

Hong Kong Baptist University

Budgeting Process for Recurrent Fund

1 INTRODUCTION

- 1.1 Budgeting process is a resource planning and allocation exercise of the University, which prepares different budgets according to its strategic needs, development and sources of funding. The University's Recurrent Fund Budget preparation is the process of determining the allocation of recurrent resources under the ambit of University Grants Committee ("UGC") funding system, including tuition fees and other income.
- 1.2 In addition to the budget on Recurrent Fund of the University, the following budgets are also prepared for three main self-financed units for the endorsement/approval by their respective Management Boards, the Finance Committee and the Council:-
 - (a) School of Continuing Education;
 - (b) Chaplain's Office; and
 - (c) Student Residences.
- 1.3 For all other non-UGC-funded activities, such as self-financed academic programmes and consultancy projects which are essentially one-off in nature, budgets are prepared on an ad hoc and need basis before their launch. Approvals of such budgets are delegated to the respective Faculty/School/Academy Boards. These budgets are operated on a self-financed basis, i.e. expenditure will be allowed as long as the fund balance is positive. The role of the Central Administration is to provide a regulatory framework, such as overhead recovery, under which they can operate effectively and efficiently. To provide a comprehensive financial picture of the University, a consolidated budget comprising the projected income and expenditure statements of all segments will be prepared and presented to committees and the Council by the Finance Office ("FO").
- 1.4 The scope of this document is confined to the Recurrent Fund Budget mentioned in paragraph 1.1 above.

2 SCOPE OF COVERAGE

This document sets out:

- (a) the information required for the submission of the Triennium Estimates;
- (b) the procedures involved in the recurrent fund budgeting process;
- (c) the roles and responsibilities of units involved in the budgeting process;
- (d) the information to be provided by the various units and
- (e) the time lines of the budgeting process.

3 REVIEW HISTORY

Date Established:	April 2011
Review Interval	5 years
Updated in and Approved by:	December 2014 / Director of Finance October 2019 / Director of Finance

4 APPROVING AUTHORITY

The Director of Finance

5 TRIENNIUM ESTIMATES

- 5.1 The University's budget preparation process is based on a triennial block grant funding system of the UGC. Under this block grant system, the Block Grant provided to the University for a triennium is announced by the UGC before the start of the funding period. The University is given the autonomy to determine the allocation of resources among salaries, general expenses and equipment as well as among various functional areas. While any unspent part of the UGC Block Grant for one year in a triennium can be carried forward to the next year within the same triennium, the University is also allowed to retain its unspent balance in the form of General and Development Reserve Fund at the end of a triennium but subject to a ceiling specified in the "UGC Notes on Procedures", which is currently 20% of the triennium allocation.
- 5.2 The UGC requires the University to submit Triennium Estimates which are based on a Planning Exercise Proposal ("PEP") approved by the UGC one year before the commencement of a funding period for its calculation of grants. Information required for submission is:
- (a) Estimated Tuition Fee Income which is the product of the prevailing tuition fee promulgated by the Government and the total student number approved by the UGC in the PEP;
 - (b) Other Income and interest income;
 - (c) Estimated number of academic staff and unit cost per student for new programmes (if any); and
 - (d) Special factors that the University would like UGC to have special consideration for extra-formulaic adjustments.

FO is responsible for preparing items (a) & (b) and the Office of the Provost is responsible for items (c) & (d) together with the submission of the Triennium Estimates to UGC.

6 ANNUAL BUDGET

- 6.1 To facilitate budget controllers to plan ahead and match with the recurrent grant

funding cycle of the UGC, the University also adopts a triennial planning cycle. A Triennium Budget consisting of three Annual Budgets will be prepared at the commencement of a funding triennium. While the Annual Budget of the first year of the funding triennium will be proposed for approval by the University Council, budget for the second and third year of the funding triennium will be prepared for reference only. When the first financial year draws to a close, an Annual Budget for the next financial year will be prepared and submitted for approval by the Council again, and the Annual Budget for the third year of the funding triennium goes through the same process.

- 6.2 As a prudent financial measure, the determination of total income will precede that of expenditure so that the budget allocated to departments/offices will not exceed total resources available unless resources are need to accommodate any strategic initiatives as approved by the University Council. When determining the level of expenditure, University-wide items such as utilities, medical benefits and education allowance will take priority over expenditure of individual departments/offices. These University-wide items will be estimated using the latest relevant data. The allocations for departments/offices are then determined by applying a number of budget parameters such as salary increments and student number to the base budget, i.e., the original budget of previous year. Refinements are made to these parameters by an iteration process until the level of projected expenditure of the University can be supported by the amount of resources available.

7 INCOME ESTIMATES

- 7.1 The sources of UGC income to the University can be classified into the following categories:
- i) Government Subvention
 - ii) Tuition, Programme and Other Fees
 - iii) Interest and Net Investment Income
 - iv) Other Income

Estimates for government subvention is based on the funding level notified by the UGC. All other income elements are estimated by the Treasury, Payroll and Benefit Disbursements Section ("TPBD").

- 7.2 Government Subvention includes all UGC recurrent grants i.e. Block Grant, supplementary grant or supplementary adjustments, virements and reinstatement of Home Financing Scheme (HFS) allocated to the University. In determining the recurrent Block Grant to the University, Assumed Tuition Fee and Other Assumed Income have been deducted. In the annual budget preparation process, earmarked grants and grants for designated purposes such as Teaching Development and Language Enhancement Grant will be excluded since these grants have been set aside for specific purposes and subject to special UGC reporting requirements. These grants will be allocated directly to departments/offices according to the terms and conditions specified in the grant letter from the UGC.

- 7.3 Tuition Fees are projected based on the full-time-equivalent (FTE) student numbers approved by the Senate at the levels of tuition fee as indicated by the Government.
- 7.4 Interest and Net Investment Income is estimated according to the forecasted level of surplus cash, expected interest rate and investment return.
- 7.5 Other Income is estimated based on historical patterns with adjustment for any new items and the expected rate of inflation. The lump sum fee payable by the School of Continuing Education (“SCE”) to the University is based on the amount agreed between the SCE and the relevant offices.

8 EXPENDITURES ESTIMATES

- 8.1 By end of January of each year, memos and budget proforma will be sent to heads of academic departments/non-teaching offices to invite them to submit additional budget requests for new and additional activities that cannot be covered by their usual recurrent budget. The request must contain justification and endorsement from the President and Vice-Chancellor (“P/VC”), Provost, Vice-Presidents (“VPs”) or Associate VPs. The budget controllers may refer to the actual expenditure and commitments of their departments/offices available online from the Financial Information System (FIS).
- 8.2 The funding requests will be carefully reviewed by the Director of Finance (“DF”) and the Vice-President (Administration) and Secretary (“VPAS”). Budget provisions would be recommended for worthwhile initiatives/activities with strong justification and where resources can afford.
- 8.3 The DF will determine the budget parameters: salary increment and inflation rate. The change in the UGC approved student numbers is calculated and used as an indication of the change in the level of expenditure as a result of the increase or decrease in student numbers as compared with the previous year.
- 8.4 The Accounting and Budgeting Section (“ABS”) is responsible for the expenditure projection which starts with using the budget of previous year approved by the Council as a base. The base budget of each expenditure item is updated by applying relevant budget parameters. Estimates for University-wide expenditure items will be made by the relevant offices or sector heads of FO. For example, the FO will project medical costs, housing costs, audit fee and studentship; whereas the Estates Office will estimate the expenditure on utilities, cleaning and security. The lump sum fee receivable from the SCE will be directly allocated to the offices that provide services to the SCE.
- 8.5 The recurrent fund allocation to individual faculty/school/academy is determined by the Zero-based Budgeting Model. Through this model, allocation to each faculty/school/academy is based on the student load, cost weightings assigned to

different levels of study and other parameters agreed upon amongst the Deans and VPs from time to time. All student load data is compiled by the Office of Information Technology.

- 8.6 The allocations to non-teaching offices will not follow the Zero-based Budgeting Model because all students in the University receive similar services from these non-teaching offices. Allocations to non-teaching offices will be made on the basis of previous year's budget as adjusted by known or approved changes. The budget of University-wide expenditure items will be allocated to the offices responsible for administering these items.

9 BALANCING INCOME AND EXPENDITURE

- 9.1 The budget surplus or deficit for the year is the difference between the projected total income and projected total expenditure. In case of a deficit budget, alternative funding sources have to be sought or cost reduction measures should be considered.
- 9.2 For the reduction in the expenditure budget, in consultation with the P/VC, Provost and other VPs, the VPAS and the DF will determine the ways of the cutback, which may include applying an across-the-board cut on all expenditures or revising some budget parameters and formulae.
- 9.3 The FO will review, analyse and revise the figures until a balanced budget is worked out for endorsement of the Senior Executive Committee ("SECO") unless a deficit budget is needed for accommodating strategic initiatives as approved by the Council.

10 APPROVAL OF BUDGET

- 10.1 A draft budget, as reviewed and refined by SECO, will be submitted to the Council via the Finance Committee for approval. Upon the approval of the Annual Budget by the Council, the approved budget is ready for implementation in the coming financial year which begins on 1 July.
- 10.2 The FO will issue notifications to faculties/schools/academy/offices of their approved budget for the ensuing year. The Deans and Heads of Offices are then responsible for further distributing their approved budgets to the individual department or unit reporting to them.
- 10.3 After receiving the advice from the Deans and Heads of Offices on the budgets to be distributed to departments or units, they will be uploaded to the FIS at the beginning of the financial year.

11 MID-YEAR BUDGET REVIEW

- 11.1 At the middle of each financial year, a review will be carried out to update all income and expenditure projections, ascertain the amount of over/under spending and consider reallocation of any available resources in line with the latest development of the University.
- 11.2 Heads of academic departments/non-teaching offices will be invited to review their level of expenditure and submit additional budget requests for unexpected activities which cannot be covered by the original budget and accommodated by the contingency funds held by the P/VC, Provost and VPs who oversee their units.
- 11.3 The various sections of the FO will help prepare updates for the income and expenditure items similar to those done in the Annual Budget preparation. ABS will prepare a consolidation of income and expenditure. The DF will prepare a recommendation on the revisions to the Annual Budget for review by the VPAS and then for discussion and refinement by the P/VC, Provost and other VPs.
- 11.4 The Mid-Year Budget Revisions have to be approved by SECO. If no additional resources are requested from the Council, the Finance Committee will only be informed about the revised projection on the income and expenditure. Otherwise, approval from the Council via the Finance Committee is required.
- 11.5 Departments/offices that have submitted additional budget requests will be notified of the result of their requests. Notices will also be sent to departments/offices affected by the Mid-Year Budget revisions.

12 BUDGET ADJUSTMENTS

During the year, there may be some unexpected increase or decrease in income that warrants adjustments to the budgets of individual departments/offices. An example is the supplementary grant for pay trend adjustment of the civil service. Staff cost budgets of departments/offices will be adjusted according to the supplementary grant received and departments/offices will be notified of such budget adjustment.

13 BUDGETARY CONTROL RULES

- 13.1 Non-University-wide budget is essentially a one-line budget and budget controllers may allocate the one-line budget to the sub-budget lines subject to the prevailing budgetary control rules and other relevant policies approved by SECO, which are available from the website of the FO.
- 13.2 When the accounts of the University have closed after the end of a financial year, the FO will calculate the unspent budget balances of departments/offices and the permissible carry-forward amounts according to the prevailing budgetary control rules. Budget controllers will be notified of their results by September or October.

14 TIME LINES OF THE BUDGETING PROCESS

14.1 Triennium Budget

Date	Event
June (normally one year before the next triennium begins)	Submission of Triennium Estimates to the UGC by the Office of the Provost
January (normally half year before the next triennium begins)	The UGC announces the Recurrent Funding allocated to the University for the next triennium

14.2 Annual Budget

Date	Event
End of January	Invite the budget controllers to submit budget request(s) and they are normally required to submit their request within a month
February to April	Income and expenditures estimated by the responsible offices
End of April / May	Approval by the Senior Executive Committee
End of April / May	Inform the budget controllers of the proposed budgets
May	Approval by the Finance Committee
June	Approval by the Council
June / July	Inform the budget controllers of the approved budgets
August / September	FO calculates unspent budget balances of the departments/offices permitted to be carried forward to the next financial year
September / October	Inform the budget controllers the unspent budgets carried-forward and the amount to be returned to the Central

14.3 Mid-Year Budget Review

Date	Event
November	Invite budget controllers to submit additional budget request(s) and they are normally required to submit their request within a month
December to January	Income and expenditures updated by the responsible offices
End of January / February	Approval by the Senior Executive Committee
February	Inform the budget controllers of the result of their additional budget requests
End of February / Early March	Inform the Finance Committee of the revised budget