UGC Cost Allocation Guideline
-TPg Operational Model Working Group

June 28, 2017
1. BACKGROUND
2. HKU CAG PROJECT
3. ACADEMIC STAFF TIME SURVEY
4. DEPARTMENTAL BOOKABLE ROOM REPORTING
5. ILLUSTRATION
BACKGROUND
What?

- Governance on Government Funding
  - Better understanding of institutions’ finance
  - Transparency and cost charging mechanism
  - Clearly defined principles and approach to enhance standardization of terminology and measurement of performance
  - No cross-subsidization of UGC resources to non-UGC-funded activities

- New Guidelines, UGC mandatory practices, to be implemented 1 July 2018
  - Full cost recovery from self-funded activities
  - Activity based costing methodologies
  - Methodologies are determined by UGC with minor fine tuning to suit institutions’ practices

- Form part of statutory reporting
Benefits

- In General
  - Disclosure of usage of public funding
  - Valuable management information
  - Decision making and strategic planning

- For TPg Operational Model Working Group
  - Opportunity to understand the full cost of operation
  - Insight for decision making
UGC CAG Cost Allocation Mechanism

Cost Categories
1. Academic Staff Cost
2. Departmental Premises Cost
3. Departmental Shared Cost
4. Departmental Share of Central Cost

Allocation Methodology: Activity Based Allocation

Activity based costing
- Staff time
- Space utilization
- Students activities
- Space occupied

Cost Drivers
- Cost of Teaching
- Cost of Research
- Cost of Other Activities

Outcomes: Cost by Fund
- UGC
- Non UGC
HKU CAG PROJECT
HKU Governance Structure

• To compliance with CAGs and facilitate its implementation

Governance Structure

Council

Audit Committee

Senior Management Team

Implementation

Implementation Steering Group (Chaired by EVP (Administration & Finance))
– Professional Services
– Academics

Objectives

• Understanding the cost implication
• Assess the appropriateness of cost drivers
• Communication of the project
HKU Implementation Plan

• Pre-implementation Group & Professional Working laying ground work
• Establish risk control mechanism
• Implementation Steering Group with involvement of academic to drive the project and ensure smooth implementation

Done

• Communication
• High-level simulation of cost allocation impact
• System development
• User trainings
• Pilot runs
• System go live

To be
HKU CAG System

Existing
- Financial Oracles
- Staff Cost & Grade HCMS
- Student SIS
- Premises CAFM
- Central Booking Records
- Excel

New Interface
- Time Sheet Survey Interface
- Dept - Booking Records

HKU CAG System

OF

Posting Journals

Charging Journals

CAG System

Configurable Components

1. Academic Staff Cost
2. Departmental Premises & Related Cost
3. Departmental Shared Cost
4. Departmental Share of Central Cost

Data Extractions / Validation
Input Forms / Interface
Calculation / Allocation
Reports, Analysis
## Overview of HKU CAG Timeline

<table>
<thead>
<tr>
<th>Phase</th>
<th>Duration</th>
<th>Summary of phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>User Acceptance</td>
<td>• 6 months</td>
<td>• System testing</td>
</tr>
<tr>
<td></td>
<td>• Mar ’17 – Aug ‘17</td>
<td>• User acceptance test</td>
</tr>
<tr>
<td>Pilot Run</td>
<td>• 10 months</td>
<td>• Trainings for Pilot Run</td>
</tr>
<tr>
<td></td>
<td>• Sep ’17 - Jun ’18</td>
<td>• Pilot Run with users involvement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• System design improvements/simulations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Review of the allocation results</td>
</tr>
<tr>
<td>Implementation</td>
<td>• Year 1</td>
<td>• Actual implementation with full scope</td>
</tr>
<tr>
<td></td>
<td>• Jul ’18- Jun ‘19</td>
<td></td>
</tr>
<tr>
<td>Reporting</td>
<td>• 4 months</td>
<td>• Prepare financial statement reflecting cost after allocation</td>
</tr>
<tr>
<td></td>
<td>• Jul ’19 – Oct ‘19</td>
<td></td>
</tr>
</tbody>
</table>
CAG System Development – 4 Modules

A. Academic Staff Time Survey

B. Central Classroom Booking Reporting

C. Departmental Bookable Room Booking Reporting

D. Cost Extraction and Allocation
ACADEMIC TIME SURVEY
Academic Staff Time Survey

- UGC requirement
  - Time analysis survey, 3 times a year, a period of 2 weeks
  - Academic Cost to be re-allocated based on time
  - 6 categories of activities:

<table>
<thead>
<tr>
<th>UGC Teaching</th>
<th>UGC Research</th>
<th>UGC Other Institutional Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non UGC Teaching</td>
<td>Non UGC Research</td>
<td>Non UGC Other Institutional Activities</td>
</tr>
</tbody>
</table>
Academic Staff Time Survey

- Our proposed implementation
  - 3 rounds/Year
    - Summer: Jul-Aug
    - First: Oct-Nov
    - Second: Mar-Apr

- Sample size (60%)
  - Professoriate*: 790
  - Non-Professoriate Teaching*: 740
  - Senior Research*: 290
  - Junior Research**: 370

- Analysis by ratio for cost re-allocation
- Pilot Survey Oct/2017 – Apr/2018 (reduced scale), 2 rounds, 3 faculties only

*full reporting on teaching, research & other institutional activities
**simplified reporting on research
DEPARTMENTAL BOOKABLE ROOM REPORTING
CAG System Development – 4 Modules

A. Academic Staff Time Survey

B. Central Classroom Booking Reporting

C. Departmental Bookable Room Booking Reporting

D. Cost Extraction and Allocation
Departmental Premises and Related Cost
- Monthly Reporting of Bookable room under Department

CAG System

Department

Enter booking details

Approve charging reports

FEO

Endorse charging reports

Automated Journals posting

Oracle Financials
ILLUSTRATION
Illustration - Academic Staff Cost

Existing Charging of Academic Staff Cost to Funding

Reallocate of Academic Staff Cost to Funding
- by Activities Statistics from Timesheet Survey

Additional Cost for TPG
Illustration - Departmental Premises and Related Cost

Running Cost (app. HKD450M for 2015/16)

Share of cost by Activities

Bookable room

Non-Bookable room

Per room unit cost/ hour

Certain categories of facilities

Actual usage
Hours per booking record

Drivers
Such as student FTE, Staff FTE
Departmental Shared Cost

Running Cost

Identifiable - Direct absorption by Activities

Share of cost by Activities

Drivers Such as ratio of Staff time spent, Ratio of Expenditure

Annual Cost
Department Share of Central Cost

Running Cost

Allocate to Faculties: Drivers such as Student FTE, Staff FTE

Allocate to Activities: Ratio of Aggregate Re-allocated Expenditure

<table>
<thead>
<tr>
<th></th>
<th>UGC Teaching</th>
<th>UGC Research</th>
<th>UGC Other Institutional Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non UGC Teaching</strong></td>
<td>Non UGC Teaching</td>
<td>Non UGC Research</td>
<td>Non UGC Other Institutional Activities</td>
</tr>
</tbody>
</table>
Drivers – Student and Staff FTE

- Distribution of drivers across faculties
What-if analysis on Non-UGC teaching

- Assume Teaching activities is 43% of total (Teaching, Research & Other Institutional Activities)
- And, Non UGC teaching is 25% of total teaching
- => Cost of Teaching will constitute approximately 10.8% of total cost base

(HKD Million)

<table>
<thead>
<tr>
<th>Teaching</th>
<th>Actual</th>
<th>Estimated Extra Cost</th>
<th>IE With ABC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>689</td>
<td></td>
<td>689</td>
</tr>
<tr>
<td>Less: Expenditure – Direct (Pool 1 &amp; 3)</td>
<td>350</td>
<td>107</td>
<td>457</td>
</tr>
<tr>
<td>Expenditure - Central OH (Pool 2 &amp; 4)</td>
<td>115</td>
<td>68</td>
<td>183</td>
</tr>
<tr>
<td>Net Surplus/ (Loss)</td>
<td>224</td>
<td>(175)</td>
<td>50</td>
</tr>
</tbody>
</table>
Take away

- Keep a diary of time spent by activities
- Stock take space inventory
- Review Program charge codes to ensure up-to-date
- Analyze the program costing and breakeven points
Q & A

Thank You