

<p>Cost Allocation Guidelines in relation to UGC-funded and Non-UGC-funded Activities</p>
--

Purposes and Background:

1. The Guidelines aim to provide a set of guidance for the University to ensure that there is no cross-subsidization of UGC resources to Non-UGC resources and to establish greater transparency and accountability relating to costing allocation practices for UGC-funded and non-UGC-funded activities.
2. With the implementation of the Cost Allocation Guidelines for UGC-funded and Non-UGC funded Activities (“CAGs”) effective from the accounting period commencing 1 July 2018, the University has updated the Cost Allocation Guidelines in compliance with the CAGs, and the UGC Notes on Procedures (“Notes on Procedures”). The cost allocation practices and methods set out in CAGs and Notes on Procedures are available in the UGC website (<https://www.ugc.edu.hk/doc/eng/ugc/note/CAGs.pdf>)

The Guiding Principles:

1. *General Principle:* The recurrent grants from the UGC are provided to the University to support its academic and related activities based on approved UGC-funded activities. As such, there should be no cross-subsidization of UGC resources to non-UGC-funded activities. All expenses which can be separately identified shall be charged to the appropriate accounts (ie UGC votes Non-UGC vote) directly and overhead charge should be imposed on Non-UGC funded activities to avoid hidden subsidy. Thus, separate accounts at departmental/institutional/programme levels are therefore maintained for UGC-funded and non-UGC funded activities.
2. *Non-UGC funded programmes (Academic Staff Cost/Departmental Costs Recovery):* Academic Units are requested to provide information to the Finance Office to record / apportion the departmental staffing and non-staffing expenditure into UGC-funded and non-UGC-funded activities onto a pre-designed proforma / template on a regular basis. Academic Units are required to adopt same approach consistently for programmes within its Unit and by Academic Units under the same College as the nature of the programmes offered within the same College are broadly similar to each other. In addition, the cost recovery approach has to be adapted consistently from one year to another to ensure year-on-year results are comparable. Justifications have to be provided if a different approach is adopted in the year of change.

Cost Pools	Approaches commonly used
Academic staff cost recovery	<ul style="list-style-type: none"> - Contact Hour Approach - Credit Unit Approach - Student Credit Approach
Departmental share cost recovery	<ul style="list-style-type: none"> - % of involvement of administrative staff - % of non-UGC-funded fte students - Standard lump sum cost

3. *Indirect Costs (Overhead recovery rates)*: Depends on the level of support from administrative services and central facilities (examples include classroom hire, computing facilities, library, student amenities, finance and human resources etc.), the overhead recovery rates for different categories of non-UGC-funded activities are established to cover full relevant costs incurred as required by the Notes on Procedures. To minimize administrative burden, the overhead charge will be set at standard rates based on income/associated expenditure as appropriate. The overhead recovery rates currently adopted by the University are set out in the table below:

Non-UGC funded Activities	Recovery Rates
Self-financing taught postgraduate programmes and other teaching programmes	Depends on whether the programme is held on campus/off campus and the level of support provided, the recovery rates is in the range of 16.5% to 30% on tuition fees.
Research Grants Council (RGC) research grants	At pre-determined rates as set by the RGC for different funding schemes.
Non-UGC/RGC-funded research grants/contracts	At pre-determined rates as set by the funding bodies (eg 15% of actual Innovation and Technology Commission (ITC) funding for ITC Projects)
Consultancy projects/ service contracts	16.5% of income
Others	16.5% of expenditure

Note: The methodology and charging mechanism will be subject to regular review.

Updated: June 2019