

Cost Allocation Practices in relation to UGC-funded and non-UGC funded activities

Background Information

- 1.1 With the demand of higher financial visibility and transparency and the avoidance of cross-subsidisation using University Grant Committee (“UGC”) resources to support self-financing activities, the UGC requested the eight UGC-funded institutions to adopt the Cost Allocation Guidelines (“CAGs”) based on the concept of full-absorption / activity-based costing.

Institutional Activities

- 2.1 The activities of the University can be generally classified as UGC-funded activities which include award bearing programmes and projects related to research and teaching development, while non-UGC funded activities included also award bearing programmes and non-award bearing courses/programmes (tendered commissioned projects) and consultancy/other services.

Previous Financial Model

- 3.1 The University adopted a standard costing model to recover the services provided by respective academic/teaching staff and administrative staff of academic departments as well as the support of faculties and central administrative and academic support units.

Financial Model with the implementation of CAGs

- 4.1 The implementation of CAGs takes effect in the 2018/19 financial year. The financial model recommended under the CAGs requires the total costs of the University be allocated to the UGC vote and non-UGC vote based on pre-set cost drivers on respective cost pools.
- 4.2 The following cost pools were identified under the CAGs:
 - a. Academic Staff Cost;
 - b. Departmental Premises and Related Cost, with breakdown into bookable and non-bookable premises;
 - c. Departmental Shared Cost;
 - d. Central Shared Cost, including faculties and central administrative and academic support units.
- 4.3 All academic and teaching staff are invited to submit their timesheets twice a year covering their times spent on award-bearing programmes, projects and other institutional activities such as administration, conference, duty trip, sabbatical leave, community services, etc.
- 4.4 The cost pools are allocated to UGC-funded and non-UGC-funded award-bearing programmes, as well as UGC-funded and non-UGC funded projects based on relevant costs drivers.

Periodic Review on the Implementation of CAGs

- 5.1 Regular review on the Guidelines would be carried out to identify if changes on the assumptions, appropriateness of cost drivers used, etc., are required.
- 5.2 Previously, the cost driver, Student Headcount is used to allocate the central shared cost of facilities and services provided by Administrative and Academic Support Units for each academic programme. As such, each student headcount shares the same amount of central shared cost of facilities and services. This cost driver was adopted up to 2019/20.
- 5.3 Due to the phasing out of most undergraduate programmes and growth of taught postgraduate programmes, a review has been carried out and identified that Student Credit Point would be a more appropriate cost driver to allocate the central shared cost of facilities and services provided by Administrative and Academic Support Units. This new approach will take effect in 2020/21. The cost drivers used to allocate the cost pools into UGC-funded and non-UGC-funded award-bearing programmes, as well as UGC-funded and non-UGC funded projects are updated as follows:

	Award-bearing Programmes	Projects
<i>Cost Pools</i>	<i>Cost Drivers</i>	
a. Academic Staff Costs	Working Hours(Timesheet)	Working Hours(Timesheet)
b. Bookable Premises Costs	Booked Time	Booked Time
c. Academic Departmental Facilities and Services	Student Credit Point	Direct charges to project
d. Central Shared Costs of facilities and services provided by <u>Faculties</u>	Allocated to programmes based on student credit point	% of working hours spent on projects based on timesheet
e. Central Shared Costs of facilities and services provided by <u>Administrative and Academic Support unit</u>	Allocated to individual programme based on student credit point	% of Working hours spent on projects based on timesheet

Segment Report

- 6.1 Based on the funding nature of the programmes and projects, the allocated costs of activities are charged to the UGC-vote and non-UGC vote, which are reported under the segment report as published in the annual account each year.
- 6.2 For the purpose of cost allocation, certain non-UGC funded activities could be deemed to be UGC-funded activities and hence the relevant costs incurred are to be charged to the UGC vote. The details are shown in the UGC Notes on Procedure, Chapter 3 Annex 3 D.
<https://www.ugc.edu.hk/doc/eng/ugc/note/Annex3D.pdf>

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