PREFACE

1. The review that resulted in this report originates from the assessment of the eight UGC-funded institutions’ financial status in 2010 as a result of the substantial deficits recorded in the 2008/09 academic year. The UGC established the Financial Affairs Working Group (FAWG) in January 2011 for the purpose of obtaining a better understanding of the institutions’ long-term financial outlook and cost charging mechanisms, with a view to ensuring that the institutions were financially sound and that there was no use of UGC funds for non-UGC-funded activities.

2. Apart from focusing on the long-term financial outlook and the appropriate use of UGC funds, the review also covered cost recovery and cost charging mechanisms, demarcation and deployment of surpluses derived from self-financed activities, and the financial transparency of the institutional finances. Having due regard for the principle of institutional autonomy, the FAWG sought to work with institutions to understand their finances, seek information and clarifications where necessary, with a view to arriving at some good practices and recommendations that would help the institutions improve their cost allocation practices and their financial transparency.

3. Chapter 1 of Part II of the report puts the review conducted by the FAWG into context and includes an overview of the work conducted by the FAWG and the scope of this report. Chapter 2 sets out the background information in relation to the history of the development of self-financed programmes and post-secondary education sector, the financial position and the self-financing operations of the eight UGC-funded institutions covered by this review (i.e. City University of Hong Kong (CityU), Hong Kong Baptist University (HKBU), Lingnan University (LU), The Chinese University of Hong Kong (CUHK), The Hong Kong Institute of Education (HKIEd), The Hong Kong Polytechnic University (PolyU), The Hong Kong University of Science and Technology (HKUST), and The University of Hong Kong (HKU)). Chapter 3 lists out the FAWG’s observations and commentary. Chapter 4 sets out some overseas experiences identified by the FAWG. Finally, Chapter 5 lists out the FAWG’s recommendations.

4. The review was conducted by the FAWG established under the UGC. The review exercise started with sending out questionnaires to all the eight UGC-funded institutions, seeking additional information and clarifications, and having meetings with each of the eight
UGC-funded institutions for discussions. The FAWG has met with the senior management of the institutions to understand the institutions’ finances and the challenges that they face. In arriving at the recommendations, the FAWG has made reference to some overseas experiences as summarised in Chapter 4 of the report.

5. I hope this report can help institutions reflect on their practices and consider adopting the recommendations therein with a view to enhancing their cost allocation practices and their financial transparency, so as to assure the public that their self-financed activities will be conducted for the benefit of the students and will not compromise the quality of their educational provision, including the UGC-funded programmes.

Mr Tim LUI Tim-leung, BBS, JP
Convenor, Financial Affairs Working Group
University Grants Committee
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# ABBREVIATIONS AND GLOSSARY

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>ABC</td>
<td>Activity-based costing</td>
</tr>
<tr>
<td>AD</td>
<td>Associate Degree</td>
</tr>
<tr>
<td>CityU</td>
<td>The City University of Hong Kong</td>
</tr>
<tr>
<td>CUHK</td>
<td>The Chinese University of Hong Kong</td>
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<tr>
<td>FAWG</td>
<td>Financial Affairs Working Group</td>
</tr>
<tr>
<td>FT</td>
<td>Full Time</td>
</tr>
<tr>
<td>Fte</td>
<td>Full-time Equivalent</td>
</tr>
<tr>
<td>fEC</td>
<td>Full Economic Costing</td>
</tr>
<tr>
<td>Government</td>
<td>In this report, Government means the Government of the Hong Kong Special Administrative Region</td>
</tr>
<tr>
<td>GDRF</td>
<td>General and Development Reserve Fund – UGC-funded institutions are allowed to make allocations from the surplus to this Fund to carry over unspent funds from one funding period (usually a triennium) to the next for future and new development needs, subject to a limit of 20% of the institution’s approved Recurrent Grants other than the Earmarked Grants for Specific Purposes for that funding period ending</td>
</tr>
<tr>
<td>HER Report</td>
<td>Aspirations for the Higher Education System in Hong Kong - Report of the University Grants Committee</td>
</tr>
<tr>
<td>HEFCE</td>
<td>Higher Education Funding Council for England</td>
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<td>HKBU</td>
<td>The Hong Kong Baptist University</td>
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<tr>
<td>HKIEd</td>
<td>The Hong Kong Institute of Education</td>
</tr>
<tr>
<td>HKU</td>
<td>The University of Hong Kong</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
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<tr>
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<td>-------------</td>
</tr>
<tr>
<td>HKUST</td>
<td>The Hong Kong University of Science and Technology</td>
</tr>
<tr>
<td>HUCOM</td>
<td>Heads of Universities Committee</td>
</tr>
<tr>
<td>LU</td>
<td>The Lingnan University</td>
</tr>
<tr>
<td>PolyU</td>
<td>The Hong Kong Polytechnic University</td>
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<tr>
<td>PT</td>
<td>Part Time</td>
</tr>
<tr>
<td>RPg</td>
<td>Research Postgraduate</td>
</tr>
<tr>
<td>SD</td>
<td>Sub-degree</td>
</tr>
<tr>
<td>SORP</td>
<td>Statement of Recommended Accounting Practice for UGC-Funded Institutions</td>
</tr>
<tr>
<td>TRAC</td>
<td>Transparent Approach to Costing</td>
</tr>
<tr>
<td>TPg</td>
<td>Taught Postgraduate</td>
</tr>
<tr>
<td>UGC</td>
<td>University Grants Committee</td>
</tr>
<tr>
<td>Ug</td>
<td>Undergraduate</td>
</tr>
</tbody>
</table>
Part I - Executive Summary

1. Following an assessment of the eight UGC-funded institutions’ financial status in 2010 owing to the substantial deficits recorded in the 2008/09 academic year, the UGC established the Financial Affairs Working Group (FAWG) in January 2011 for the purpose of acquiring a better understanding of the institutions’ finances. Apart from focusing on the long-term financial outlook and the appropriate use of UGC funds for UGC-funded activities, the review also covered cost recovery and cost charging mechanisms, the demarcation and deployment of surpluses derived from self-financed activities, and the financial transparency of the institutional finances.

2. The FAWG acknowledges the significant contributions made by the eight UGC-funded institutions to the development of the post-secondary education sector. The self-financed programmes and activities of the UGC-funded institutions have seen considerable expansion over the past few years. The expansion experienced by the sector is encouraging, brought on as a result of the changes in socio-economic needs and community aspirations. However, the expansion over a period of time has also resulted in public concerns about the operation of the self-financed programmes, which includes whether there are proper accounting practices and effective cost charging mechanisms in place.

3. The purpose of the review is to offer recommendations in cost allocation practices and financial transparency, so as to provide more assurance to the public that the use and application of public funds is appropriate, i.e. institutions shall only use the UGC funds for the activities eligible for public support. The review is not intended to be a comprehensive review of financial operations of the institutions and the effectiveness of the institutions’ internal control and governance practices. Moreover, in acknowledgement of the need to respect institutional autonomy, the review is neither an internal audit nor an external audit/assurance engagement. The FAWG has relied to a great extent on information provided by the institutions without any independent verification. However, notwithstanding the principle of institutional autonomy, the FAWG affirms that institutional autonomy does not over-ride the institutions’ obligation of accountability to their stakeholders. The FAWG noted that nothing had come to its attention during the course of its review that would suggest that any use of such
funds was outside of the mission of the institution.

4. With this in mind, this report offers a number of practical recommendations in Chapter 5 to be implemented according to the milestones set out in the ensuing paragraphs.

**To be implemented within the current funding triennium**

5. A Working Group should be formed to review the cost allocation recommendations with a view to establishing detailed guidance for institutions (Recommendation 2). Institutions are recommended to make within the 2013/14 academic year an appropriate disclosure in the documents submitted to their respective Councils and an annual declaration submitted to the UGC explaining the nature of the research projects for which exemptions on overhead charge have been applied together with a note of the quantum involved (Recommendation 3).

6. Within the 2014/15 academic year, each institution is invited to explain clearly in a publicly available document the way in which the institution allocates costs to UGC-funded and non-UGC-funded activities (Recommendation 6).

**To be implemented within the next funding triennium**

7. The Statement of Recommended Accounting Practice for UGC-funded institutions (“SORP”) should be updated to reflect both current and recommended accounting practices and disclosures (Recommendation 8). The updated version of the SORP should be made available to the institutions no later than June 30, 2015, so that any changes reflected therein, with the exception of segment reporting (see paragraph 9), can be incorporated into the institutions’ financial statements for the year ended June 30, 2016.

8. Institutions should allocate costs to both the UGC vote and the non-UGC vote using appropriate and consistent methods (Recommendation 1(a)). Indirect overheads charged to non-UGC-funded research projects and all other self-financed activities should be charged on exactly the same basis (Recommendation 1(b)). Institutions are recommended to re-examine their practices concerning staff cost recovery along the principles set out in Chapter 5 of the FAWG Report (Recommendation 4). Institutions are also recommended to amend their overhead charging practices to recognise that the cost of buildings is a direct cost to be charged to a self-financed programme
(Recommendation 5). All these recommendations are expected to be implemented within the next funding triennium, with high priority to be placed on self-financed TPg and SD programmes. Thereafter, these recommendations are expected to be implemented in respect of other self-financed activities conducted by the institutions.

9. The UGC is invited to consider mandating the requirement of segment reporting by funding source (Recommendation 7). This recommendation is expected to be implemented in the institutions’ audited financial statements for the year ended June 30, 2017.

To be implemented on a longer term basis

10. The UGC is invited to identify an appropriate mechanism by which the cost allocation practices of the institutions can be periodically reviewed and endorsed (Recommendation 9). This recommendation is expected to be considered by the UGC over a longer-term basis.

11. To ensure proper use of tax-payers’ money, the FAWG, in particular, urges the institutions to increase the transparency of the financial arrangements between their publicly-funded and self-financed operations. This review, together with its recommendations, is the result of the FAWG’s critical reflection on some of the important financial matters relating to the self-financed activities of UGC-funded institutions. The FAWG hopes this report will be seriously considered and debated by all the readers including the Government, the institutions and members of the public who all have a role to play in contributing to the development of healthy, vibrant and transparent self-financed activities of the UGC-funded institutions.

12. Subject to the UGC’s adoption of the recommendations, the FAWG and / or other committees under the UGC will closely monitor the implementation of these recommendations under their remits. Separate further studies on related issues may be conducted by the UGC when and if considered necessary.
Part II – The Report

CHAPTER 1

PUTTING THE REVIEW IN CONTEXT

I. Background of the Establishment of the Financial Affairs Working Group (FAWG)

1.1 In 2010, the UGC Secretariat performed a preliminary review of the institutions’ budgetary projections for the academic years 2010/11 to 2012/13. Following the assessment, the UGC (with the Terms of Reference and the current Membership at Annex A) decided to set up the FAWG in January 2011. The Terms of Reference of the FAWG (at Annex B) are (a) to work with UGC-funded institutions to help ensure their continuing good financial governance and sound financial planning; (b) to review financial matters of the institutions as necessary with a view to governing and monitoring the use of UGC recurrent grants; and (c) to advise the UGC on drawing up appropriate related guidelines.

1.2 In brief, the institutions should observe the UGC’s “Notes on Procedures” and the circulars / letters / guidelines issued from time to time. In this regard, the FAWG will look into the financial matters including but not limited to the long-term financial outlook and the reserves and surpluses of the institutions, the cost-charging mechanisms to ensure no cross subsidisation, and implementation of recommendations (in relation to the greater transparency in the financial relationship between UGC-funded institutions and self-financing courses either within the institution or in an affiliate such as a community college (Recommendation 33) and the spin-off of community colleges (Recommendation 34)) in the Higher Education Review (HER) Report.

1.3 Membership of the FAWG is at Annex B.

II. Overview of Work Performed by FAWG

1.4 The FAWG planned to cover the assessment and review of the eight UGC-funded institutions (i.e. CityU, HKBU, LU, CUHK, HKIEd, PolyU, HKUST and HKU) in about two years. In brief, the exercise started with sending out questionnaires (Checklist of Questions) to all the eight UGC-funded institutions on six key areas (Self-financing Operations and Reserves and Surplus; Overhead Recovery and Cost
Charging Mechanisms; Staff Engaged in Self-financing Activities; Staff Engaged in Outside Practice; Councils’ Oversight of Self-financing Operations; and Implementation of Recommendation in HER Report), seeking additional information and clarifications, and arranging meetings with each of the eight UGC-funded institutions for discussions.

1.5 Subsequently, the FAWG met with the senior management of the eight institutions from September 2011 to February 2013.

1.6 The FAWG prepared a draft report with the identification of some good practices and recommendations for discussion at the UGC Meeting in April 2013. The UGC has since sought views and comments from the Heads of Universities Committee (HUCOM) before producing this final report, which was discussed and approved at the UGC Meeting in September 2013.

III. Scope of the Report

1.7 This is a report following the review of the finances of eight UGC-funded institutions. The purpose of the review is to offer recommendations in cost allocation practices and financial transparency, so as to provide more assurance to the public that the use and application of public funds is appropriate, i.e. institutions shall only use the UGC funds for the activities eligible for public support. It is not intended to be a comprehensive review of the financial operations of the institutions and the effectiveness of the institutions’ internal control and governance practices. Moreover, in acknowledgement of the need to respect institutional autonomy, the review is neither an internal audit, which is conducted by the internal audit offices of the institutions or their outsourced service providers, nor an external audit / assurance engagement which is conducted by the external auditors employed by the institutions. The FAWG has relied to a great extent on information provided by the institutions without any independent verification. However, notwithstanding the principle of institutional autonomy, the FAWG affirms that institutional autonomy does not over-ride the institutions’ obligation of accountability to their stakeholders.

IV. Major Tasks Carried Out

1.8 This review carried out the following major tasks:

(a) consideration and review of documents submitted by institutions in response to the questionnaires and the lists of
follow-up questions;
(b) meetings with the senior management of the institutions;
(c) consideration of good practices adopted by the institutions as well as overseas experiences; and
(d) review of literature.
CHAPTER 2

BACKGROUND INFORMATION ON THE INSTITUTIONS’ FINANCES

I. History of Development of Self-financed Programmes and the Post-secondary Education Sector

2.1 The FAWG recognises that the eight UGC-funded institutions have a key role to play, not only in providing publicly-funded post-secondary education services, but also in providing equivalent services in the self-financing sector.

2.2 Since 2000/01, the eight UGC-funded institutions have been actively involved in the provision of self-financed SD programmes, including AD and Higher Diploma programmes, with a view to supporting the Government’s call for widening access to higher education and for developing Hong Kong as a regional education hub. The Government has time and again reiterated its policy to support the parallel development of the publicly-funded and self-financing post-secondary education sectors so as to broaden the opportunities and choices for further education, thereby providing quality, diversified and flexible pathways with multiple entry and exit points for secondary school leavers. The development of self-financing post-secondary education has also been in line with the community aspiration as Hong Kong further develops as a knowledge-based economy. Since the phasing out of public funding for TPg programmes and the introduction of SD programmes since 2001, the student numbers (in fte) of the self-financed sector in the eight UGC-funded institutions have grown and exceeded the publicly-funded sector, comprising 53% vs 47% of the total in the three years up to 2011/12. As Hong Kong further develops its knowledge-based economy, post-secondary education will continue to play an indispensable role and the role of the eight UGC-funded institutions will remain important.

II. Financial Position of the Institutions

2.3 With reference to the audited financial statements of the institutions and the returns submitted by the institutions, the surpluses or deficits and the reserves of the institutions are summarised in the ensuing paragraphs.
(A) **2009/10 Academic Year**

2.4 In the 2009/10 academic year, only one institution recorded a deficit. The average surplus for the year for all institutions was $307M, which was mainly attributed to the improved investment returns since the financial crises in 2008/09 and more donations received with the successful launch of the Government’s Fifth Matching Grant Scheme. When looking at the surplus or deficit attributable to the UGC-funded activities of each institution, six of the institutions recorded a deficit. The two remaining institutions recorded small surpluses. The average result recorded by the institutions for the year for their UGC-funded activities was a deficit of $73M.

2.5 All of the institutions recorded surpluses for their non-UGC-funded activities. The average result recorded by the institutions for the year for their non-UGC-funded activities was a surplus of $380M.

2.6 As at 30 June 2010, the reserves held by the institutions were at an average of $3,717M (UGC funding: $1,103M; Non-UGC-funding: $2,614M).

(B) **2010/11 Academic Year**

2.7 In the 2010/11 academic year, all of the institutions recorded an overall surplus which averaged $528M. All institutions achieved fairly good results because of notable increase in interest and investment returns and vigilant cost controls. When looking at the surplus or deficit attributable to the UGC-funded activities of each institution, two of the institutions recorded a deficit. The six remaining institutions recorded surpluses. The average result recorded by the institutions for the year for their UGC-funded activities was a surplus of $76M.

2.8 All of the institutions recorded surpluses for their non-UGC-funded activities. The average result recorded by the institutions for the year for their non-UGC-funded activities was a surplus of $452M.

2.9 As at 30 June 2011, the reserves held by the institutions were at an average of $4,206M (UGC-funding: $1,201M; Non-UGC-funding: $3,005M).
2.10 In the 2011/12 academic year, three of the institutions recorded an overall surplus. The other five institutions recorded deficits. The drop in the financial surplus for most of the institutions was largely attributable to the additional expenditure incurred in preparing for the rolling out of the new four-year academic structure curriculum in 2012/13 while income from donations recorded a decrement due to the completion of the Government’s Fifth Matching Grant Scheme in early 2011. When looking at the surplus or deficit attributable to the UGC-funded activities of each institution, six of the institutions recorded a deficit. The two remaining institutions recorded surpluses. The average result recorded by the institutions for the year for their UGC-funded activities was a deficit of $97M.

2.11 Five of the institutions recorded a surplus for their non-UGC-funded activities. The remaining three institutions recorded deficits. The average result recorded for the year for all of the institutions’ non-UGC-funded activities was a deficit of $21M.

2.12 As at 30 June 2012, the reserves held by the institutions were at an average of $4,110M (UGC funding: $1,127M; Non-UGC-funding: $2,983M).

2.13 The FAWG noted that two of the institutions reflected deficits for their UGC-funded activities for each of the three academic years considered. During the same period, those same institutions reflected surpluses for their non-UGC-funded activities in two of the years in the three-year period.

2.14 All of the institutions have recorded a deficit for their UGC-funded activities in at least one of the years in the three-year period. Five of the institutions have recorded surpluses for their non-UGC-funded activities in each of the three years.

2.15 With regard to the overall reserves held by the institutions, their long-term financial sustainability is not a case for concern for the time being as their reserves continue to remain strong and the expenditure on the implementation of the new curriculum is expected to be stabilised soon.
2.16 Comparing the UGC-funded reserves with the non-UGC-funded reserves, the level of the non-UGC-funded reserves of the institutions was much higher. There are numerous reasons for such higher non-UGC-funded reserves. In the opinion of the institutions, these include the following: in the last few years, much of the UGC-funded reserves of the institutions have been used to support the preparation for the 4-year undergraduate degree structure scheduled for 2012/13. For many institutions, a significant portion of the non-UGC-funded reserves comes from donations and benefactions and investment income. Substantial amounts included in the non-UGC-funded reserves have been accumulated for approved building development and scholarship schemes.

(E) Donations and Benefactions

2.17 With reference to the audited financial statements of the institutions, a summary of donation and benefaction income reported by each institution for each of the 2009/10, 2010/11 and 2011/12 academic years is shown in Table 1 below:

Table 1

<table>
<thead>
<tr>
<th>Institution</th>
<th>Donation and benefaction income (in HK$M)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009/10</td>
</tr>
<tr>
<td>A</td>
<td>27</td>
</tr>
<tr>
<td>B</td>
<td>193</td>
</tr>
<tr>
<td>C</td>
<td>794</td>
</tr>
<tr>
<td>D</td>
<td>62</td>
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<td>E</td>
<td>142</td>
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<td>29</td>
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<tr>
<td>G</td>
<td>232</td>
</tr>
<tr>
<td>H</td>
<td>694</td>
</tr>
<tr>
<td>Total</td>
<td>2,173</td>
</tr>
</tbody>
</table>

2.18 More donations were received in 2009/10 academic year because of the launch of the Government’s Fifth Matching Grant Scheme. Under the Scheme, $840M of grants were successfully matched and awarded to the institutions.
III. Overview of Institutions’ Operations

(A) Extent of Self-financing Activities

2.19 As at 30 June 2012, the activities of the institutions are summarised in Table 2 below.

Table 2

<table>
<thead>
<tr>
<th>Institution</th>
<th>Within Institution proper</th>
<th>Separate self-financed unit(s) e.g. subsidiaries</th>
<th>Activities (e.g. research) conducted through subsidiaries, associates and jointly controlled entities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SD</td>
<td>Ug</td>
<td>TPg</td>
</tr>
<tr>
<td>A</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>B</td>
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<td>C</td>
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<td>●</td>
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<tr>
<td>H</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
</tbody>
</table>

2.20 It can be seen from the above that the institutions, in the main, engage in a wide variety of self-financing activities.

(B) Student Enrolment and Tuition Fee Income

2.21 With reference to the returns from the institutions, the student enrolment and tuition fee income of the institutions for the SD, Ug, TPg, RPg and Professional Development programmes for the 2009/10, 2010/11 and 2011/12 academic years are summarised at Annex C.

2.22 With reference to the audited financial statements of the institutions, the tuition fee income for the UGC-funded programmes and the non-UGC-funded programmes for the 5 years from 2007/08 to 2011/12 academic years are summarised at Annex D.

2.23 The FAWG noted that the size of self-financed operations of the institutions in terms of the student enrolment and tuition fee income is larger than that of the size of UGC-funded operations. The gap between
the two types of operations is also increasing.

(C) Student Unit Costs

2.24 The FAWG has looked at student unit costs incurred by each institution proper for the 2011/12 academic year by reference to published statistics, and high level financial information provided by each institution that is consistent with their reported audited financial statements. Sector-wide, average student unit cost for UGC-funded programmes is approximately $247,000, and that for self-financed programmes is approximately $125,000. There is a wide range of student unit costs for UGC-funded programmes across different levels of studies and disciplines (from $183,000 to $711,000). Student unit costs for individual self-financed programmes were not available and so an equivalent range for self-financed programmes cannot be presented. The difference between average student unit costs incurred for the provision of UGC-funded programmes and self-financed programmes is approximately $122,000.

2.25 The FAWG recognises the need to be cautious when reviewing this data and drawing conclusions as student unit costs are affected by a variety of factors such as different costs for different programmes and disciplines, different modes and level of studies, different stages of development of individual institutions, etc. Despite the above, the FAWG considers that this is an area which the UGC should continue to monitor.
CHAPTER 3

OBSERVATIONS AND COMMENTARY

I. **Staff Engaged in Self-financed Activities, Management of Subsidiaries, Associates and Jointly Controlled Entities, and Outside Activities**

(A) **Observations**

(a) **Self-financed Activities**

3.1 With regard to teaching staff engaged in self-financed activities, the FAWG noted the following:

   (a) All of the institutions have documented their policies governing the engagement of staff in the teaching of non-UGC-funded programmes, both on an in-load basis\(^1\) and on extra-load basis\(^2\).

   (b) The number of UGC-funded staff involved in teaching self-financed programmes varied considerably from institution to institution depending on the extent to which self-financed programmes were offered, and the extent to which staff were employed specifically to teach self-financed programmes.

   (c) A small number of institutions regarded the teaching of self-financed programmes as part of the normal duties of academic staff.

   (d) Many of the institutions regarded extra-load teaching of self-financed programmes as an outside activity (and subject to the rules pertaining to outside activities), with one of those institutions confirming there is no in-load teaching of self-financed programmes. In one of those institutions, a considerable number of academic staff were involved in

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\(^{1}\) In-load basis in this context means academic staff engaged in non-UGC-funded programmes which are a part of their normal / regular teaching duties.

\(^{2}\) Extra-load basis in this context means academic staff engaged in non-UGC-funded programmes and which are not a part of their normal / regular teaching duties, i.e. on top of the normal / regular teaching duties.
extra-load teaching self-financed programmes on a second contract basis. The institution defined such extra-load teaching as “outside teaching and training” thus subjecting their staff to the institution’s rules pertaining to outside activities (see below).

(b) Management of Subsidiaries, Associates and Jointly Controlled Entities (SAJCEs)

3.2 A small number of institutions charge a management fee to their SAJCEs to compensate the institution for the time spent by senior management members on SAJCE matters. The others view the time spent as either insignificant or a sunk cost and do not charge the SAJCEs.

(c) Outside Activities

3.3 All of the institutions have documented their policies governing outside activities undertaken by staff.

3.4 One institution stipulates that full-time employees should not obtain additional payment other than their normal remuneration for undertaking work / activities assigned by the institution, irrespective of whether the work / activities are UGC-funded, self-financed or funded by outside organisations, subject to exceptional approval by the President (no such exceptional approval for extra pay had been granted since the policy came into effect).

3.5 All of the institutions limit the extent to which a staff member may spend time on outside activities. These limits include 4 days per calendar month; 1/5 of the staff member’s full time workload; not more than the equivalent of one day per week in a year of 52 weeks, inclusive of vacation / annual leave. However, one institution’s definition of a “day” is 12 hours. One institution limits the amount of income that should be received from outside activities.

3.6 Many institutions have an income sharing policy that, in one case, is subject to a de minimis amount, and can include a department overhead charge, where work is conducted using institution facilities, and a claw back of a percentage of outside practice remuneration. Some institutions only require income sharing when the staff member is engaged in clinical outside practice or, in the case of one of these institutions, in public office. One institution does not have an income sharing policy in respect of consultancy fee income earned by staff.
(B) Commentary

3.7 The FAWG noted the different practices that exist within the higher education institutions concerning self-financed activities and outside activities. Having regard to the different missions of each institution, the FAWG did not identify anything from the returns of the institutions that suggested that the respective practices are inconsistent with those missions.

3.8 However, regarding the charging of SAJCEs for time spent by senior management, the FAWG noted that many of the institutions do not make charges to a number of their SAJCEs. It is recognised that the amounts involved may not always be significant, however, the FAWG is of the view that such amounts could be of significance and that, notwithstanding the significance or otherwise of such amounts, there should always be some recognition of the fact that UGC-funded senior management are involved, even if it is only in an oversight / strategic role, in the activities of the SAJCEs. A more detailed discussion of the principles that the FAWG believes should be applied to the allocation of indirect overheads can be found in Section II.
II. Cost Recovery and Cost Charging Mechanisms

(A) Indirect Overhead Recovery

(a) Observations

3.9 The obligations of the institutions pertaining to the charging of overheads are set out in the University Grants Committee “Notes on Procedures”:

“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). 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. 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-financed activities based on the full cost recovery principle”.

3.10 To fulfil these obligations, each institution is required to determine a methodology for identifying those overheads that should be charged to their self-financed activities that meets the “full cost recovery principle” set out in the “Notes on Procedures”.

3.11 The review conducted by the FAWG looked at the following major areas of overhead recovery:

(a) non-UGC-funded programmes;
(b) non-UGC-funded research contracts and grants; and
3.12 The FAWG noted that the institutions made use of overhead recovery rates to charge different types of activity for a share of indirect overheads. The charges can be conveniently divided into the above three categories as follows:

Non-UGC-funded programmes

3.13 In all cases, the charge made to an individual programme is calculated as a percentage of the tuition fee charged for that programme. Charges made by the institutions vary from institution to institution and within each institution by reference to various factors that the institution deems relevant to its circumstances. For example, one institution charges 25% on tuition income from award bearing programmes and 20% on revenue for non-award bearing programmes. Another institution charges 30% of tuition fees for on-campus programmes and 20% for off-campus programmes. Other factors that give rise to a charging differentiation include Mainland vs. local programmes and part-time vs. full-time courses.

3.14 For full-time, award bearing on-campus self-financed programmes, the percentage of revenue charged in the 2010/11 academic year ranged from 20% to 30%.

Non-UGC-funded research contracts and grants

3.15 In most institutions, the charge made is on the revenue derived from the research activity. In some institutions, the charge is made by reference to either “project cost” or “total direct cost”. In one institution, the charge is made either by reference to the funding income or to expenditure.

3.16 When the charge is made by reference to revenue, the percentage charge ranges from 15% to 25%, with the percentage mostly at 15%. When the charge is made by reference to costs, the percentage charge is 15%, 16.5%, or 30%.

Consultancy projects

3.17 The charging mechanism for indirect overheads attributable to consultancy projects is the same as for research projects with the following exceptions. One institution that charges 15% on project costs
for research projects only charges 10% on project costs for consultancy projects. One institution that charges 15% on revenue for research projects only charges 10% on total cost for consultancy projects, and for one institution that charges research projects by reference to either revenue or expenditure, when considering consultancy projects, the charge is only by reference to expenditure.

3.18 The charge to self-financed activities represents, in simple book-keeping terms, a debit to the non-UGC vote. The FAWG was also interested in understanding whether or not the UGC vote was credited with the entire amount or whether there was a split of the credit between the UGC vote and the non-UGC vote. The following is a summary of the allocation of the charge by the respective institutions. Given that the practice at each of the institutions was consistent between self-financed programmes, research contracts and grants and consultancy projects, this summary no longer makes that distinction.

3.19 The FAWG noted three general approaches. The first approach, which was applied by some institutions, is to, firstly, charge all indirect overhead costs incurred to the UGC vote, and to then credit to the UGC vote amounts calculated by taking a predetermined percentage of income derived from self-financed sources. Thus, if the predetermined percentage is 25% and the self-financed income is $1 million, then the non-UGC vote is charged with $250,000 and the UGC vote is credited with the same amount. For all but one of these institutions, the amount credited to the UGC vote equalled the charge to self-financed programmes. For the other institution, two thirds of the charge to the self-financed programmes was credited to the UGC vote, with the remaining one third being retained for internal purposes within the non-UGC vote.

3.20 The second approach, which was applied by one institution, was to estimate the total staff costs for the relevant administrative and support units involved in providing support to the self-financed programmes and doubling the resulting total on the basis that the extra 100% would be more than sufficient to adequately cover any indirect staff costs and other overheads incurred on supporting the self-financed programmes. No review was conducted to verify the accuracy of the underlying assumption.

3.21 The third approach, which was adopted by other institutions, is to identify those overheads that are attributable to the non-UGC vote and charge them directly to the non-UGC vote as incurred. Only indirect
overheads that cannot be readily attributable to the non-UGC vote are charged to the UGC vote as incurred. Those institutions then applied a predetermined percentage to self-financed income and then credited a part of these amounts to the non-UGC vote and another part to the UGC vote.

3.22 The FAWG noted the following in the course of its review.

(a) One of the institutions that credits the charge to the self-financed income directly to the UGC vote confirmed that it had not conducted any review to validate the appropriateness of the overhead charge percentages, and advised that the percentages used were determined by reference to the practices of the other institutions.

(b) Two of the institutions that credit the charge to the self-financed income directly to the UGC vote provided the FAWG with a calculation that purported to demonstrate that the amounts recovered were a reasonable approximation of the amounts that should have been recovered by the UGC vote if more precise overhead cost allocation methodologies had been used. The FAWG is skeptical about the validity of this exercise as the cost of infrastructure and a number of central overhead cost centres had been excluded from this exercise in one instance. When asked about this, the institution made reference to the Report by the Finance Directors Group of the Eight UGC-funded Institutions titled Review of Overhead Recovery Practices of Self-Financed Activities in February 2005 to support the position taken. See Commentary in paragraphs 3.40 and 3.41 below for the FAWG’s views on this report. In the other instance, the calculation provided clearly made reference to adjustments to ensure that the resulting figures were calculated using marginal costing techniques.

3.23 The FAWG noted a common theme taken by the institutions when determining the quantum of overheads that should be allocated to the non-UGC vote when incurred, which is that those overheads have been determined using marginal cost principles. An illustration of marginal costing is at footnote\(^5\) below.

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\(^5\) If an institution, for example, does not provide any self-financed programmes it might incur a total indirect overhead cost of $X. If it then introduces self-financed programmes it might find its total indirect overhead cost rising by $Y, so that its total indirect overhead cost is $X+$Y. When applying
3.24 This approach can be contrasted with full absorption costing\(^4\), which is an established costing methodology that allocates both fixed and variable costs to cost centres.

3.25 The FAWG is not suggesting that full absorption costing is the only method that the institutions should use in allocating overheads to self-financed programmes. ABC is another costing methodology that might be considered appropriate (see paragraphs 3.32 to 3.39 and 3.43 to 3.44 below), and there may be other equally acceptable methodologies. However, the FAWG did not find any example of an institution employing a costing methodology which adequately ensured that total overheads are allocated across all courses and other revenue generating activities in a methodical and consistent manner.

3.26 The FAWG has seen the following as evidence of the marginal costing approach:

(a) The policy manual of one institution noted that “in considering the cost recovery using the income shared by the University Central, the costs of infrastructure and central overhead can be excluded as they are incurred mainly for UGC-funded programmes and research activities and also for general management of the University. These costs therefore shall not form part of the common costs attributable to services provided to non-UGC students.”

(b) One institution’s review of overhead rates showed that “the total marginal overhead cost incurred by non-teaching offices was $23,411 per student, warranting an overhead rate of 27% … Although the total overhead paid by SFAPs [Self-financed Academic Programs] is 25%, the percentage available for non-teaching offices remains at 18% which is marginal costing principles to determine the indirect overhead charge to the self-financed programmes it will charge those programmes with $Y. The rationale for applying this approach is that $X is a sunk cost that has already been incurred and is attributable to the UGC-funded programmes, and that the additional cost to the institution in providing the self-financed programme is only $Y.

\(^4\) If this approach was applied by the institution in the example above, a simple method of allocating costs would be to understand how many students (in fte) were being taught under the UGC-funded and self-financed programmes. If they were 100 (fte) and 50 (fte) respectively, the amount of indirect overhead charged to the UGC-funded programmes would be:

\[
\frac{($X+$Y) \times 100}{150}
\]

and the amount charged to the self-financed programmes would be:

\[
\frac{($X+$Y) \times 50}{150}
\]
far below the full marginal cost recovery rate of 27%”.

(c) When replying to a question from the FAWG, one institution noted “[the institution] was satisfied that about two-thirds of the overhead recovered was sufficient to cover the full relevant marginal cost of services supported by UGC-funded resources for the said self-financing activities.”

(d) The policy manual of one institution stipulated that “Budget of self-financed TPg programmes can be prepared on a full cost recovery or a marginal cost recovery basis or a ‘hybrid’ of these two bases. Whereas, self-financed Ug programmes should be cost on a full direct cost recovery basis”. With regard to the marginal cost recovery basis, the policy manual stipulated that “the fixed costs and sunk costs that would have been incurred without these self-financed programmes can be excluded, the costs attributable which are variable with the activity level should be included as the marginal costs”. With regard to the full direct cost recovery basis, the policy manual noted that “there will only be limited reimbursement of sunk infrastructure costs to the UGC”.

3.27 Furthermore, when discussing accounting practices with the institutions, it became evident that marginal costing practices prevailed among the institutions.

3.28 In addition to the above, the FAWG noted an instance where the ability of an institution to increase the percentage charged to a programme for overhead recovery was contingent on its ability to “negotiate and agree with various stakeholders” the new rate. It appeared to have taken the institution some years to reach this agreement.

3.29 As set out in paragraph 3.16 above, most institutions have been consistently charging non-UGC-funded research contracts with a 15% overhead rate. When challenged by the FAWG that this rate is significantly lower than the rate charged to self-financed programmes, the response from the institutions was consistent. They referred to the Review of Overhead Recovery Practices of Self-Financed Activities prepared by the Finance Directors Group of the eight UGC-funded Institutions in 2005. In the context of non-UGC-funded research activities, the report noted the following:
“For non-UGC-funded research activities, the review was based on a recent exercise of the institutions attempting to recover overheads from research projects sponsored by the Innovation and Technology Commission (ITC). Although the associated indirect costs were found to be in the range of 14% to 45% on direct costs, ITC only agreed to pay near the low end of the range of 15%. The institutions felt, although the standard minimum recovery rate of 15% might not be adequate, it was a first step towards the right direction. As a result, the institutions were in favour of maintaining the previous-agreed minimum rate of 15%.”

3.30 The FAWG also noted from the report that this rate had been agreed between the institutions in 1998. The report included in its conclusion the following statement:

“It is expected that, as the local higher education sector as well as the local research environment develop, following the footsteps of the more advanced countries like the USA, UK, Canada and Australia, the institutions will be more able to recover higher overhead costs along the recovery spectrum. It is, therefore, important to keep the matter under periodic review as the local higher education continues to evolve.”

3.31 The FAWG has been advised that no such review has taken place since the 2005 study.

3.32 During the course of the FAWG’s work, it requested the institutions to provide their views on the implementation of ABC, because the FAWG considers that the use of ABC might enhance the determination by the institutions of the full costs attributable to their UGC-funded and self-financed activities.

3.33 ABC is a costing methodology that assigns costs to products or services based on the resources that they consume. Like full absorption costing, it attempts to allocate overheads to manufactured product or to services provided. However, whereas full absorption costing focuses on allocating costs by reference to the number of units produced or the volume of services provided (see the example in footnote\(^4\) to paragraphs 3.24 above where the number of students is a proxy for the volume of services provided), ABC allocates costs by reference to the proportion of overheads incurred by the product unit. For example, a human resources department would be responsible for managing the employment of faculty members and teaching staff employed to teach either UGC
students only, self-financed students only, or both. ABC would require an institution to measure the amount of time spent by human resources staff on each of these categories of staff. It is possible, for example, that an institution employs a large number of part-time staff to teach self-financed programmes. The time spent by the human resources department on such staff might be disproportionate to the time spent on full-time faculty members who only teach UGC students. This difference would ultimately be reflected in the indirect overhead charge to the UGC and self-financed sides of the ledger, and would differ from the amounts charged to each if full absorption costing was used. ABC is generally considered to be a more accurate costing method that mirrors the functioning of an enterprise and provides better information for strategic and decision making purposes.

3.34 The FAWG noted the following responses to its enquiries:

3.35 Some institutions have expressed their concerns about the resources and the workload involved in adopting ABC. Some institutions advised that there may be strong resistance from staff and management.

3.36 One institution advised that the adoption of ABC requires significant resources, not only from the Finance Office but also from all teaching and administrative units, for example, to devise a mechanism to record the time spent on each activity for each staff member. In view of the complexity and the resources involved, they advised that they could only embark on a new endeavour with additional funding support from the UGC, and on the condition that it is a mandatory exercise required by the UGC.

3.37 One institution advised that the eight UGC-funded institutions have made a joint effort in improving the Common Data Collection Format (CDCF) to fulfil the UGC's requirements for cost data on teaching, research and other activities. Without clear objectives and additional benefits to justify the replacement of the current reporting mechanism, the institution is unable to lend its support for spending huge resources on manpower and IT systems for the implementation of ABC, especially when these systems have just been completely overhauled for the 4-year Ug system not too long ago.

3.38 The Finance Department of one institution advised that it had attended some seminars concerning the promotion of an ABC model, but had reservations in recommending the model to the institution based on the following concerns:
(a) There will be heavy IT cost;
(b) There will be a complete revamp of the accounting system;
(c) The model depends on a sophisticated and complex allocation of service costs, service drivers, capacity costs and pricing models; and
(d) There is practical difficulty in formulating an effective cost modelling in the absence of a robust time sheet recording system, and, as a result, many arbitrary assumptions are bound to be used.

After weighing the costs and benefits, they had come to the view that there was not a convincing case for the institution to adopt an ABC costing model.

3.39 One institution advised that it does not have any objection to the adoption of ABC. However, it is not something that could be accomplished in the short-term as there are implementation issues that need to be studied as well as a need to have sufficient resources available as it could be very labour intensive.

(b) Commentary

3.40 The FAWG’s review of the practices of the institutions revealed, in the main, a very detailed approach to their obligation to ensure that non-UGC-funded activities were charged with amounts that represent, in each institution’s view, an appropriate level of overhead. The approaches identified were established by each institution many years ago and were, in the eyes of the institutions, endorsed in 2005 after the Finance Directors Group of the eight UGC-funded institutions reviewed their respective practices at the request of HUCOM. The FAWG can understand how the institutions have arrived at the accounting methodologies that they currently use.

3.41 However, the FAWG is of the view that the institutions have evolved quite considerably since the time the institutions were asked to review their overhead recovery practices. As can be seen in Chapter 2, a significant proportion of most of the institutions’ activities comprise of self-financed activities and whereas, at some point in time in the past, it might have been reasonable to argue that the institutions’ principal role was to provide UGC-funded programmes to its students and that the provision of self-financed courses were ancillary to this principal purpose, this is clearly no longer the case. The institutions have now positioned themselves as providers of both UGC-funded and self-financed
programmes and it is evident from the review that both are extremely important and material to the activities of the institutions.

3.42 The FAWG considers that each of the institutions should regard themselves (and be regarded by other bodies) as one institution providing a range of offerings to the community that are subject to the same institutional oversights and practices and which only differ because of funding arrangements. Because of this, the FAWG has certain observations about some of the current practices. These are as follows:

(a) The FAWG is unable to see how indirect overheads chargeable to a programme vary by reference to the amount that is to be charged by the institution to students for that programme. A very popular programme may command a higher tuition fee than one less so. Yet, everything else being equal, the amount of actual indirect overhead attributable to each will not differ significantly. The FAWG considers that the institutional management and the Councils should receive a full picture of the financial position of the programmes that they offer, so as to facilitate their decisions on the setting of tuition fees and the operation of the self-financed programmes.

(b) The methodologies used by the institutions to calculate the amount of credit to the UGC vote, or to calculate the costs that are to be borne by the non-UGC vote, do not guarantee that that overhead costs charged to the UGC vote have been arrived at using the same methodology as those charged to the non-UGC vote. An alternative, and probably more realistic approach, would be to recognise that overhead costs incurred by an institution are incurred for the provision of both UGC-funded activities and non-UGC-funded activities and that costs should be allocated to both segments 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. This is not to say that all overheads incurred should be allocated to both segments. Some costs will be discernably attributable to UGC-funded students and some costs will be attributable to self-financed students. Specifically, the use of marginal costing as a method to calculate the amounts to be charged to non-UGC-funded activities will not achieve this
objective, whereas full absorption costing or ABC will (see paragraphs 3.23 and 3.24 above for an explanation of marginal costing and full absorption costing and paragraph 3.33 above for an explanation of ABC).

(c) Where specific percentages are used to calculate the amount of overhead to be recovered from the non-UGC-funded activities, there does not appear to be any regular re-affirmation of the rates using a robust methodology.

(d) Overhead recoveries from research projects funded by bodies other than UGC have been set consistently lower than the rates used for other non-UGC-funded activities. The FAWG is of the view that there should be no difference in principle in the way overheads to be charged to research projects and to self-financed programmes are calculated. It is the choice of the institution as to whether or not it pursues an opportunity to win a non-UGC-funded research contract. If the fund provider is unwilling to contribute to the full overhead cost of the institution, then the institution itself should decide whether or not it wishes to subsidise the contract from its self-financed reserves. As an exceptional treatment, however, and as provided for in the “Notes on Procedures”, institutions may waive overhead charges under agreed conditions.

(e) The determination of overhead recovery rates and the amounts to be credited to the UGC vote appear to take place intermittently. For example, one institution recovered 15% from 2003 to 2010, and then increased the recovery rate to 25%. The FAWG considers that recovery rates should be reviewed annually. Furthermore, the FAWG considers that the calculation of the recovery rate is a factual, accounting exercise that should not require negotiation with “stakeholders”.

3.43 Concerning ABC, the FAWG noted the concerns from the institutions and recognised that there would be significant effort required by institutions to implement ABC. However, the FAWG noted the introduction of a TRAC by the higher education institutions in the UK. The FAWG also noted the following statement by the HEFCE made in October 2012 under the heading “Review of the Transparent Approach to Costing: A report by KPMG for HEFCE”:
“To support the HEFCE review of the Transparent Approach to Costing (TRAC), HEFCE commissioned KPMG to gather and evaluate evidence from across the range of groups and individuals with an interest in TRAC, and to provide analysis of the current TRAC arrangements.

The consultants found that most parties considered that a sector-wide activity-based costing system was important, and that TRAC remained the most viable system to meet the needs of higher education institutions (HEIs) in providing information to support them in costing their activities and managing their financial sustainability. However, in the light of the changing regulatory and funding environment, there remains a need to review the future of TRAC and identify proposals for streamlining the process.

The study also found that there were:

- a range of institutional benefits arising from the use of TRAC as a sector-wide activity-based costing approach, including meeting the needs of a wide range of stakeholders through a single system
- an understanding of the importance of transparency and a recognition that additional information about the costs of providing higher education (HE) could be published, but also some concerns about the level of detail and whether such information would be useful (and for whom)
- issues in respect of publication in a more competitive HE environment, and the concerns about the burdens of preparing, publishing and validating such information
- evidence that the costs to HEIs in complying with TRAC requirements represent a relatively small proportion of overall expenditure, and that much of this would continue to be incurred by HEIs even if the TRAC requirements did not exist
- perceptions about the burden associated with the TRAC requirements which may be influenced by the concerns about the wider burden of regulatory reporting for HEIs and their staff, of which TRAC is only a small part, and a lack of clarity about the purpose and uses of TRAC within institutions
- opportunities to streamline the TRAC requirements to reduce burden and enhance the utility for HEIs.”

3.44 It is clear to the FAWG that benefits have accrued to the institutions in the UK as a result of the introduction of TRAC, and there appears to be merit in introducing a similar programme in Hong Kong.
(B) **Staff Cost Recovery**

(a) **Observations**

3.45 If an institution uses UGC-funded faculty to teach self-financed programmes, it is important that an appropriate charge is made to the non-UGC vote to reflect the costs attributable to that teaching effort. Each of the institutions has put in place a methodology for calculating that charge, and their practices are summarised below.

3.46 In reviewing these practices, the FAWG noted one philosophical difference in approach by a number of the institutions with regard to the allocation of salary costs attributable to research and other scholarly activities to the self-financed programmes. These institutions regard the cost of such research and other scholarly activities as being wholly for the account of the UGC vote, although the FAWG notes that one institution has changed its view on this and will implement the change with effect from the 2013/14 academic year.

3.47 Only one institution excludes from its calculation of staff costs any staff benefits. When asked about this the institution replied that “Staff benefits being fixed costs are taken as sunk costs and therefore are not included in the notional cost calculation”. The FAWG understands the term “sunk costs” to mean that the costs are incurred by the institution whether or not self-financed programmes are provided, and is another way of describing a marginal cost approach. The same institution also only applied ten months of the annual staff costs when calculating staff cost charges. When asked about this they replied that “The teaching load usually spreads over 10 months instead of 12 months which is built in the formula based on a marginal cost concept”.

3.48 When calculating staff costs to be recovered, some institutions perform detailed calculations by reference to the grade of staff and the nature of the activity that the faculty member is involved in different activities, such as lecture, tutorial, seminar, etc.

3.49 Until the 2011/12 academic year, one institution determined a notional or standard cost of each staff grade, however, for the 2011/12 academic year and onwards, it calculates the charge on a full actual cost basis.

3.50 Some institutions determine a single rate to be charged to the self-financed activities irrespective of the actual grade of faculty member.
conducting those activities.

3.51 One institution calculates its charge using a student credit approach, calculated by reference to the number of credit student hours per year taught by a faculty member (the number of credits taught multiplied by the number of students in a typical course).

3.52 One institution permits its departments to choose any one of three approaches that the department considers best represents the teaching operation and cost structure of their programmes, with the proviso that once a department chooses a method it cannot change its methodology in future years. The three different methodologies are: the contact hour approach, which is similar to the approach adopted by other institutions; the student credit approach, which is described in the preceding paragraph; and the credit unit approach which takes the total annual staff costs for a department and divides that by the total number of credit units taught by the department.

3.53 One institution does not permit faculty to teach self-funded programmes in the normal teaching load.

3.54 It can be seen that the approaches taken by the institutions vary quite considerably by reference to:

(a) methodology;
(b) costs included in the charging calculation;
(c) level of detail used in determining the amount to be charged;
(d) approach to the charging of research and other scholarly activities; and
(e) regularity of updates.

(b) Commentary

3.55 The FAWG noted that there is a wide variety of approaches taken by the institutions. Concerning these various approaches, the FAWG has the following views:

(a) Methodology. The credit unit approach and the student credit approach use average costs derived from the total annual staff costs incurred by a college or school which will result in each self-financed programme being charged with an average cost rather than a cost specific to the actual grade of academic staff involved in the teaching. This will not
permit the institution to obtain an accurate costing of each individual programme offered. However, the FAWG recognised that if the total time spent by UGC-funded faculty on self-financed programmes is small, then this might be an expedient way of determining costs. The FAWG also noted that, in one institution, individual departments were given a choice of which methodology to use. In principle, institutions should not allow their faculties / departments to choose one methodology over another that results in a lower charge being levied on the self-financed programme.

(b) Costs included in the charging calculation. It is not appropriate to exclude staff benefits or the implied cost of holiday periods from the calculation of the charge to the self-financed activities. By doing so means that UGC-funded programmes are subject to a cost calculated differently to the cost charged to the teaching of self-financed programmes. (See Commentary under “Indirect Overhead Recovery” in this section for further elaboration of this point).

(c) Level of detail used in determining the amount to be charged. The FAWG noted that the level of detail in the calculations used by the institutions range from charges per teaching hour per grade of staff by type of teaching activity to a single dollar amount per teaching hour or a single assumed annual salary, irrespective of the grade of faculty actually teaching or the nature of the contact hour (lecture, tutorial, seminar, etc.). The FAWG is of the view that using a single dollar amount per hour or the use of a single assumed annual salary is only justified if the total time spent by UGC-funded faculty on self-financed programmes is deemed to be immaterial to the institution, in which case such a methodology becomes an expedient proxy for a more detailed and time consuming calculation.

(d) Approach to the charging of research and other scholarly activities. It is implicit that, in any institution of standing, the faculty members will spend a considerable amount of time in the pursuit of research or other scholarly activities. These activities then inform the teaching activities of those faculty members, which in turn benefits the students. By not
charging the self-financed programmes with the cost of such activities an institution is effectively saying that, if its only remit was to provide self-financed programmes, it would not permit its faculty to engage in research, etc. The FAWG considers that this is not a defensible argument. Accordingly, the FAWG considers that the costs of research and other scholarly activities must be taken into account when calculating the charge to self-financed programmes.

(e) Regularity of updates. The FAWG noted a number of instances where institutions had fixed on a rate of charge many years ago and had not updated it. The only justification that the FAWG can see for taking this approach is the argument that the time spent by the UGC-funded faculty may be so immaterial that the time and effort required to recalculate the charge annually exceeds any real benefit that might accrue from performing such an exercise.
(C) **Charges for Academic Space**

(a) **Observations**

3.56 The FAWG asked each of the institutions to explain the basis on which they charged self-financed programmes for the use of UGC-funded classrooms, lecture halls, and other space. The responses received were as follows:

(a) One institution calculated its hourly rental charge to its self-financed unit taking into account all relevant components including power, maintenance, depreciation and operating costs. It was noted, however, that it had not adjusted its hourly rental rates for classrooms for 14 years, apparently because of the low demand for space from the self-financed unit. The FAWG noted, however, that the rates had been changed from the 2011/12 academic year.

The same institution, however, made no charge for rental in respect of the self-financed programmes offered by the institution proper because it felt that any such charge was already included in the overhead recovery percentage levied on the programmes.

(b) One institution charged its self-financed unit amounts that they believe approximated market rates, being their charge to external users of classrooms. The calculation of the charge was on a per student hour basis and was calculated using the argument that a classroom that could accommodate 100 students could be rented for $500 per hour, and so the charge to the self-financed unit was $5 per student per hour.

With regard to charges for rental to the self-financed programmes offered by the institution proper, these are calculated by reference to the market rent of nearby office space. The principle being that full operating costs are recovered.

(c) One institution's procedural notes in respect of TPg programmes stipulates that “For the time being, however, as long as the non-UGC-funded TPg programmes will not take up space at the expense of UGC-funded activities, no separate charges for rental or utilities against these
programmes will be levied”. Apparently, the rationale for this policy is that most of the non-UGC-funded TPg programmes are conducted in the evening or at the weekend. The institution also believed that the recovery of utility costs had already been included in its overhead recovery percentage.

(d) One institution charged its self-financed unit for rental based on the market rates of nearby office space. When considering the charge for classrooms, etc. used by the self-financed programmes offered by the institution proper, the institution noted that the cost of these facilities are recovered in the overhead recovery percentage levied on the programmes.

(e) One institution explained that they do not charge rent for the use of classrooms by self-financed programmes within the institution. The institution explained that “The University did not pay rent for the campus and therefore rental charge was not one of the cost items to be considered when we determined our overhead rate”.

(f) One institution charged its self-financed units and the self-financed programmes offered by the institution proper a charge equivalent to 80% of the standard charge for rental of such facilities by outside organisations. The institution explained that the self-financed units “are part of the University, and it is considered appropriate to provide them with a discount for rental of the University facilities”. It is understood from the institution that a review of the standard charges for rental facilities as well as the sufficiency of the 80% charge is being carried out with any changes to be implemented with effect from the 2013/14 academic year.

(g) One institution charged hourly rates that are set to recover the space and utility costs of lecture theatres and classrooms. The FAWG noted, however, that these rates have not been revised in recent years. The institution was unable to provide an explanation of how the rates were determined but demonstrated that they exceeded the costs of providing power, security, cleaning and maintenance.
(h) One institution advised that its self-financed units only use the institution's campus facilities for occasional purposes (guest talks, corporate training, inauguration and graduation ceremonies) for which the institution's standard rental rates are charged. The FAWG understands that any recovery for the use of classrooms, etc. by the institution's self-financed programmes within the University proper is recovered through the overhead rate charging mechanism, and which the institution notes is evidenced by the rate differential between on-campus and off-campus programmes.

(b) Commentary

3.57 There are, clearly, a number of contrasting practices in existence. In a number of instances the amounts that are involved will be relatively small, and the FAWG acknowledges that the time and effort required to develop a sophisticated charging mechanism for the use of UGC-funded space by self-financed activities, whether they be by the self-financed units of the institutions or by individual self-financed programmes offered by the institution proper, will sometimes outweigh any real benefit that will accrue as a result of such an exercise.

3.58 However, as a matter of principle, the FAWG considers that it is correct for the institutions to charge its self-financed activities with not only a share of the utility, security and maintenance costs incurred and initially charged to the UGC vote, but also an amount that represents the depreciation associated with the space used. Buildings are depreciated and an appropriate proportion of any depreciation of a UGC-funded building should be charged to the self-financed programmes if such UGC-funded building is also used by the self-financed programmes.

3.59 The FAWG noted the use of the overhead recovery rate to recover an appropriate amount for the use of classrooms, etc. in some instances. The FAWG is of the view that it is more appropriate to consider classroom usage as a direct cost of a programme, rather than an indirect cost. The FAWG considers that it is more appropriate to restrict the use of an overhead recovery rate to indirect overheads only, and that a more specific calculation be used to determine the actual cost of premises used by self-financed operations.
III. Demarcation and Deployment of Surpluses Derived from Self-financed Activities

(A) Observations

3.60 With regard to the demarcation and the deployment of surpluses derived from their self-financed activities by the institutions, the FAWG noted that the institutions mainly deployed the surplus of self-financed activities for capital construction projects, the purchase of furniture and equipment, employment of staff, staff development and training, conference and seminar attendance, duty visits, scholarships and sponsorships to students, support of research and teaching development, etc.

(B) Commentary

3.61 The FAWG noted that much of the surpluses derived from self-financed activities are deployed for activities described by many of the institutions as “UGC-fundable activities”. The FAWG also noted that nothing had come to its attention during the course of its review that would suggest that any use of such funds was outside of the mission of the institution.
IV. Higher Education Review (HER) Report

(A) Observations

(a) Segment Reporting

3.62 Recommendation 33 of the HER Report recommended that “Public funds should not be used by UGC-funded institutions as cross-subsidies for self-financing educational activities. There should be greater transparency in the financial relationship between UGC-funded institutions and self-financing courses either within the institution or in an affiliate, such as a community college”.

3.63 The FAWG took the view that segment reporting in annual financial statements would assist in providing the transparency recommended by the HER Report. In practice, segment reporting means the inclusion within the body of an institution’s financial statements an analysis showing the results of the institution’s activities attributable to its different funding sources. The FAWG asked the institutions for their views on segment reporting in the annual financial statements of the institutions, with fund sources defining the reporting segments. The FAWG noted the following responses:

(a) All but one institution prepare internal financial information for their Finance Committees that distinguishes between UGC-funded activities and non-UGC-funded activities.

(b) One institution has already adopted segment reporting in its annual financial statements. This institution noted that it had spent a great deal of effort in implementing segment reporting but viewed it as a worthwhile exercise as the institution could better understand the status of various reserves and present a meaningful report to its stakeholders.

(c) Three institutions in principle support segment reporting. One of those institutions is agreeable to adopting further segmentation into UGC-funded programmes, non-UGC programmes within University proper and the self-financed units. Another of those institutions notes that the adoption of segment reporting “means that a uniform and fair accounting method in allocating indirect costs should be worked out by UGC-funded institutions. For example,
should fixed costs be shared by non-UGC-funded operations? How central administrative cost, premises renovation and maintenance cost, central computing cost, library cost, etc. should be shared by non-UGC-funded operations? Should costs be split according to headcounts of students and staff, income size, or actual utilization? Without a uniform and credible accounting method, comparison between the UGC-funded institutions would not be meaningful.”

(d) One institution advised that it is feasible to adopt segment reporting, but in the initial year of adoption it would be better to allow more time for the institutions and auditors to complete the audit.

(e) One institution advised that there is a need to assess the cost and benefit of adopting segment reporting, and to obtain views from the relevant parties such as the institution’s stakeholders, the external auditors, the Council and the departments.

(f) One institution advised that, in principle, the high level reporting by segment based on sources of income is possible. However, several issues need to be further clarified and agreed before implementation, for example, the segment expenditure, the allocation of assets to different segments, the disclosure of segment assets and liabilities, the adoption of different cost allocation basis amongst institutions, etc.

(g) One institution did not recommend segment reporting since the non-UGC-funded activities are actually contributing to the institutional advancement. This institution is of the view that if the segment reporting is to be adopted, a clear definition of “UGC activities” should be defined in the first instance as the institution was using non-UGC funds for “UGC fundable activities”.

(b) Separating Community Colleges from the Institutions

3.64 Recommendation 34 of the HER Report recommended that “The community college operations of UGC-funded institutions should be completely separated from their parent institutions within three years of the acceptance of this recommendation”.

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3.65 The FAWG asked the institutions for their views on the separation of community colleges from the institutions. The FAWG noted the following responses:

(a) One institution did not operate a community college.

(b) Four institutions have already set up separate and independent legal entities for their community colleges.

(c) One institution advised that, technically, the recommendation is possible to implement, however, the institution considered it imperative to assess the exact financial, legal and other related impacts arising from the change before it is implemented. This institution is of the view that if the community college operations are operated under a separate legal entity, there will be substantial increase in overhead costs, for example, separate back offices, procedures and systems for each supporting function.

(d) One institution advised that it is difficult to separate the community college physically from the institution as the community college is located in the institution’s campus. This institution stressed that it would be contrary to the education ethos of the institution to separate the community college from the institution’s campus because the community college was designed as such from the outset in order to provide students a university campus life, and a more well-rounded education through integration with undergraduate degree students. A separation would be unnecessarily depriving the community college students of a more fulfilling experience and education on the institution campus. Moreover, this institution also expressed the concern on the quality of education under the change.

(e) One institution advised that its collaboration with an external organisation in the operation of a community college will terminate and the community college has ceased to admit new students in 2012. The institution has no plan in the short to medium term to set up a separate legal entity to house its self-financed programmes or to expand the scope of the existing school to be developed as a self-financed community college. Moreover, this institution and another
institution are of the view that, from the cost-efficiency point of view, the setting up of a separate community college will inevitably increase the fixed costs / overhead costs for self-financed programmes which may ultimately be channelled to and borne by students.

(B) Commentary

(a) Segment Reporting

3.66 The FAWG noted the different views from the institutions regarding the adoption of segment reporting. With regard to the distinction between “UGC activities” and “UGC-fundable activities” raised by one institution, the FAWG is of the view that this is not a distinction that is required in order to report segments that are defined by reference to the source of funds.

3.67 The FAWG considers that the adoption of segment reporting defined by reference to the source of the institutions’ funds will enhance the institutions’ financial transparency, provide their stakeholders with meaningful financial information about the use of funds received, and improve the financial governance of the respective institutions. Moreover, the experience sharing of the adoption of segment reporting of one institution could help other institutions in the initial stage of the adoption of segment reporting. Further discussion of institutional financial transparency can be found in Section VI below.

(b) Separating Community College from the Institutions

3.68 The FAWG noted the different views of the institutions regarding the separation of community college. The FAWG considers that the adoption of segment reporting will result in better accountability, and greater financial transparency in the financial relationship between the publicly funded institutions and their self-financing affiliations.
V. **Internal Audit**

(A) **Observations**

3.69 With regard to the internal audit of the institutions, the FAWG noted the following:

(a) Most institutions have their own internal audit offices / units.

(b) The other institutions have outsourced their internal audit functions to consulting firms other than their external auditors.

(c) All but one institution have a 3-year audit cycle, and the other institution has a 5-year audit cycle for the institution proper and a 4-year audit cycle for its self-financing unit.

(B) **Commentary**

3.70 The FAWG noted the institutions fully understand the importance of the internal audit functions. The FAWG also noted that in response to a recommendation set out in the Director of Audit’s Report No. 40 (March 2003), the UGC-funded institutions, which have not set up an audit committee at that time, have set up an audit committee to strengthen the internal audit function and the corporate governance structure of the institutions. Further discussion of “Audit Considerations” can be found in Chapter 5 “Recommendations”.
VI. Institutional Financial Transparency

(A) Observations

3.71 When considering institutional financial transparency, the FAWG noted a number of matters pertaining to the broader subject of institutional governance and transparency, which may merit a separate study by the UGC. These matters are not referred to in this report.

3.72 In considering financial transparency, the FAWG considered the following areas:

(a) segment reporting;
(b) whether or not institutions provided clarity to their respective stakeholders in respect of the way in which costs were charged to both UGC-funded and non-UGC-funded activities;
(c) whether or not surpluses derived from the various self-financed activities undertaken by the institutions are sufficiently identifiable; and
(d) whether or not sufficient clarity exists with regard to the nature of donations and benefactions received, and specifically the extent to which restrictions are placed on those funds by donors or benefactors.

3.73 With regard to segment reporting, this has been considered by the FAWG in the context of the HER Report, and the FAWG’s observations and commentary can be found in paragraphs 3.62 and 3.63, and paragraphs 3.66 and 3.67 above respectively.

3.74 Concerning the clarity with which cost allocation practices are communicated to stakeholders, the FAWG has reviewed the respective institution’s Annual Report, Financial Statements and website and found that no institution provides an explanation of the methods used to allocate costs to UGC-funded and non-UGC-funded activities.

3.75 As can be seen in Table 2 in Chapter 2, numerous activities are being undertaken by the institutions. These can be summarised as follows:

(a) teaching within institution proper (SD, Ug, TPg, RPg);
(b) research and consultancy;
(c) teaching in self-financed units within the institution proper;
(d) teaching within separate subsidiaries; and
(e) other activities conducted through subsidiaries, associates and jointly controlled entities.

3.76 Financial statements of the institutions also reflect the receipt of donations and benefactions, most of which is regarded by the institutions as self-financed income, and of investment income, which is divided between UGC-funded income and self-financed income.

3.77 When examining the financial statements, and in the absence of any form of segment reporting, it is difficult for readers of the financial statements to readily appreciate the results of the various activities undertaken by the institutions. It becomes necessary to review both the institution’s Statement of Changes in Fund Balances together with the detailed notes on reserve movements to be able to understand how much the institution has recognised as a surplus or deficit from its various activities. Even then, it is not possible to distinguish between surpluses derived from teaching self-financed courses in the institutions proper and those derived from self-financed units operated within the institution proper.

3.78 The FAWG also noted a lack of consistency in defining reserve balances as “restricted”. Generally speaking, restricted reserves represent funds that are subject to conditions imposed by the provider of the funds and can only be used for the purposes for which they are given. It might be regarded as inappropriate if such funds were used for any other purposes. In this regard, for example, the GDRF balances, which represent accumulated surpluses from UGC funding, must be used in a manner approved by the UGC, and because of this are “restricted”. None of the institutions categorise the GDRF balance as “restricted”. On the other hand, reserves derived from self-financed activities are categorised by some of the institutions as restricted when no restrictions exist.

3.79 With regard to donations and benefactions, and clarity with regard to whether or not restrictions are placed on those funds by donors or benefactors, the FAWG considers that it is important for the institutions to report how much of the reserve balances attributable to donations and benefactions are restricted and how much are not. The practices of the institutions vary in this regard. Some institutions do not separately identify the component of the reserve balance attributable to donations and benefactions that is restricted. Others show the amount of such reserves that are “designated”. “Designated” has a different meaning than “restricted”, being suggestive of an internal designation rather than
an externally defined restriction. Another shows endowment funds received as restricted and donations and benefactions as unrestricted, and another shows all such reserve balances as restricted.

(B) Commentary

3.80 It is clear to the FAWG that there is room for the institutions to improve the level of financial transparency. The FAWG’s views on what form this improvement should take are set out in Chapter 5 “Recommendations”.
VII. Management of Investments

(A) Observations

3.81 The institutions, in managing their affairs, are required to consider the management of surplus funds that they hold from time to time. In some instances these funds are very substantial. These funds derive from both UGC and non-UGC sources. The FAWG noted the following.

3.82 Each institution has a finance committee / an investment committee that is responsible for overseeing the investment of these funds. The operation of these committees appears to be appropriate.

3.83 Some institutions do not segregate the investments into investments derived from UGC sources and investments derived from non-UGC sources. These institutions make investment decisions in respect of one investment pool having regard to the overall needs of the institution. All investment returns and gains are allocated to the UGC vote and non-UGC vote by reference to respective reserve balances.

3.84 Some institutions segregate their investments by reference to the source of funds and account for investment returns and gains accordingly.

(a) One institution noted that "The University has until now only invested some of its non-UGC-funded reserves, and has placed its UGC funds in bank fixed deposits to earn interest income."

(b) One institution noted that "Generally speaking, UGC funds are only invested in capital preservation investments products such as fixed deposits, bonds, structured products, notes, certificate of deposits etc. The investment returns of UGC funds are separately recorded and accounted for. When UGC funds are invested in conjunction with non-UGC funds in a single investment product or a single class of investment products, the investment income or deficit from such investment are apportioned between UGC-funded and non-UGC-funded in proportion to amount so invested or the fund balances that are invested into these products".
(c) One institution noted that the investment objectives and strategies for UGC funds were to “Preserve the capital and sufficiently liquid to meet operating requirements. Investments are relatively short-term, such as deposits, CD and bonds.” They also noted that, for Non-UGC Donated and Specific Funds, the investment objectives and strategies were to “Generate income to meet the purposes of the donations, scholarships and projects. To maintain certain level of liquidity for projects with finite completion date, funding will be invested in short term deposits and fixed income investments. Other funds are invested for medium to long term to generate stable income.” They further noted that, for Non-UGC General Endowment Fund, the investment objectives and strategies were “For long term growth and generate sufficient income to support UGC-funded recurring expenditures and to beat inflation.”

(B) Commentary

3.85 The FAWG is content with the arrangement that the investment policies and practices of the institutions are overseen by their finance committees / investment committees. It is clear that the institutions have aspirations well beyond the simple provision of a quality education under the UGC mandate. In this regard, the provision of self-financed programmes is an integral part of those aspirations. To achieve their respective aspirations, it is important that the institutions manage their resources and make prudent investment decisions for the benefit of the institution as a whole.
CHAPTER 4

OVERSEAS EXPERIENCES

4.1 When reviewing the subject of cost recoveries and cost charging mechanisms, and of institutional financial transparency, the FAWG has sought to identify practices that prevail elsewhere in the world to seek guidance on what might be suitable for Hong Kong.

I. Cost Recovery and Cost Charging Mechanisms

4.2 The FAWG noted two countries, the USA and the UK, as well as the EU, where the issue of costing and cost recoveries has been addressed in depth. In all three the need for detailed costing has been identified in the context of research grants and the ability to recover indirect overheads from grantors although, in the UK, the subject was also raised in the context of helping universities and colleges improve their strategic and operational decision-making by developing and implementing good practice in costing and pricing activities.

(A) USA

4.3 In the USA, the Office of Management and Budget (OMB) is one of the agencies of the Executive Branch of the U.S. Government. Working with federal agencies and non-federal parties, OMB establishes government-wide grants management policies and guidelines through circulars and common rules. These policies are adopted by each grant-making agency and inserted into their regulations.

4.4 One of the OMB Circulars, designated as OMB Circular A-21, is titled *Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions*. The cost principles in Circular A-21 provide the general accounting “rules” for colleges and universities. These principles define those costs that are allowable and allocable to the federal government. The rules that are established to ensure that a university is reimbursed fairly for indirect costs attributable to federally funded research projects are detailed. The methods used by universities to establish Facilities and Administration (F&A) rates (the result of applying the OMB Circular A-21 principles) are subject to both audit by, and negotiation with, federal authorities.
4.5 Of interest to the FAWG in this Circular is the definition of F&A rates, which includes depreciation and use allowances, operation and maintenance expenses and general administrative and general expenses. Examples of general administration and general expenses given in the Circular include: those expenses incurred by administrative offices that serve the entire university system of which the institution is a part; central offices of the institution such as the President's or Chancellor's office, the offices for institution wide financial management, business services, budget and planning, personnel management, and safety and risk management; the office of the General Counsel; and, the operations of the central administrative management information systems. Further, the FAWG noted the following statement in the Circular: “Each institution's F&A cost rate process must be appropriately designed to ensure that Federal sponsors do not in any way subsidize the F&A costs of other sponsors, specifically activities sponsored by industry and foreign governments.”

4.6 The rules set out in the Circular are very detailed, and as noted already, subject to audit by, and negotiation with, federal authorities.

(B) UK

4.7 The UK Government's Spending Review of 1998 granted additional funds to Higher Education, but also imposed conditions upon Institutions to transparently report their costs. The TRAC is the method by which Higher Education Institutions fulfil this obligation and underpins the calculation of fEC rates. It requires that the expenditure shown in the University accounts be allocated in full to the activities of Teaching, Research and Other, and within those activities to the underlying academic cost centres.

4.8 The Quality Assurance Validation process, for the validation of TRAC processes within universities, was introduced by Research Councils UK in 2008. It aimed to provide a mechanism to ensure that the TRAC methodology was being applied correctly across institutions, and that all costs were being calculated correctly. In parallel, the process provides assurance to the Research Councils on the application of fEC methodology in the calculation of the fEC rates. The Research Councils agreed to pay 80 per cent of the fEC, which although not 100 per cent represented a substantial increase in the funding received by the sector for its research activity.
4.9 The process also provides assurance to the HEFCE that they can place reliance on the figures in the annual TRAC return.

4.10 In reviewing fEC processes, the FAWG noted that indirect costs consist of:

(a) the support time (cost) of academics;
(b) clerical and administrative staff in academic departments not already recovered as a direct cost;
(c) non-staff costs in academic departments not already recovered as a direct cost;
(d) central services including academic services such as the library and information services;
(e) the estates costs of central service departments; and
(f) the gross cost of capital employed (incorporating interest and restructuring costs).

4.11 They further noted that estates costs include repairs and maintenance, utilities, rates, buildings depreciation and estates staff. Equipment depreciation is also included.

(C) EU

4.12 The FAWG noted that the EU has introduced certain requirements for bodies applying for research grants that are to be made available for EU innovation and research funding. Included in the conditions attached to such funding are requirements for determining indirect costs claimed by a grant recipient, the methods by which such indirect costs should be calculated, and an obligation for financial information to be subject to review by an independent auditor, including the amount of indirect costs claimed. Indirect costs that are claimable are defined as “those eligible costs which cannot be identified by the beneficiary as being directly attributed to the project but which can be identified and justified by its accounting system as being incurred in direct relationship with the eligible direct costs attributed to the project. They may not include eligible direct costs. Indirect costs shall represent a fair proportion of the overall overheads of the organisation.”

II. Institutional Financial Transparency

4.13 In considering this matter, the FAWG has sought to identify practices elsewhere in the world. In this regard, they identified the following sources of information:
4.14 Noting that the FAWG’s current interest is in the subject of financial transparency, the following is of note:

(A) Australia

4.15 In Australia, Universities Australia and the University Chancellors Council published a *Voluntary Code of Best Practice for the Governance of Australian Universities* in 2011. The FAWG noted the following statements in the Code:

- *The annual report of a university should be used for reporting on high level outcomes.*
- *The annual report of a university should include a report on risk management within the organisation.*
- *A university should disclose in its annual report its compliance with this Code of Best Practice and provide reasons for any areas of non-compliance.*

4.16 In addition to this, the Australian Government’s Department of Education, Employment and Workplace Relations (DEEWR) notes that it is a condition of receipt of financial assistance from the Australian Government under the Higher Education Support Act 2003 and the Australian Research Council Act 2001 that Australian higher education providers provide financial statements in a form approved by the Minister for Education. Failure to provide financial statements in the approved form may result in the reduction or requirement to repay an amount of a grant. To support this requirement, DEEWR produces the prescribed form of the financial statements for higher education providers to follow. Apart from detailed guidance on the financial statements themselves, this guidance also includes a requirement that a Report by the Members of the Governing Body is also included. The pro-forma report provided closely follows the directors’ report requirements of the Australian Corporations Act.

(B) UK

4.17 In 2004, the Committee of University Chairs in the UK published a *Guide for Members of Higher Education Governing Bodies in the UK – Governance Code of Practice and General Principles*. This
guide sets out certain principles of openness and transparency and notes the following:

2.56 The general principle applies that students and staff of the institution should have appropriate access to information about the proceedings of the governing body. The agenda, draft minutes if cleared by the chair, and the signed minutes of governing body meetings, together with the papers considered at meetings, should generally be available for inspection by staff and students. There may, however, be matters covered in standing orders where it is necessary to observe confidentiality. Such matters are likely to concern individuals or have commercial sensitivity. Good practice for all institutions might include placing copies of the governing body’s minutes on the institution’s intranet and in its library, reporting on decisions in a newsletter, and ensuring that the annual report and accounts are circulated to academic departments and the students’ union.

2.57 The institution’s annual report and audited financial statements should be made widely available outside the institution and ways should be found for the public, or the local community, to comment on institutional matters that concern them.

2.58 Institutions should consider what is the appropriate means to put this into effect. The statutes of most pre-1992 HEIs include provision for a court, with a wide membership drawn on a representative basis from external bodies, whose terms of reference meet these criteria. Some post-1992 universities, whose articles do not provide for a court, have nevertheless decided to establish representative bodies with a broadly similar function. In any event, institutions should ensure that machinery exists whereby they maintain a dialogue with appropriate organizations in their communities. Institutions should also consider publishing their annual reports on the web.

2.59 The Second Report of the Committee on Standards in Public Life (1996) states that institutions should publish key information to a common standard, including material on governance, in their annual reports. The following good practice is recommended:
a. Audited financial statements (annual accounts) should include a statement which covers the responsibilities of the governing body in relation to financial management and the financial aspects of corporate governance. A model is included in the specimen financial statements attached to the Statement of recommended practice: accounting for further and higher education (SORP), which was published by Universities UK in July 2003. The model will require adjustment to reflect the internal structures of individual institutions, but should otherwise be followed.

b. The annual report should include a corporate governance statement which sets out the institution’s legal status and broad constitutional arrangements, recognizes the general principles of public service and indicates how they are implemented, and takes account of the wide range of constituencies to which the institution reports. A model statement is set out in Annex A. This is an example of good practice, and will require adjustment to reflect the particular circumstances of individual institutions.

4.18 Higher education institutions are also required to follow the ‘Statement of Recommended Practice: Accounting for Further and Higher Education’ (SORP). Included in the SORP is the following statement:

*The financial statements will be published with related reports. These will include the following:*

(a) the Operating and Financial Review (which may also be called a treasurer’s report, members’ report, directors’ report or report of the governing body);

(b) a statement of corporate governance and internal control;

(c) a statement of responsibilities of the governing body (if not included in the statement of corporate governance), and

(d) an independent auditors’ report.
CHAPTER 5

RECOMMENDATIONS

5.1 Having regard to the various observations and commentary in Chapter 3 and with practices that exist elsewhere in the world, as discussed in Chapter 4, the FAWG has a number of recommendations to make, which are set out below. The FAWG believes that these recommendations enhance the transparency, financial reporting and decision making within the institutions.

I. Cost Recovery and Cost Charging Mechanisms

(A) Indirect Overhead Recovery

5.2 It is difficult for the FAWG to accept that the amount to be charged to the self-financed programmes for indirect overheads can be properly represented by a constant percentage of self-financed programme tuition income each year. The FAWG believes that its recommendations in this regard will better enable institutions (and their Councils) to understand more fully, and therefore be in a position to more effectively manage, the cost structures and the setting of tuition fees for the programmes that they offer.

5.3 The FAWG is of the view that the use of marginal costing techniques to measure those costs that represent “the relevant portion of the overhead consumed by the activities concerned” is not a sufficiently sound interpretation of the “full cost recovery principle” set out in the UGC’s “Notes on Procedures”.

5.4 Notwithstanding that the FAWG is of the view that there should be no difference in principle in the way overheads to be charged to research projects, consultancy projects, and to self-financed programmes are calculated, it is not the intention of the FAWG to create an environment that discourages research. The FAWG’s views on research are set out in Recommendation 3 below. If the fund provider is unwilling to contribute to the full overhead cost of the institution, then the institution itself should decide whether or not it wishes to subsidise the contract from its self-financed reserves. As an exceptional treatment, however, and as provided for in the “Notes on Procedures”, institutions may waive overhead charges under agreed conditions.
**Recommendation 1:**

5.5 The FAWG **recommends** as a matter of general principle that (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. If the methodology used by the institution results in the use of an “indirect overhead recovery rate”, the FAWG would expect to see such calculations being reviewed and, if necessary, revised on an annual basis. This principle should be applied as a matter of high priority to self-financed TPG and SD programmes. The FAWG notes that institutions may require time to modify internal financial management systems and therefore recommends that such a change be implemented within the next funding triennium. Thereafter, the same principle should be applied to other self-financed activities conducted by the institutions; and (b) indirect overheads charged to non-UGC-funded research projects and all other self-financed activities be charged on exactly the same basis, and implemented after the methodology for TPG and SD programmes noted above is instituted. To implement these recommendations, the UGC is invited to revise its “Notes on Procedures” to clarify its requirements regarding the obligation to levy direct and indirect overhead charges on non-UGC-funded activities. Further, the UGC is invited to review the recommendations made by the FAWG anticipated in Recommendation 2, and considers whether any of these require further changes to the “Notes on Procedures”.

**Recommendation 2:**

5.6 The FAWG **recommends** that the UGC establish a Working Group to review the cost allocation recommendations set out herein with a view to establishing detailed guidance for the institutions outside of the “Notes on Procedures” so as to implement **Recommendation 1**. In this regard, the FAWG invites the Working Group to explore the possibility of introducing TRAC and fEC guidelines similar to the manner in which they have been introduced in the UK. Although the FAWG would wish to see the institutions implement any recommendations made by the Working Group as early as possible, it recognises that there will be constraints on the institutions ability to achieve this. The FAWG considers that the institutions should be required to implement the recommendations with high priority to self-financed TPG and SD programmes within the next funding triennium. The FAWG also expects
the Working Group to work out the timeframe for implementation of the recommendations to other self-financed activities.

**Recommendation 3:**

5.7 The fundamental principle is that the indirect overheads of research projects not funded by UGC should be borne by non-UGC funds except in justifiable circumstances as permitted in UGC’s “Notes on Procedures”. If an institution takes advantage of the provisions of the “Notes on Procedures” to not charge some or all of the otherwise allocable indirect overhead to a research project, then the FAWG recommends an appropriate disclosure in the documents submitted to the institution’s Council and an annual declaration submitted to the UGC explaining the nature of the research projects for which such exemptions have been applied together with a note of the quantum involved. The FAWG considers that the recommendation should be implemented in the current academic year.

**(B) Staff Cost Recovery**

5.8 The FAWG considers that it is not appropriate to exclude staff benefits or the implied cost of holiday periods from the calculation of the charge to the self-financed activities.

5.9 The FAWG is also of the view that using a fixed dollar amount per hour or the use of a single assumed annual salary are only justified if the total time spent by UGC-funded faculty on self-financed programmes is deemed to be immaterial to the institution.

5.10 The FAWG considers that the costs of research and other scholarly activities should, in most circumstances, be taken into account when calculating the charge to self-financed programmes.

5.11 Finally, the FAWG is of the view that 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.

**Recommendation 4:**

5.12 The FAWG recommends that the institutions re-examine their practices concerning staff cost recovery along the principles set out in the above comments to move towards the requirement of full staff cost
recovery. Such principles should be applied as a matter of high priority to self-financed TPg and SD programmes, and the FAWG recommends that such changes be implemented within the next funding triennium. Thereafter, the same principles should be applied to other self-financed activities.

(C) Charges for Academic Space

5.13 The FAWG considers that institutions should charge its self-financed activities with not only a share of the utility, security and maintenance costs associated with academic space utilised 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 programme and, accordingly, should not be recovered within the indirect cost charging mechanism.

Recommendation 5:

5.14 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, with high priority to self-financed TPg and SD programmes, and therefore recommends that such change be implemented within the next funding triennium. Thereafter, the same principles should be applied to other self-financed activities.

II. Institutional Financial Transparency

Recommendations 6, 7 and 8:

5.15 Reflecting on both the comments made in paragraphs 3.74 to 3.79 and, in respect of the HER Report in paragraphs 3.62 and 3.63 and paragraphs 3.66 and 3.67, the FAWG considers that there is room for improvement in respect of a number of financial matters as they relate to institutional financial transparency. In this regard the FAWG recommends the following:

Recommendation 6:

(a) The way in which the institution allocates costs to UGC-funded and non-UGC-funded activities should be
explained clearly in a publicly available document (for example, a website). This recommendation should be implemented within the 2014/15 academic year.

**Recommendation 7:**

(b) Segment reporting by funding source should be mandated, and should be implemented in the institutions’ audited financial statements for the year ended June 30, 2017, if possible.

**Recommendation 8:**

(c) Noting the difficulty in identifying surpluses or losses attributable to self-financed activities and noting the differences in approach as regards the designation of funds as restricted or otherwise and to provide assistance in making such disclosures, the Statement of Recommended Accounting Practice for UGC-Funded Institutions (SORP), published by the UGC as a guideline for institutions, be updated to reflect both current and recommended accounting practices and disclosures. The updated version of the SORP should be made available to the institutions no later than June 30, 2015, so that any changes reflected therein, with the exception of segment reporting (Recommendation 7), can be incorporated in the financial statements for the year ended June 30, 2016.

5.16 To implement the above, the UGC’s “Notes on Procedures” should be modified to reflect the requirement for each institution to provide an explanation of its cost allocation policies and practices, to provide segment reporting by funding source within the body of the institution’s financial statements, and to follow the SORP when preparing the financial statements.

**III. Audit Considerations**

5.17 The UGC “Notes on Procedures” contain a limited number of provisions pertaining to audit. Specifically, in paragraph 7.16 the following is set out:

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 purpose 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.

5.18 There are no provisions in the “Notes on Procedures” requiring each institution to have an internal audit function, or to outsource such a function. However, the FAWG noted that each institution either has its own internal audit department, headed by a suitably qualified individual, or outsources the internal audit function to a service provider other than their external auditors.

5.19 The FAWG contrasts the audit regime in Hong Kong with that in both the USA and the UK. In the USA, costs allocated to the federal government are subject to audit by the federal authorities. In the UK, not only are the TRAC processes and the fEC rate calculations subject to validation by the Research Councils UK, but the HEFCE also operates HEFCE Assurance Service that is responsible for evaluating the risk management, control and governance arrangements of entities funded by HEFCE, and will report on the entity’s compliance with HEFCE mandatory requirements.

Recommendation 9:

5.20 In light of the above observations and practice noted in other jurisdictions, the FAWG recommends that the UGC identifies an appropriate mechanism by which the cost allocation practices of the
institutions can be periodically reviewed and endorsed. The FAWG suggests that this matter be considered by the UGC in the coming twelve-month period.

5.21 The FAWG considers that, when an appropriate mechanism is identified by the UGC, the “Notes on Procedures” be modified to reflect that, the UGC may conduct periodic reviews of cost allocation practices in institutions where necessary. This change should only be made once the mechanism referred to in the previous paragraph has been identified and confirmed.
Part III - Annexes

Annex A

University Grants Committee

Terms of Reference and Membership

The University Grants Committee (UGC) is appointed by the Chief Executive of the Hong Kong Special Administrative Region (SAR) with the following terms of reference:

a. To keep under review in the light of the community's needs:
   i. the facilities in Hong Kong for education in universities and such other institutions as may from time to time be designated by the Chief Executive of the SAR;
   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 of the SAR may from time to time refer to the Committee.

<table>
<thead>
<tr>
<th>Member</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr Edward CHENG Wai-sun, SBS, JP</td>
<td>Deputy Chairman and Chief Executive, Wing Tai Properties Limited, HK</td>
</tr>
<tr>
<td>Professor Jack CHENG Chun-yiu</td>
<td>Chairman, Department of Orthopaedics and Traumatology, The Chinese University of Hong Kong, HK</td>
</tr>
<tr>
<td>The Hon CHEUNG Chi-kong, BBS</td>
<td>Member, Executive Council; Executive Director, One Country Two Systems Research Institute, HK</td>
</tr>
<tr>
<td>Mr Tommy CHEUNG Pak-hong, BBS</td>
<td>Principal, Munsang College (Hong Kong Island), HK</td>
</tr>
<tr>
<td>Member</td>
<td>Title</td>
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</tr>
<tr>
<td>Mr Clifton CHIU Chi-cheong</td>
<td>Chairman, Harvester (Holdings) Co. Limited, HK</td>
</tr>
<tr>
<td>Professor Yip-wah CHUNG, BBS</td>
<td>Professor, Department of Materials Science and Engineering, Northwestern University, USA</td>
</tr>
<tr>
<td>Professor Adrian K. DIXON</td>
<td>Master of Peterhouse and Emeritus Professor of Radiology, University of Cambridge, UK</td>
</tr>
<tr>
<td>Professor David EASTWOOD</td>
<td>Vice-Chancellor, University of Birmingham, UK</td>
</tr>
<tr>
<td>Professor Sir Malcolm GRANT, CBE</td>
<td>Chairman, NHS England, UK</td>
</tr>
<tr>
<td>Professor Mette HJORT</td>
<td>Associate Vice-President (Academic Quality Assurance), Chair Professor of Visual Studies, Lingnan University, HK</td>
</tr>
<tr>
<td>Professor Richard HO Yan-ki</td>
<td>Adjunct Professor, Department of Economics &amp; Finance, City University of Hong Kong, HK</td>
</tr>
<tr>
<td>Dr KAM Pok-man</td>
<td>Certified Public Accountant, HK</td>
</tr>
<tr>
<td>Professor William KIRBY</td>
<td>T. M. Chang Professor of China Studies and Spangler Family Professor of Business Administration, Harvard University, USA</td>
</tr>
<tr>
<td>Mrs Stella LAU KUN Lai-kuen, JP</td>
<td>Headmistress, Diocesan Girls' School, HK</td>
</tr>
<tr>
<td>Mr Tim LUI Tim-leung, BBS, JP</td>
<td>Senior Advisor, PricewaterhouseCoopers Ltd., HK</td>
</tr>
<tr>
<td>Dr Michael MAK Hoi Hung, SBS, JP</td>
<td>Medical practitioner, HK</td>
</tr>
<tr>
<td>Professor John MALPAS</td>
<td>President, Centennial College, HK</td>
</tr>
<tr>
<td>Professor Judy TSUI LAM Sin-lai</td>
<td>Vice President (International and Executive Education), The Hong Kong Polytechnic University, HK</td>
</tr>
<tr>
<td>Professor Mark WAINWRIGHT</td>
<td>Immediate Past Vice-Chancellor &amp; President and Honorary Visiting Emeritus Professor, The University of New South Wales, Australia</td>
</tr>
<tr>
<td>Member</td>
<td>Title</td>
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<tr>
<td>Professor YUAN Ming</td>
<td>Director of American Studies, Peking University, China</td>
</tr>
<tr>
<td>Professor ZHANG Jie</td>
<td>President, Shanghai Jiao Tong University, China</td>
</tr>
<tr>
<td><strong>Ex-officio Member</strong></td>
<td></td>
</tr>
<tr>
<td>Professor Benjamin W Wah</td>
<td>Provost, Wei Lun Professor of Computer Science and Engineering, The Chinese University of Hong Kong, HK</td>
</tr>
<tr>
<td>Sir Colin LUCAS</td>
<td>Former Vice-Chancellor, University of Oxford, UK</td>
</tr>
<tr>
<td><strong>Secretary</strong></td>
<td></td>
</tr>
<tr>
<td>Dr Richard Armour</td>
<td>Secretary-General, UGC</td>
</tr>
</tbody>
</table>
Annex B

Financial Affairs Working Group

Terms of Reference and Membership

a. To work with UGC-funded institutions to help ensure their continuing good financial governance and sound financial planning;
b. To review financial matters of the institutions as necessary with a view to governing and monitoring the use of UGC recurrent grants; and

c. To advise the UGC on drawing up appropriate related guidelines.

<table>
<thead>
<tr>
<th>Member</th>
<th>Title</th>
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<tbody>
<tr>
<td><strong>Convenor</strong></td>
<td></td>
</tr>
<tr>
<td>Mr Tim LUI Tim-leung, BBS, JP</td>
<td><em>Senior Advisor,</em> PricewaterhouseCoopers Limited, HK</td>
</tr>
<tr>
<td><strong>Members</strong></td>
<td></td>
</tr>
</tbody>
</table>
| The Hon CHEUNG Chi-kong, BBS  
*from 1 August 2013* | *Member,* Executive Council;  
*Executive Director,* One Country Two Systems Research Institute, HK |
| Mr Clifton CHIU Chi-cheong | *Chairman,* Harvester (Holdings) Co. Limited, HK                |
| Dr KAM Pok-man      
*from 1 August 2013* | *Certified Public Accountant,* HK                               |
| Mr Carlson TONG, JP  
*until 5 July 2013* | *Chairman,* English Schools Foundation, HK                        |
| **Co-opted Members** |                                                                      |
| Dr York LIAO, SBS, JP | *Former Chairman,* Hong Kong Council for Accreditation of Academic and Vocational Qualifications |
| Mr Martin TANG      | *Director,* MTDD Ltd                                             |
| **Secretary**       |                                                                      |
| Ms Sarah WOO        
*from 2 May 2013* | *Assistant Secretary-General (Finance),* UGC                     |
## Annex C

### Student Enrolment and Tuition Fee Income of the Institutions for the SD, Ug, TPg, RPg and Professional Development Programmes for the 2009/10, 2010/11 and 2011/12 academic years

<table>
<thead>
<tr>
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<th>University Proper</th>
<th>Separate self-financed unit(s)</th>
<th>Total</th>
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<tr>
<td></td>
<td>UGC-funded</td>
<td>Self-financed unit(s)</td>
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<tr>
<td><strong>2009/10</strong></td>
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<tr>
<td>Student enrolment (in fte):</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>SD</td>
<td>5 062 (12.4%)</td>
<td>11 842 (29%)</td>
<td>23 938 (58.6%)</td>
</tr>
<tr>
<td>Ug</td>
<td>55 335 (74.2%)</td>
<td>12 710 (17.1%)</td>
<td>6 486 (8.7%)</td>
</tr>
<tr>
<td>TPg</td>
<td>2 378 (10.2%)</td>
<td>19 908 (85%)</td>
<td>1 126 (4.8%)</td>
</tr>
<tr>
<td>RPg</td>
<td>7 053 (92.6%)</td>
<td>565 (7.4%)</td>
<td>-</td>
</tr>
<tr>
<td>Professional Development Programmes</td>
<td>214 (100%)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>70 042 (47.8%)</td>
<td>45 025 (30.7%)</td>
<td>31 550 (21.5%)</td>
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<tr>
<td><strong>Tuition fee income (in $M):</strong></td>
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<td></td>
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</tr>
<tr>
<td></td>
<td>$3,040 (39.6%)</td>
<td>$3,178 (41.4%)</td>
<td>$1,453 (19%)</td>
</tr>
<tr>
<td></td>
<td>76 575 (52.2%)</td>
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</tr>
<tr>
<td><strong>2010/11</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student enrolment (in fte):</td>
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</tr>
<tr>
<td>SD</td>
<td>5 262 (11.7%)</td>
<td>14 979 (33.3%)</td>
<td>24 712 (55%)</td>
</tr>
<tr>
<td>Ug</td>
<td>56 435 (74.1%)</td>
<td>13 175 (17.3%)</td>
<td>6 522 (8.6%)</td>
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<tr>
<td>TPg</td>
<td>2 372 (9.3%)</td>
<td>21 981 (86.1%)</td>
<td>1 173 (4.6%)</td>
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<tr>
<td></td>
<td>University Proper</td>
<td>Separate self-financed unit(s)</td>
<td>Total</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>-----------------------------------</td>
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<td>--------</td>
</tr>
<tr>
<td></td>
<td>UGC-funded</td>
<td>Self-financed unit(s)</td>
<td></td>
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<tr>
<td>RPg</td>
<td>7 145 (89.4%)</td>
<td>850 (10.6%)</td>
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<tr>
<td>Professional Development Programmes</td>
<td>174 (100%)</td>
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<td>-</td>
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<tr>
<td></td>
<td>71 388 (46.1%)</td>
<td>50 985 (32.9%)</td>
<td>32 407 (21%)</td>
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<td>83 392 (53.9%)</td>
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<tr>
<td>Tuition fee income (in $M):</td>
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<td>$3,755 (44.6%)</td>
<td>$1,528 (18.1%)</td>
</tr>
<tr>
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<td>$5,283 (62.7%)</td>
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<tr>
<td><strong>2011/12</strong></td>
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<tr>
<td>Student enrolment (in fte):</td>
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</tr>
<tr>
<td>SD</td>
<td>5 433 (12.3%)</td>
<td>13 648 (31%)</td>
<td>25 021 (56.7%)</td>
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<tr>
<td>Ug</td>
<td>57 530 (75.1%)</td>
<td>12 839 (16.8%)</td>
<td>6 187 (8.1%)</td>
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<td>TPg</td>
<td>2 378 (8.8%)</td>
<td>23 546 (87.5%)</td>
<td>990 (3.7%)</td>
</tr>
<tr>
<td>RPg</td>
<td>7 186 (88.2%)</td>
<td>964 (11.8%)</td>
<td>-</td>
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<tr>
<td>Professional Development Programmes</td>
<td>173 (100%)</td>
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<td></td>
<td>72 700 (46.6%)</td>
<td>50 997 (32.7%)</td>
<td>32 198 (20.7%)</td>
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<td>83 195 (53.4%)</td>
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<td>Tuition fee income (in $M):</td>
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<td></td>
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<td>$5,601 (63.3%)</td>
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</tbody>
</table>

Source: Returns from institutions.
Annex D

Tuition Fee Income for UGC-funded and Non-UGC-funded Programmes for 5 years from 2007/08 to 2011/12 academic years

Source: Financial statements of institutions.
Note: “Consolidated” includes the results of the University proper ("University") and the separate self-financed units.
Part IV - Acknowledgements

I am most grateful for the wise counsel and efforts of all Members of the FAWG – The Hon Cheung Chi-kong, Mr Clifton Chiu, Dr Kam Pok-man, Mr Carlson Tong, Dr York Liao and Mr Martin Tang, and the Technical Advisor, Mr Roger T Best - without which the review could not have completed within the time available.

I am also thankful for the spirit and detail of the discussions with the senior management of the eight UGC-funded institutions, and also for their provision of useful material and supplementary information to the FAWG.

Special thanks must go to the Secretary-General, Dr Richard T Armour and his staff at the UGC Secretariat for the invaluable assistance in coordinating the review and producing the Report.

Last but not least, I express a particular appreciation to Mr Edward Cheng, Chairman of the UGC, for his support throughout the whole review process.

Mr Tim LUI Tim-leung, BBS, JP
Convenor, Financial Affairs Working Group
University Grants Committee