kong. It came into being as a result of suggestions, made by Members of the Legislative Council during the Budget Debate in 1964, that a committee similar to the British University Grants Committee should be set up in Hong Kong to advise the Government on the facilities, development and financial needs of the Universities. The Committee was formally appointed in October 1965, with principles and practices based on the British model. These principles have been adapted over the years to suit the needs of Hong Kong.

1.1 In 1972, the Committee was retitled the University and Polytechnic Grants Committee (UPGC), to reflect the inclusion of the then Hong Kong Polytechnic (now The Hong Kong Polytechnic University) within its purview. In 1983, the former Hong Kong Baptist College (now Hong Kong Baptist University) was brought within the ambit of the UPGC, followed in the next year by the then City Polytechnic of Hong Kong (now City University of Hong Kong) and in 1991, by The Hong Kong University of Science and Technology and a former post-secondary college, Lingnan College (now Lingnan University). Following the adoption of university titles by the two Polytechnics and the Hong Kong Baptist College, the Committee reverted to its previous title of University Grants Committee in November 1994. In 1996, the new Hong Kong Institute of Education (now The Education University of Hong Kong), formed by the merger of the four existing teacher training colleges and the Institute of Language in Education, came under the remit of the UGC.

1.2 At present, there are eight institutions of higher education 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), The Hong Kong Polytechnic University (PolyU), The Hong Kong University of Science and Technology (HKUST) and The University of Hong Kong (HKU).

### *Roles and Functions*

1.3 The UGC has neither statutory nor executive powers. Each of the higher education institutions is an autonomous body with its own Ordinance and Governing Council. The institutions have substantial freedom in the control of curricula and academic standards, the selection of staff and students, initiation and acceptance of research, and the internal allocation of resources. Nevertheless, because the institutions are largely supported by public funds, and in view of the social, cultural and economic importance of higher education, the Government and the community at large have a legitimate interest in the operation of the institutions to ensure that they are providing the highest possible standards of education in the most cost-effective manner. The UGC seeks to maintain an appropriate balance in these matters.

1.4 The UGC seeks to promote responsible understanding between the institutions, the Government and the community at large. It mediates interests between institutions and the Government. On the one hand, the UGC safeguards the academic freedom and institutional autonomy of the institutions, while on the other it ensures value for money for the taxpayers. The Committee has open channels to both the institutions and Government, since it offers advice to, and receives advice from, both.

1.5 The main function of the UGC is to allocate funding to its funded institutions, and to offer impartial expert advice to the Government on the strategic development and resource requirements of higher education in Hong Kong. Specifically, the Committee has to determine precise grant recommendations in the

light of indications of the level of funding that can be made available, overall student number targets by level of study and year to meet community needs as agreed with the Government, the breakdown of these numbers between institutions, as agreed in principle by the institutions. The Committee also provides the institutions with developmental and academic advice, having regard to international standards and practice. In respect of capital works projects, the UGC advises both institutions and the Government on campus development plans and proposals made by institutions, with a view to supporting their academic and overall development.

1.8 Under the aegis of the UGC are two semi-autonomous Councils : the Research Grants Council<sup>1</sup> (RGC) and the Quality Assurance Council (QAC). Brief descriptions of their roles are set out later in this chapter.

1.9 To facilitate the further development of Hong Kong's higher education sector, the UGC adopts a strategic approach by developing an interlocking system whereby the whole higher education sector is viewed as one force, with each institution fulfilling a unique role, based on its strengths. There is a need for the UGC to play a proactive role in strategic planning and policy development to advise and steer the higher education sector in satisfying the diverse needs of stakeholders. To fulfil this role, the UGC ensures that at system level, appropriate tools, mechanisms and incentives are in place to assist institutions to perform at an internationally competitive level in their respective roles. The UGC's mission statement is at **Annex 1A**.

1.10 Members of the UGC are appointed by the Chief Executive in their personal capacity and all are prominent in their fields. A good portion of them are accomplished academics and higher education administrators from outside Hong Kong. The rest are local members, comprising eminent community leaders and academics of high standing. No Government officer sits on the Committee, but its Secretariat is staffed by civil servants.

### *Cycle of Meetings and Visits*

1.11 The Committee normally meets three times a year in Hong Kong, and is supported by several standing Sub-Committees and Groups. The UGC main meetings are normally held in January, April and August and each lasts for about one week. Ad hoc groups and panels will be convened according to the tasks at hand.

1.12 Members of the UGC and its sub-committees visit the institutions periodically to gain first-hand knowledge of developments on the ground. These visits help the Committee to assess the quality of the education and the effectiveness of the resource allocation system of each institution.

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<sup>1</sup> Apart from providing funding support to academic research projects through the RGC, the UGC has also established the "Areas of Excellence" Scheme to facilitate the formation of quality research consortia. The longer term funding provided for by the Scheme enables high calibre research teams to pursue high impact and forward looking projects.

## *Reports*

1.13 From 2009/10 onwards, the UGC publishes a report on its activities annually, i.e. its Annual Report to replace the annual publication “Facts and Figures”. The Annual Report is a bilingual public document distributed widely in the academic sector and is available on the internet. From time to time, the Committee submits reports to the Government on matters referred to it for advice.

## **Research Grants Council**

### *Introduction*

1.14 The Research Grants Council (RGC), which was established in 1991, operates under the aegis of the UGC. It advises the Government through the UGC on the needs of the institutions of higher education in academic research. It also approves applications for research grants, awards and other disbursements from funds made available by the Government through the UGC for research and monitors their implementation. The UGC Secretariat also serves as the Secretariat to the RGC.

### *Terms of Reference*

1.15 The terms of reference of the RGC are:

- (a) to advise the Government, through the UGC, on the needs of the institutions of higher education in Hong Kong in the field of academic research, including the identification of priority areas, in order that a research base adequate for the maintenance of academic vigour and pertinent to the needs of Hong Kong may be developed; and
- (b) to invite and receive, through the institutions of higher education, applications for research grants from academic staff and for the award of studentships and post-doctoral fellowships; to approve awards and other disbursements from funds made available by the Government through the UGC for research; to monitor the implementation of such grants and to report at least annually to the Government through the UGC.

### *Annual Report*

1.16 Each year, the RGC submits through the UGC an annual report on the work and allocation of research grants to the Government. The report is a bilingual, public document available on the internet.

### *Funding for Research*

1.17 Funding for the RGC is provided by the Government through the UGC in the form of Earmarked Research Grant (ERG) and other Government funds. In 2009, the Government established an \$18 billion Research Endowment Fund (REF). The investment income generated from at least \$14 billion of the principal will provide the bulk of funding, from the 2010/11 academic year onwards, to the ERG. The investment income from up to \$4 billion of the remaining portion of the principal will be used to support theme-based research.

1.18 The RGC's main objective is to fund as many worthy projects as possible across a broad front within the funds available. Projects of exceptional merit will be funded more fully than other projects. Academic quality/merit is the

major criterion in evaluating research projects. The ERG is currently disbursed in four main segments:

- (a) General Research Fund (GRF) – takes up the major proportion of the ERG which is disbursed in response to competitive bids submitted by the institutions for academic research projects.
- (b) Collaborative Research Fund (CRF) – main objectives are to encourage research groups to engage in collaborative research across disciplines and/or across institutions and to enable the acquisition of major research facilities or equipment.
- (c) Direct Allocation – mainly supports research projects carried out by junior faculty and newly recruited staff on a competitive basis.
- (d) Joint Research Schemes (JRS) – promote collaboration and exchanges with research bodies in the Mainland, i.e the National Natural Science Foundation of China; and overseas.

1.19 Apart from the ERG, a Theme-based Research Funding Scheme has been launched starting from 2010 to support theme-based research, thus allowing the institutions to work on research proposals on themes of a more long-term nature and strategically beneficial to the development of Hong Kong. In addition, the Government is separately providing \$20 million per year to the RGC until 2011-12 to promote public policy research in higher education institutions. The RGC has thus put in place the Public Policy Research funding scheme and the Strategic Public Policy Research funding scheme for projects of larger scale and longer duration.

1.20 Call circulars with application forms and detailed explanatory notes are issued to all UGC-funded institutions in advance of each funding scheme.

### *Hong Kong PhD Fellowship Scheme*

1.21 In addition to the above research funding schemes, the RGC also established the Hong Kong PhD Fellowship Scheme in 2009. This Scheme aims at attracting the best and brightest students in the world, irrespective of their country of origin and ethnic background, to pursue their PhD studies in Hong Kong's institutions. The Fellowship provides a monthly stipend significantly higher than the standard stipend and a conference and research related travel allowance.

### *Peer Review Mechanism*

1.22 Project proposals are assessed by peer review, which is generally applicable to all funding schemes under the RGC. The panel/sub-committee/sub-panel Chairmen determine the distribution of responsibilities among their members by subject disciplines. Members are requested to invite reviews from at least eight external reviewers for each proposal, mostly from overseas who are experts



in the related fields of the applications. For grading purpose, a minimum of two external reviews are required for the assessment. During the panel/sub-committee/sub-panel meetings, the members discuss and assess the comments from the external reviewers and the members responsible for a particular proposal in order to arrive at a panel/sub-committee/sub-panel's decision.

1.23 For the CRF, its Sub-Committee will, in addition, conduct selection interviews with the research teams of the shortlisted proposals before recommending selected projects for RGC's endoresement. The SPPR Sub-Panel follows similar procedures.

1.24 The RGC will provide the final rating, feedback and all open comments made by the external reviewers and the responsible panel/sub-committee/sub-panel members to both successful and unsuccessful applicants.

#### *Monitoring and Assessment of On-going projects*

1.25 Principal Investigators (PIs) are required to submit progress reports on all on-going projects through their institutions to the RGC for monitoring as set out in the 'Disbursement, Accounting and Monitoring Arrangements for Funding Schemes Administered by the RGC' issued by the UGC Secretariat. A subject panel/sub-committee/sub-panel member will monitor and assess the progress reports to ensure that projects are proceeding on schedule and that any problems identified are followed up.

#### *Assessment of Completed projects*

1.26 PIs are required to submit completion reports detailing the outcome of the research project, the results achieved, students trained and publications produced, as well as reporting on the use and application of the grant awarded through their institutions within a period of time after the scheduled completion date for the projects. These completion reports are passed to the responsible panel/sub-committee/sub-panel members for final evaluation. The comments in the final evaluation will be returned to the PIs concerned. Completed projects that have been rated "Unsatisfactory" and "Barely Satisfactory" are required to be discussed and endorsed by the relevant panel/sub-committee/sub-panel. Results of such assessments may be taken into account when assessing new grant applications from the same PIs.

#### *Copyright, Intellectual Property and Acknowledgements*

1.27 As a matter of policy, the UGC and RGC, will not claim copyright or other intellectual property rights in products developed as a result of the UGC or RGC grants. PIs of RGC-funded projects should acknowledge in publications or publicity materials the UGC or RGC funding support or the use of any specially UGC/RGC-funded equipment/facilities.

## Quality Assurance Council

### *Introduction*

1.28 The Quality Assurance Council (QAC) was established in 2007 under the aegis of the UGC as a semi-autonomous body. Its key role is to assist the UGC in assuring the quality of all programmes at the levels of sub-degree, first degree and above (however funded) offered in UGC-funded institutions is sustained and improved, and is at an internationally competitive level. The QAC is supported by a secretariat.

### *Terms of Reference*

1.29 The terms of reference of the QAC are:

- (a) to advise the UGC on quality assurance matters in the higher education sector in Hong Kong and other related matters as requested by the Committee;
- (b) to conduct audits and other reviews as requested by the UGC, and report on the quality assurance mechanisms and quality of the offerings of institutions;
- (c) to promote quality assurance in the higher education sector in Hong Kong; and
- (d) to facilitate the development and dissemination of good practices in quality assurance in higher education.

### *QAC Audits*

1.30 The QAC defines quality in terms of 'Fitness for Purpose'. A QAC audit is an audit of an institution's Fitness for Purpose in teaching and learning. The quality of student learning is the centrepiece of audit. Since student learning is the focal point of the audit system, audits examine all aspects of an institution's activities which contribute to student learning quality.

1.31 The QAC audits all UGC-funded institutions in cycles, through audit panels drawn from a Register of Auditors. The Register includes senior staff or recent retirees from the higher education institutions in Hong Kong who have experience of managing academic programmes and institutional level responsibilities for the quality of learning and teaching; and also includes international auditors with experience of quality and academic standards either from an institutional background or through working for a quality assurance agency or similar organisation. Audit panels are accompanied by the Audit Coordinator throughout the visits to institutions. The role of the Audit Coordinator is to guide the panels and the institutions through

all stages of the audit, ensuring that approved procedures are followed. He/she also keeps a record of all discussions and drafts the audit reports.

### *Stages in a QAC Audit*

1.32 The QAC audit process comprises the following stages:

- (a) Preparation: This includes, amongst other things, institutional self-review and preparation of the Institutional Submission.
- (b) Preliminary phase: This includes –
  - an initial meeting of the audit panel and an institutional briefing; and
  - visits to locations outside Hong Kong (if any) to examine programmes offered there.
- (c) Audit Visit: The panel interviews staff, students and other stakeholders, studies documents, and formulates findings.
- (d) Reporting: Audit report is supported by detailed analysis and commentary. The report is submitted to the QAC for consideration, publication and transmission to the UGC. The final report is published in full.
- (e) Follow-up: The institution is required to submit an action plan within three months after the publication of audit report, and a progress report on its responses to audit findings within 18 months after publication of the audit report, unless the UGC/QAC thinks otherwise.

1.33 Detailed information of QAC Audits is available in the Audit Manuals published by the QAC. The Audit Manuals describe the procedures of QAC Audits and guide both institutions and audit panels, and cover in depth all stages of the audit process.

## The Institutions

1.34 The eight higher education institutions funded through the UGC are statutorily autonomous corporations, each with its own Ordinance and Governing Council. They enjoy academic freedom and considerable institutional autonomy.

### *Institutional Autonomy*

1.35 Institutional autonomy is a complex term, and the degree of autonomy varies, but the essential point is that the institutions are legally entitled to freedom of action in managing their affairs within the restraints of the laws of Hong Kong. The claim for autonomy does not rest upon any assumption of special privileges, but upon the consideration (based on long experience) that the institutions can properly undertake the work expected of them by the community which supports them only if they have freedom of choice and of action. This does not exempt them from public interest and criticism, nor does it mean that their policies should not be under review by themselves, and by others.

1.36 The five main areas of institutional autonomy are:

(a) Selection of staff

The institutions have unfettered rights in the selection, promotion, and dismissal of their staff. In the case of appointment of the Head of the institution, however, the importance of the post is such that some degree of consultation with Government and community leaders is desirable and normal. Nevertheless, the institutions' Councils take the final decision, and make the formal appointment.

(b) Selection of students

Whatever may be the procedures for setting or controlling entrance examinations, or for setting total student number targets, or for setting student number intake targets, the institutions have unfettered rights in the selection or rejection of students presented as candidates for admission.

(c) Curricula and academic standards

The institutions will need to take into account the other developments and requirements in other fronts e.g. primary and secondary education, other further education facilities, requirements for practising certain professions, general or specific employment opportunities, etc. and these are areas in which the UGC and the Government also have interests. Moreover, some standards and qualifications can only be attained if appropriate finance is made available, and decisions may therefore be dependent on financial resources. Nevertheless, final decisions on their own curricula and standards rest with the institutions.

(d) Acceptance of research programmes

This includes the initiation of research programmes, subject to resources being available, as well as the acceptance of research proposed by others (for example, by the Government). In all cases, academic merit, the institution's role and community needs have to be given great weight but the institution is the only judge of whether its combined resources of people, accommodation, equipment and money can or should be deployed in the manner required.

(e) Allocation of funds within the institution

Apart from earmarked and indicated recurrent grants and earmarked capital grants, the institutions are free to allocate the funds available as they see fit. In practice, this freedom is considerably constrained by the fact that about three-quarters of institutional funds are committed to staff costs, which cannot easily or quickly be changed and that part of the remaining quarter is also committed for repairs, maintenance, services, supplies etc. Nevertheless, the institutions are free to make such changes as they can manage, to decide on specific allocations, to draw up budgets accordingly, and to change such budgets.

### *Roles and Missions*

1.37 The institutions are diverse in character and in their contributions to the educational, cultural and economic development of Hong Kong. The differential roles of the institutions reflect their varying origins and the way they have been and are responding to the complex and evolving needs of Hong Kong. In the 2003/04 academic year, the UGC worked with the eight institutions to review their role statements and to make them more distinctive. At the same time, the UGC published a document: "Hong Kong Higher Education: To Make a Difference, To Move with the Times" which set out that the UGC took a strategic approach to the higher education sector by developing an interlocking system, in which each institution fulfils a unique role. Thus the roles of each institution should be diversified both in teaching and research, whilst each institution should also seek international competitiveness in its defined teaching and research areas. The revised role statements, which describe the different types of strengths or functions predominating in each institution, are at **Annex 1B**.

1.38 As a formative exercise and to assist institutions to find constructive ways to further improve and encourage performance in role, the UGC introduced the Performance and Role-related Funding Scheme in the 2005/06-2007/08 triennium. This important undertaking ties together funding allocation, performance and performance against role. One of the outcomes has been a move to evaluate more comprehensively than in the past the outcomes expected of different programmes.

1.39 In addition to role, another important ingredient to achieving an interlocking system is enhanced collaboration among institutions. In March 2004,

the UGC published another important policy document, “Integration Matters”, outlining the UGC’s thinking in this area. Institutions are encouraged to commit to deep collaboration with other institutions to achieve synergy and critical mass for the whole sector. Institutional integration works best when driven by the parties themselves, and to generate sufficient momentum toward a new plane of activity, the UGC has established a Restructuring and Collaboration Fund.

1.40           A fuller discussion of this subject can be found in the Document: “Hong Kong Higher Education: To Make a Difference, To Move with the Times” at the UGC website: [www.ugc.edu.hk](http://www.ugc.edu.hk).

## University Grants Committee

### Mission Statement

The University Grants Committee (UGC) is the non-statutory body which advises the Government of the SAR on the funding and strategic development of higher education in Hong Kong. **In this role, the UGC works with Institutions, the Administration and the Community to promote excellence in the higher education sector, with a view to establishing Hong Kong as the education hub of the region and to nurturing high quality people to promote the economic and social development of Hong Kong.** The UGC will : -

- oversee the deployment of funds for the strategic development of the higher education sector;
- support the continuous development of the higher education sector to achieve greater impact and recognition, and as a source of innovation and ideas for the community;
- give steering advice to the higher education sector from a system perspective and facilitate institutions to fulfill their distinctive roles;
- enhance the student experience and advance the international competitiveness in teaching, research and knowledge transfer by institutions in accordance with their agreed roles;
- facilitate the sustainable development of higher education to meet the demands of the changing times;
- encourage deep collaboration among institutions to develop an interlocking system to increase international competitiveness of the sector; and
- safeguard quality and promote efficiency, cost-effectiveness and accountability in the activities of institutions.

In carrying out the above activities, UGC seeks to preserve institutional autonomy and academic freedom, in the context of appropriate financial and public accountability.

**Role Statements of UGC-funded Institutions**

**City University of Hong Kong (CityU)**

- (a) offers a range of professionally oriented programmes leading to the award of first degrees, and a small number of sub-degree programmes;
- (b) pursues the delivery of teaching at an internationally competitive level in all the taught programmes that it offers;
- (c) offers a number of taught postgraduate programmes and research postgraduate programmes in selected subject areas particularly in professional and applied fields;
- (d) emphasizes application-oriented teaching, professional education and applied research;
- (e) aims at being internationally competitive in its areas of research strength;
- (f) emphasizes high value-added educational programmes for whole person development and professional competencies and skills;
- (g) maintains strong links with business, industry, professional sectors, employers as well as the community;
- (h) pursues actively deep collaboration in its areas of strength with other higher education institutions in Hong Kong or the region or more widely so as to enhance the Hong Kong higher education system;
- (i) encourages academic staff to be engaged in public service, consultancy and collaborative work with the private sector in areas where they have special expertise, as part of the institution's general collaboration with government, business and industry; and
- (j) manages in the most effective and efficient way the public and private resources bestowed upon the institution, employing collaboration whenever it is of value.



Hong Kong Baptist University (HKBU)

- (a) offers a range of programmes leading to the award of first degrees in Arts, Business, Chinese Medicine, Communication Studies, Education, Science and Social Sciences;
- (b) pursues the delivery of teaching at an internationally competitive level in all the taught programmes that it offers;
- (c) offers a number of taught postgraduate programmes and research postgraduate programmes in selected subject areas;
- (d) follows a holistic approach to higher education and emphasizes a broad-based creativity-inspiring undergraduate education, which inculcates in all who participate a sense of human values;
- (e) aims at being internationally competitive in its areas of research strength, and in particular in support of teaching;
- (f) maintains strong links with the community;
- (g) pursues actively deep collaboration in its areas of strength with other higher education institutions in Hong Kong or the region or more widely so as to enhance the Hong Kong higher education system;
- (h) encourages academic staff to be engaged in public service, consultancy and collaborative work with the private sector in areas where they have special expertise, as part of the institution's general collaboration with government, business and industry; and
- (i) manages in the most effective and efficient way the public and private resources bestowed upon the institution, employing collaboration whenever it is of value.

## Lingnan University (LU)

- (a) offers a range of programmes leading to the award of first degrees in Arts, Business and Social Sciences;
- (b) pursues the delivery of teaching at an internationally competitive level in all the taught programmes that it offers;
- (c) offers a number of taught postgraduate programmes and research postgraduate programmes in selected fields within the subject areas of Arts, Business and Social Sciences;
- (d) provides a general education programme which seeks to offer all students a broad educational perspective, distinguished by the best liberal arts tradition from both East and West, and enables its students to act responsibly in the changing circumstances of this century;
- (e) aims at being internationally competitive in its areas of research strength, in particular in support of liberal arts programmes;
- (f) maintains strong links with the community;
- (g) pursues actively deep collaboration in its areas of strength with other higher education institutions in Hong Kong or the region or more widely so as to enhance the Hong Kong higher education system;
- (h) encourages academic staff to be engaged in public service, consultancy and collaborative work with the private sector in areas where they have special expertise, as part of the institution's general collaboration with government, business and industry; and
- (i) manages in the most effective and efficient way the public and private resources bestowed upon the institution, employing collaboration whenever it is of value.

## The Chinese University of Hong Kong (CUHK)

- (a) offers a range of programmes leading to the award of first degrees and postgraduate qualifications in subject areas including Arts, Science, Social Sciences and Business Administration;
- (b) incorporates professional schools such as Medicine, Architecture, Engineering and Education;
- (c) pursues the delivery of teaching at an internationally competitive level in all the taught programmes that it offers;
- (d) offers research postgraduate programmes for a significant number of students in selected subject areas;
- (e) aims at being internationally competitive in its areas of research strength;
- (f) contributes to the development of Hong Kong, China as a whole, and the region through quality education, research, engagement and service, in all the disciplines it offers;
- (g) pursues actively deep collaboration in its areas of strength with other higher education institutions in Hong Kong or the region or more widely so as to enhance the Hong Kong higher education system;
- (h) encourages academic staff to be engaged in public service, consultancy and collaborative work with the private sector in areas where they have special expertise, as part of the institution's general collaboration with government, business and industry; and
- (i) manages in the most effective and efficient way the public and private resources bestowed upon the institution, employing collaboration whenever it is of value.

The Education University of Hong Kong (EdUHK)

- (a) offers a range of programmes leading to the award of certificates, first degrees and postgraduate diplomas, which provide suitable preparation for a career in education and teaching in the pre-school, school and vocational training sectors; and
- (b) also offers a series of programmes which provide professional education and development for serving teachers in these sectors;
- (c) nurtures through all its programmes knowledgeable, caring and responsible teachers who will serve the needs of Hong Kong schools;
- (d) pursues the delivery of teaching at an internationally competitive level in all the taught programmes that it offers;
- (e) delivers degree programmes relating to secondary education whenever possible through strategic collaborations with other local tertiary institutions;
- (f) provides a source of professional advice and development, and of research in education, as appropriate, to support the pre-school, school and vocational training sectors in Hong Kong;
- (g) maintains strong links with the community, and in particular the schools and the teaching profession;
- (h) pursues actively deep collaboration in its areas of strength with other higher education institutions in Hong Kong or the region or more widely so as to enhance the Hong Kong higher education system; and
- (i) manages in the most effective and efficient way the public and private resources bestowed upon the institution, employing collaboration whenever it is of value.

## The Hong Kong Polytechnic University (PolyU)

- (a) offers a range of professionally oriented programmes leading to the award of first degrees, and a small number of sub-degree programmes;
- (b) pursues the delivery of teaching at an internationally competitive level in all the taught programmes that it offers;
- (c) offers a number of taught postgraduate programmes and research postgraduate programmes in selected subject areas particularly in professional and applied fields;
- (d) emphasizes application-oriented teaching, professional education and applied research;
- (e) aims at being internationally competitive in its areas of research strength;
- (f) emphasizes high value-added education, with a balanced approach leading to the development of all-round students with professional competence;
- (g) maintains strong links with business, industry, professional sectors, employers as well as the community;
- (h) pursues actively deep collaboration in its areas of strength with other higher education institutions in Hong Kong or the region or more widely so as to enhance the Hong Kong higher education system;
- (i) encourages academic staff to be engaged in public service, consultancy and collaborative work with the private sector in areas where they have special expertise, as part of the institution's general collaboration with government, business and industry; and
- (j) manages in the most effective and efficient way the public and private resources bestowed upon the institution, employing collaboration whenever it is of value.

## The Hong Kong University of Science and Technology (HKUST)

- (a) offers a range of programmes leading to the award of first degrees and postgraduate qualifications particularly in Science, Technology, Engineering, Management and Business Studies;
- (b) offers programmes in Humanities and Social Science only at a level sufficient to provide intellectual breadth, contextual background and communication skills to an otherwise scientific or technological curriculum, and limited postgraduate work;
- (c) incorporates professional schools, particularly in the fields of Science, Technology, Engineering and Business;
- (d) pursues the delivery of teaching at an internationally competitive level in all the taught programmes that it offers;
- (e) offers research postgraduate programmes for a significant number of students in selected subject areas;
- (f) aims at being internationally competitive in its areas of research strength;
- (g) assists the economic and social development of Hong Kong by nurturing the scientific, technological, and entrepreneurial talents who will lead the transformation of traditional industries and fuel the growth of new high-value-added industries for the region;
- (h) pursues actively deep collaboration in its areas of strength with other higher education institutions in Hong Kong or the region or more widely so as to enhance the Hong Kong higher education system;
- (i) encourages academic staff to be engaged in public service, consultancy and collaborative work with the private sector in areas where they have special expertise, as part of the institution's general collaboration with government, business and industry; and
- (j) manages in the most effective and efficient way the public and private resources bestowed upon the institution, employing collaboration whenever it is of value.

## The University of Hong Kong (HKU)

- (a) offers a range of programmes leading to the award of first degrees and postgraduate qualifications in subject areas including Arts, Science, Social Sciences, and Business and Economics;
- (b) incorporates professional schools such as Medicine, Dentistry, Architecture, Education, Engineering and Law;
- (c) pursues the delivery of teaching at an internationally competitive level in all the taught programmes that it offers;
- (d) offers research postgraduate programmes for a significant number of students in selected subject areas;
- (e) aims at being internationally competitive in its areas of research strength;
- (f) as an English-medium University, supports a knowledge-based society and economy through its engagement in cutting-edge research, pedagogical developments, and lifelong learning; in particular, emphasizes whole person education and interdisciplinarity;
- (g) pursues actively deep collaboration in its areas of strength with other higher education institutions in Hong Kong or the region or more widely so as to enhance the Hong Kong higher education system;
- (h) encourages academic staff to be engaged in public service, consultancy and collaborative work with the private sector in areas where they have special expertise, as part of the institution's general collaboration with government, business and industry; and
- (i) manages in the most effective and efficient way the public and private resources bestowed upon the institution, employing collaboration whenever it is of value.

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## ***Chapter 2 – Academic Planning and Recurrent Grant Cycle***

### **Academic Planning and Recurrent Grant Cycle**

2.1 The UGC follows a triennial planning cycle for the recurrent grant allocation exercise to the UGC-funded institutions. The cycle starts two years before the commencement of each triennium and covers the following main stages:

- (a) the issue of letters to the institutions (“start letters”) incorporating broad policy guidelines and parameters received from the Government (including the indicative student number targets and specific manpower requirements);
- (b) the consideration of Academic Development Proposals (ADPs) submitted by the institutions in accordance with (a), followed by the UGC's discussion with the institutions on those proposals, followed by UGC's “advisory letters” to the institutions;
- (c) the examination of costed estimates submitted by the institutions and the detailed recurrent grant assessment exercise; and
- (d) the submission of the specific grant recommendations to the Government and, following the approval by the Finance Committee of the Legislative Council, the issue of letters (“allocation letters”) formally notifying the institutions of the details of their approved recurrent grants.

A diagrammatic illustration of this cycle is at **Annex 2A**. Further details are given in the following paragraphs.

#### ***“Start” Letters***

2.2 The “start” letters mark the beginning of the formal planning cycle for a funding period, normally a triennium. Following their approval by the Government, indicative student number targets for the subsequent triennium are notified to the institutions by the UGC midway through the second year of the preceding triennium, in the form of “start” letters, together with any specific policy guidelines from the Government and any other relevant information for the preparation by the institutions of their ADPs. These letters will specify the deadline for the institutions to submit their ADPs.



## *Academic Development Proposals*

2.3 ADPs are “proposals” that serve three purposes. First, they review recent developments within the institution and on this basis put forward development proposals for the immediate future. Second, with any modifications as may be suggested by the UGC, they serve as the foundation for the institution’s costed estimates for the next grant triennium. Third, where approved academic programmes are to meet specific manpower needs, they provide an assurance of anticipated supply of graduates.

2.4 The ways in which the proposals are put together, and presented to the UGC, vary between institutions, although there are many common factors. The primary emphasis is naturally on academic developments as such but supporting services (administrative as well as academic) have to be included. Sometimes the institution may consider that other issues (such as staff terms and conditions) need to be mentioned, but it has to be understood that in some areas the UGC can do no more than note the position for information only.

2.5 Subject to the requirements to cater for the specific needs of each academic planning exercise, the style and presentation of ADPs are matters for the institutions.

### *“Advisory” Letters*

2.6 The triennial planning cycle is an interactive process where extensive discussion between the UGC and the institutions takes place. The institutions' ADPs are considered by the UGC supplemented by the discussion with the institutions, and the UGC’s suggestions or views are provided to the institutions in “advisory” letters, which will also specify the deadline for the institutions to submit their costed estimates. The UGC does not comment on every point made in the ADPs, but only on those which members believe call for comment. Normally, the “advisory” letters will comment on two main areas:

- (a) overall developments - these are normally general matters which affect more than one institution and are hence sent to all institutions. They contain matters which might affect the triennium estimates, or particular developments; and
- (b) specific academic developments - these are comments on particular proposals from individual institutions. Only those proposals which members believe justify special comment will be mentioned. Most of the matters contained in this part will affect the triennium estimates, or particular developments.

2.7 The style of the “advisory” letters is essentially that of a letter of guidance, rather than of one setting out specific requirements or vetoing particular

proposals. The institution is expected to give considerable weight to the UGC's comments, but they are not instructions. At the same time, the institution should note that if members have voiced doubts about a proposal, that proposal will need to be supported with additional justifications if it is to survive in the grant recommendations. This should be done by a supplementary paper with the triennium estimates submitted.

### *Recurrent Grant Estimates*

2.8 The UGC, when considering grant recommendations to be made to the Government, will make reference to costed estimates submitted by the institutions. The institutions' costed estimates (figures presented in an agreed format) should be based on their ADPs and the UGC's "advisory" letters. Any late item will require a detailed justification.

### *Recurrent Grant Assessment*

2.9 The costed estimates submitted by institutions will be used by the UGC for reference during its consideration on the recurrent funding requirements of the institutions. The UGC then works out its assessment of grant requirements for each institution in the next period, taking into account the recent performance of the institutions in fulfilling their roles and their agreed plans for the future, as well as any factors which might be relevant in a particular case. The basis of the Recurrent Grant Funding Methodology used by the UGC for the current triennium is outlined at **Annex 2B**.

2.10 In determining the net funding requirements of the institutions, the UGC, as required by the Government, takes into account:

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

The resultant recurrent grants allocated to the institutions are thus net subventions after deducting assumed tuition fee and other income from the required expenditures as assessed by the UGC. Accordingly, the "UGC funds" at the disposal of an institution during a funding period comprise:

- (a) the institution's UGC grants (including any recurrent or capital grants); and
- (b) assumed tuition fee and other income for the funding period.

2.11 Regarding other income, the institutions may use any excess income treated as UGC funds on institutional activities to further its own academic objectives and missions and in accordance with the general rules set out in these Notes on Procedures. This includes any excess of interest income, tuition fees (except those surplus tuition fee income to be clawed back in accordance with paragraph 4.13) or other income over and above assumed levels.

#### *Recurrent Grant Recommendations*

2.12 The UGC's recommendations on triennial recurrent grants are normally submitted to the Government around September of the year preceding the start of the triennium for the funding period concerned. (The UGC's capital recommendations would be submitted to the Government in the manner described in Chapter 5). Following their consideration by the Government, the grant recommendations of a funding period are submitted to the Chief Executive in consultation with the Executive Council for policy approval, to the Education Panel of the Legislative Council for consultation, and to the Finance Committee for acceptance of the financial implications respectively. Subsequently, the grant allocation could be completed by January/February through the issuance of grant allocation letters.

2.13 Approval of the financial implications is subject to the voting of funds annually in the Government's Annual Estimates (in March/April). Accordingly, every effort is made to obtain approvals in sufficient time for funds for the first academic year of the triennium to be included in the Government draft Estimates which are usually finalised in December/January. The recommendations then go forward as part of the Government's Annual Estimates for the Budget Debate.

#### *"Allocation" Letters*

2.14 When a grant recommendation has been agreed with the Government and formally accepted by the Finance Committee of the Legislative Council, the UGC will notify each institution by means of a grant allocation letter the amount of the grant and the UGC's observations and comments. These observations and comments are normally grouped into four sections:

- (a) first, a statement on the types of grants and their amounts, and the fact that the grant is a net subvention after deducting assumed tuition fee and other income;
- (b) second, a list of items which have been explicitly included or excluded in the grant, notably the approved student full-time equivalent by level and year and the approved student number targets for key disciplines;
- (c) third, a list of activities for which the UGC has made some allowance in the grant (although not necessarily disclosing how much allowance has been made); and

- (d) fourth, a list of observations, if any, about the way in which the institution is tackling what the UGC sees as its major tasks.

2.15 Allocation letters are addressed to the Head of the institution concerned, copied to the Chairman of Council. The scale of distribution of the grant within the institutions is a matter for the institutions themselves.

2.16 If there are no major problems with the Government over the grant recommendations, the UGC should be able to issue the grant allocation letters in January/February before the start of the triennium. This then completes the funding cycle.

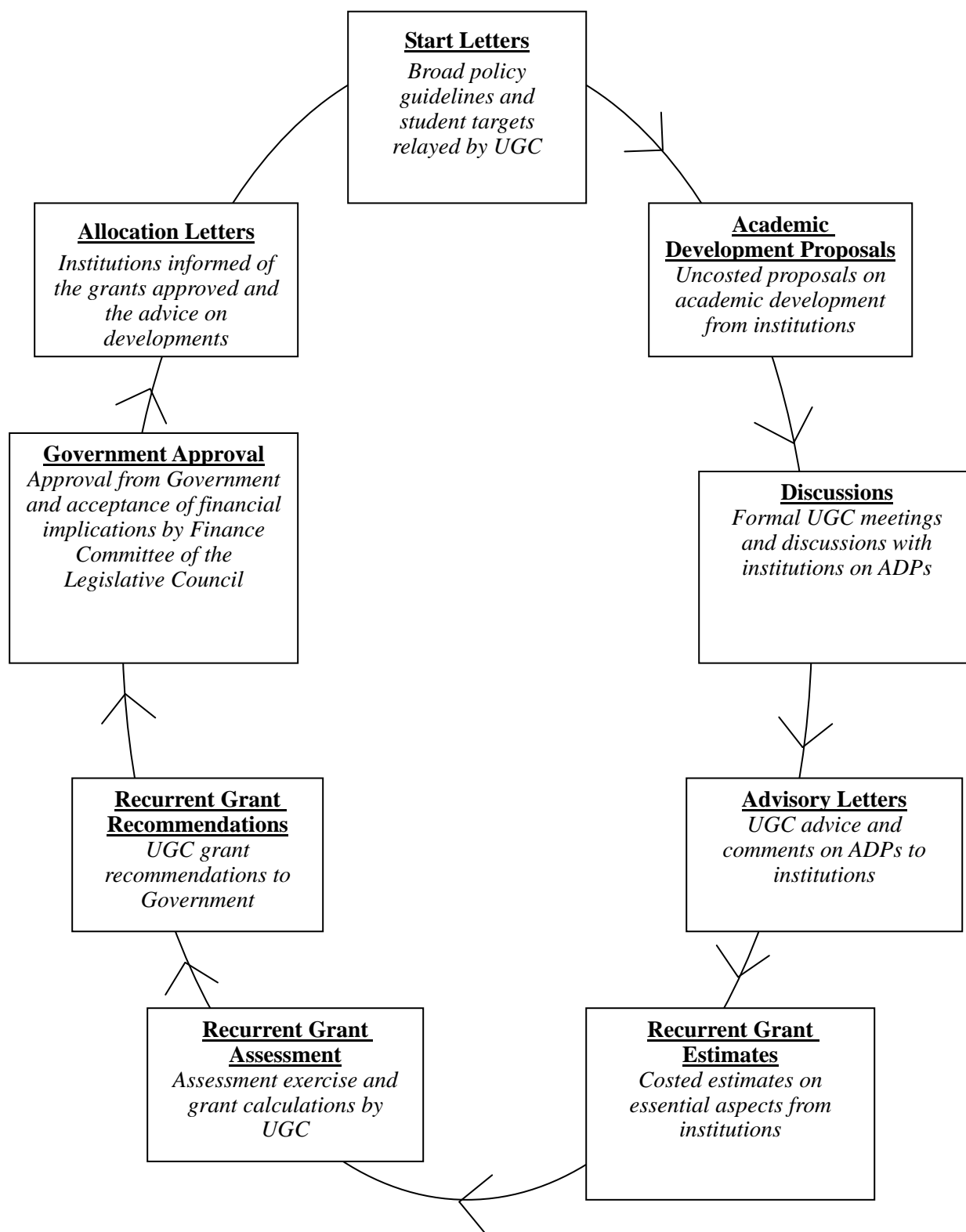
2.17 Allocation letters will also be issued by the UGC during a funding period when Earmarked Grants for Specific Purposes are allocated by the UGC to institutions. The content of such allocation letters will depend on circumstances, but they will normally cover:

- (a) the type of grant, its amount, the period covered (e.g. financial year or triennium) and the level of allocation (whether it is a one-line budget or four-line budget to be explained in paragraph 4.8 and note to Annex 4A);
- (b) the objective of allocating the grant and the expectation of the UGC; and
- (c) any reporting requirements and their timing.

### **Importance of the ADPs, the “advisory” and “allocation” Letters**

2.18 The ADPs, the “advisory” and “allocation” letters are important documents in the academic planning and funding cycle. Taken together, they are contractual in nature and provide the basis on which the institutions obtain their block grants. Notwithstanding this, it is not the intention of the UGC that the ADPs, as commented on by the UGC, should be viewed as set in stone and incapable of being amended as circumstances warrant. The UGC recognises that these plans are drawn up well before the commencement of a new triennium. A great deal can happen in the five years from the conception to the end of triennium and the institutions should have the flexibility to respond to changes in demand and in (economic) circumstances. Provision for such changes is set out in paragraphs 3.1 to 3.13 of Chapter 3.

**Diagrammatic Illustration of Recurrent Grant Cycle**



**Recurrent Grant Funding Methodology**

The funding methodology gives a reasonably rigorous and precise assessment of the resources required to meet the teaching and research targets of each institution. The basis of the funding methodology is a formula. However, the UGC recognises that even the most sophisticated formula is unlikely to capture fully the subtleties of needs within a complex educational system such as that in Hong Kong. The UGC therefore takes into account many other issues, including the institutions' own requests for what we term "extra formulaic adjustments". The formula gives due consideration to the fact that UGC-funded institutions are supported primarily to carry out teaching and research of various kinds and that there is a significant degree of interdependence between the two. This idea is central to the role statements that have been agreed for each institution. The recurrent grants should therefore contain elements that relate to each of these activities which are calculated separately.

2. Recurrent grants to each UGC-funded institution basically comprise a block grant and funds provided for specific purposes. The purpose of the UGC recurrent grants is to fund institutions to support pursuit of their different roles and missions in teaching and research.

3. The 2012/13 academic year is the first year of the implementation of the New Academic Structure in the UGC-funded sector. Thus, there is new recurrent funding for the additional year under the New Academic Structure ("new pot of money") in addition to the existing funding ("existing pot of money") for the three years of undergraduate study and other levels of study. In this regard, a "two pots of money" approach/funding methodology has been applied since the 2012/13 to 2014/15 triennium as detailed below. However, institutions still receive a lump-sum block grant, and the separate methodology in allocating the new Year 1 funding will not affect the existing autonomy in which institutions deploy their block grant.

**"Existing pot of money" for the three years of undergraduate study and other levels of study**

4. Under the "existing pot of money", the amount of block grants to the sector as a whole comprises three elements –

- (a) Teaching – about 75%
- (b) Research – about 23%
- (c) Professional Activity – about 2%

**Teaching Element**

5. The Teaching element is based on the student numbers, their study levels (i.e. sub-degree, undergraduate, taught postgraduate and research postgraduate),

mode of study (i.e. part-time and full-time) and disciplines of study. Some subjects are more expensive than the others because they require special equipment, laboratory or more staff time, etc. Relative cost weightings by broad academic programme categories have been grouped into three price groups since the 2005/06 to 2007/08 triennium, as shown in the table below -

Academic Programme Categories (APC)	Price Group of APCs	Relative Cost Weightings	
		Teaching <sup>(1)</sup> Programme	Research <sup>(2)</sup> Programme
1. Medicine 2. Dentistry	A Medicine & Dentistry	3.6	1.8
3. Studies Allied to Medicine and Health 4. Biological Sciences 5. Physical Sciences 6. Engineering and Technology 7. Arts, Design & Performing Arts	B Engineering & Laboratory Based Studies	1.4	1.4
8. Mathematical Sciences 9. Computer Science and Information Technology 10. Architecture and Town Planning 11. Business and Management Studies 12. Social Sciences 13. Law 14. Mass Communication & Documentation 15. Languages & Related Studies 16. Humanities 17. Education	C Others	1.0	1.0

Note:

(1) Include sub-degree, undergraduate and taught postgraduate programmes.

(2) Include research postgraduate programmes.

## Research Element

6. Starting from the 2012/13 to 2014/15 triennium, the Research element comprises two parts: one part informed by performance in the Research Assessment Exercise (RAE) 2006 and another part informed by success under the Research Grants Council (RGC). Regarding the latter component, the UGC will gradually allocate about 12.5% of the Block Grant, or 50% of the prevailing Research-portion (R-portion)(i.e. excluding the teaching element), on a more competitive basis according to institutions' success in obtaining RGC Earmarked Research Grants in the next three triennia (over nine years), to fund the indirect/on-costs of research projects approved by the RGC. The fund continues to be disbursed to the institutions as part of the Block Grant as infrastructure funding to enable institutions to provide both the staffing and facilities (e.g. accommodation and equipment) necessary to carry out research, and to fund a certain level of research.

## Professional Activity Element

7. This element of funding is associated with professional (non-research) activities which should be undertaken by all members of academic staff. It is calculated based on the total number of academic staff.

## **“New pot of money” for the additional year under the New Academic Structure**

8. The new funding for the additional year under the New Academic Structure is treated as a separate pot of money and is allocated wholly as “teaching funding”, while recognising differentiation in the teaching cost among faculties with price weights of 1.4 and 1.0 for (i) Medicine, Dentistry, Engineering and Laboratory-based studies; and (ii) Others respectively.

## **Allocation of Block Grant within Institutions**

9. The above-mentioned methodology only serves as a basis for determining the block grant allocation to the UGC-funded institutions. Once allocations are approved, institutions have a high degree of freedom and responsibility for determining the best use of the resources vested in them.



## ***Chapter 3 – In-Period Flexibility and Guiding Principles for Institutional Housekeeping***

### **In-Period Flexibility**

#### *General*

3.1 The UGC's main aim in considering detailed academic development proposals (ADPs) is twofold: to ensure institutions are thinking deeply about their roles, strategies and directions; and to ensure a certain level of provision for key areas – for example doctors, nurses and teachers. The student number targets agreed in the context of the ADP exercise are contractual in nature, and should not be changed lightly. But if the institutions consider there is a genuine need to make suitable changes within a triennium, the UGC does not micromanage the detailed movement of places.

3.2 The UGC expects the institutions to reduce – and indeed eliminate – or expand programmes in response to strategic shifts, market demands and the relative strengths or weakness of programmes. Thus, the institutions have considerable freedom in the distribution of resources between programmes and areas of activity within the overall guidelines of the “advisory” and “allocation” letters and the approved ADPs.

3.3 Nevertheless, there are limits on movements and changes, and this section sets out the main boundaries.

#### *Changes to approved ADPs*

#### **Programmes at all Levels of Study**

3.4 The student number targets, by level and by institution, are considered by the Government and reported to the Finance Committee of the Legislative Council. Therefore, within a funding period the institutions should not move numbers between levels of study (*i.e.* sub-degree, undergraduate, taught postgraduate and research postgraduate) without specific approval from the UGC - which could entail reversion to the Government and the Finance Committee. The UGC and the institutions have also agreed, as far as practicable, to provide an agreed number of places in areas that the Government considers important for manpower/strategy purposes. The numbers set out in the “advisory” or “allocation” letters in these areas should therefore not be varied without specific UGC approval.

## Undergraduate, Sub-degree and Taught Postgraduate Programmes

3.5 In case an institution wishes to introduce a new programme in a new area of activity, a sufficiently advance request should be submitted to the UGC<sup>1</sup>. The UGC will accord flexibility as far as possible, having regard to the merits of the proposals, the financial implications involved (see paragraph 3.6 below) and the role of the institution, *etc.* The UGC and each institution have agreed Role Statements. Any plans to establish new programmes outside an agreed role would need to be well justified. Similarly, in view of the policy that in general sub-degree (SD) and taught postgraduate (TPg) programmes should be self-financed, any plan to establish new publicly-funded programmes at these two levels would require strong justification.

3.6 Other than the above, it is not necessary for the institutions to seek the UGC's prior written agreement on changes to the approved ADPs if the following general principles are met, but the institutions should inform the UGC in writing of such changes in a reasonable time for record purposes. First, the changes should be cost-neutral to the UGC. The UGC will not make any upward funding adjustments during a funding period for any changes to the programmes, including the re-distribution of student numbers from one programme to another. Second, it should not be assumed that the UGC will automatically agree a higher cost base in the next funding period. Thus institutions are advised to pay attention to the different relative cost weightings between Academic Programme Categories in moving student places. For example, moving large numbers of student places from clinical/laboratory-based to non-clinical/laboratory-based programmes may result in over-provision of resources in a funding period and may be subject to enquiries from and funding clawback by the UGC.

## Research Postgraduate Programmes

3.7 As regards research postgraduate (RPg) enrollment/ programmes, the UGC's key aims are to ensure RPg students have the appropriate environment, support and resources to take forward their studies effectively and to have knowledge of where such RPg places are distributed. Therefore, the UGC needs to know the broad areas for the purposes of funding assessment. Given the nature of RPg education, the institutions are free to deploy the student number targets and the associated resources among the different disciplines in the course of student enrollment, except for those allocated by the UGC/RGC to specific RPg programmes. To enable the UGC to have a dialogue with institutions about their role and the most effective use of RPg resources, the UGC should be informed of the enrollment situation – as provided in paragraphs 3.11 and 3.13 below.

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<sup>1</sup> Institutions are requested to submit their requests at least two months in advance of a decision being needed. Depending on the complexity of the proposal, a longer processing time may be required before UGC's formal approval is given. Institutions should not proceed with the changes until written approval has been given by UGC.

## *Over-enrollment*

3.8 The student number target is a primary factor in the allocation of the block grant and the institutions should thus adhere as far as possible to the total numbers approved in the academic and funding cycle. However, the UGC provides for flexibility in over-enrollment in general and the admission of non-local students. The following paragraphs set out the flexibility allowed.

### Undergraduate, Sub-degree and Taught Postgraduate Programmes

3.9 Over-enrollment is allowed on the understanding that no extra resources will be provided by the UGC. Over-enrollment for programmes subject to specific manpower requirements is set out in paragraph 3.10 and such programmes are not covered in this paragraph. Over-enrollment across the whole institution not exceeding 4% for local students is permitted. As regards non-local students, in accordance with Government's policy, institutions may enroll up to a level not exceeding 40% of the approved UGC funded student number by study level. This 40% should all be outside the UGC-funded number.

3.10 As regards programmes subject to specific manpower requirements, institutions may over-enroll local students up to 4% and non-local students up to 40% of the approved UGC-funded student numbers in each programme. Institutions are still expected to meet the requested local manpower requirements as closely as possible.

### Research Postgraduate Programmes

3.11 The universities are allowed to enroll RPg students from 80% in 2022/23 to 90% in 2023/24 and 100% from 2024/25 onward over and above their respective approved student quotas, provided that the aggregate over-enrolment of up to the specified percentage does not exceed the number of on-going General Research Fund and Early Career Scheme projects for the respective university. Subject to prior notification to the UGC, universities may enroll additional students beyond the specified percentage above if the additional full direct costs incurred (defined as all direct marginal costs incurred arising from the enrolment of the additional student(s), including studentships, additional costs for student supervision, cost of space provided, etc.) are met from non-UGC/RGC funds, including higher tuition fees.

### *Under-enrollment*

3.12 Modest under-enrollment is allowed on the understanding that the institutions will make every effort to offset under-enrollment in one programme by over-enrollment in others, therefore maintaining the effective use of public resources. To safeguard the use of public funds, under-enrollment across a whole institution exceeding 4% of the student number targets will lead to a claw back of funding, as considered by the UGC as appropriate. Besides, the UGC may decide on appropriate action as it sees fit in case persistent under-enrollment across a whole institution is observed across several years. For programmes subject to specific manpower requirements, the first-year-first-degree and senior year intake of local students, the student number targets should be met as far as possible. Unless otherwise specified by the UGC, a general reference of 4% under-enrollment will be tolerated, and the UGC may decide on appropriate action on warranted under-enrollment situations having regard to the merits of individual cases. All first-year-first-degree and senior year places should be for admission of local students and the student number targets should be met as far as possible. The UGC may decide on appropriate action on warranted under-enrollment situation having regard to the merits of individual cases.

3.13 The UGC should be informed of the enrollment situation through the annual submission of statistics in the Common Data Collection Format.

### *Funding Policies/Practices*

3.14 Some examples of the current policies/practices as regards funding and admissions matters are set out at **Annex 3A** for reference. (Annex 3A to be issued separately at a later date.)

## **Guiding Principles for Institutional Housekeeping**

### *Cost Allocation*

3.15 Recurrent Grants are provided to the UGC-funded institutions to support their academic and related activities based on approved UGC-funded activities. As such, there should be no cross-subsidisation of UGC resources to non-UGC-funded activities (including, but not limited to, self-financing activities). As a general principle, costs that can be directly attributed to UGC-funded activities or non-UGC-funded activities should be charged directly to the respective votes. **Annex 3B** provides the general principles of charging UGC resources to non-UGC-funded activities. To avoid hidden subsidy to non-UGC-funded activities, the institutions should, as a matter of principle, levy overhead charges on such activities, including projects funded by other Government departments / agencies and projects / programmes conducted by their self-financing subsidiaries or associates. Institutions are required to follow the cost allocation practices and methods set out in the Cost Allocation Guidelines for UGC-funded and non-UGC-funded Activities (“the Guidelines”)<sup>3a</sup> at **Annex 3C** in devising their cost allocation models and for

incorporation of the Guidelines requirements in their financial statements for the accounting period commencing 1 July 2018. Furthermore, where institutions are competing with the private sector (such as the optometry clinic, Chinese medicine clinic and teaching hotel operated by institutions), any hidden subsidy should be removed to avoid unfair competition.

3.16 When determining the level of overhead charges to be levied, the institutions should reflect the full costs of the non-UGC-funded activities concerned which means the relevant portion of the overhead consumed by the activities concerned should be fully recovered. Institutions should establish the overhead recovery rates for different categories of self-financing activities based on the full cost recovery principle; and review and, if necessary, revise the overhead recovery rates on an annual basis. To enhance institutional financial transparency, institutions are required to explain clearly in a publicly available document (for example, a website) the way in which they allocate costs to UGC-funded and non-UGC-funded activities.

3.16A For the purpose of cost allocation, it is specified in the Guidelines that certain activities which by nature are non-UGC-funded activities could be deemed to be UGC activities and hence the relevant costs incurred are to be charged to the UGC vote. Treatments of income arising from these activities are set out at **Annex 3D**.

3.17 Institutions may waive overhead charges and / or faculty principal investigators costs, in whole or in part, or take on research or other projects where charging full overheads and / or faculty principal investigators costs is not possible because of the rules imposed by the funding agency, if they are satisfied that the value of the projects to their academic development justifies exceptional treatment or the proposed waiver is in compliance with the Guidelines. In such cases, however, they should be prepared to assure the UGC that this is the case. For transparency and accountability, institutions are required to make an appropriate disclosure in the documents submitted to their Councils and to submit to the UGC an annual declaration to explain the nature of the projects for which exemptions have been applied and the amount of overhead charges and faculty principal investigators costs that has been waived. A sample of the format and details of the annual declaration is set out in **Annex 3E**. Institutions may waive overhead charges on student hostel places occupied by students of UGC-funded programmes. Despite the fact that the student hostel places remain to be non-UGC-funded for recurrent grant purposes, the UGC considers hostel life an integral part of whole-person education worthwhile of its attention and exceptional treatment. *[Rev. May 2017]*

### *“Co-teaching” Arrangement*

3.18 “Co-teaching”, where students of UGC-funded programmes<sup>4</sup> and self-financed programmes<sup>5</sup> are taking the same course at the same institution, may be allowed, provided that institutions are able to assure the UGC that the quality of their UGC-funded programmes will not be adversely affected and that the Guidelines requirements have been adhered to for fair and appropriate cost apportionment between the UGC-funded programmes and self-financed programmes.

3.19 In the case where self-financed courses are attended by UGC-funded students, institutions should also ensure that the relevant costs to be borne by UGC-funded students should be appropriate and in accordance with the requirements of the Guidelines.

#### *“Mixed-mode funding”*

3.20 Under the principle of no cross-subsidisation of UGC resources to self-financed activities (as set out under paragraph 3.15 above), “mixed mode funding”<sup>6</sup> under which the resources for UGC-funded activities are shared by self-financed activities within an academic programme, is not allowed.

3.21 All academic programmes should be either UGC-funded or self-financed. For the avoidance of doubt, “co-teaching” must not be supported by “mixed-mode funding” (please refer to paragraphs 3.18 – 3.19 above). Institutions should keep separate accounts for UGC-funded and self-financed programmes.

#### *Procurement of Services, Stores and Equipment*

3.22 As part of good governance, institutions are requested to set up and monitor their procurement procedures with adequate checks and control. Institutions should put in place procurement policies which are transparent, fair and cost-effective, making reference to practices in the Government. Emphasis should be placed on the promotion of level playing field and competitive bidding. Exceptions should be well justified and properly authorized by appropriate level of authority from senior management.

#### *Avoiding Conflict of Interest*

3.23 Institutions should require and remind, at regular intervals, staff members involved in the procurement process to avoid conflicts of interest, whether actual, potential or perceived arising between their official duties and their private interests. They should set up proper mechanisms for the declaration of such conflicts or private interests as may arise and ensure that sufficient safeguards are in place against involving staff having private interest in a particular procurement.

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<sup>3a</sup> The Guidelines are also accessible on UGC’s website.

<sup>4</sup> UGC-funded programmes refer to the academic programmes which are approved in the context of the academic planning exercise and subsequent changes to them as approved by the UGC.

<sup>5</sup> All programmes other than UGC-funded programmes offered on a self-financed basis in accordance with paragraph 3.15 above are referred to as “self-financed programmes”.

<sup>6</sup> A possible example of mixed-mode funding is both UGC-funded students and self-financed students enrolling in the same programme are required to pay the same level of tuition fee for the purpose of lowering the tuition fee to non UGC-funded students.

**General Principles of Charging UGC resources  
to non-UGC-funded activities**

This Annex should read in conjunction with the Cost Allocation Guidelines for UGC-funded and Non-UGC-funded Activities (“the Guidelines”).

2. As a matter of general principle,
  - (a) costs should be allocated to both the UGC vote and the non-UGC vote using appropriate and consistent methods such that the amounts charged to the UGC-funded activities are calculated using the same methodology as that used to calculate the cost of overheads to be charged to the non-UGC-funded activities; and
  - (b) indirect overheads charged to non-UGC-funded research projects and all other self-financed activities be charged on exactly the same basis.
3. *Staff cost recovery*: Institutions should include staff benefits, costs of research and other scholarly activities when calculating the charge to self-financing activities. 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.
4. *Charges for academic space*: Institutions should charge their self-financing activities with not only a share of the utility, security and maintenance costs associated with UGC-funded academic space utilized by self-financed programmes, but also an amount that represents the depreciation or other building cost associated with the space used. This charge should be regarded as a direct cost of providing the self-financed programmes and, accordingly, should not be recovered within overhead recovery rates.

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# **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.



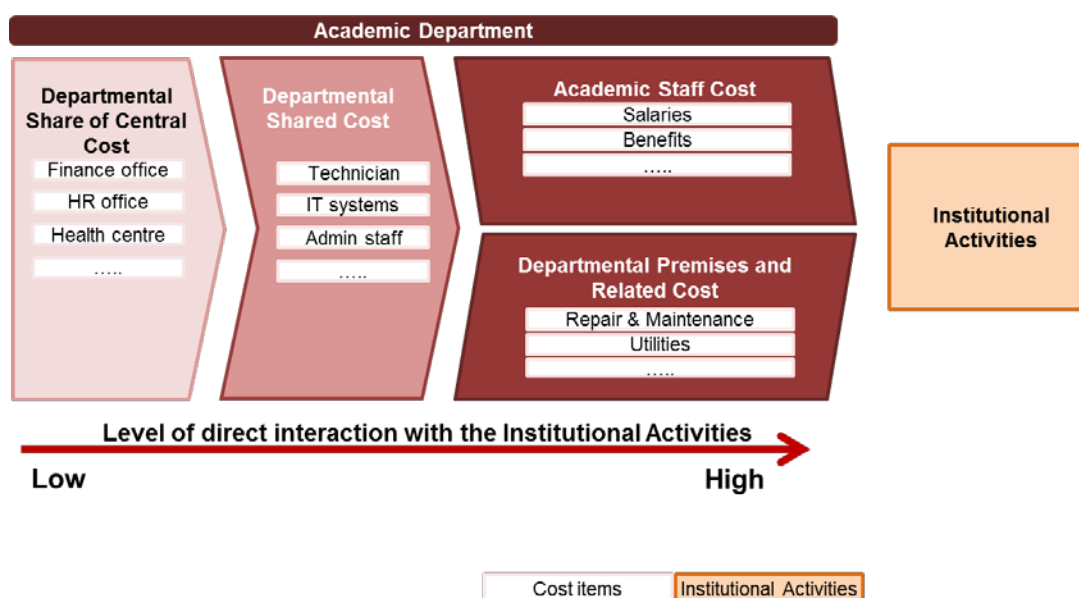
**iv. Departmental Share of Central Cost:**

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.

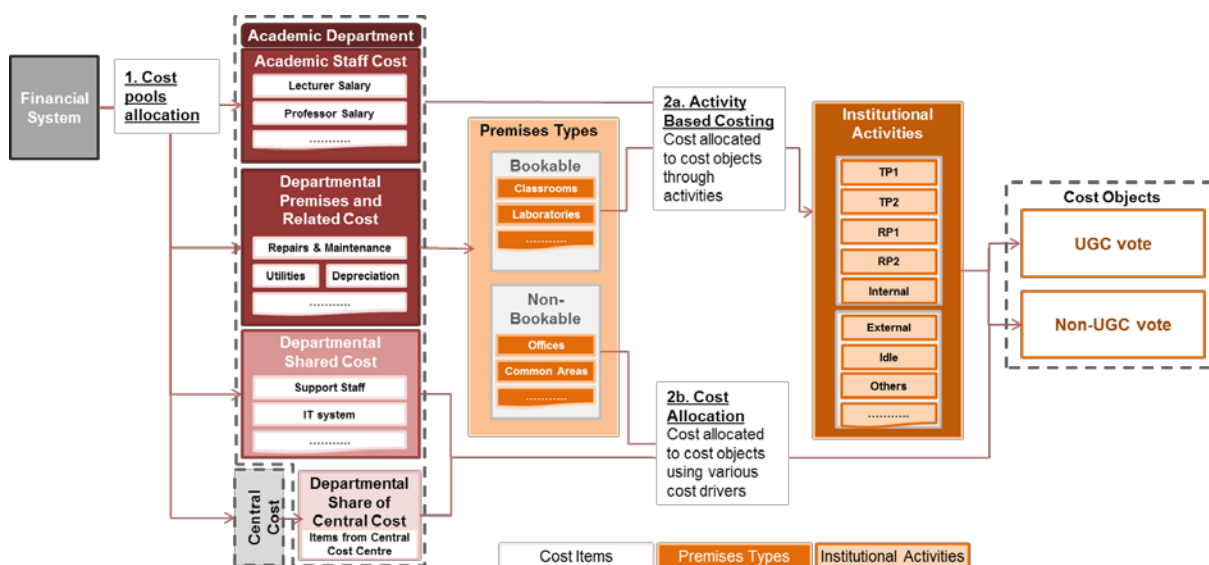
	UGC Vote	Non-UGC Vote
<b>Institutional Activities</b>	To be addressed in Section 3 of the CAGs	To be addressed in Section 3 of the CAGs
<b>Non-Institutional Activities</b>	Excluded from the calculation required in CAGs	Excluded from the calculation required in CAGs

## 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**

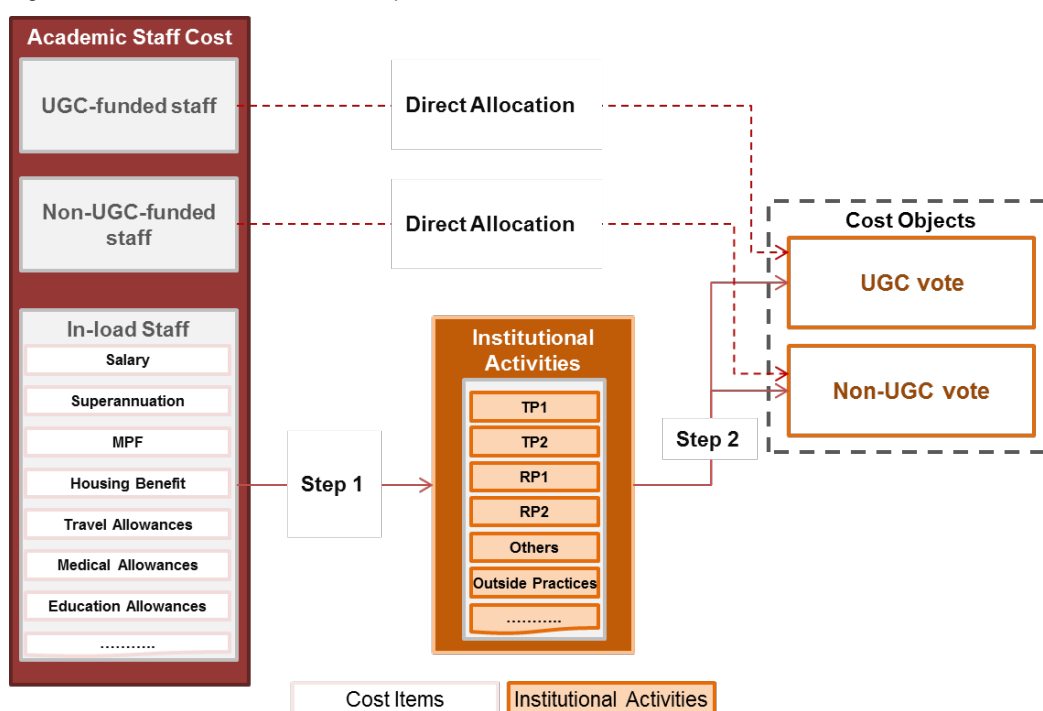
Non-UGC-funded staff are defined as academic staff that work solely on non-UGC-funded Institutional Activities. They do not work on any UGC-funded activities or mix-funded activities such as co-teaching courses.

### 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:

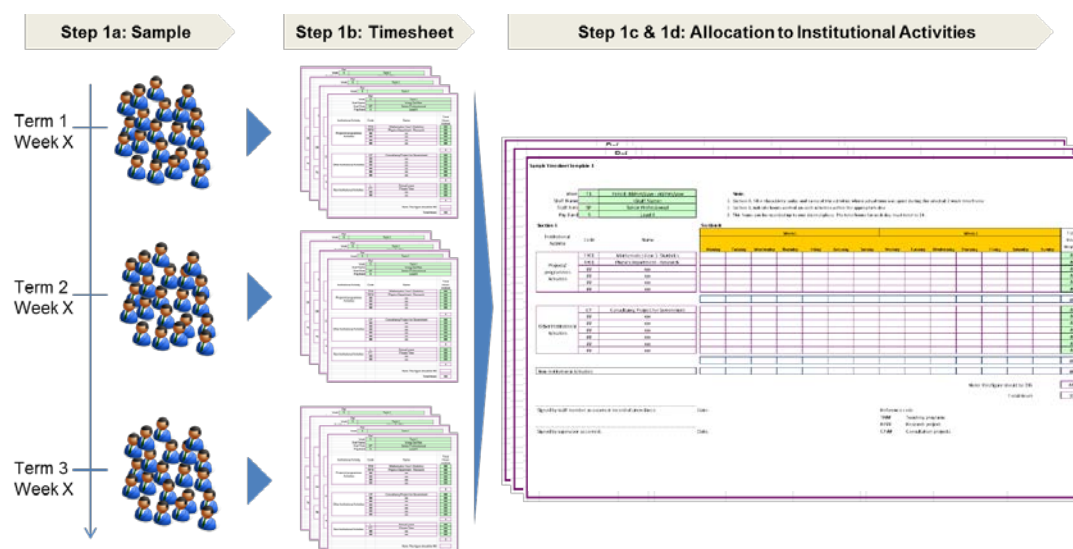
- **Step 1:** Allocate staff cost to Institutional Activities based on actual time analysis, i.e. actual hours spent on each activity
  - **Step 2:** Allocate costs from Institutional Activities to UGC / non-UGC vote
- **Step 1: Allocate staff cost to Institutional Activities based on time analysis**

[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

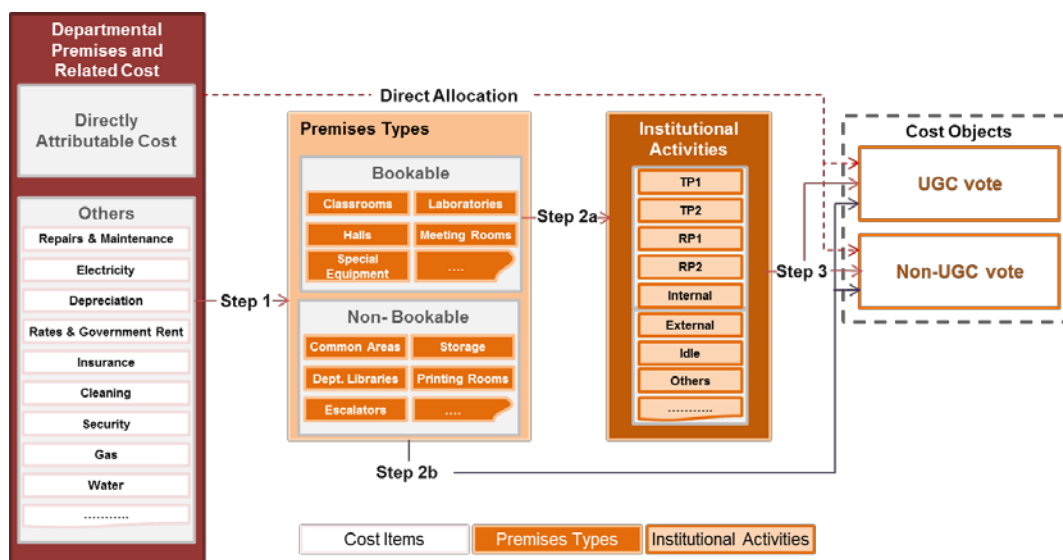
**[2]** Due to differences in nature of the Institutions and their various coding structures, this list of items is neither definitive nor exhaustive. Should there be any other cost items that fall under the definition of Departmental Premises and Related Cost; such cost items should be included in the 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 Laboratories Lecture Halls Meeting Rooms Special Equipment
<b>Non-bookable</b>	Student-facing	Common Areas Study Area Storage Capacities Departmental Libraries Green Houses Printing Rooms Escalators Elevators
	Non-student-facing	Department Offices Department Pantries 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

<b>External activities</b>
<b>External activities</b> – events organised by third parties outside of the institution. This includes a variety of activities. Examples of such include: <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>
<b>Idle time</b>
<b>Idle time</b> – periods of time when the premise is available but are not booked. e.g. if bookable hours per day is 12 hours and total booked time is 7 hours, then 5 hours are considered Idle time.

[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:

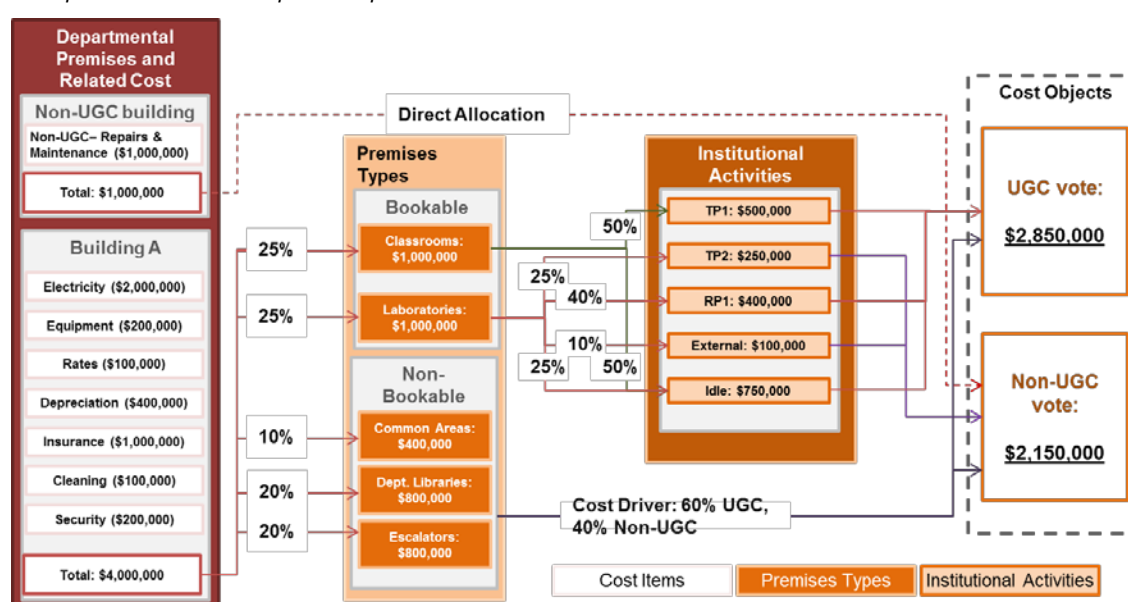
Table 5: Treatment of Activities

Activities	Treatment
<b>Main Academic Activities</b>	By fund source
<b>Other Institutional Activities</b>	
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
<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.

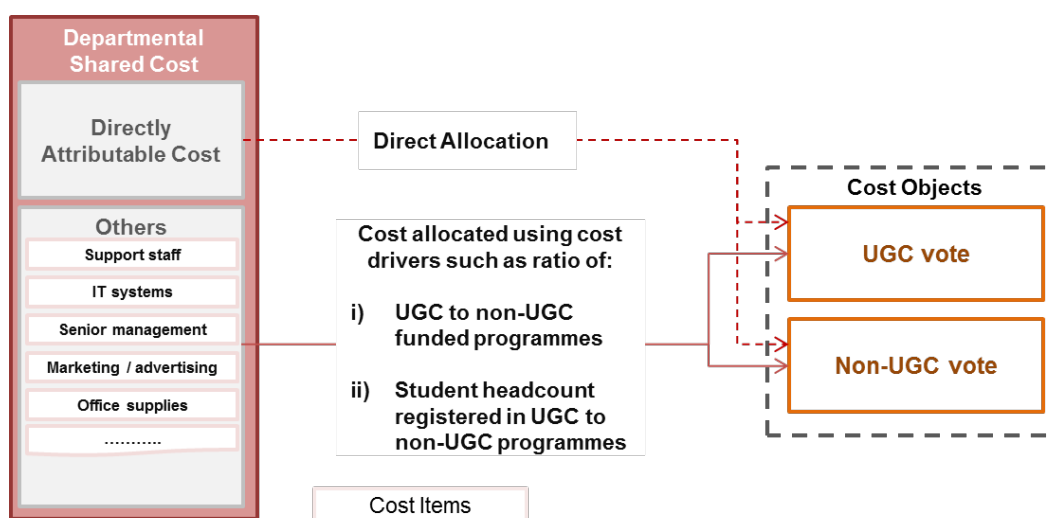
### 3.3 Departmental Shared Cost

#### 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

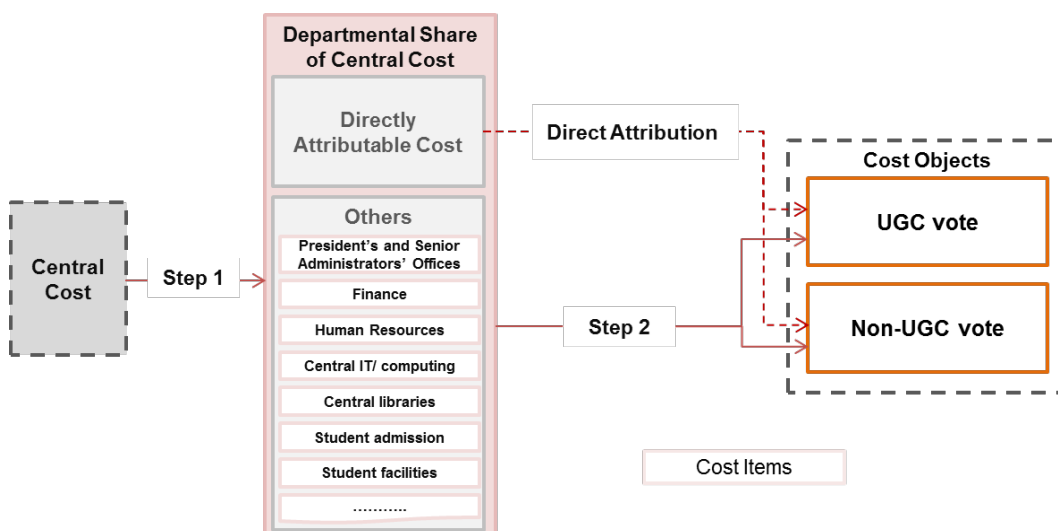
[1] Unlike the departmental cost components described in Section 3.1 to 3.3, central costs are not directly associated to specific academic departments. Central costs are defined as all expenditure incurred as a result of central activities. These are activities performed by the central department which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

# 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

[illegible]

Total Hours

Signed by staff member as a correct record of attendance.

Date:

Signed by supervisor as correct.

Date:

Reference code

TP## Teaching programs

RP##	Research project	Learning program
11111		
11112		
11113		
11114		
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11116		
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11119		
11120		
11121		
11122		
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11255		

CP ##	Research project
CP ##	Consultation projects



**Treatments of Incomes of Specific Activities<sup>1</sup>**

This Annex should read in conjunction with the Cost Allocation Guidelines for UGC-funded and Non-UGC-funded Activities (“the Guidelines”).

2. The Guidelines specify that certain activities which by nature are non-UGC-funded activities could be deemed to be UGC-funded activities and hence the relevant costs incurred are to be charged to the UGC vote for the purpose of cost allocation.

3. The treatments of incomes of these specific activities are set out in the table below.

<b>Nature of activity</b>		<b>Treatment</b>
<b>(1) Research projects</b>		
(a)	Research projects funded by Government bureaux or departments (b/ds) other than UGC and NGOs, which in general do <u>not</u> allow the charging of faculty principal investigators (PI) costs and overhead costs to research projects.	- Research grants as well as any income generated from these research projects (including royalties and income arising from intellectual property rights) are reported as UGC income for the purpose of cost allocation.
(b)	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 PI costs and overhead costs to research projects.	- Research grants as well as any income generated from these research projects (including royalties and income arising from intellectual property rights) are reported as UGC income for the purpose of cost allocation. 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.

<sup>1</sup> Please refer to the Cost Allocation Guidelines for UGC-funded and Non-UGC-funded Activities for the treatments of cost allocation practices of specific activities.

Nature of activity		Treatment
(2) “One day per week” activities		
(a)	Activities (e.g. consultancy, outside practices, clinical service, and collaborative work) other than self-financed activities conducted under “one day per week” arrangement (e.g. teaching a self-financing Taught postgraduate programme).	<ul style="list-style-type: none"> <li>- Incomes generated from these activities, if any, are reported as UGC income.</li> <li>- Universities should endeavour to seek recovery of the relevant costs (such as staff costs and overhead costs) incurred on the “one day per week” activities from the concerned funding agencies / entities; despite the fact that such costs are to be absorbed by the UGC vote under this scenario.</li> </ul>
(3) Donations designated for specific use		
(a)	Donations designated for use in scholarships and bursaries for students studying in UGC-funded programmes.	<ul style="list-style-type: none"> <li>- Donations are reported as non-UGC income. Scholarships and bursaries to students are charged to the non-UGC vote (i.e. same as existing practice).</li> <li>- Universities should endeavour to seek recovery of the relevant costs (such as staff costs and overhead costs) incurred on administering the subject donations from the concerned funding agencies / donors; despite the fact that such costs are to be absorbed by the UGC vote under this scenario.</li> </ul>
(b)	Donations designated for research activities and capital projects in which the donors / funding agencies do <u>not</u> allow the charging of costs incurred on administering these activities / projects.	<ul style="list-style-type: none"> <li>- Donations are reported as non-UGC income. Research activities / capital projects costs are charged to the non-UGC vote.</li> <li>- Universities should endeavour to seek recovery of the relevant costs (such as staff costs and overhead costs) incurred on administering the subject donations from the concerned funding agencies / donors; despite the fact that such costs are to be absorbed by the UGC vote under this scenario.</li> </ul>

Nature of activity		Treatment
(4) Activities funded by Government b/ds other than UGC and NGOs		
(a)	Student exchanges / activities, conferences, consultancies and services, college activities funded by Government b/ds other than UGC and NGOs, which in general do <u>not</u> allow the charging of staff costs and overhead costs.	<ul style="list-style-type: none"> <li>- Grants as well as any income generated from these activities are reported as UGC income for the purpose of cost allocation.</li> <li>- Universities should endeavour to seek recovery of the relevant costs incurred from the concerned funding agencies / entities; despite the fact that such costs are to be absorbed by the UGC vote under this scenario.</li> </ul>

\*\*\*\*\*

Dear Secretary-General,

**Annual Declaration  
of waiver of overhead charges and / or faculty principal investigators costs  
of research projects  
for the period from 1 July [YYYY] to 30 June [YYYY]**

I confirm to the best of my knowledge and belief, and having made enquiries of the officers of the University, that all approvals given by the University for waiver of overhead charges and / or faculty principal investigators costs of research projects in accordance with UGC's Notes on Procedures for the said reporting period –

- (a) are properly listed in the attachment; and
- (b) have been properly reflected in the documents submitted to the University Council.

Yours sincerely,

Head of University

Name of University : \_\_\_\_\_

List of research projects with waiver of overhead charges and / or faculty principal investigators (PI) costs  
for the period from 1 July [YYYY] to 30 June [YYYY]  
[Please read the Notes below before completing this return.]

No.	Details of Research Project				Waiver of overhead costs						Waiver of PI costs ( <i>Note 3</i> )		
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i) = (g) – (h)	(j)	(k)	(l)	(m)
	Research project for which waiver has been granted in the reporting period	Names of funding agencies	Country / Place of operation of the funding agencies	Nature of project	Overhead charging policy and overhead charging rate for the research project mentioned in (a)	Amount of the research project mentioned in (a)	Full amount of overhead ( <i>Note 2</i> )	Amount of overhead charged ( <i>Note 2</i> )	Amount of overhead waived ( <b>charged to the UGC vote</b> ) ( <i>Note 2</i> )	Justification(s) for waiver of overhead and where appropriate, rules imposed by the funding agencies	Full amount of PI costs	Amount of PI costs ( <b>charged to the UGC vote</b> )	Justification(s) for waiver of PI costs and where appropriate, rules imposed by the funding agencies
						\$ million	\$ million	\$ million	\$ million		\$ million	\$ million	
	<i>Example (I): ABC Project</i>	<i>HK Funding</i>	<i>HK</i>	<i>Consultancy</i>	<i>Overhead costs of research projects are calculated at 30% of total direct costs of the research project funding. ABC project is charged at 20%.</i>	<i>1.0</i>	<i>0.3</i>	<i>0.2</i>	<i>0.1</i>	<i>Contributory to accomplishing the academic and societal mission of the university.</i>	-	-	-
	<i>Example (II): XYZ Project</i>	<i>Richman Grant</i>	<i>USA</i>	<i>Academic research</i>	<i>15% of direct cost of the project. XYZ project is charged at 0%.</i>	<i>6.0</i>	<i>0.9</i>	<i>0</i>	<i>0.9</i>	<i>In line with the core strength of university and benefits the students.</i>  <i>According to the rule of funding agency, the overhead costs will not be covered.</i>	-	-	-
	<i>Example (III): XXX Project</i>	<i>Top Research Institute</i>	<i>UK</i>	<i>Academic research</i>	<i>30% of direct cost of the project. XXX project is charged at 15%.</i>	<i>10.0</i>	<i>3.0</i>	<i>1.5</i>	<i>1.5</i>	<i>Contributory to accomplishing the academic and societal mission of the university.</i>  <i>According to the rule of funding agency, the overhead costs of 15% is covered.</i>	2.5	2.5	<i>[University to provide justifications.]</i>
1													
2													
3													
					<b>Total:</b>								

(Head of University)

Date: \_\_\_\_\_

Please read the Notes below before completing the return:

(1) According to paragraph 3.17 of UGC's Notes on Procedures (NoP), universities may waive overhead charges and / or faculty principal investigators costs, in whole or in part, or take on research or other projects where charging full overheads and / or faculty principal investigators costs is not possible because of the rules imposed by the funding agency, if they are satisfied that the value of the projects to their academic development justifies exceptional treatment or the proposed waiver is in compliance with the Guidelines. In such cases, however, they should be prepared to assure the UGC that this is the case. All approvals given by the university for waiver of overhead charges and / or PI costs of research projects in accordance with paragraph 3.17 of the NoP for the said reporting period should be listed in the table.

(2) For the purpose of this return, waiver of overhead charges of a research project refers to the difference between the amount of overhead calculated in accordance with the prevailing research project overhead charging policy adopted by a university and the actual amount of overhead charged to a research project; and that such waiver, in whole or in part, has been approved by the relevant authority of the university.

For instance, prevailing research project overhead charging policy of a university is as follows -

(i) Overhead costs of research projects are calculated at 30% of total direct costs of the research project funding.

(ii) No overhead will be charged on any research projects awarded by approved charitable organizations.

For (i), if approval has been given by relevant authority to charge a research project at 20% of its total direct costs with justifiable grounds, amount of overhead waived will be 10% of its total direct costs; and that such waiver should be reported in the return. Please refer to " *Example (I)*" provided in the table.

All cases under (ii) are not required to be included in this return.

(3) Universities are required to complete these columns only if the research project(s) involved waiver of PI costs in accordance with paragraph 3.17 of NoP.

(4) The information so obtained is for UGC's information only.

## ***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 universities 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 university. The responsibility for

day-to-day decisions, and the detailed workings for almost all use of the Block Grant, is placed on the universities. 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 university certain emphasis and importance. Example of this is the Teaching Development and Language Enhancement Grant which is subsumed within the Block Grant as an Indicated Grant. The university is expected to spend the funding within the Block Grant for that particular purpose at approximately the level indicated by the UGC. The university 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 university if there is significant departure from the indicated level in regular reports of the grant. The UGC, in awarding the Indicated Grants to universities, 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 a university 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 university 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. Universities 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 universities 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 university(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 universities, and are wholly merged in the Block Grant (or the Earmarked Recurrent Grant as the case may be). As with the Recurrent Grants to universities, 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 universities, the percentage of civil service pay adjustment and the assessed recurrent funding requirement (i.e. Recurrent Grant plus assumed income) of individual universities for the year.

*(b) Supplementary Grants/Adjustments for tuition fee levels*

4.13 The Block Grant or Earmarked Recurrent Grants to universities 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 a university. 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, universities 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 universities, 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 universities 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 universities before the start of a financial year and upon approval of any Supplementary Grants/Adjustments. Releases can however be made in accordance with the university'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 university 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 universities. They are released only at the request of the university and normally paid in advance.

4.22 To apply for the release of capital grants, university has to complete a separate application form for each capital works project and alterations, additions, repairs, and improvements project as specified in Chapter 5 "Capital Matters". 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

university'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 university by reductions in subsequent releases or by the universities 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 universities.

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 universities' 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 universities with effect from 1 July 2003, universities 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 universities. Final adjustments will be made when an agreement has been reached with universities 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 university will be refunded upon application in respect of the buildings and properties owned/leased and occupied by the university **for UGC-funded activities** that fall within the following broad categories:

- (a) All buildings, including staff quarters and student hostels, occupied by the university and within the precincts of the university.
- (b) Off-campus properties owned/leased and occupied by the university as staff quarters/student hostels or used for educational purposes.
- (c) Off-campus properties owned/leased and occupied by the university'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 universities in substantiating the application for refund from time to time. In addition, the UGC Secretariat may conduct further checking by requesting additional information from universities.

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 universities' overhead costs. In this connection, the UGC will refund the full amount of rates and government rent to the universities.

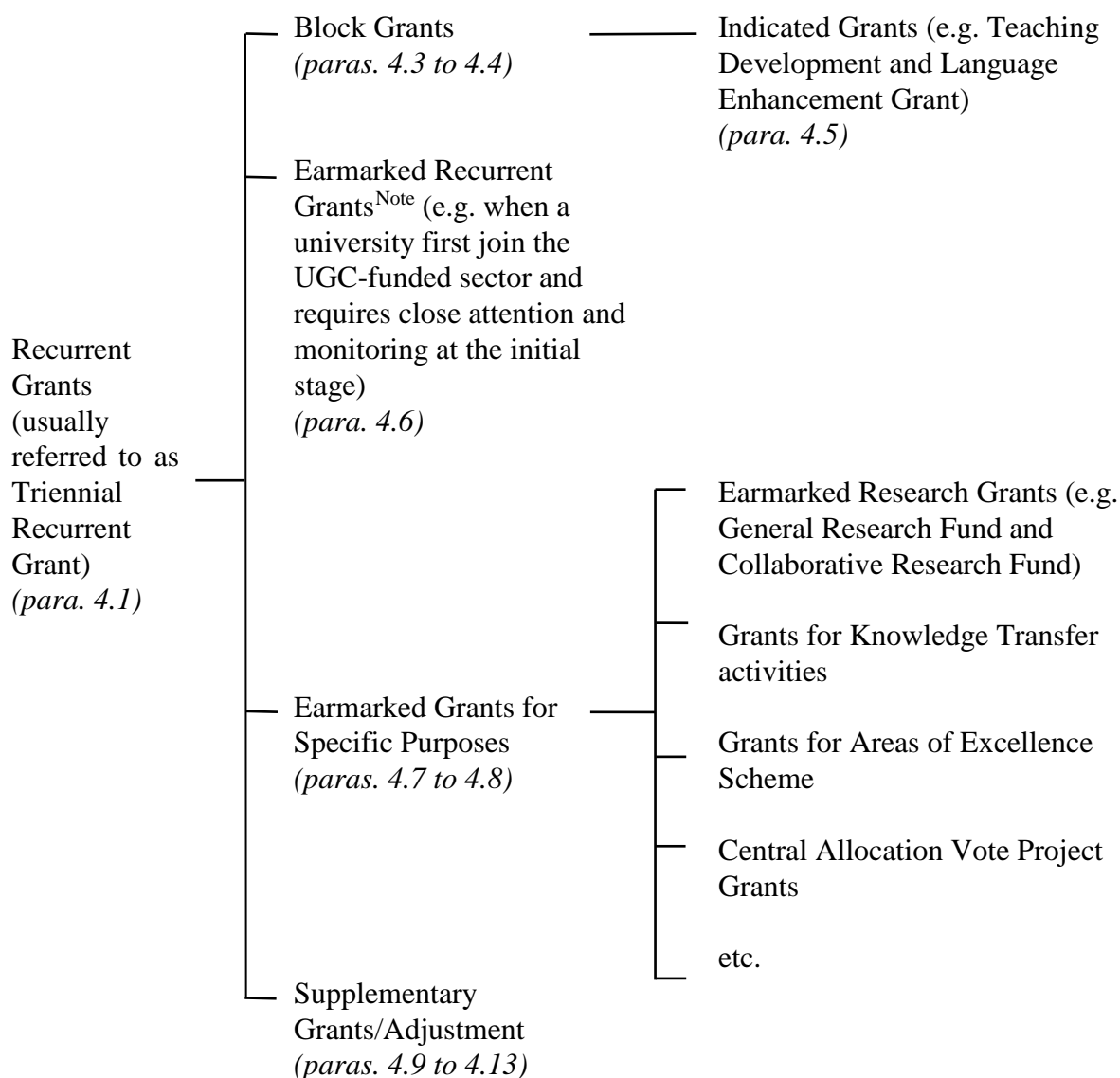
*(b) Buildings/Properties solely used for non-UGC-funded activities*

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 university (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 universities, the UGC Secretariat has agreed to process (on behalf of EDB) the rates and government rent refund to universities in respect of buildings/properties solely used for non-UGC-funded activities. For this purpose, the UGC Secretariat will request universities 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, universities are advised to approach the Rating and Valuation Department for conducting separate assessments of such buildings/properties.

**Overview of the Relationship  
Between Various Types of Recurrent Grants**



<sup>Note</sup> For Earmarked Recurrent Grant, an expenditure budget for each financial year has to be approved by the UGC under agreed expenditure headings (normally under the four expenditure headings of academic staff, non-academic staff, equipment and general expenses). The provision under each of the headings is strictly controlled and virement between headings can only be made with the approval of UGC. Regular reports on spending position (as indicated in an allocation letter) should be submitted for the UGC's scrutiny. Major causes to deviation (including both over-spending and under-spending) from approved budget will need to be identified and accounted for. The grant will be provided for on an annual basis with payments being released monthly in advance.

Except with the approval of the UGC, any surplus of Earmarked Recurrent Grants after the close of financial year or the approved funding period must be forfeited. If universities consider that carry-over of the unspent balance of an allocated Earmarked Recurrent Grant to the next financial year or funding period is justified and necessary, they must submit their application to the UGC for approval. Any proposed transfer of any surplus of Earmarked Recurrent Grants to Reserve Funds must follow the rules and procedures laid down in paragraphs 7.7 to 7.12 of Chapter 7.

## ***Chapter 5 – Capital Matters***

### **Introduction**

5.1 This chapter provides guidance on the general principles, roles of respective parties and/or procedures -

- (a) governing works projects wholly or partly funded by the UGC under (i) the UGC Capital Programme, (ii) the Hostel Development Fund and (iii) the Alterations, Additions, Repairs, and Improvements (AA&I) Programme (paragraphs 5.2 - 5.70);
- (b) for handling works projects for enhancing healthcare teaching facilities under the Health Bureau (HHB) (paragraphs 5.71 - 5.73); and
- (c) for conducting and completing space inventory (paragraphs 5.74 - 5.77).

### **Guiding Principles**

5.2 The procedures for handling capital projects set out in this chapter basically reflect the requirements under the Government's capital subvention programme. The guiding principles are -

- (a) Capital subventions are charged to the Capital Works Reserve Fund (CWRP) and are part of the Capital Works Programme (CWP) of the Government. Universities' projects under capital subvention are required to follow the procedures for creating and managing a capital works project under the CWP<sup>1</sup>;
- (b) Universities should assume full responsibility and accountability for their projects under capital subvention. They should ensure that works expenditure stays strictly within the approved project estimate (APE) in accordance with the approved project scope<sup>1</sup> *i.e.* the scope approved by the Finance Committee (FC) of the Legislative Council (LegCo) for capital works projects exceeding \$50 million, and the scope approved by the UGC for AA&I projects;
- (c) Universities should ensure an appropriate system of cost control and monitoring is in place for overseeing the spending of public money having regard to economy, efficiency and effectiveness in the delivery of

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<sup>1</sup> As stipulated in Government's Financial Circular No. 7/2017 "Capital Works Programme".



their projects under capital subvention and use of public funds<sup>2</sup>. In particular, universities should ensure proper procurement procedures are in place for purchases under capital subvention with reference to Government's latest rules and regulations applicable to public capital works; and

- (d) The Secretary-General of the UGC as the Controlling Officer of capital grants to the universities has the responsibility to ensure that capital subventions are spent in a cost-effective manner on worthy projects in support of the subvented organisations' stated objectives<sup>2</sup>.

## **Roles and Responsibilities**

### *UGC*

5.3 In principle, the UGC takes interest in all building developments of UGC-funded universities, irrespective of how these developments are funded, to ensure that the proposed developments are in line with the master development plan of the campus, and that they are consistent with the roles and missions of the universities as agreed with the UGC. Further, it is necessary to ensure that the building developments will not become a burden to the university and eventually the UGC and the Government<sup>3</sup>. It is also important that with the growth in scale of self-financing programmes operated by UGC-funded universities and in some cases on universities' campuses, universities should ensure that academic space and facilities for UGC-funded universities should not be adversely affected. In this regard, universities are therefore required to inform UGC of any wholly privately funded project before its commencement though they do not need to follow the procedures in this chapter for handling such projects. They should also observe the guidelines at **Annex 5A** on the use of publicly-funded academic space and development of privately-funded capital projects on universities' campuses.

5.4 In considering the capital proposals of the universities, UGC will consider the merits of the proposals from the education policy perspectives – e.g. whether the proposal will fulfil the campus master planning and meet space shortfall of the universities; whether the proposed construction can meet the universities' long-term needs and contribute to the strategic development of the higher education sector; and whether the proposal is consistent with the Government policy and the respective roles and mission of the universities, etc. While the UGC will give advice from the macroscopic perspectives, the universities are responsible for the detailed design and the management of the project.

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<sup>2</sup> As stipulated in Government's Financial Circular No. 9/2004 "Guidelines on the Management and Control of Government Funding for Subvented Organisations".

<sup>3</sup> Universities' buildings, whether publicly or privately funded, are normally maintained using the recurrent grants from the UGC on the condition that they are used for UGC-funded activities. Student hostels, however funded, should be operated on a self-financing basis using student hostel fees.

### *UGC's Technical Adviser*

5.5 The Director of Architectural Services is the Technical Adviser to the UGC in respect of the acceptability of all UGC-funded capital works projects for subvention purposes. The Technical Adviser will comment on the feasibility, design, scope, cost, selection of consultants/contractors and standard of the projects submitted by the UGC-funded universities, and advise for UGC's consideration on the recommended level of public subvention with reference to other public capital projects. He will provide technical advice on the subvention level and procedures of the projects (e.g. project estimates, tendering documents and procedures) to ensure that they represent good professional practice and are in line with the principles and practices adopted in public works projects. In fulfilling his role, the Technical Adviser may communicate directly with the universities and their consultants, and may request the universities to supply whatever information which he deems necessary to enable him to scrutinise the project proposals in detail and to give appropriate advice to the UGC.

### *UGC-funded Universities*

5.6 As far as campus development is concerned, there are established criteria and policy<sup>4</sup> for calculating the level of provision for publicly-funded campus space and student hostel places. Nevertheless, universities have substantial freedom to determine the exact allocation of the provisions to best fit their circumstances.

5.7 As set out in paragraph 5.2, universities should assume full responsibility and accountability for their capital projects in all aspects. Prior to submission to the UGC, the universities should confirm that their capital proposals are endorsed or supported by their Council, either directly by the Council or through properly delegated authorities to (i) any committees or bodies under the Council or (ii) senior management of the universities. They should ensure that each project is within its APE and in accordance with the approved project scope. Universities should also ensure that the consultants/contractors engaged and managed by them follow the requirements laid down by the Government. It is not appropriate for consultants to act on the universities' behalf and approach the UGC, the Technical Adviser or the Government directly on matters related to capital subvention.

### *The Government*

5.8 Capital proposals of the universities that are given full support by the UGC will be put forward to the Education Bureau (EDB) for policy consideration. Projects that are supported by the EDB will be submitted to the Financial Services and

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<sup>4</sup> As for campus space, the Kaiser Formulae were established in 2000 and reviewed in 2005/06 to determine the provision of publicly-funded space on campus to support academic activities. The latest development of the space requirement formula is given in paragraph 5.71 below. As for provision for publicly-funded hostel places, the current government policy was developed in 1996 by adopting four criteria to calculate the provision level. LU and EdUHK are however subject to different calculation criteria in view of their unique circumstances.

the Treasury Bureau (FSTB) for fund bidding under the Government's established resource allocation mechanism. Universities' capital proposals that are selected can then proceed to the detailed design stage, and vetting by the relevant government bureaux/departments (e.g. Lands Department, Environmental Protection Department (EPD), Development Bureau (DEVB), FSTB etc.). The Government issues technical circulars from time to time to set out the good practices and requirements in respect of public capital works. Universities are responsible for ensuring compliance with these requirements. A list of the relevant government circulars is listed at **Annex 5B**.

5.9 After completion of the detailed design and other pre-construction preparation by the universities, EDB will seek funding approval from Public Works Subcommittee (PWSC)<sup>5</sup> and FC of the LegCo.

#### *UGC Secretariat*

5.10 The Secretary-General of the UGC assumes the role of Controlling Officer for capital grants to the universities. According to Financial Circular No. 9/2004 "Guidelines on the Management and Control of Government Funding for Subvented Organisations", the Controlling Officer has the responsibility to assess the justification and cost-effectiveness (e.g. efficiency on space use) of the project. For this purpose, the Controlling Officer should seek the technical advice of relevant professional departments within the Government on issues including project feasibility, design, scope, cost and selection of consultants/contractors, etc. The UGC Secretariat should also monitor the spending of the capital grants allocated to the projects by inviting regular progress reports and returns from the universities, and seeking clarification/explanation in case of discrepancies for meeting the reporting requirements of the Government and the LegCo as and when necessary. A list of these regular updates as required by the Government and the LegCo is at **Annex 5C**.

### **Capital Works Projects Costing More Than \$50 Million**

#### *General Procedures*

5.11 Capital proposals costing more than \$50 million submitted by the universities and supported by UGC will be processed under the mechanism outlined in **Annex 5D**. The key steps are highlighted below.

5.12 Project Definition Statement (PDS) and Technical Feasibility Statement (TFS) should be submitted for approval by EDB and DEVB in accordance with the requirements as set out in the relevant Financial Circular issued by the Government. The PDS serves to provide justification and define the scope of each proposed capital

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<sup>5</sup> Since the 2008/09 legislative session, the Chairman of the LegCo Education Panel has requested the Administration to consult the Panel on all projects submitted by the UGC-funded sector before submission to PWSC.

works project. On the other hand, the TFS, which should be compiled in accordance with the checklist issued by the Technical Adviser, serves to confirm the technical feasibility of each proposed project on a prima facie basis. As only essential information is required, the TFS is normally completed without the need for consultancy support. The format and information to be contained in the PDS and TFS should follow the relevant circulars issued by the Government.

5.13 Cost estimates in TFS submitted to the UGC's Technical Adviser should, as appropriate, include the following items of expenditure -

- (a) estimated detailed site investigation costs (paragraph 5.23);
- (b) estimated site formation and area development costs (paragraph 5.24);
- (c) estimated piling and foundation costs (paragraph 5.25)
- (d) estimated building costs and building services costs (paragraph 5.26);
- (e) construction unit cost, represented by building and building services costs divided by construction floor area, in terms of money per square metre in the constant price level;
- (f) estimated external works and drainage costs (paragraph 5.26);
- (g) estimated additional costs for energy conservation measures (paragraph 5.27);
- (h) estimated professional fees for design and preparation of tender documents, and fees including any resident site staff cost for the whole project (paragraphs 5.28 - 5.34); and
- (i) estimated furniture and equipment costs to be provided in the project (paragraph 5.35).

5.14 Universities should provide detailed justifications to the UGC's Technical Adviser regarding the price level of the estimated project costs. They are also requested to note that the cost estimates should be provided as detailed and accurate as possible to ensure that excessive funds will not be earmarked or allocated for the projects. It is however recognised that the cost estimate of a project proposal submitted at the TFS stage is a rough order of cost and will be subject to change at the detailed design stage.

5.15 Expenditure to be incurred before a project is upgraded to Category A (*i.e.* before a project obtains LegCo's funding approval), which is mainly for pre-construction works (e.g. detailed design and site investigation), will be charged to the AA&I block allocation if it does not exceed \$50 million. This should be separately

identified in the TFS. If the expenditure at this stage is more than \$50 million, it will have to be separately approved by the FC. Universities should also specify the proposed share of costs between the Government (to be met from CWRP) and individual universities (to be met from private donations or other sources), which will be subject to the Government's agreement and FC's approval.

5.16 The deadline for submission of PDS/TFS in the context of the annual UGC Capital Programme is normally 15 September each year. They will be examined by the UGC in consultation with its Technical Adviser. Projects supported by the UGC will be processed in accordance with the Government's established resource allocation mechanism. Projects selected by the Government but not yet submitted to the LegCo for funding approval within the respective LegCo session will need to be put forward to the Government for re-selection, and there can be no guarantee that the project will be re-selected.

5.17 Universities may seek funding for pre-construction works which can be funded from the AA&I block allocation if it is less than \$50 million. Pre-construction works exceeding \$50 million requires FC's approval. If a project has been selected in accordance with the Government's established resource allocation mechanism, and the funding for pre-construction works has been secured, a university may then proceed to conduct detailed site investigation, prepare design submissions and prepare tender documents for the project.

5.18 On completion of the detailed design and tender documentation, universities should obtain necessary approvals from statutory bodies and relevant authorities (e.g. Buildings Department, Fire Services Department, Water Supplies Department, Drainage Services Department and EPD, etc.) in order to be ready to proceed to the construction phase. Universities should provide the above necessary approvals together with the detailed design report and detailed cost estimate to UGC's Technical Adviser for comments.

5.19 Universities should, with the advice and assistance of the UGC Secretariat, schedule to seek PWSC's endorsement and FC's approval to upgrade a project to Category A. This should be done after the universities have completed all necessary pre-construction preparation, including fulfilling the statutory requirements and the conduct of public consultation with the relevant stakeholders (including the relevant district council(s)). Universities should submit the draft PWSC paper and the information as required by the Technical Adviser to the UGC Secretariat and its Technical Adviser. Universities should also compare the unit costs of building and building services with a project of similar scope and provide justifications if there is any difference. A checklist of the required documents to be submitted by universities is at **Annex 5E**.

5.20 The draft PWSC paper should reach the UGC five months in advance of the PWSC meeting. Where necessary, universities are welcome to seek the assistance of the UGC Secretariat in the preparation of the papers for the LegCo. Universities

are reminded that no PWSC/FC meetings will normally be held in March and from July to October. Universities should also avoid submission to the LegCo at the end of the legislative session.

5.21 Universities should not commit expenditure until the UGC has issued the capital allocation letters following FC's approval of funding.

5.22. According to the Financial Circular No. 3/2020 "Parallel tendering for contracts", universities shall adopt parallel tendering for the procurement of all works contracts and works-related consultancies funded under the CWRP<sup>6</sup>, unless the universities, upon the conduct of a risk assessment, that the risks outweigh the benefits involved or, where justified, have sought exemption from the Government. The returned tender price will be reflected in APE. In other words, universities are generally required to invite tenders or initiate consultants selection exercise prior to securing funding approval. Universities must state clearly in such tender invitations that funding approval has not been obtained, and that the universities will not be responsible for the cost of preparing tenders. Universities should not award a contract and should not indicate to the successful bidder that the universities would accept its bid unless and until funding is secured. The requirements on parallel tendering also apply to projects funded by the AA&I block allocation (see paragraph 5.66 below).

### *Cost Estimates for Capital Projects*

#### Site investigation costs

5.23 These are costs to be incurred by the university for undertaking detailed site investigation for the project, including site survey, boreholes, topography survey and other associated works, which is necessary to produce the relevant site information. Detailed site investigation can be carried out only after funds have been earmarked for the project by the Government or if funds are available from the AA&I block allocation.

#### Site formation and area development costs

5.24 Site formation costs include only the cost for site formation works. Area development costs are the costs incurred outside the building site itself on works such as the provision of a road to the site, provision of water, electricity, and sewers to the site, off-site surface drainage, land formation, soil erosion-related works, slope protection, and any other requirement which may be necessary for the grant of land. Every attempt should be made to compile a complete list of requirements and breakdown of the estimated costs.

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<sup>6</sup> For the avoidance of doubts, for projects seeking funding approval with multiple works contracts/works related consultancies, the first works contract/works-related consultancy shall adopt parallel tendering. Tendering for subsequent works contracts/works-related consultancies may be initiated after funding is secured.

## Piling and foundation costs

5.25 Piling costs include the costs for pilings. Foundation costs include pile caps, tie beams, strap beams, pad foundation, etc. and all the works below ground slab (except piling).

## Building, building services, external works and drainage costs

5.26 The building costs and building services costs cover the costs of the building from and including ground slab. The external works and drainage costs cover the costs of external works, external services, underground drainage, roads, special access (e.g. elevated pedestrian walkways, bridges and steps, etc.) and landscaping within the boundary of the site.

## Additional costs for energy conservation measures

5.27 The Government promotes a comprehensive target-based green performance framework for new and existing government buildings. All public works projects are required to adopt energy efficient features and renewable energy technologies as well as other environmentally friendly measures where practicable. The Government also adopt comprehensive targets on various aspects of environmental performance (such as greenhouse gas reduction, water reduction and management, indoor air quality, etc.) for all government buildings. Universities are invited to adopt the framework as far as possible.

## Consultancies

5.28 Universities are encouraged to follow the Government's procurement requirements under which consultancy agreements not exceeding \$3 million require a minimum of five quotations and those not exceeding \$50,000 require a minimum of two quotations. Consultancy agreements exceeding \$3 million should be appointed through a comparative selection system of technical and fees proposals to be submitted by consultants short-listed by the universities. Standard tender documents for comparative selection of consultants and the handbook of Architectural and Associated Consultants Selection Board (AACSB) are available from the website of the Architectural Services Department (ArchSD) at <http://www.archsd.gov.hk>. If privately-funded items/facilities are involved, the scope of service should be expanded to require that all subvented works and privately-funded works should be clearly delineated in the tender documents and the final accounts. Fees for privately-funded items/facilities should be funded by the universities and priced separately in the consultancy documents if practicable.

5.29 Irrespective of contract value, normally only firms on the current AACSB lists should be invited to tender for the consultancies. Reference should also be made to the prevailing "Guidelines on Consultant Selection for Architectural and Associated Consultancy Services by NGO for Government Subvention Projects" in formulating

the list of invited consultants. A university should not engage staff employed in its teaching departments for consultancies.

5.30 For consultancy agreements with contract value exceeding \$5 million, universities should submit the draft tender document based on the Technical Adviser's standard documents and proposed list of firms to the UGC for approval, with a copy to its Technical Adviser for technical comments. Universities should submit the tender report and recommendation to the UGC and its Technical Adviser for approval before the tender is awarded. Universities should ensure all relevant information is available in their submission to facilitate the Technical Adviser's comments. It is expected that the tender report with recommendation would reach the Technical Adviser within 6 weeks after the closure of tendering.

5.31 Consultancy agreements should contain an audit inspection clause permitting authorised public officers to inspect records kept by consultants, and a clause allowing the university to unilaterally suspend or determine a consultancy agreement with one month notice in writing.

5.32 Consultants are required (in consultancy agreements for all subvented projects) to submit to the UGC Secretariat all major variations within one month after issuing the variation orders.

5.33 Universities should also assess the expenditure needed for the employment of resident site staff if required for the project. For the purpose of preliminary estimation, the total allowance for professional fees, resident site staff cost, and lithography charges should not normally exceed 10% of the total works value including built-in furniture, but excluding equipment and loose furniture. Guidelines for estimating professional fees and resident site staff are set out in **Annex 5F**. The manning scale for Resident Site Staff is set out in the Handbook of AACSB.

5.34 Universities are required to indicate in their submissions the professional fees required for works to be carried out during the detailed design stage, and separately, the total professional fees and site supervisory staff cost required for the whole project. Universities should submit a detailed resident site staff plan to the Technical Adviser for agreement before commencement of works.

#### Furniture and equipment

5.35 The UGC Secretariat assumes the vetting role for cost estimate on furniture and equipment (F&E). Following the issuance of the Financial Circular No. 3/2016 "Furniture and Equipment for Capital Works Projects Funded under the Capital Works Reserve Fund", the requirements for procurement of F&E are devised at **Annex 5G** for compliance by the UGC-funded universities. Universities are also advised that funds cannot be transferred between the F&E budget and the construction budget without the UGC's and the Government's approval while the allowance for F&E



in a capital works project should not normally exceed 12.5% of the building costs and the building services costs of the project.

### Contingency

5.36 Unforeseen expenditure will be met from project contingency, project saving or non-Government funds. Contingencies should not be used to cover additional costs which are not recommended for support for subvention by the Technical Adviser.

### Economy

5.37 Universities should be conscious of the need to exercise economy in undertaking subvented capital works projects. They should, for example, avoid unnecessary or non-essential works items and facilities in the projects or to use materials of excessively high standard. Universities are however encouraged to take cognizance of possible long term savings to be achieved by, if necessary, higher initial capital cost. In this connection, universities should conduct life cycle cost analysis in justifying the case for consideration by the Technical Adviser.

### *Building Procedures*

#### General

5.38 Capital works projects funded by the UGC should normally be carried out using the established practice of procurement, *i.e.* separate detailed design and construction by consultants and contractors respectively. However, if a university wishes to consider alternative methods of procurement, *e.g.* design and build, they may submit the proposal to the UGC for consideration. The university must be able to demonstrate in its proposal that the alternative method suggested has advantages over the traditional method. The proposal will be considered by the UGC in consultation with its Technical Adviser.

5.39 Universities may incorporate suitable clauses in tender/contract documents for liquidated ascertained damages. Depending on the circumstances surrounding each case, funds so recovered should normally be returned to the Government. If a university considers that the damages subsequently accrued from a contract should be retained by the university to offset a financial loss incurred by the university, full justifications should be submitted to the UGC for consideration. The UGC will consult its Technical Adviser and the Government.

## Tender Stage

5.40 A university planning to invite tender for any works contract<sup>7</sup> in a UGC-funded project exceeding \$10 million each must seek prior approval from the UGC on the advice of its Technical Adviser. A university must not accept any tender of this value unless there is prior approval from the UGC. Unless otherwise approved by the UGC on the advice of its Technical Adviser, a minimum of 10 firms of appropriate category from the current list of Approved Contractors for Public Works or Approved Suppliers of Material and Specialist Contractors for Public Works should be invited to tender. Firms should confirm their interest in submitting tenders before including them in the proposed list of tenderers.

5.41 In line with Government's subvention policy, universities should seek UGC's approval of the tender document and tender recommendation. Before inviting works tender of a contract value exceeding \$10 million, a university should submit the proposed list of tenderers and the pre-tender estimate vs. the APE to the UGC and its Technical Adviser for consideration. Universities should also provide the draft tender documents and addendum, if any, to the Technical Adviser for comments. If privately-funded items/facilities are involved, all subvented works and privately-funded works should be clearly delineated in the tender documents. In normal circumstances, the Technical Adviser will provide its comments within three weeks from the date the documents are received, depending on the priority and complexity of the works involved in the tender. The university's tender recommendation should be approved by the UGC with the advice of its Technical Adviser as appropriate before the tender is awarded. Universities should ensure that all relevant information is available in their submission to facilitate the Technical Adviser's comments. The Technical Adviser may liaise and discuss with the universities directly when commenting on these documents should the university consider it necessary. Universities should provide a statement on the latest financial position of the project upon award of each tender.

5.42 A university should not accept a tender which will cause the anticipated final project expenditure to exceed the APE. If a university wishes to do so, it must either submit a written undertaking to the effect that it will meet any shortfall from non-UGC funds or seek the approval of the UGC, which would then notify the Government and seek the necessary approval (e.g. FSTB or PWSC/FC, as appropriate (see paragraph 5.48)). Universities shall be liable for all consequences of accepting tenders in excess of the APE without prior approval, including bearing all additional costs from non-UGC funds.

5.43 The Government adopts a contract price fluctuation system (CPFS) in public works tenders which allows adjustment to contract payment in accordance with movements in the cost of labour and materials in public works contracts. The objective of the CPFS is for risk sharing between Government as the employer and the

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<sup>7</sup> Universities should refer to the requirements in paragraph 5.35 for procurement of F&E.

contractor under capital works contracts. It is an equitable risk sharing mechanism as payments to the contractor can be adjusted either upward or downward (*i.e.* positive or negative payment) in response to changes in the material and labour costs. The Government requires all public works contracts to incorporate a CPFS provision regardless of the contract duration unless there are genuine practical problems, such as contracts involving predominate use of proprietary products/systems and the lack of relevant cost indices for price fluctuation computation. Universities are therefore encouraged to adopt the CPFS in their capital works contracts. Relevant clauses should be incorporated in the draft tender documents where appropriate for the Technical Adviser's comment.

## Construction Stage

5.44 To ensure timely delivery of capital works projects, universities should adhere to the works commencement date as specified in the PWSC submission. Universities are required to monitor and control the progress of the projects closely with a view to completing the projects on time and within the APEs. Universities should adhere to the cashflow commitments for the sake of public finance management. If, at any time, a university foresees any major slippage on the work programme of a project which may result in under-achievement of the policy targets, or significant underspending (*e.g.* over 10% of the estimated expenditure for that year), the university must report this to the UGC immediately. Likewise, universities must also report immediately to the UGC if they foresee overspending. Universities are required to give full explanation to justify the significant deviations in cashflow requirement to the Government and possibly the LegCo.

5.45 As required by DEVB, universities are required to provide at the beginning of each financial year the projected monthly cashflow requirements in respect of capital works projects for uploading to the Government's Public Works Programme Information System (PWPIS). Universities should provide such information to the DEVB via UGC, and inform UGC well in advance when there will be any significant deviations from their cashflow commitments.

5.46 Approved funds for the projects will be released to the universities on a monthly basis upon request of the universities and completion of the monthly statement and claim form at **Annex 5H**. Favourable balances held by the university should not normally exceed about three weeks' expenditure, assuming equal expenditure over the year. Government funds should be used to meet project expenditure only after all non-Government funds/private contributions have been expended. The amount of non-Government funds expended will not be reimbursed in case the project is cancelled/curtailed.

## Major Variations of Contract

5.47 As stated in paragraph 5.32 above, consultants are required (in consultancy agreements for all subvented projects) to submit to the UGC Secretariat all

major variations within one month after issuing the variation orders, provided that the total project cost including the variations will not exceed the APE. The submission should include sufficient details and supporting information for UGC Secretariat to seek ArchSD's advice suitably. A major variation in this context is defined to be the variation ordered in accordance with the works contract which may commit the university to additional expenditure of a value estimated to exceed \$800,000, in line with the current government practice. For major variations in AA&I projects, the supporting information shall be provided in the form of a checklist (**Annex 5I**) and the supporting documents will only be required upon request. Universities shall be required to state in their submissions of the existing monthly financial statements to the UGC Secretariat for both capital and AA&I projects (i.e. **Annexes 5H** and **5M**) if any major variation was ordered in the relevant month. Nil return will be assumed if no variation order was mentioned in your monthly submissions. If the APE is to be exceeded due to any variations, universities should notify the UGC Secretariat promptly. Unless the university undertakes to meet the extra expenditures above the APE with non-Government funds, the variations should not be committed. Universities should refer to paragraph 5.48 below if adjustment of APE is necessary.

#### Adjustment of Approved Project Estimate

5.48 Universities will be responsible for ensuring that works expenditure stays strictly within the APE and in strict accordance with the scope of the project as approved by FC. In exceptional circumstances and with sufficient justification, the UGC may agree to seek additional funds to meet additional expenditure. The UGC and its Technical Adviser will comment on the revised estimate of the project submitted by the university, taking into consideration any previous and future project savings before adjusting the project estimate. The university shall not commit further expenditure until the revised project estimate has been approved by the Government and, where necessary, FC.

5.49 To avoid locking up resources unnecessarily, the Government will internally "freeze" all savings arising from contracts awarded at prices substantially lower than the provision earmarked for these contracts in the APE. Universities should not spend against the savings. For the purpose of monitoring project spending, the updated requirement for the project (*i.e.* the reduced project estimate) will be the "administrative cap" on the project expenditure. Should the universities wish to increase the estimated project expenditure, they may apply to the UGC with justifications. The UGC will seek FSTB's agreement to raise the administrative cap as appropriate.

#### Change in Project Scope

5.50 The universities must keep to the original project scope approved by the UGC and FC. They should inform the UGC, which would then notify the Government, of any planned changes in project scope at any stage, whether or not such changes would lead to reduced or additional funding requirements. The universities

must not implement any planned changes prior to obtaining the approval of the UGC and, the FSTB, where necessary, the PWSC/FC. They shall be liable for all the consequences of implementing any changes without prior approval, including bearing all the additional costs with non-Government funds.

## Completion of Project

5.51 Upon completion of a project, the university should prepare a statement of final accounts as soon as practicable by completing the proforma at **Annex 5J** which should be duly certified at Vice-President level or above. If privately-funded items/facilities are involved, all subvented works and privately-funded works should be clearly delineated in the final accounts. A separate assurance engagement should be carried out by an external auditor engaged by the universities. The external auditor should conduct the engagement in accordance with Hong Kong Standard on Assurance Engagements issued by Hong Kong Institute of Certified Public Accountants and should express a conclusion as to i) whether the university has, in all material respects, accounted for the income and expenditure in respect of the funds received for the project in the statement of final accounts; and ii) whether there is any material exception including fraud, errors, use of funds not in accordance with the purposes as approved by the LegCo or non-compliance of the guidelines and other relevant documents/comments issued by the UGC or its Technical Adviser. Universities are not required to submit full supporting documents to the UGC and its Technical Adviser for comments since the universities assume full responsibility and accountability of the expenditure incurred. The relevant supporting documents (*e.g.* tender documents, purchase orders, contracts, contractor claims and payment receipts, etc.) will need to be submitted only upon request by the UGC or its Technical Adviser for random checks. Universities are required to maintain and keep the supporting documents for at least seven years from the date of submission of final accounts for checking and audit purposes.

5.52 It should be noted that the final project accounts should be finalized as soon as possible and in any event not later than three years after commissioning of the facilities<sup>8</sup>. Universities should inform UGC if they anticipate that the timescale cannot be met due to special circumstances. They should be aware that the examination outcome of the UGC and its Technical Adviser may affect the amount of Government subvention to the project, but the UGC will have no contractual liabilities towards the universities or their contractors. Expenditure on unapproved works or expenditure above the APE has to be funded from non-Government sources. Advance payment to the university above the final approved expenditure has to be returned to the Government.

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<sup>8</sup> For the purpose of finalising the final accounts of capital works projects, “project commissioning date” refers to the date when the project commences functional operation. After the completion of project construction (*viz.* the “completion”), a project may require time for testing and commissioning purpose, before the project could commence functional operation (*viz.* “commissioning”). Project commissioning is not tied with the defect liability period.

## Contractor's Claims and Related Matters

5.53 Universities may receive from contractor claims in relation to the contracts under the project, such as claims for loss and expense, prolongation of the contract period, etc., which may or may not be dealt with under the terms of the contract. Universities, being the works agent and project manager of the project, should make assessment and refer these claims to the UGC and its Technical Adviser for advice before an offer is made to the contractor.

5.54 In principle, commercial settlement between universities and contractors in capital works projects is discouraged. If, in exceptional circumstances, a university considers it necessary to negotiate a commercial settlement with a contractor, the university should consult the UGC and its Technical Adviser and submit proposal prior to any discussion with the contractor. The use of credit accruing from the settlement, if any, will be subject to the advice of the UGC and the Government.

## Hostel Projects funded by the Hostel Development Fund

5.55 With the establishment of Hostel Development Fund (HDF) as approved by the LegCo in July 2018, universities are given more flexibility in hostel projects funded by the HDF to exercise creativity in architectural design of the buildings and in managing the projects without referral to the UGC and/or its Technical Adviser, e.g. in tender specifications, invitations to tender, selection and award of tenders, etc. However, in line with the prevailing practice, universities would continue to assume full responsibility and accountability for their projects. They must ensure that their projects comply with all relevant legislation, and should seek approval from the relevant authorities where necessary. Universities will continue to consult stakeholders including the local community.

5.56 Universities may not be required to follow in full the procedures for major capital projects as outlined in paragraphs 5.11-5.54 above. However, universities are required to comply with the requirements as stated in the service agreement (e.g. submission of quarterly progress reports and final accounts) signed between individual universities concerned and the UGC Secretariat.

## Alterations, Additions, Repairs and Improvements Block Allocation

### *Ambit of the Allocation*

5.57 The allocation is for -

- (a) AA&I, including slope inspections and minor slope improvement works, to the campuses of the UGC-funded universities requiring a subsidy of not more than \$50 million each; and

- (b) studies for capital works projects selected in accordance with the Government's established resource allocation mechanism, including consultants' design fees and charges, preparation of tender documents, site investigation costs and major in-house investigations, costing up to \$50 million for each project.

5.58 AA&I block allocation covers a wide range of projects including building works related to, for instance, site development, geotechnical works, significant renovation exercise, information technology (IT) infrastructure (excluding computer equipment), landscaping, minor slope works and improvement items of a less recurrent nature. The projects may also cover "green solutions". Universities should not divide a major capital project exceeding \$50 million into several phases and submit bids under this block allocation.

5.59 The recurrent block grants to universities are intended to cover many aspects of maintenance and repair of premises, and purchase of equipment. Universities are expected to utilize a percentage of the block grants for these purposes – for example, to reinvest in existing buildings/premises in terms of regular maintenance/refurbishment/renovation. Moreover, proposals purely on purchase of F&E and the proposed consultancy study, feasibility study or advanced planning work of capital projects before they have been selected in accordance with the Government's established resource allocation mechanism are not fundable under the AA&I allocation.

5.60 Minor works projects costing less than \$3 million each should normally be paid for from the universities' recurrent block grants. They should not be referred to the UGC for capital funding and are not subject to the detailed scrutiny of the UGC and its Technical Adviser. Nevertheless, universities undertaking these projects are reminded that these projects should be carried out in a cost effective manner, according to the universities' own procurement procedures, and in line with the same principles as set out in this Chapter.

### *Procedures*

5.61 AA&I proposals are considered by the UGC on an annual basis. The procedures for processing AA&I proposals from the UGC-funded universities are outlined at **Annex 5K**.

5.62 The relevant requirement in paragraph 5.7 also applies to AA&I proposals, i.e. universities should confirm that the AA&I proposals are endorsed or supported by their Council, either directly by the Council or through properly delegated authorities to (i) any committees or bodies under the Council or (ii) senior management of the universities. In addition, universities should submit AA&I proposals with order of priority accorded to each proposal by completing the form at **Annex 5L**. The submission should be signed off at Vice-President level or above. The UGC may limit

the number of new proposals to be submitted by universities. PDS and TFS are not required for AA&I proposals.

5.63 Provision of consultants' fees and F&E can be included in the project estimates for AA&I projects. Site supervision should normally be performed by universities' in-house staff. Only under very special circumstance will the site supervision cost (i.e. cost of resident site staff) be supported under the AA&I block grant.

### *Implementation and Subsequent Monitoring*

5.64 AA&I projects, by their very nature, are relatively minor as compared with major projects under the annual capital programme and should be implemented and completed within a maximum timeframe of three years starting from the date of AA&I funding approval to universities. The approved provision from the Government is given on an annual basis. Any sum unspent is not allowed to carry over to the next financial year. Any slippage will therefore lock up resources available in the next financial year, and hence adversely affect all universities. Underspending by a university reflects its inability to implement the projects as planned, and will be taken into account by the UGC in considering future project proposals from the university concerned.

5.65 The APE for each project will be budget-capped. Requests for supplementary provision will not be approved. Contracts for the works should, as far as possible, be awarded on a fixed price basis in order to contain costs within the project budget ceiling. Before accepting a tender, the university concerned should ensure that the APE will not be exceeded unless it undertakes to meet any shortfall in the final project expenditure with non-Government funds. If the approved project scope needs to be revised in order to contain the budget within the APE, the university concerned should submit the proposal to the UGC and its Technical Advisor for prior agreement.

5.66 Universities are given more flexibility in managing the projects and in dealing with the various aspects of AA&I projects without referral to the UGC and/or its Technical Adviser, e.g. in tender specifications, invitations to tender, selection and award of tenders, final accounts, etc. However, universities are required to submit details of the project estimates to the UGC and DEVB/ArchSD as appropriate for advice on the reasonableness of the estimated project costs in accordance with the prevailing requirement and follow the requirements as stated in paragraph 5.22 above on parallel tendering, with an aim of reflecting the returned tender price in the APE. Universities are also required to follow the requirements as stated in paragraphs 5.32 and 5.47 on variations of contract. As regards the procurement of F&E, universities are required to follow the requirements at **Annex 5G** as stated in paragraph 5.35 above. In proposing and considering the AA&I projects, both universities and the Technical Adviser should take into account the life cycle cost analysis, i.e. proposals that can generate long-term recurrent cost savings, if necessary, by higher initial capital cost may be positively considered.



5.67 Universities may not be required to follow in full the procedures for major capital projects as outlined in paragraphs 5.11-5.54 above. However, universities should ensure proper procurement procedures with reference to Government's latest rules and regulations applicable to public capital works.

5.68 Universities should monitor progress of the projects and the level of expenditure against the commitment submitted in order to avoid any slippage in progress. Works<sup>9</sup> of each newly approved AA&I project should start within six months from the date of funding approval. Beyond that, the approval will automatically lapse and the university has to seek agreement from the Permanent Secretary for Education and the Secretary for Financial Services and the Treasury for extending the validity period. As required by DEVB, universities are required to provide the projected monthly cashflow requirements of each AA&I project for uploading to the Government's PWPIS. Universities should provide such information to DEVB via UGC, and inform UGC well in advance when there will be any significant deviations from their cashflow commitments.

5.69 Funds for the projects will be released to the universities on a monthly basis upon request and on completion of the monthly statement and claim form at **Annex 5M**. Favourable balances held by the university should not normally exceed about three weeks' expenditure, assuming equal expenditure over the year. Government funds should be used to meet project expenditure only after all private contributions for the project have been expended. The amount of non-Government funds expended will not be reimbursed in case the project is cancelled/curtailed.

5.70 Upon completion of the AA&I projects, universities are required to submit a certified financial statement (**Annex 5J**) to account for the total actual expenditure of the project. The submission should be made not later than 15 months after the commissioning of the facilities covered by the AA&I works, and be duly certified at Vice-President level or above. In case the actual expenditure of any particular major item (*e.g.* building and building services, etc.) is 15% more or less than the related approved budget, universities should provide justification(s) for the deviation. Universities should assume full responsibility and accountability for ensuring that the expenditures are incurred in accordance with the APE and approved project scope. They are not required to submit full supporting documents to the UGC and its Technical Adviser for vetting. The relevant supporting documents (*e.g.* tender documents, purchase orders, contracts, contractor claims and payment receipts, etc.) will need to be submitted only upon request by the UGC Secretariat or its Technical Adviser for random checks. Universities are required to maintain and keep the

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<sup>9</sup> The project is defined as having works started in one of the following scenarios, whenever is earlier –

- (a) commencement of design works for project with in-house design;
- (b) contractual commitment with the consultant for consultancy assignment/study;
- (c) commencement of works by the contractor for construction works; or
- (d) placing of purchase order with vendor/manufacturer, etc.

supporting documents for at least seven years from the date of submission of the financial statement for the checking and audit purposes.

### **Special Arrangement for Healthcare Teaching Facilities under the Health Bureau**

5.71 To support the UGC-funded universities which offer healthcare training programmes in expanding their capacity for the training of healthcare professionals under UGC-funded programmes, the Government has earmarked a special funding provision for short, medium and long-term works projects for increasing or upgrading their healthcare teaching facilities. Such projects are under the purview of the HHB which directly handles proposals from the universities concerned.

5.72 As the policy bureau for the initiative, the HHB ensures that the requirements for the healthcare teaching facilities works projects are fit for purpose and strictly necessary having due regard to value-for-money considerations. The HHB is responsible for handling matters concerning the scopes and estimates of the relevant projects, including but not limited to the vetting/approval of PDS, TFS, tenders for consultancy and works contracts (including subsequent contractual variations and claims), detailed design reports and Special F&E of healthcare related works projects. The HHB also takes lead in arranging consultation with the relevant panel(s) in the LegCo before seeking endorsement from the PWSC and funding approval from the FC of LegCo. ArchSD, in its capacity as the government department for advising various bureaux and departments on their subvented projects, offers technical advice to the HHB in the process as appropriate.

5.73 After obtaining funding approval by LegCo on the projects, the UGC Secretariat shall arrange the release of the approved funds to the universities on monthly basis upon request of the universities and completion of the monthly statement and claim form. The UGC Secretariat shall also monitor the progress of the projects by requiring the universities to submit quarterly progress reports, with a copy to HHB. The UGC Secretariat is also responsible for approving applications for procurement of Normal/Special F&E with endorsement from the HHB. Should there be major issues concerning the implementation of the projects in the course of the aforesaid monitoring arrangement, the UGC Secretariat would seek steer from the HHB as appropriate. Upon project commissioning, the UGC Secretariat would liaise with the university concerned and ArchSD for finalising project accounts as appropriate and arrange to seek HHB's endorsement. The UGC Secretariat will follow the procedures with adaptation as appropriate under the relevant paragraphs in this Chapter when performing the monitoring role during delivery phase of the projects, and issue additional guidance to clarify the roles and responsibilities of different parties where necessary.

## Assessment of Space Needs

5.74 The UGC endorsed the adoption of a Room Use-based Approach (namely the Kaiser Formulae) to assess universities' space and accommodation needs in February 2000. The space planning standards in the Kaiser Formulae are guidelines which assist both the universities and the UGC in determining the appropriate space needs of individual universities. The Kaiser Formulae was reviewed again in 2006 in anticipation of the extension of the normative length of undergraduate programme from three to four years. Given the rapid changes in the higher education sector, such as changing pedagogy and technology, the UGC commissioned another review in 2017. The first phase of the study was completed in 2019 and covered a space utilisation survey, an audit of universities' space inventories and an assessment on the need for a complete review on the space formulae. In view of the material academic space shortfall in the UGC-funded universities, while it might be desirable to conduct a review on the space provision for some space categories to bring the formulae more up-to-date, a full-fledged review might only be an academic exercise and resources should better be deployed to resolving the current space shortfall. UGC therefore decided to defer consideration of the phase 2 review of the space requirement formulae until the existing space shortfall was largely met.

5.75 The UGC requires all universities to update space inventories on a regular basis and provide such inventories to the UGC Secretariat every three years, *i.e.* once during each triennium, and on a need basis when necessary. Universities are required to follow the guidelines as set out in the Space Inventory Manual in compiling the space inventories. The space inventories provide useful background information for the assessment of future capital proposals from the universities, and facilitate the UGC in assessing the space provision using the Room Use-based Space Planning Standards.

5.76 For any change of area and usage from "UGC-funded space for UGC activities" to "UGC-funded space for non-UGC activities", universities should seek the prior advice of UGC in order to proceed with the project. Moreover, for any change of area and usage from "UGC-funded space for UGC activities" to either "privately-funded space for UGC activities" or "privately-funded space for non-UGC activities", universities should seek the prior approval of UGC before proceeding with the project.

5.77 Universities should ensure that the data entered in the space inventories are accurate and updated. Universities will be held accountable for the data accuracy and integrity of space inventories, which may be subject to audit by external party as appointed by UGC.

**Guidelines on the use of publicly-funded academic space for self-financed activities and development of new privately-funded capital projects on universities' campuses**

Use of publicly-funded academic space

With the rapid expansion of the self-financed programmes within the university proper over the last decade, there has been an increasing need for students of UGC-funded programmes to share academic space with students participating in self-financed programmes, in particular in the use of classrooms, libraries, campus facilities and amenities. This has created substantial pressure on campus facilities and other campus resources. As the publicly-funded academic space is primarily intended for the use of students and staff of UGC-funded programmes, it should not, as a matter of principle, be used for self-financed activities unless there is spare capacity to do so. Universities should ensure that the use of the UGC-funded facilities for self-financed activities is contained at a scale so as not to adversely affect the normal use of the campus facilities by the students of UGC-funded programmes. In this regard, universities should conduct regular reviews on the use of the publicly-funded campus facilities to ensure that this is the case. In the longer run, universities should consider operating self-financed programmes on off-campus premises.

Privately-funded capital projects

Given the continued shortfall in universities' academic space and student hostels and the limited land space within universities' campuses, universities should ensure that the need for publicly-funded facilities has already been catered for when planning for privately-funded developments on campus. Universities are required to inform UGC of any wholly privately-funded project within campuses before its commencement, and provide a master development plan of the campus showing how their long-term requirements for publicly-funded academic space and student hostels can be met and the proposed privately-funded development will not adversely affect the campus environment. Universities should also note that the Administration will take into account their privately-funded projects when considering universities' future requests for new sites for development and it would be difficult to justify the need for new sites when there is spare capacity within campus for privately-funded developments.

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**Government Guidelines Applicable to  
UGC-funded Universities' Capital Works Projects**

The relevant technical and newly-issued circulars that may be relevant to the publicly-funded projects of the UGC-funded universities can be found at the website of Development Bureau (<http://www.devb.gov.hk>). The circulars are subject to review and update by the Government from time to time. Apart from the technical circulars, the Government issues information in respect of various building aspects – such as code of practice for energy efficiency and adoption of advanced energy saving technologies issued by the Electrical and Mechanical Services Department. Hence, the circulars listed below are not exhaustive. UGC-funded universities should check out the latest requirements promulgated by the Government from time to time, and may consult the UGC's Technical Adviser (Architectural Services Department) if necessary.

2. The more commonly-referred circulars are listed below for easy reference :

<b>Circular No.</b>	<b>Subject</b>
<b>Development Bureau Works Technical Circular</b>	
27/1983	Appointment of Nominated Sub-contractors and Specialist Contractors and the vetting of the Financial Capability of Contractors to undertake Public Works Contracts
26/1985	Provision of Land for Government Projects or Use
2/1993	Public Dumps
2/1993B	Public Filling Facilities
12/2000	Fill Management
24/2001	Simplified Tendering Arrangement for Capital Works
13/2003	Guidelines & Procedures for Environmental Impact Assessment of Government Projects and Proposals
13/2003A	Guidelines & Procedures for Environmental Impact Assessment of Government Projects and Proposals Planning for Provision of Noise Barriers
21/2003	Contract Price Fluctuation System for Civil Engineering and Building Contracts

<b>Circular No.</b>	<b>Subject</b>
30/2003	Control of Client-Initiated Changes for Capital Works Projects
19/2005	Environmental Management on Construction Sites
1/2006	Air Ventilation Assessments
4/2006	Delivery of Capital Works Projects
6/2009	Heritage Impact Assessment Mechanism for Capital Works Projects
6/2010	Trip Ticket System for Disposal of Construction & Demolition Materials
2/2011	Encouraging the Use of Recycled and other Green Materials in Public Works Projects
3/2012	Site Coverage of Greenery for Government Building Projects
2/2015	Green Government Buildings
7/2018	Management Handbook for Direct Employment of Resident Site Staff by Consultants for Public Works Projects
4/2020	Tree Preservation
12/2020	Adoption of Building Information Modelling for Capital Works Projects in Hong Kong
<b>Financial Circular</b>	
4/2010	User Guide on the Finance Committee, Establishment Subcommittee and Public Works Subcommittee
4/2012	Requirement for Project Definition Statement and Technical Feasibility Statement for Capital Works Projects
5/2014	Consultants' Fees and Resident Site Staff Costs for Works Projects
3/2016	Furniture and Equipment for Capital Works Projects Funded under the Capital Works Reserve Fund
4/2017	Optimisation of Site Utilisation for Capital Works Projects
7/2017	Capital Works Programme
3/2020	Parallel Tendering for Contracts

<b>Handbooks</b>
Architectural and Associated Consultants Selection Board (AACSB) Handbook
Engineering & Associated Consultants Selection Board (EACSB) Handbook
Project Administration Handbook for Civil Engineering Works

**Regular Reports Submitted to the Government and  
the Legislative Council on Publicly-funded Capital Works Projects**

**To the Government**

*Financial Services and the Treasury Bureau -*

- Items approved under block vote (quarterly)

*Development Bureau -*

- Contract commenced (monthly)
- Job creation update - tender planned and awarded (monthly)
- Administrative cap of capital works projects (update upon award of tender)
- Progress on submission to Legislative Council (monthly)
- Expenditure forecast for major Category A projects (monthly)
- Advanced review of cashflow estimates (annual)
- Projected monthly cashflow for capital and AA&I projects (annual)

**To the Legislative Council**

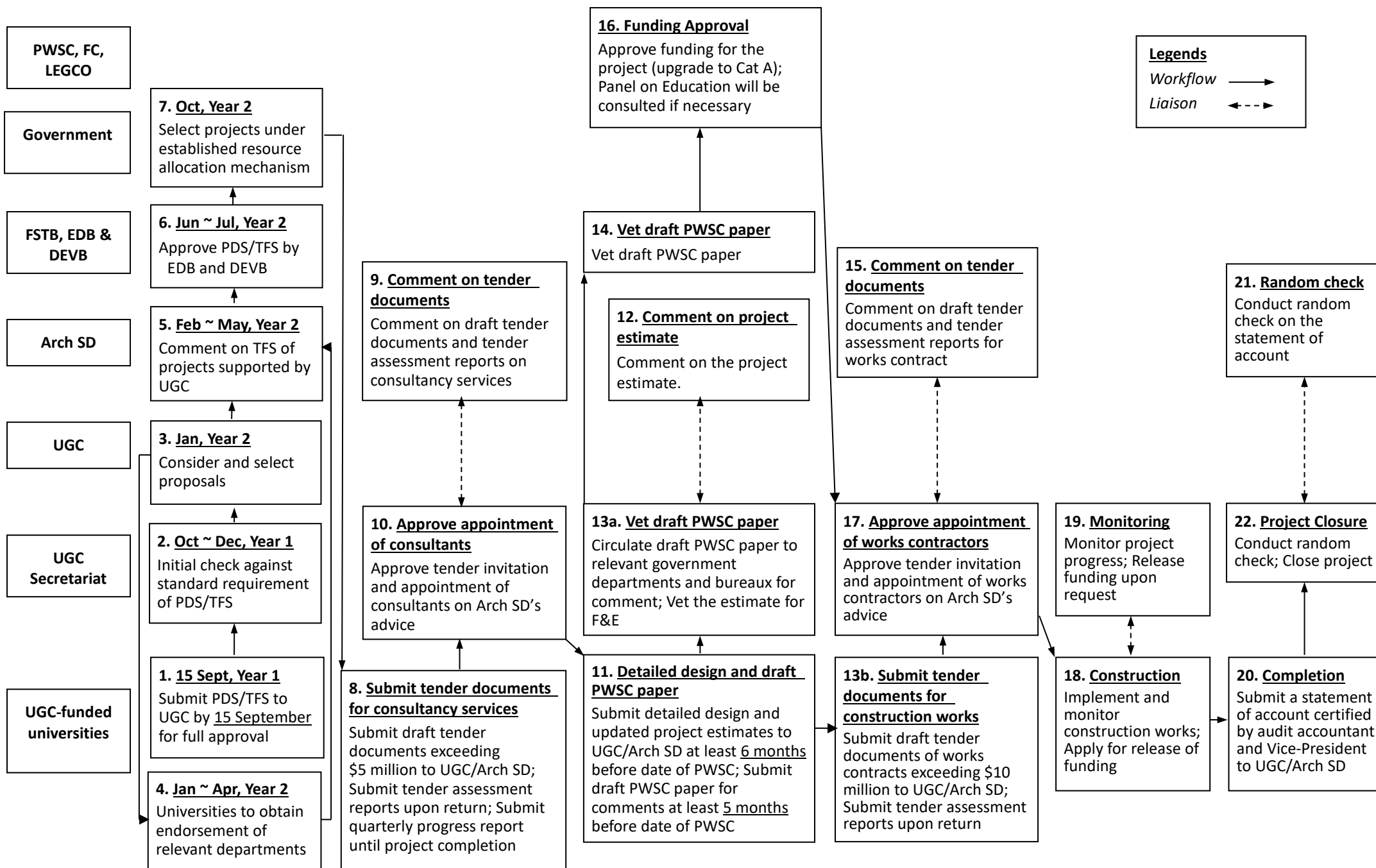
*Public Works Subcommittee -*

- Forecast of submissions for the current LegCo session
- Contracts Awarded on Major Capital Works Projects (quarterly reports)
- Expenditure under Capital Works Reserve Funds Block Allocation (quarterly reports)
- Report on Significant Deviations between Accepted Tender Prices and Estimated Provisions in the Approved Project Estimates (quarterly reports)
- Information on project completed in the last financial year
- Year-end report on submissions to PWSC
- Annual Report on Capital Works Reserve Funds Block Allocations



**Capital Grant Mechanism**  
**(Capital works projects exceeding \$50 million)**

## Involved Parties



**Checklist for Detailed Design Report and PWSC Submission – UGC-funded Project**

Detailed Design Report Submission					
Timeline	Documents to be submitted	Concerned Parties		Other supporting documents/requirements	Planned/Actual submission & approval date
		From	To		
7.5 months before PWSC meeting	Detailed design report and cost estimate	University	UGC/ ArchSD	<input type="checkbox"/> Elemental analysis with detail Schedule of Quantities and Rates <input type="checkbox"/> Outline specification with finishing schedules <input type="checkbox"/> Proprietary product list <input type="checkbox"/> Efficiency ratio calculation and floor plans with NOFA (in different space categories) and CFA.  <u>Copy of documents SUBMITTED to statutory authorities</u> <input type="checkbox"/> General Building Plans (BD, FSD, etc.) <input type="checkbox"/> Structural Framing Plans (BD) <input type="checkbox"/> Demolition Plans (BD) <input type="checkbox"/> Foundation Plans (BD) <input type="checkbox"/> Site Formation Plans, etc. (BD, GEO) <input type="checkbox"/> Tree Survey & Tree Felling/Planting Proposal (Lands D) <input type="checkbox"/> Natural Terrain Hazard Study/Plans (BD, GEO) <input type="checkbox"/> Topographical & Condition Survey Report (If necessary) <input type="checkbox"/> Traffic Impact Assessment (If necessary) <input type="checkbox"/> Drainage Impact Assessment (If necessary) <input type="checkbox"/> Heritage Impact Assessment (If necessary) <input type="checkbox"/> Preliminary Environmental Review (If necessary) <input type="checkbox"/> Copy of District Lands Conference's endorsement for land grant (for land grant)  (For <u>plans</u> submitted to statutory authorities, copy should be submitted to ArchSD, with covering letter addressed to UGC. Structural Framing and Foundation Plans in A1 size and soft copy in CD format should be submitted to ArchSD for information/comments. Submission of other drawings to UGC/ArchSD is not required unless requested.)	

Tender Submission and Assessment (for Parallel Tendering)					
Timeline	Documents to be submitted	Concerned Parties		Other supporting documents/requirements	Planned/Actual submission & approval date
		From	To		
<b>5.5 months before PWSC meeting</b>	1 <sup>st</sup> Draft of Main Contract Tender and Pre-Tender Estimate	University	UGC/ ArchSD	<input type="checkbox"/> Tender drawings (architectural, building services, structural, landscape, etc) <input type="checkbox"/> Tender documents such as front parts, bills of quantities, schedule of provisional quantities/rates, specifications, etc. <input type="checkbox"/> Furniture and equipment list incorporated in the Main Contract	
<b>3.5 months before PWSC meeting</b>	Final Draft of Main Contract Tender for tender issue out	University	UGC/ ArchSD	<input type="checkbox"/> Full set of final tender documents as described above <input type="checkbox"/> Tender invitation letter to tenderers <input type="checkbox"/> Proposed tenderers list <input type="checkbox"/> Declaration form of conflict of interest by the University and its consultants	
<b>7 weeks before PWSC meeting</b>	Tender Assessment and Recommendation Report	University	UGC/ ArchSD	<input type="checkbox"/> Revised budget table based on the recommended returned tender price <input type="checkbox"/> Tender assessment report with the University's agreement to the tender recommendation <input type="checkbox"/> Tender price opening record endorsed by the University <input type="checkbox"/> Copies of Form of Tender returned <input type="checkbox"/> Declaration form of conflict of interest by the University and its consultants	

Preparation of PWSC Submission					
<b>5 months before PWSC meeting</b>	1 <sup>st</sup> Draft PWSC paper	University	UGC/ ArchSD	<p><u>Evidence of CLEARANCE by relevant Authorities</u></p> <p><input type="checkbox"/> Public Consultation (District Office)</p> <p><input type="checkbox"/> Environmental Implications (EPD)</p> <p><input type="checkbox"/> Land Acquisition (Lands D)</p> <p><input type="checkbox"/> C&amp;D materials (CEDD)</p> <p><input type="checkbox"/> Job Creation (DEVB)</p> <p><input type="checkbox"/> Energy Conservation Measures (ArchSD/DEVB)</p> <p><input type="checkbox"/> Heritage Implications (AMO)</p> <p><u>Further Submission of Detailed Design/Cost Estimate</u></p> <p><input type="checkbox"/> Preliminary BS design including cost estimate based on approved FSI submission</p> <p><input type="checkbox"/> Justifications and further breakdown of cost estimate</p> <p><input type="checkbox"/> Breakdown of consultants' fee (AA&amp;I and project vote)</p> <p><input type="checkbox"/> Breakdown of site supervision</p> <p><u>Submission of the following draft information to CTA/SP for comment:</u></p> <p><input type="checkbox"/> Template for Estimation of Energy Saving by Energy Efficient Features and Renewable Energy</p> <p><input type="checkbox"/> EPIG Information for PWSC/FC submission</p> <p><input type="checkbox"/> Project Environmental Design Checklist</p>	

<b>12 weeks before PWSC meeting</b>	Revised Draft PWSC paper	University	UGC/ ArchSD/ (for circulation to relevant departments and onward submission to EDB/FSTB)	<u>Copies of documents APPROVED by relevant Authorities</u> <ul style="list-style-type: none"> <li><input type="checkbox"/> General Building Plans (BD, FSD, etc.)</li> <li><input type="checkbox"/> Structural Framing Plans (BD)</li> <li><input type="checkbox"/> Demolition Plans (BD)</li> <li><input type="checkbox"/> Foundation Plans (BD)</li> <li><input type="checkbox"/> Site Formation Plans, etc. (BD, GEO)</li> <li><input type="checkbox"/> Tree Felling Proposal (Lands D, LCSD)</li> <li><input type="checkbox"/> Compensatory Planting Proposal (Lands D, LCSD)</li> <li><input type="checkbox"/> Natural Terrain Hazard Study/Plans (BD, GEO)</li> </ul> <p>(For <u>plans</u> approved by relevant authorities, copy should be submitted to ArchSD with covering letter addressed to UGC. Structural Framing and Foundation Plans in A1 size and soft copy in CD format should be submitted to ArchSD for information/comments. Submission of other drawings to UGC/ArchSD is not required unless requested. )</p>	
	Draft PEd paper	UGC	EDB / FSTB	<u>Submission of the following information endorsed by the Consultant to CTA/SP for comment:</u> <ul style="list-style-type: none"> <li><input type="checkbox"/> Template for Estimation of Energy Saving by Energy Efficient Features and Renewable Energy</li> <li><input type="checkbox"/> EPIG Information for PWSC/FC submission</li> <li><input type="checkbox"/> Project Environmental Design Checklist</li> </ul> <p><u>Evidence of AGREEMENT by CTA/SP</u></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Detailed project budget estimate based on approvals from BD</li> <li><input type="checkbox"/> Detailed BS design, specification and cost estimate</li> <li><input type="checkbox"/> Detailed total project estimate based on approved drawings</li> </ul> <p><u>Confirmation of Achievement of Tender Documentation</u></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Q&amp;As completed by universities</li> </ul>	

<b>10 weeks before PWSC meeting</b>	Revised Draft PWSC Paper (as an attachment of the Panel paper if necessary)	UGC	EDB	<input type="checkbox"/> University has duly incorporated views/comments from UGC, ArchSD, EDB and FSTB, etc. into the Revised Draft PWSC Paper (For parallel tendering, University is required to prepare the revised Draft PWSC Paper & EPIG based on the recommended returned tender price.)	
<b>6 weeks before PWSC meeting</b>	Final Draft PEd paper (English and Chinese)	EDB	Clerk to PEd		
<b>18 clear days<sup>1</sup> before PWSC meeting</b>	Final Draft PWSC Paper with updates on Panel consultation results	UGC/ EDB	FSTB	<input type="checkbox"/> University has undertaken to make technical presentation to CTA/SP 10 days prior to PWSC meeting date	
<b>13 clear days before PWSC meeting</b>	Chinese version of the Final Draft PWSC Paper	UGC/ EDB	FSTB		
<b>6 clear days before PWSC meeting</b>	Delivery of the Final Draft PWSC Paper	FSTB	Clerk to PWSC		

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<sup>1</sup> The term “clear days” excludes the day of the giving of a notice, the day of the meeting and intervening Sundays and public holidays.

## **Consultants' Fees and Resident Site Staff Costs for Works Projects**

**(Adapted from Financial Circular No. 5/2014)**

Financial Circular No. 5/2014 updates the guidelines for preparing cost estimates for works or works-related consultancies and resident site staff (RSS) for inclusion in Public Works Subcommittee (PWSC) and Finance Committee (FC) submissions.

2. The guidelines of FC No. 5/2014 apply to -
- (a) projects or studies funded under the Capital Works Programme (viz. Heads 702 to 707, 708 (Capital Subvention), 709 and 711 of the Capital Works Reserve Fund), including items to be approved under FC delegated authority; and
  - (b) works-related studies and consultancies funded under the General Revenue Account where appropriate.

### **Estimates of consultants' fees and resident site staff costs**

3. Where the capital cost of a project includes consultants' fees and RSS costs, universities should identify these fees separately and provide a breakdown in an enclosure to the PWSC or FC submission.
4. Given that consultants and RSS are employed to undertake work which should otherwise be carried out by in-house staff, universities should base their fee estimates on the assumption that in-house staff will be used. The estimating process is set out at **Enclosure A**. A sample breakdown of estimates for fees for consultants and RSS for inclusion in the funding submissions is at **Enclosure B**.
5. Universities should first work out the man-month(s) of professional and technical staff required for the task concerned (viz. multiplying the number of staff and the number of man-months needed). The costs of other supporting staff (e.g. clerical and administrative staff) will be catered for through the use of a multiplier factor and need not be estimated. The estimated consultants' fees and RSS costs should be derived as follows –

$$\text{Total estimated cost} = \left[ \begin{array}{ccc} \text{Estimated} & & \text{Relevant} & & \text{Relevant} \\ \text{man-} & & \text{Master Pay} & & \text{standard} \\ \text{month(s)} & \times & \text{Scale (MPS)} & \times & \text{multiplier} \\ \text{required} & & \text{salary} & & \text{factor(s)} \\ & & \text{point(s)} & & \end{array} \right] + \text{Estimated out-of-pocket expenses (if any)}$$

6. The standard multiplier factors are -
- (a) 2.0 for staff employed in the consultants' offices, and
  - (b) 1.6 for site staff employed by the consultant.
7. In addition to the salaries of the professional and technical staff, the multiplier factors above also provide for meeting overhead costs (such as the consultants' office accommodation and other supporting staff), as well as payment of normal staff benefits (such as gratuities, housing, children's education and medical insurance). The lower multiplier factor for site staff reflects the lower overhead and accommodation costs that the consultant has to bear.
8. Universities should assess separately any out-of-pocket expenses that they would need to pay to the consultants (e.g. cost of producing a large number of reports, scale models and public consultation materials). This is particularly important in consultancies where the out-of-pocket element forms a significant proportion of the total estimated cost.
9. Universities should retain on file, in a readily accessible format, details of how the various figures, such as the number and grade of staff required, are devised. Such information may need to be provided to the Administration, PWSC or FC Members upon request.
10. The Development Bureau will from time to time update the multiplier factors in consultation with the Financial Services and Treasury Bureau (FSTB). Universities would be notified where changes are agreed.

### **Exceptions**

11. If universities wish to deviate from the standard estimation methodology set out above, they should seek comments from the UGC Secretariat who may consider seeking Works Division of FSTB's agreement. Such deviation, if agreed by FSTB, should be explained in the PWSC or FC submission with full justification.



**Guidelines for Estimating Consultants' Fees and Resident Site Staff Costs**

In preparing a breakdown of the estimates for consultants' fees and RSS costs for inclusion in PWSC or FC submissions, the following steps should be taken -

- (a) Divide the duties intended for the consultant's staff into broad categories of work, e.g. detailed design, preparation of contract documents, tender assessment, contract administration and RSS as appropriate.
- (b) Decide which professional and technical grade(s) of government staff would be used if the works were to be undertaken in-house, and choose an appropriate average MPS salary point for each grade. The average MPS adopted for each grade may vary with the type and complexity of the project. The following are suggested as typical MPS salary points -

Professional	Pt. 38
Technical	Pt. 14

These MPS salary points would generally apply to larger consultancies where the consultant employs a range of professional and technical staff. For small consultancy assignments involving only one or two individuals, it may be more appropriate to adjust the MPS salary points to reflect the actual ranks and grades of the individuals. For example, if only two professional engineers are required at the rank of senior professional, it would be more appropriate to use MPS pt. 47.

- (c) Estimate the time input in man-months required for each grade of staff to accomplish each category of work. No allowance for leave should be made.
- (d) Consider the standard multiplier factor(s) applicable for each category or the costs. On top of the salaries for the professional and technical staff, the factors also provide for overhead costs and normal staff benefits, etc. Two factors to be used are -
  - (i) 2.0 for staff employed in the consultants' offices; and
  - (ii) 1.6 for site staff supplied by the consultants.
- (e) Arrive at an estimated consultants' fee and RSS costs for the work by multiplying the monthly salary of the staff (equivalent to the MPS salary point chosen) by the man-month(s), as well as the standard multiplier factor(s).

**Sample breakdown of the estimates for consultants' fees  
and resident site staff costs**

**823TH (Part) – Tseung Kwan O – Lam Tin Tunnel**

**Breakdown of estimates for consultants' fees and resident site staff costs  
(September 2012 prices)**

			<b>Estimated Man- months</b>	<b>Average MPS* salary point</b>	<b>Multiplier (Note 1)</b>	<b>Estimated fee (\$ million)</b>
(a)	Consultants' fees for					
(i)	Detailed design and supervision of site investigation works <sup>(Note 2)</sup>	Professional	490	38	2.0	64.4
		Technical	539	14	2.0	24.2
(ii)	Preparation of tender documents and assessment of tenders <sup>(Note 2)</sup>	Professional	28	38	2.0	3.7
		Technical	30	14	2.0	1.3
					Sub-total	93.6
(b)	Resident site staff (RSS) costs <sup>(Note 3)</sup>	Professional	29	38	1.6	3.0
		Technical	55	14	1.6	2.0
					Sub-total	5.0
Comprising						
(i)	Consultants' fees for management of RSS for site investigation works				0.2	
(ii)	Remuneration of RSS responsible for site investigation works				4.8	
					<b>Total</b>	<b>98.6</b>

\* MPS = Master Pay Scale

## **Notes**

1. A multiplier of 2.0 is applied to the average MPS salary point to estimate the full staff costs of consultants' staff, including overheads and profit, as the staff will be employed in the consultants' offices. A multiplier of 1.6 is applied to the average MPS salary point to estimate the cost of resident site staff supplied by the consultants. (At present, MPS point 38 = \$65,695 per month and MPS point 14 = \$22,405 per month.)
2. The actual man-months and fees will only be known when we have selected the consultants through the usual competitive bid system.
3. The actual man-months and fees will only be known after completion of the site investigation works.

## **Requirements for Procurement of Furniture and Equipment for Subvented Capital and AA&I Projects**

### **Background**

In January 2016, the Government issued the enclosed Financial Circular (FC) No. 3/2016 “Furniture and Equipment for Capital Works Projects Funded under the Capital Works Reserve Fund”. The Circular applies to all capital works projects funded under the Capital Works Reserve Fund (CWRP), save for capital subvention projects. For capital subvention projects funded under Head 708 (Capital Subvention) of the CWRP, Controlling Officers (including SG, UGC for capital subvention to UGC-funded universities) should adhere to the requirements as far as practicable. Where necessary, the Controlling Officers may adopt the requirements to reflect established arrangements and agreements between Government and relevant subvented organisations on the procurement of furniture and equipment (F&E) items.

### **Proposed new requirements**

2. Pursuant to the requirements in the FC, the requirements need to be devised for compliance by the UGC-funded universities as follows: -

#### **Submission of indicative F&E list**

3. Paragraph 9 of the FC states that approval should be sought from the authorities (e.g. SG, UGC for capital subvention to UGC-funded universities) before procuring F&E items. As for the detailed arrangement, we would need to strike a balance in adhering to the new requirements in the FC as far as practicable and maintaining some of the current practice in vetting the F&E items for UGC-funded subvented projects.

4. As in the past, the UGC Secretariat assumes the vetting role for cost estimate on F&E. To facilitate the vetting of the project estimates for F&E provisions, when seeking approval to upgrade a capital project to Category A, universities should provide an indicative F&E list setting out – (a) the total estimated cost of F&E items (including installation cost) to be funded under the project, and (b) a breakdown of the F&E items and cost together with information explaining/justifying the standard provision for each room/space type and other special requirements as appropriate. Before

procuring F&E items, universities should submit an application form (sample at **Enclosure A1**) setting out the scope and latest programme of the project relevant to the application and the details of the proposed F&E items to be procured with justifications showing that the items are proper charge to the F&E vote. Universities should not commit funding to procure the F&E items before securing approval of the UGC Secretariat. As for AA&I projects, universities should generally follow the above requirements and submit an application form (sample at **Enclosure A2**) once funding approval has been secured from the block allocation.

5. General guidelines on preparing F&E applications are also devised at **Enclosure B** for reference.

#### Proper charge to the F&E vote

6. Generally speaking, F&E items may be charged to the F&E vote of a project if such items are: -

- (a) integral to the project concerned;
- (b) strictly essential to meet users' operational needs;
- (c) used solely in the project premises; and
- (d) not consumable or recurrent (e.g. lease line rental fee) in nature.

The allowance for F&E in a capital works project should not normally exceed 12.5% of the building costs on an ideal site and the building services costs of the project as advised by the ArchSD.

7. As a general guideline, the items which should normally be charged against the approved provision for F&E are listed at **Enclosure C**. Built-in items outside the list, such as shelving, should be charged against the provision for construction works. Items such as fume cupboards and laboratory benches should be listed separately as "Special F&E" which are to be excluded from the provision for construction works. Equipment for academic use (e.g. computers, audio-visual and electronic systems, information display system, audio mixers, visualizers, etc.) should also be listed separated as "Special F&E". Funds cannot be transferred between the F&E budget and the construction budget without UGC's approval.

#### Seeking fresh approval to change estimated F&E requirements and costs

8. Universities should seek fresh approval for procuring F&E items if: -

- (a) the cumulative cost for procurement of F&E item will exceed the ceiling in the approved F&E list;
- (b) the F&E items to be procured are markedly different (in terms of specifications or product types) from the approved F&E items (say change in size of a display unit from 42" to 65"); or
- (c) the number of units required are markedly different from the approved number (say, over/under 20%).

9. If procurement of F&E items not on the approved list is necessary, universities should also seek approval from UGC and the application should be supported by strong justifications.

10. Where it is strictly unavoidable to commit the procurement of F&E items before formal approval is secured from UGC, universities should seek in-principle approval from the UGC Secretariat before committing funds. Formal approval should be sought once the details of the F&E items are available. Where possible, universities should seek in-principle approval for procurement before inviting tenders to avoid abortive effort.

#### Post-implementation checking

11. A full and final approved F&E list for each project will be issued to the university concerned. The onus is on the university concerned to ensure compliance with the approved F&E list. Upon completion of the project, universities are required to confirm within three months after completion of the project that they had procured the items as per the approved F&E list.

#### Implementation plan

12. The new requirements should take immediate effect and apply to all new projects approved from now on.

## Enclosure A1 to Annex 5G

### SAMPLE APPLICATION

**Capital Project No. XXX**

**(Project title)**

**Application for procurement of furniture and equipment (F&E) items**

In accordance with the new requirements for procurement of F&E items for subvented capital and AA&I projects issued by UGC in November 2016/the UGC Notes on Procedures, UGC's approval is hereby sought for the procurement of F&E items estimated to cost \$XX million.

### JUSTIFICATION

#### Progress of the project

*[Note: To provide the scope and latest programme of the project. Please specify part(s) of the scope relevant to the application.]*

2.

#### Details of the proposed F&E items

*[Note: To set out in detail the proposed F&E items in form of an Excel table and to give a brief summary in the application. For change in F&E items previously approved, please indicate the items concerned and provide justifications for the change(s).]*

3. Details of the application are summarised as follows –

	F&E items under request	Estimated cost (\$ million)
(a)	<b>furniture for use at various locations</b> at the facilities, including XX, XX, XX and XX, etc.	<b>XX</b>
(b)	<b>F&amp;E items for use at offices and support the overall operation</b> of the facilities	<b>XX</b>
	<b>Total</b>	<b>XX</b>

4. [University] confirms the items listed out in paragraph 3 above are proper charges to the F&E vote as provided under the new requirements/UGC Notes on Procedures because –

- (a) the items are essential to meet operational needs;
- (b) the quantity and quality of all the proposed items are standard provisions for similar projects, e.g. XX, XX;
- (c) the cost estimated for the items is based on recent procurement / quotation.

5. Subject to funding approval to the project, [university] will procure the F&E items in accordance with the university's internal procurement procedures.

[University]

[Date]

[Signature and name of the Director of Estates]



## Enclosure A2 to Annex 5G

### SAMPLE APPLICATION

**AA&I Project No. XXX**

**(Project title)**

**Application for procurement of furniture and equipment (F&E) items**

In accordance with the new requirements for procurement of F&E items for subvented capital and AA&I projects issued by UGC in November 2016/the UGC Notes on Procedures, UGC's approval is hereby sought for the procurement of F&E items estimated to cost \$XX million.

### JUSTIFICATION

#### Progress of the project

*[Note: To provide the scope and latest programme of the project. Please specify part(s) of the scope relevant to the application.]*

2.

#### Details of the proposed F&E items

*[Note: To set out in detail the proposed F&E items in form of an Excel table and to give a brief summary in the application. For change in F&E items previously approved, please indicate the items concerned and provide justifications for the change(s).]*

3. Details of the application are summarised as follows –

	F&E items under request	Estimated cost (\$ million)
(a)	<b>furniture for use at various locations</b> at the facilities, including XX, XX, XX and XX, etc.	<b>XX</b>
(b)	<b>F&amp;E items for use at offices and support the overall operation</b> of the facilities	<b>XX</b>
	<b>Total</b>	<b>XX</b>

4. [University] confirms the items listed out in paragraph 3 above are proper charges to the F&E vote as provided under the new requirements/UGC Notes on Procedures because –

- (a) the items are essential to meet operational needs;
- (b) the quantity and quality of all the proposed items are standard provisions for similar projects, e.g. XX, XX;
- (c) the estimated costs (\$XX million) under this application can be covered by the uncommitted funds (\$XX million) under the project F&E vote; and
- (d) the cost estimated for the items is based on recent procurement / quotation.

5. [University] will procure the F&E items in accordance with the university's internal procurement procedures.

[University]

[Date]

[Signature and name of the Director of Estates]

## **Guidelines on preparing furniture and equipment applications**

### **Making the applications**

Universities should set out the requirements concisely and clearly. They should consolidate the applications as far as possible and avoid using jargon or abbreviations that laymen may have difficulty to understand. The applications should be **personally cleared and signed by the Director of Estates** level or above of the university concerned and include the following

—

- (a) **Funding source** – Universities should demonstrate that sufficient funds are available in the F&E vote. The estimated cost for F&E items for capital projects included under the “Financial Implications” of the relevant Public Works Subcommittee (PWSC) paper shall form the ceiling of all F&E items to be procured under the project subhead (viz. F&E vote). For AA&I projects, the approved estimates for F&E items shall be the ceiling of all F&E items to be procured.
- (b) **Description** – Universities should clearly set out the functions, specifications and locations for which the F&E items are to be installed (if applicable). Reference photos for specialist equipment should be provided.
- (c) **Justifications** – Universities should demonstrate how the F&E items are essential for their operation. Universities must ensure that the F&E items are proper charge to the F&E vote and no excessive or extravagant items are included. Universities shall duly consider the possibility of shared use of items as well as re-use of existing serviceable items. Universities should demonstrate that the F&E items requested are comparable, in terms of quality, quantity and cost to other similar projects.
- (d) **Cost estimates** – Universities should provide the unit cost and total cost of each item in the applications and explain the basis of the estimated cost (e.g. tender prices, quotation, referencing recently procured items and standard on-cost chargeable). On-cost, if any, should be separately listed out.

- (e) Procurement – Universities should confirm that the relevant internal procurement procedures would be observed if applicable. The target dates of approval and procurement should also be specified.

2. The use of proprietary items should be avoided. Exceptions should be justified. For F&E items required for outsourced services, if applicable, universities should ensure that there will be no double provision of the F&E items.

3. Universities should allow approving authorities a reasonable period, generally no less than 20 working days and more time for large-scale and complicated projects, for processing and vetting. For F&E systems involving builder's work, universities should allow adequate time to secure approval of the F&E application to avoid abortive works on site.

**Typical items that may be charged to the  
Furniture and Equipment vote of a works project  
(for illustration purpose)**

The following items should normally be charged against the approved provision for furniture and equipment (F&E) in a works project. Items not on the list may be charged to the provision for building or building services items of the works project as appropriate while some other items may not be charged to the works project at all.

1. Furniture and appliances - desks, chairs, sofas, benches, partition screens, workstation panels, conference tables, coffee tables, cabinets, bookshelves, newspaper racks, pool and park furniture, task lights, safes, closets, cupboards and lecture theatre seating, etc. Fixture, e.g. built-in shelves, counters and cabinets may be charged to building item of the project.
2. Equipment for office use - photocopiers, telephone system, fax machines, paper shredders, projectors and screens, printers and computers, etc. Provision of cable containment and power supply for F&E, information technology and other specific systems, e.g. trunkings, conduits and sockets, may be charged to building services item of the project. Provision of information technology backbone system may be charged to a separately identified item under the project vote.
3. Equipment for academic use<sup>1</sup> – computers, audio-visual and electronic systems, information display system, projectors, audio mixers, visualizers, microphone sets and writing panels, etc.
4. Domestic type appliances - cookers, refrigerators, microwave ovens, water boilers, washing machines and dryers, etc. (but not industrial type catering equipment which may be charged to building services item of the project).
5. Residential F&E for student hostels.
6. Others - library equipment, building maintenance equipment (except gondolas which may be charged to building item), vending machines, lockers, sports equipment, blinds, curtains, low level or free standing demountable partitioning, signs, name plates and notice boards, etc. Loose items that are easily portable should not be charged to the F&E vote of the project. Examples of loose items include blankets, pillow cases and bed sheets for student hostels (whereas beds and mattresses are proper F&E charges), first aid box, digital camera and hand tools, etc.

---

<sup>1</sup> Equipment for academic use should be listed separately as “Special F&E”.

**Monthly Financial Statement - Capital Works Projects**

University \_\_\_\_\_ For the month ending \_\_\_\_\_

Project code	Project Name	Project Estimate		Amount committed**	Payment made by non-government fund	Payment made / to be made by government fund			Amount of government fund received / to be received			Balance (government fund drawn) (g)=(f)-(c)	Any major variation ordered for the month reported (Y/N)
		Approved government fund	Non-government fund*			Up to end of current month (a)	Projection for the following month (b)	Total (c)=(a)+(b)	Up to end of current month (d)	Application for following month (e)	Total (f)=(d)+(e)		
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
<b>Total</b>													

\* As a general rule, non-government fund should be spent before government fund.

\*\* Amount committed should include all contracts awarded, purchase orders issued, etc.

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Post Title: Director of Finance/Bursar/Comptroller<sup>#</sup>

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Post Title: Director of Estates/Campus Development/Planning/Facilities Management<sup>#</sup>

Date: \_\_\_\_\_

*# please delete/amend as appropriate*

## Application for Release of Funds – Capital Works Project

University \_\_\_\_\_ Project \_\_\_\_\_ For the month of \_\_\_\_\_

Expenditure Item (as approved by LegCo)	Project Estimate		Amount committed**	Payment made by non- government fund*	Payment made / to be made by government fund			Amount of government fund received / to be received			Balance (government fund drawn) (g)=(f)-(c)
	Approved government fund	Non- government fund*			Up to end of current month (a)	Projection for the following month (b)	Total (c)=(a)+(b)	Up to end of current month (d)	Application for following month (e)	Total (f)=(d)+(e)	
(i)	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
(ii)											
(iii)											
(iv)											
(v)											
(vi)											
(vii)											
(viii)											
(ix)											
<b>Total</b>											

\* As a general rule, non-government fund should be spent before government fund.

\*\* Amount committed should include all contracts awarded, purchase orders issued, etc. If the amount committed exceeds the approved project estimate, any shortfall should be met by university's non-government fund.

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Post Title: Director of Finance/Bursar/Comptroller<sup>#</sup>

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Post Title: Director of Estates/Campus Development/Planning/Facilities Management<sup>#</sup>

Date: \_\_\_\_\_

*# please delete/amend as appropriate*

**Variation Order Checklist for UGC AA&I Projects (V.O. >\$800,000)**

University: \_\_\_\_\_

Project title: \_\_\_\_\_

Draft Variation Order (V.O.) No. \_\_\_\_\_

Description of the work as stated in V.O. :  
\_\_\_\_\_Background Information / Scope of V.O. Works / Reason for the Change:  
  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Estimated Cost Implication: \_\_\_\_\_

Remaining Contract Contingencies after this variation is ordered: \_\_\_\_\_

Programme Implication: \_\_\_\_\_

	<b>Yes</b>	<b>No</b>	<b>N.A.</b>
(1) Is the proposed variation within the approved scope of works of the AA&I project?	<input type="checkbox"/>	<input type="checkbox"/>	
(2) (a) Does the proposed variation cover both subvented and non-subvented works?	<input type="checkbox"/>	<input type="checkbox"/>	
(b) If the answer to (2)(a) is yes, has the estimated cost of this V.O. been splitted into subvented and non-subvented portions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(3) (a) Will the approved project estimate of the project be exceeded as a result of the proposed variation?	<input type="checkbox"/>	<input type="checkbox"/>	
(b) If the answer to (3)(a) is yes, will the shortfall be met by the university's own funding?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(4) Does the works of the subventable portion involve any works above the normal subvention standard (such as finishes and materials)?	<input type="checkbox"/>	<input type="checkbox"/>	
	<b>Yes</b>	<b>No</b>	<b>N.A.</b>



<p>(5) (a) Does the proposed variation (of the subventable portion) involve modification / correction / demolition and reconstruction of newly constructed works under the same AA&amp;I project leading to abortive works?</p> <p>(b) If the answer to (5)(a) is yes, has the responsibility been established and the relevant costs apportioned (and met by the university's own funding) accordingly?</p> <p>(6) (a) Will the proposed variation cause any extension of time / claim for loss and expense be granted/ paid to the contractor?</p> <p>(b) If the answer to (6)(a) is yes, will the payment for the claim of loss and expense be met by the subvented funding of the project?</p>	<table border="0"> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td></td> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td></td> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Signature:

\_\_\_\_\_

Name : \_\_\_\_\_

Director of Estates/Campus Development/Facilities Management #

Date : \_\_\_\_\_

# please edit/delete as appropriate

**Name of University**

**Project Name**

## **Statement of Final Accounts**

## I. Expenditures

<b>Items</b> <b>(As approved by UGC/LegCo)</b>	<b>Approved Project Estimate</b>		<b>Actual Expenditure</b>	
	<b>Government Funding (\$)</b>	<b>Private Funding (\$)</b>	<b>Government Funding (\$)</b>	<b>Private Funding (\$)</b>
<b>TOTAL:</b>				

## **II. Summary of Income (UGC-funded portion)**

	Amount (\$)	Reference
Total UGC funds received		
Total expenditure - UGC-funded portion		
<b>Balance</b>		
<b>Amount refunded to UGC</b>		
<b>Amount to be refunded to UGC</b>		

I confirm that this Statement of Final Accounts is correct and all the expenditures have been paid.

Name

Date \_\_\_\_\_

*Director of Finance/Bursar/Comptroller<sup>#</sup>*

*Name of University*

I confirm that this Statement of Final Accounts is correct and all the expenditures incurred are within the approved project scope.

---

*Name*

---

*Date*

*Director of Estates/Campus Development/Planning<sup>#</sup>*

*Name of University*

I certified that this Statement of Final Accounts is correct and all the expenditures incurred are within the approved project scope. The auditor's report for this capital works project is attached for reference<sup>#</sup>.

---

*Name*

---

*Date*

*Vice-President/Pro-Vice-Chancellor*

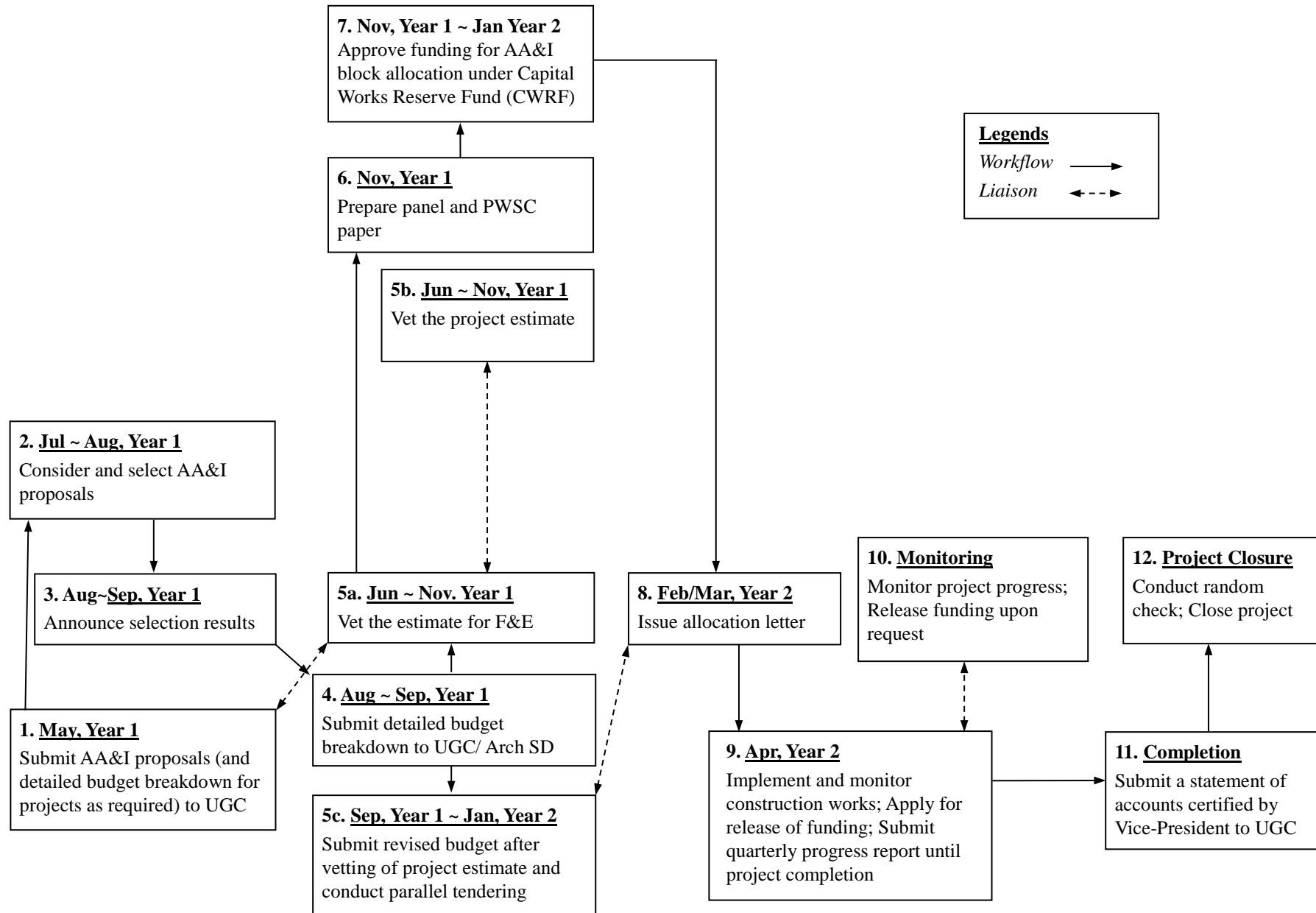
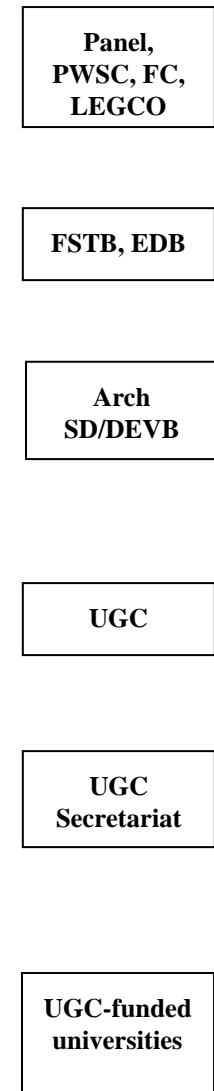
*Name of University*

*# please delete as appropriate*

**AA&I Block Allocation Mechanism**  
**(Works projects not exceeding \$50 million)**

**Annex 5K**

**Involved Parties**



## Alterations, Additions, Repairs and Improvements (AA&I) Proposals

Institution: \_\_\_\_\_

Priority No: \_\_\_\_\_

Project Title (English) : \_\_\_\_\_

Project Title (Chinese) : \_\_\_\_\_

Start Date : \_\_\_\_\_ (MM/YYYY)

Completion Date : \_\_\_\_\_ (MM/YYYY)

Possibility to advance the project with majority of funds spent before end of March [current year]: (Yes/No)

*Note: By completing and submitting this form to the UGC Secretariat, the University hereby confirms that the AA&I proposal is endorsed or supported by its Council, either directly by the Council itself or through properly delegated authorities to (i) any committees or bodies under the Council or (ii) senior management of the University.*

### A. Project Brief

Location of Works and Area Affected (CFA)	Scope of Works	Justification	Age of the Premises Concerned and Brief of Works in Past 15 Years
<i>Building name / location plan / brief drawings of areas and works involved; CFA of affected area (Please indicate if the premise is privately-funded).</i>	<i>Please list out works items to be covered by the project.</i>	<b><i>Please provide the following information and elaborate in details in support of the project:</i></b> <ul style="list-style-type: none"> <li>- <b><i>Years of services of the premises/facilities concerned and the current condition;</i></b></li> <li>- <b><i>Existing uses with details (e.g. user department and functions) and problems;</i></b></li> <li>- <b><i>Proposed uses with details (e.g. in support of specific user department/programme/academic and/or research activities);</i></b></li> <li>- <b><i>Urgency and cost-effectiveness of the proposal (e.g. whether there is possibility of re-prioritisation and re-deployment of resources);</i></b></li> <li>- <b><i>Floor plans/photos as attachment showing existing and proposed layout; and</i></b></li> <li>- <b><i>Other supporting information (e.g. guidelines/letters from the relevant authorities).</i></b></li> </ul>	<i>State the month and year in which the premises were built; If AA&amp;I works were conducted in the premises in the past 15 years, state the project number and title as well as justifications for conducting works within 15 years.</i>

**B. Space Change <sup>(a)</sup>**

	CFA (m <sup>2</sup> ) <sup>(b)</sup>	NASM (m <sup>2</sup> ) <sup>(b)</sup>											Non-Assignable Area (m <sup>2</sup> ) <sup>(b)</sup>
		Class-room	Study Space	Teaching Laboratory	Open Laboratory	Research Laboratory	Offices	Library	Indoor Sports	Student & Staff Amenities	Support	Un-classified	
Existing													
After Works Completion													

**C. Project Estimate<sup>(c)</sup>** This table needs to be completed, detailed breakdown may be submitted as attached if necessary

Item	Estimated Cost (\$ million) <sup>(d)</sup>
(i) Building works <sup>(e)</sup> (ii) Building services <sup>(e)</sup> (iii) Demolition works <sup>(e)</sup> (iv) External works and drainage <sup>(e)</sup> (v) Slope works <sup>(e)</sup> (vi) Furniture and equipment (vii) Professional fees <sup>(f)</sup> (viii) Contingencies Less contribution by University (if applicable)*	
Total:	

\* details should be provided (e.g. to cover 50% of the cost involving privately-funded space for UGC-funded activities and/or self-financed hostel places)

**D. Estimated Cashflow<sup>(d)</sup>**

Financial Year	[first year of implementation] (\$ million) <sup>(d)</sup>	[second year of implementation] (\$ million) <sup>(d)</sup>	[last year of implementation] (\$ million) <sup>(d)</sup>
Estimated Cashflow			

For project possible for advance implementation in [current financial year], please also provide the estimated cashflow below -

Financial Year	[first year of implementation] (\$ million) <sup>(d)</sup>	[second year of implementation] (\$ million) <sup>(d)</sup>	[last year of implementation] (\$ million) <sup>(d)</sup>
Estimated Cashflow			

Notes

- (a) For hostel project, please fill in the CFA only.*
- (b) Please round the figure to the nearest integer.*
- (c) The project estimate should be in September [current year] prices (estimated).*
- (d) Accept up to max. 3 decimal places.*
- (e) Preliminaries should be included in respective works.*
- (f) Professional fees are mainly for consultancy services. Only under very special circumstances will resident site staff be supported.*
- (g) The maximum timeframe for completion of AA&I projects is 3 years.*

**Monthly Financial Statement – AA&I Projects**

University \_\_\_\_\_ For the month ending \_\_\_\_\_

Project code	Project Name	Project Estimate		Amount committed**	Payment made by non-government fund	Payment made / to be made by government fund			Amount of government fund received / to be received			Balance (government fund drawn) (g)=(f)-(c)	Any major variation ordered for the month reported (Y/N)
		Approved government fund	Non-government fund*			Up to end of current month (a)	Projection for the following month (b)	Total (c)=(a)+(b)	Up to end of current month (d)	Application for following month (e)	Total (f)=(d)+(e)		
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		
Total													

\* As a general rule, non-government fund should be spent before government fund.

\*\* Amount committed should include all contracts awarded, purchase orders issued, etc.

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Post Title: Director of Finance/Bursar/Comptroller<sup>#</sup>

Post Title: Director of Estates/Campus Development/Planning/Facilities Management<sup>#</sup>

Date: \_\_\_\_\_

Date: \_\_\_\_\_

*# please delete/amend as appropriate*



## Application for Release of Funds – AA&I Project

University \_\_\_\_\_ Project \_\_\_\_\_ For the month of \_\_\_\_\_

Expenditure Item (as approved by UGC)	Project Estimate		Amount committed**	Payment made by non- government fund*	Payment made / to be made by government fund			Amount of government fund received / to be received			Balance (government fund drawn) (g)=(f)-(c)
	Approved government fund	Non- government fund*			Up to end of current month (a)	Projection for the following month (b)	Total (c)=(a)+(b)	Up to end of current month (d)	Application for following month (e)	Total (f)=(d)+(e)	
(i)	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
(ii)											
(iii)											
(iv)											
(v)											
(vi)											
(vii)											
(viii)											
(ix)											
<b>Total</b>											

\* As a general rule, non-government fund should be spent before government fund.

\*\* Amount committed should include all contracts awarded, purchase orders issued, etc. If the amount committed exceeds the approved project estimate, any shortfall should be met by university's non-government fund.

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Post Title: Director of Finance/Bursar/Comptroller<sup>#</sup>

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Post Title: Director of Estates/Campus Development/Planning/Facilities Management<sup>#</sup>

Date: \_\_\_\_\_

*# please delete/amend as appropriate*

## ***Chapter 6 – Data Collection and Returns***

### **Introduction**

6.1 The UGC requires information about the activities of the UGC-funded institutions for a variety of purposes, including assessment of recurrent and capital funding requirements, monitoring progress, advising on academic developments generally, monitoring of recurrent and capital expenditure, monitoring progress and expenditure on RGC-funded research projects, reporting to the Government, the Legislature and the public, *etc.* Much of this information is statistical in nature and the UGC has accordingly developed a Common Data Collection Format (CDCF), which is designed to collect statistical data from the UGC-funded institutions in a common, computer-processable form for all UGC and RGC purposes. The data so collected also enables many ad hoc questions to be answered without further enquiry with the institutions.

6.2 In addition to the provision of statistical data to the UGC via the CDCF, the institutions are also required to submit certain periodic financial returns in respect mainly of their publicly funded activities. All institutions are also legally obliged to produce and publish audited annual accounts.

6.3 As far as possible, the UGC does not call for additional information from the institutions unless such information is required for a specific purpose.

### **Common Data Collection Format**

6.4 In order to streamline the CDCF data collection and processing, and reduce the administrative burden on institutions, a CDCF Datamart computer software has been developed. Under the CDCF datamart, institutions submit computer-processable forms to the Secretariat via a web-based interface and the data are then validated and processed by the system automatically.

6.5 The CDCF consists of the following 5 series of tables:

- (a) General tables
- (b) Staff tables
- (c) Student tables
- (d) Finance tables
- (e) Research tables

The coverage, definitions and classifications of the data in different series of tables are reviewed on an annual basis so as to provide the data needed for the development of the

UGC sector. Consequential to each annual review, the list of tables for each series together with the schedule for submission, the information required for each table and the definitions and classifications will be updated and provided to the institutions for data collection.

## ***Chapter 7 – Reporting, Audit and Assurance***

### **Reporting**

#### *Financial Statements*

7.1 Institutions are required to keep proper accounting records. In preparing statements of its income and expenditure and of its assets and liabilities, institutions should follow the Hong Kong Financial Reporting Standards<sup>1</sup> (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) from time to time and, where appropriate, the guidelines and requirements in the Statement of Recommended Practice for the UGC-Funded Institutions (“SORP”)<sup>2</sup>.

7.2 Institutions are required to disclose in their financial statements statistics, in bands of \$150,000, on the number of highest paid staff member(s) whose total annual equivalent remuneration in that reporting year exceeds \$1,800,000, irrespective of the funding sources. The highest paid staff member(s) should also be disclosed in appropriate bands (e.g. \$4,950,000 to \$5,100,000 but not >\$3,600,000).

7.2A To enhance financial transparency, institutions are required to provide *segment reporting* information in their financial statements for the accounting period commencing 1 July 2016. Details of the requirements are set out in the SORP. Institutions are also required to disclose the interests in *all* subsidiaries, associates and joint ventures, irrespective of their materiality. The information to be disclosed should follow the requirements in the prevailing HKFRS.

7.3 Institutions should make reasonable arrangements to make copies of their audited financial statements publicly available. Institutions are requested to provide UGC with **35** copies of the audited financial statements for distribution to UGC members and for internal use by the Secretariat, within 4 months after the year end. Of these, two copies would be sent to the Government (Secretary for Education and Director of Audit).

#### *Annual Return on the use of UGC funds*

7.4 Institutions shall only use UGC funds for the activities eligible for funding as specified in the allocation letters. For the purpose of management on the use of UGC funds, institutions are required to submit to the UGC, within 4 months after the financial year end, an annual return showing the income and expenditure of the UGC funded activities which should reflect the practices required in paragraphs 7.6 to 7.15 and the **Annex 7A**. The annual return should be prepared in accordance with the same accounting practices as for the institutions’ audited financial statements except

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<sup>1</sup> The Hong Kong Financial Reporting Standards include all HKFRS, Hong Kong Accounting Standards (HKAS), and Interpretations issued by the HKICPA.

<sup>2</sup> The SORP is accessible on UGC’s website.

otherwise for compliance with the requirements of this Chapter.

7.5 The Annual Return shall comprise three parts. The first part on Recurrent Grants other than Earmarked Grants for Specific Purposes, the second part on Earmarked Grants for Specific Purposes, capital grants and all other UGC grants, and the third part on Matching Grant Schemes. A sample of the format and details of the Annual Return is set out in **Annex 7A**.

#### Recurrent Grants other than Earmarked Grants for Specific Purposes

7.6 Institutions are required to account for under this heading the Block Grants, Earmarked Recurrent Grants and Supplementary Grants/Adjustments from the UGC, and tuition fees and other income including fees, rental income, etc derived from the UGC-funded activities or the use of UGC-funded resources (e.g. buildings) and expenditure of UGC-funded activities funded by such income. Any surplus/deficit should be transferred to the General and Development Reserve Fund or dealt with as Amount Refundable of Unspent Recurrent Grants<sup>3</sup> to UGC (please see paragraphs 7.7 to 7.12).

#### General and Development Reserve Fund

7.7 To encourage longer-term planning and prudent financial management and to encourage institutions to save up for future and new developmental needs, institutions are allowed to make allocations from the surplus mentioned in paragraph 7.6 above to a General and Development Reserve Fund (“GDRF”) to carry over unspent funds from one funding period (usually a triennium) to the next. Such allocation should not affect the calculation of student unit cost for the purpose of determining the recurrent funding requirements of the institutions and the tuition fee levels. The balance of the GDRF at the end of a funding period (usually a triennium) that can be carried over to the next funding period should not exceed 20% of the institution’s approved Recurrent Grants other than the Earmarked Grants for Specific Purposes for that funding period ending (i.e. 20% of the total of the Block Grants and/or Earmarked Recurrent Grants of the funding period ending plus or minus any Supplementary Grants/Adjustments made during the funding period as appropriate).

7.8 Should the balance of the GDRF at the end of the funding period (usually a triennium) exceed the ceiling allowed (paragraph 7.7) for that funding period, the excess should be transferred to Amount Refundable of Unspent Recurrent Grants<sup>3</sup> to UGC pending the recovery by the UGC at the end of the funding period.

7.9 The use of the GDRF should be subject to the same rules and regulations governing the use of Recurrent Grants. For any institution funded by Earmarked Recurrent Grants instead of the Block Grants, the account of the GDRF should show separately the balance of the allocations under each of the agreed expenditure headings (pursuant to the requirements set out in Annex 4A) to ensure that they will be spent within the ambit of the original headings from which the allocations were set aside.

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<sup>3</sup> Recurrent Grants other than earmarked grants for specific purposes.

7.10 Spending from the GDRF constitutes part of the spending of UGC funds. Notwithstanding paragraphs 7.7 and 7.8, institutions should notify the UGC Secretariat the balance of their GDRF at the end of each funding period, even if the allowed maximum limit has not been exceeded.

7.11 While the availability of GDRF or otherwise will not affect the Government's calculation of student unit cost for the purpose of determining overall recurrent funding to UGC-funded institutions and the tuition fee levels, the interest/investment income generated by the GDRF will be treated as part of the assumed income in determining the institutions' net funding requirements.

7.12 When the institutions' audited financial statement and the annual return for the last year of each funding period (usually a triennium) have been produced, the UGC Secretariat will consider the movement and balance of GDRF at the period end date and, after confirmation with the institution on the amount refundable to the UGC, if any, report that to the Government. Recovery of any balance refundable to the UGC will normally be made by deduction from subsequent monthly grant releases.

#### Earmarked Grants for Specific Purposes

7.13 A separate record should be kept for each Earmarked Grant for Specific Purposes. Where the Earmarked Grant for Specific Purposes is approved on a budget involving other income, such other income should also be accounted for in the same record (e.g. royalties from a research or registration fee for holding a conference, private sponsorship secured for the project etc). Earmarked Grants for Specific Purposes should only be debited with expenditure solely for the specific purposes as set out in the grant allocation letters. As provided in paragraph 4.15, any surplus (net of any refund to donors or sponsors if applicable) after the completion of the project has to be returned to the UGC. Any shortfall should be absorbed by the other funds (private funds or UGC recurrent funds, except Earmarked Grants made for other purposes) of the institutions.

#### Capital Grants

7.14 A separate record should be kept for each capital project with an approved Capital Grant. Capital Grant should only be charged with expenditure for the project in accordance with the approved scope as specified in the relevant approval by the Finance Committee or the Government under delegated authority. Where the approved capital project is also funded by donation, etc the designated funding should also be accounted for as income in the same project account. Any surplus of Capital Grant plus such designated funding over the total expenditure of the project after the completion of the project has to be returned to the Government via UGC. Any shortfall must not be charged to the UGC funds.

#### Matching Grant Schemes

7.15 Matching Grant Schemes have been arranged to assist UGC-funded institutions in strengthening their fundraising capabilities and to encourage the growth

of a philanthropic culture in the community. Private donations have been matched by government matching grants in accordance with the terms and conditions of the Schemes. The matching grants and the matched donations should only be spent in accordance with the rules set out in the Operating Guide to the Matching Grant Schemes.

### *Report of the Council*

7.15A In line with good practice in institutional governance, institutions are required to include in their Annual Reports a *Report of the Council* in which a commentary on the institution's financial performance, its expected future development and prospects, institutional governance arrangements and details of institution's management structure and committees' responsibilities, etc are presented alongside the financial statements. Details of the disclosure requirement are set out in the SORP.

## **Audit and Assurance**

### *Assurance from External Auditors to UGC*

7.16 In addition to the annual audits of the financial statements of the institutions, each of the institutions is required to have a separate assurance engagement carried out by its external auditors on the Annual Return prepared pursuant to paragraphs 7.4 and 7.5. The external auditors should conduct the engagement in accordance with Hong Kong Standard on Assurance Engagements issued by the HKICPA, and should express a conclusion as to:-

- (a) whether the institution has, in all material respects, accounted for the income and expenditure in respect of the funds received from the University Grants Committee in the Annual Return in accordance with the requirements of this Chapter; and
- (b) whether there is any material exception including fraud, errors, use of funds not in accordance with the purposes specified in the UGC Allocation Letters or other non-compliance of the guidelines and other relevant documents issued by the UGC to the institution (e.g. conditions of matching grants etc.) that come to their attention when carrying out their engagement. The assurance report should be submitted to the UGC.

### *Value for Money Audit*

7.17 In order to strike a balance between institutional autonomy and monitoring of efficient use of public funds, it was agreed that examination of institutions' records by the Director of Audit should be done, subject to certain safeguards as follows:

- (a) the Director of Audit has the right to raise queries on a management efficiency audit, and on related matters;

- (b) the Director of Audit has no right, whether on his own initiative or under instruction, to question academic decisions properly taken – but the Government has the right through the Chief Secretary for Administration to raise academic and related matters with the UGC; and
- (c) all queries and correspondence, in both directions, must be copied to the UGC.

7.18 The decision as to which and when, an institution, or institutions, should be examined, is a matter for the Director of Audit.

### *Certificate of Accountability*

7.19 To provide further assurance of the proper use and application of public funds as represented in the audited financial statements and the annual return, Heads of Institutions are requested to provide a Certificate of Accountability (specimen at **Annex 7B**) to the UGC annually, after the close of each financial year, to confirm that public funds allocated via the UGC and matched donations under the Matching Grant Schemes had been spent in accordance with the UGC Notes on Procedures, allocation letter and other guidelines and approved Government policies.



**Annual Return on the Use of UGC Funds**

For the Year Ended 30 June 200B

(A) Recurrent grants other than Earmarked Grants for Specific Purposes, Capital Grants and Other Grants

	200B	200A
	\$	\$
<b><u>Income</u></b>		
Block Grant/Earmarked Recurrent Grant	xxx	xxx
Supplementary Grant	xxx	xxx
Tuition Fees	xxx	xxx
Other Fees	xxx	xxx
Investment/Interest Income	xxx	xxx
Other Income	xxx	xxx
Total Income	xxx	xxx
<b><u>Expenditure</u></b> (Note 1, 2 & 3)		
Staff Cost and Benefits	xxx	xxx
Expenditure Capital in nature	xxx	xxx
Other Operating Expenditure	xxx	xxx
Funds set aside for Research Projects	xxx	xxx
Total <u>Expenditure</u>	xxx	xxx
Balance for the year (Note 4)	xxx	xxx
Transfer to General and Development Reserve Fund (Note 4)	xxx	xxx
Transfer to Amount Refundable to UGC (Note 4)	xxx	xxx

**Annex 7A**

- (B) For each outstanding Earmarked Grants for Specific Purposes, Capital Grants and other grants (e.g. Matching Grants, Reimbursement of Government Rent and Rates etc.)

Name of Grant	Balance as at 1 July 200A  \$'000	Addition			Application				Balance as at 30 June 200B <sup>(Note 5)</sup>  \$'000
		Grants Received  \$'000	Other Income  \$'000	Transfer from other Institution \$'000	Expenditure  \$'000	Transfer to other Institution \$'000	Amount Refunded to UGC \$'000	Amount to be Refunded to UGC \$'000	
Earmarked Grants (by grant/category/ project)									
Capital Grants (by project)									
Central Allocation Vote Projects (by project)									
Matching Grants									
Reimbursement of Rates and Government Rent									
Other Grants (please provide details)									
Total									

Note 1: For earmarked recurrent grant funded institutions, please provide supporting statement to breakdown the expenditure in the agreed expenditure headings as set out in the grant allocation letter.

Note 2: For the purpose of this return, expenditure though capital in nature (e.g. purchase cost for equipment) should be included but no depreciation charge should be provided for.

Note 3: The net expenditure after offsetting overhead recovered should be shown.

Note 4: Please provide a reconciliation statement if the sum is different from that reported in the audited financial statement.

Note 5: Please provide a reconciliation statement if the sum is different from the deferred income included in the Audited Financial Statement.

**Annex 7A****(C) Funds for the Matching Grants Schemes**

<b>Year : 201X/1Y</b>	<b>UGC-funded Operations</b>		<b>Self-financing Operations*</b>	
	Matching Grants	Matched Donations	Matching Grants	Matched Donations
Balance at the Beginning of the Year	xxx	xxx	xxx	xxx
Income				
Donations / Grants	xxx	xxx	xxx	xxx
Interest / Investment Income	xxx	xxx	xxx	xxx
	xxx	xxx	xxx	xxx
Expenditure (Note)				
Teaching and Research Enhancement	xxx	xxx	xxx	xxx
Internationalization and Student Exchange Activities	xxx	xxx	xxx	xxx
Scholarships and Prizes	xxx	xxx	xxx	xxx
Bursaries	NA	xxx	NA	xxx
Student Development	xxx	xxx	xxx	xxx
Capital Projects	NA	xxx	xxx	xxx
Others	xxx	xxx	xxx	xxx
	xxx	xxx	xxx	xxx
Balance at the End of the Year	xxx	xxx	xxx	xxx
(Note):				
Expenditure by level of study				
Sub-degree operations	xxx	xxx	xxx	xxx
Degree and above	xxx	xxx	xxx	xxx
	xxx	xxx	xxx	xxx

NA = Not Applicable

\* including self-financing operations under institution proper and its extension arm(s), if any.

Dear Chairman,

**Certificate of Accountability**

I confirm to the best of my knowledge and belief, and having made enquiries of the officers of the Institution, the following Certificate of Accountability given to you in connection with the public funds allocated via the UGC and the matched donations under the Matching Grant Schemes for the financial year ended 30 June 20.....

- (a) I acknowledge as Vice-Chancellor/President my responsibility for the financial statements. All the transactions have been properly reflected in the audited financial statements of the University;
- (b) All public funds allocated via the UGC and the matched donations had been spent in accordance with the UGC Notes on Procedures and other guidelines and approved Government policies;
- (c) I confirm that the transactions of the University on recurrent grants, capital grants, reimbursement of rates and Government rent, and any other grants/funds obtained from the UGC and the matched donations for the said financial year are properly summarized and reflected in the Annual Return submitted to the UGC; and
- (d) I confirm that all the unspent balances of public funds allocated through the UGC are listed in the attachment.

Yours sincerely,

Head of Institution

**Unspent Balances of Public Funds allocated via UGC  
as at 30 June 200B**

	Balance as at 1 July 200A	Additions during the year	Application during the year	Unspent balance as at 30 June 200B
	\$m	\$m	\$m	\$m
Earmarked Grants (by grant)				
Capital Grants (by project)				
Central Allocation Vote Projects (by project)				
Matching Grants				
Reimbursement of Rates and Government Rent				
Other Grants (please provide details)				
Amount Refundable of Unspent Recurrent Grants to UGC (please refer to para. 7.8)				
General and Development Reserve Fund				

I confirm that all the unspent balances of public funds allocated via the UGC are represented by the above.

Head of Institution

## ***Chapter 8 – Communication and Correspondence***

### *Introduction*

8.1 The UGC is the principal channel of communication between the Government and the UGC-funded institutions. The UGC communicates with the Government mainly through the Education Bureau (EDB) and the Financial Services and the Treasury Bureau. While the Secretariat, as a Government department, comes under the policy and housekeeping responsibility of the EDB, Secretary-General and Secretariat staff are responsible to the UGC for the operation of the Secretariat. The Secretary-General is the Controlling Officer of Head 190 University Grants Committee and is accountable for expenditure under this Head.

8.2 As set out in General Regulations 760 to 762, Government bureaux and departments may have direct contact with the institutions on matters which are their direct responsibility. These matters normally cover the following areas:

- (a) legislative matters regarding the institutions' ordinances;
- (b) performing functions and exercising powers as provided for in the institutions' ordinances;
- (c) land matters;
- (d) contracts for services rendered;
- (e) course/programme commissioning (other than the ones which are totally self-financed);
- (f) formulation and implementation of education policies; and
- (g) implementation of Government's statutory functions.

Where appropriate and particularly on matters which are likely to have funding implications for the institutions, the UGC should be kept informed and/or be consulted before final decisions are taken.

8.3 Government Secretariat Bureaux and Departments may have specific requests for the institutions to provide academic courses or training to meet specific manpower needs, and they may discuss possibilities for such courses or training informally with individual institutions. However, any formal request for the introduction of an academic course or a training programme which affect UGC student number targets may only be made to SED in the first instance, and should be copied to

the UGC Secretariat and the Financial Services and the Treasury Bureau. SED shall then decide whether such request should be formally conveyed to the UGC.

8.4 Informal contacts, sounding-out sessions, exchanges of information, etc. between individuals or groups in the institutions and Government officers, on a wide range of subjects, are of course inevitable and acceptable. It is, however, essential to keep in mind whether and when the UGC should be brought in. In case of doubt, it is always preferable to err on the side of caution and involve the UGC sooner rather than later.

8.5 It must be recognised that the UGC, as an independent advisory body, may take a different position from the Government and the institutions. It cannot therefore be assumed that the UGC will automatically support either party.

### *Incoming Correspondence*

8.6 Official correspondence addressed to the Chairman of the UGC should normally be addressed to him/her c/o UGC Secretariat. Since such correspondence will be opened by staff of the UGC Secretariat first, before submission to the Chairman with comments/ recommendations for action as appropriate, correspondence intended for the Chairman's eyes only should either be addressed to him/her at his/her private office or clearly marked "Personal and Confidential" (or both). In the case of letters addressed to the Chairman at the UGC Secretariat, a photocopy goes to the Chairman while the original is retained for filing.

8.7 All other correspondence to the UGC should be addressed to the Secretariat. The UGC Secretariat is a Government office and all correspondence normally goes on official files. It will therefore be dealt with regardless of how it is addressed, although letters addressed personally to the Secretary-General or other Secretariat officers (either by title or by name) will be seen by the officer concerned personally first.

8.8 If the correspondence is intended for distribution to UGC members, then sufficient copies should be provided to the UGC. The number of required copies will normally be specified by a letter calling for such documents. Every effort will be made to keep the number to a minimum. This is however only essential if large reports or similar documents are intended for circulation to members. This requirement will usually have been specified in the letters calling for such reports.

### *Electronic Mail*

8.9 The UGC Secretariat may be contacted via e-mail for purposes of informal communications and exchanges of views/information. The e-mail addresses of Secretariat staff will be separately notified to the institutions and Government Bureaux/Departments as required. Formal correspondence should, however, normally be sent to the Secretariat by mail or fax.

### *UGC Website*

8.10 The UGC also disseminates much information through its web site [www.ugc.edu.hk](http://www.ugc.edu.hk).

### *Contact List*

8.11 The UGC Secretariat has produced, in consultation with the institutions, a contact list of the UGC Secretariat and UGC-funded institutions by subject and by institution. The list is distributed among the UGC Secretariat and the institutions. It is updated regularly by the UGC Secretariat based on the information provided by the institutions.