

Appendix E

Proposed model for funding by credit units

The UGC has discussed the latest model for funding by credit units as follows.

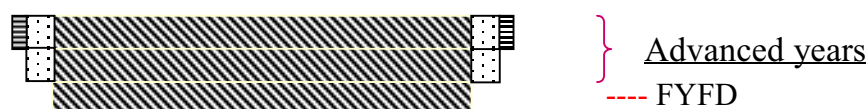
The Student Base

Similar to the present arrangement, student number targets have to be determined by the UGC with reference to the Academic Development Proposals (ADPs) submitted by the institutions and by consultation with the Government on manpower requirements.

Under CATS, the base year student number will still have to be subject to the FYFD (first year first degree) target as set by the Government. Teaching in the institutions will be funded, however, with respect to a student base to be expressed in credit units, instead of FTE's (full time equivalent) over the different Academic Programme Categories (APCs). The conversion of FTE's to credit units will be achieved through a simple formula, such as one FTE equals to 30 credit units (assuming 90 credit units for a first degree). At the outset, all credit units within the student base will be fully funded, taking into account the relative cost weightings among APCs, but there can be later adjustments according to the actual state of consumption.

Subject to the availability of resources from the Government, institutions may propose in their ADPs a student base to make use of available credit units, giving it the shape of an 'inverted trapezium' possibly. That is, while the baseline would still be controlled by the FYFD numbers, at each of the advanced years there will be additional credit units to be provided for admission of newcomers from outside. Graphically, the student base can be something like:

Figure 1 Anticipated student population base



Financial Rebalancing and the Concept of Marginal Cost

Financial rebalancing will be introduced to adjust teaching fund allocations to institutions in recognition of the change in enrolments in each of their APCs due to student transfers or reading for credit units across institutions.

The basic idea is that money will move with the students but application of the idea will be subject to the following rules :-

- The first is that recruitment into the approved student base will attract no top-up funding whereas recruitment outside the student base (i.e. over-recruitment) will, for the simple reason that anything within the student base has already been funded;
- The second is a 50% rule which means that for any top-up funding the amount will be discounted by 50%. This is to recognise that in normal situations, accepting an additional student at the fringes of the student base will only involve marginal costs and that, conversely, for the entity that is losing the student, the resultant 'savings' cannot be 100%, as part of the costs must have been 'sunk'; and
- The third rule is that top up funding will only be available in the case of movement of students already in the UGC-sector, although it would have been desirable if the same could apply to newcomers from the outside. There are two reasons for it. The main one is that in the new situation, additional places will have been created and funded for the newcomers as part of the inverted 'trapezium'. The other is that if we fund over-recruitment from the outside, the situation will be difficult to control and the amount of additional resources required cannot be quantified in advance, unless a quota system is imposed. The only exception to this rule is for institutions which have suffered net loss of students as a result of the inter-institutional transfers, they would be allowed to recruit students from the outside up to the boundary of their original student base, and have the funding accordingly restored.

Money-wise, financial rebalancing will take immediate effect, though actual re-adjustment of the accounts will only take place retroactively at the end of each financial year. An electronic notification system for institutions and an annual 'clearing' exercise by the UGC will have to be set up.

Strategic Rebalancing and Quality Assurance

At the end of a triennium, there will be re-adjustment of the student bases for institutions by the UGC, having regard to the actual performance of individual programmes. The UGC will look into unusual cases if there is concern over the quality of programmes offered or student intake, and adherence to mission. By and large, programmes which recorded consistent over-subscription will get an increase in credit units while there will be cuts in opposite cases. However, it is to be stressed that strategic re-balancing will be judgmental, rather than mechanical, having due regard to quality and the overall level of resources then available.

Since strategic rebalancing will be done in a judgmental manner by the UGC, it should discourage distorted behaviour at the institutional level and prevent attempts to trade quality for quantity.

Strengthened Home Institution Rules

In reality, we expect the implementation of CATS to be gradual and controlled, since the institutions can set 'home institution' rules, collectively and individually as the case may be, stipulating the following :

- each student can only register with one 'home institution', from which he/she gets his/her degree upon graduation and to which the tuition fee is paid, irrespective of where he/she might read for credit units or take examinations;
- the number of home-earned credit units required for the award of a degree;
- the maximum number of credit units a student can attempt in an institution within a year;
- the maximum number of years a student can spend in an institution to graduate; and
- the maximum validity period of credit units.

It is proposed that transfer of home institutions will not require consent by the releasing institution. The receiving institution will have full discretion as to the acceptance of previously acquired credit units. Cross-institutional reading of credit units however will require 'double approval' - the home institution should ensure that students study according to a plan that is both manageable and sensible, taking into account the quality and relevance of the study.

Coverage

It is proposed that funding by credit units should, at least for the interim, cover only undergraduate studies but may be extended to Taught Postgraduate at a later stage. RPG and sub-degree students will be outside the system. In consultation with the Government, certain professional streams, e.g. medical and dentistry, should also be kept outside the operation of the system.

Financial Implications

It is anticipated that additional resources will be required to support a student base with expanded number of credit units at advanced levels, assuming that FYFD places are not to be reduced. There will also be a need for additional resources for the whole UGC sector to accommodate 'extra' credit units studied but not required or recognised for graduation.