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### An analysis for more equitable revenue and expenditure allocations within Lingnan College

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Lingnan College  
Department of Accounting & Finance  
Final Year Research Project

**An Analysis for More Equitable  
Revenue and Expenditure Allocations  
within Lingnan College**

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Supervised by

Professor Maschmeyer

April, 1999

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Also, we would like to acknowledge all the interviewees (five academic department heads and 3 directors of support units) from Lingnan College who contributed their time in discussing the issue we concerned in this project, and gave us some valuable opinions.

Finally, we would owe many thanks to those who had given us helps and support in our project.

## **Abstract**

From the triennial 1995-98, the funds allocated from University Grants Committee to universities have decreased. In order to use the limited resources effectively, and to manage their revenue and costs efficiently, universities have to set up a better budgeting system. Therefore, the eight universities in Hong Kong are proposing the Revenue Center Management (RCM) instead of the current budgeting system. The purposes of this project focuses on the analyses of the current budgeting system adopted at Lingnan College, and the proposed RCM budgeting system.

According to our collected information, we found that most of interviewees agreed that the RCM system could be implemented. Because the current budgeting system is too centralized, so that the departments/units cannot use the resources flexibly and the system discourages the departments/units to generate resources by themselves, whereas RCM can cover the above problems of the current budgeting system. Most interviewees believe the RCM can provide the fair allocation method, and it lets the departments/units use resources more flexibly, efficient and effective.

However, RCM emphasises academic aspects. We believe it is not suitable for the Liberal Arts College like Lingnan College, because Lingnan College focuses not only on student's academic knowledge, but also on whole-person development. Therefore, we recommended the one-line budgeting system for Lingnan College, because it focuses on both the academic and non-academic developments, in order to meet the missions of Liberal Arts College – Lingnan College.

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# Chapter One

## Introduction

## **1.1 Rationale**

A financial crisis began in Asia during July of 1997. This crisis was mainly due to the overall economic decline in East Asia, as well as some contributing global issues. As such, Hong Kong has found itself facing difficulties across virtually all sectors of economic activity. One positive outcome of an economic downturn is that it may stimulate an organization to set up better budgeting and control systems which assist in decisions for a more effective allocation of resources to meet existing demands.

A budget becomes a common mechanism to plan and control organizations for future developments. With more efficient systems, budgets can influence the organization's decision makers to propose more focused future plans, provide performance criteria, as well as promote communication and coordination within the organization. Also impacted by the financial crisis, Lingnan College is in the process of re-evaluating the effectiveness of their budgeting and control system. The specific reason for this action is the reduction of University Grants Committee (UGC) funding from \$224.1 million (1995-96) to \$220.1 million (1997-98). Therefore, the College must adopt a more effective budget system, in order to allocate the limited resources efficiently.

Lingnan College was admitted to the UGC in 1993. As the UGC is the funding agency for all universities in Hong Kong, Lingnan's major source of revenue has come from the UGC over the past five years. UGC recurrent grants are approved on a triennial basis under the earmarked grants system. There are several steps associated with the budget process. Firstly, the Comptroller requests the budget holders of administration, academic and non-academic departments to submit their estimates of general expenses over the three year period. When the Comptroller receives all departmental budget proposals, he forwards the budget proposals to the Finance Committee of Lingnan College for endorsement and approval. The Finance Committee then submits the proposals to the UGC. Financial grants

to the College are then considered and approved by the UGC and earmarked under four headings: (1) Senior Staff Salaries, (2) Subordinate Staff Salaries, (3) General Expenses and (4) Equipment on a triennial basis.

After the triennial budget has been approved, Comptroller requests department budget holders to submit a detailed annual budget proposal of general expenses. These budget proposals are then considered and approved by the Finance Committee. The Finance Committee presents the approved annual budgets to the Council of Lingnan College and Board of Governors of Lingnan College for approval. After the Board of Governors has approved the annual budget proposals, either the Comptroller or the Resources Allocation Committee (RAC) allocates the amounts to different departments for the various expenditure headings under their control. This method of resource allocation procedures, which adopts a bottom-up and then top-down methodology, is typical in university settings.

Considering the budget system currently in use at Lingnan College, top management of the Financial Department found many problems were associated with the current system. First, budget estimations were not very accurate. Since departmental budget proposals were based on past data and past practice, estimations of cost were based on historical-cost-data with no consideration of rising costs in the future. As a result, budget figures tended to be understated.

Secondly, since the current budget system is a centralized system, the resulting allocation method restricts the flexibility of the internal distribution and use of resources. This occurs because the UGC grants are earmarked under the four general headings and the amounts allocated to departments for various expenditures are strictly controlled at the Comptrollership level.

In addition, voluminous paper work is involved in the preparation of budget proposals, the application for the approval of budget proposals and the approval of virement between

earmarked headings. The inordinate volume of paper work is primarily due to the various procedures of approval and because the subsequent allocations are controlled by top management.

Due to the above problems, the eight universities in Hong Kong are now considering a new budget model called Revenue Center Management (RCM). Several universities are adopting the RCM successfully, for example, the Indiana University and the University of New Hampshire. RCM is a method for planning and resource management which facilitates greater fiscal accountability and decision-making authority and aligns budgeting targets with long-range strategic planning. The eight higher institutions within Hong Kong are joining together to modify their budgeting systems as a means to better meet the current economic challenges.

## 1.2 Objectives

The main focus of this project is to analyze the budget system at Lingnan College in light of the impending funding reduction and subsequent need for a more effective budget system. The objectives of this project are to:

- ☆ Outline the current budget system at Lingnan College

This project briefly describes the current budget system adopted at Lingnan College, and states its advantages and disadvantages.

- ☆ Introduce the new budget system – RCM

RCM is introduced by discussing its annual resource allocation process and evaluates the RCM by assessing its advantages and disadvantages.

- ☆ Compare the current budget system with RCM

Distinguish the differences between Lingnan's current budget model and the proposed RCM, and discuss the implications of the advantages and disadvantages for each budget model.

- ☆ Provide recommendations

Present recommendations on the most effective budgeting process for Lingnan College.

In the following chapters, we would first like to talk about budgeting in different organizations. After that, we will describe the features of Lingnan College current budgeting system and its problem in Chapter 4. Then, in the next chapter, the proposed Revenue Center Management (RCM) budgeting system will be introduced.

We will summarize and analyze the comments, which are given by the interviewees, on both current budgeting system and RCM in Chapter 6. Finally, we will make some recommendations on the most effective budgeting system for Lingnan College in Chapter 7, and we will conclude our research project in Chapter 8.

# Chapter Two

## Methodology

In order to introduce and evaluate the Revenue Center Management system and discuss the current budget system, we plan the following methods to secure the required information from both primary and secondary sources.

## **Primary Sources**

### ❖ Interviews

An interview is a conversation conducted with an individual contributing his or her own opinions and viewpoints. The interviews in this survey were our first choice to collect primary data. There are several reasons why interviews were used. Firstly, interviews are an efficient way to collect information because the waiting time for responses is short. Secondly, the quality of interview data would likely be more reliable than those collected from questionnaires as the chance of misrepresentation can be prevented. Most importantly, the proposed RCM system was still under discussion by the senior management group, so that limited people knew or understand the details of the proposed system. Therefore, interviews with selected staff were more appropriate than a broad survey of all staff members.

There are three main types of interviews: the structured interview, the semi-structured interview and the non-structured interview. The last two types are preferred because they are more flexible and are more appropriate when dealing with complex issues.

We invited several staff at Lingnan College for interviews through letters (Appendix A). Semi-structured interviews were conducted with staff members of the Comptroller's Office – i.e., William Lam (Acting Comptroller) and Emily S. M. Kwan (Accounting Officer - Budgeting and system), to understand the general framework and background of Lingnan's current budgeting system, as well as the proposed RCM. (The interview questions refer to Appendix B)

From February to March 1999, interviews were conducted with five academic departments heads and three directors for support units at Lingnan College. (The questions refer to Appendix C). The purpose of these interviews was to solicit opinions on the effectiveness of the current and proposed budget systems. To conduct effective interviews, we set a number of major questions for which the interviewees were requested to answer.

## **Secondary Sources**

Secondary information mainly came from libraries, internet and government materials.

### ✧ Libraries

We conducted an extensive search of reference books at Lingnan College library, other universities' libraries and public libraries. Furthermore, business journals and periodicals provided in the libraries were very useful for us to understand real world budget systems. The library searches included full-text CD ROM information sources, such as ABI inform, BPO.

### ✧ Internet

We searched for information through the Internet and World Wide Web. For example, the Revenue Center Management in UCLA and UGC Homepage.

### ✧ Government Materials

We also relied on other budgetary documents secured from the Comptroller's Office at Lingnan College. We learned a clearer view of the funding process of Hong Kong Tertiary Institutes by reading government publications such as the Policy Speech of Tung Chee Hwa, Annual Reports of Lingnan College and UGC Funding Report.

## **Content of the Interviews**

The main concerns of the interviews included the following:

- I. Collecting information on Lingnan's current budget system
  - A. History of the system
  - B. Reasons for adopting the system
  - C. Procedures of cost and revenue allocation
  - D. Advantages and disadvantages of the system
- II. Collecting information on the proposed RCM system
  - A. History of the system
  - B. Reasons for adopting the system
  - C. Procedures of cost and revenue allocation
  - D. Advantages and disadvantages of RCM
  - E. Implementation problems of the new system
- III. Comparisons between the two budget systems
- IV. Recommendations

## **Analysis Procedure**

After collecting sufficient primary and secondary information from various sources, we systematically discussed and analyzed the current budget system and the RCM budget system. Comparisons were also made between the two systems followed by recommendations for the most effective budgeting process to be adopted at Lingnan College.

# Chapter Three

## Budgeting and Control

### **3.1 What is Budgeting?**

A budget is a quantitative expression for a given period to predict the financial results for next year. It is also a management instrument to set the objectives, strategies, priorities as well as plans for continuous improvements of organization performances within time constraints. A budget is the prediction of the financial results for the coming year and a projection of future activity.

An organization's budget for the coming year should consist of the following elements. Firstly, an organization has to set up a goal, which is understood by the management team, since a change of goal may cause a change of the planning process. Secondly, methods and approaches should be decided to achieve the desired results. In addition, the selection of cost drivers is made to determine what will be used to allocate the costs. Most importantly, communication is significant for planning, because there are various departments within an organization that may share the limited resources. Therefore, compromise between departments is needed.

“Good planning skills are fundamental to success in modern business” (Dickey, 1992). Budgeting is an important tool for achieving efficient and effective management of scarce resources for both profit and non-profit making organizations. The following are some reasons why budgeting is important.

#### ✧ Control

Budgets are part of an organization's management control system, which monitor resource flows and point to the need for operational adjustments. Budgets also help assure that resources are obtained and expended as planned. It is very useful for the organization's strategic analysis, which considers how the organizations combine its own resources, capabilities, strengths and opportunities to achieve overall goals.

✧ Allocation of resources

An organization should allocate their resources in the most efficient and effective way, so if the plans or goals of the organization are changed, the way an organization uses or allocates resources will also be changed.

✧ Outside responsibilities

Both profit and non-profit making organizations have planning or budgeting which used by the management team to attain the goals of an organization. Moreover, good planning or budgeting in profit making organization also attracts outsiders (such as investors, banks and shareholders) to invest in them.

✧ Efficiency

An organization must prepare its budget before the implementation of any strategy. Then the management team estimates or plans how the money will be spent over a period of time, in relation to the amount of money available. Therefore, over-spending can be avoided during the execution of plan, and it also allows an organization to save time and effort to attain its objectives.

✧ Coordination and Communication

Budgets can enhance the coordination and communication within an organization. Coordination is the compatibility of all production or services' factors among the departments. The budget can influence management to think of relationships among individuals, departments and the company as a whole. For coordination to succeed, communication is an important element. It refers to the understanding and acceptance of objectives by all departments in an organization. Better coordination and communications can help an organization meet their aims efficiently and effectively (Finney, 1994)

## 3.2 Differences of Budgetary and Control Systems between Public and Private Sector

Budgeting is a common tool used by almost every organization. For both public sectors (hospitals, governments, colleges and universities, etc.) and private sectors (profit-making corporations), budgeting is a mechanism for setting goals and objectives, making plans and monitoring controls of the whole operation of an organization.

There are, however, some significant differences between public and private sector operations, which may suggest different budgeting processes. According to the Statement of Financial Accounting Concepts No. 4, the United States (U.S.) Financial Accounting Standards Board (1995-96) stated *three* characteristics that distinguish public sector operations from private sector operations:

- ✧ Receipts of significant amounts of resources from resource providers who do not expect to receive either repayment or economic benefits proportionate to the resources provided
- ✧ Operating purposes that are other than to provide goods or services at a profit or profit equivalent, and
- ✧ Absence of defined ownership interests that can be sold, transferred, or redeemed, or that conveys entitlement to a share of a residual distribution of resources in the event of liquidation of the organization.

In addition to the above distinctions stated by the U.S. Financial Accounting Standards Board, further distinctions between private and public sector budgeting areas follows:

- ✧ Organizational Objectives

Profit is usually the primary objective of private sector organization. As such, private sector budgets are developed in correspondence to the profit motive. In

addition, the goals of private sector organizations may include maximizing market shares, providing quality products to customers or simply establishing public confidence in the organization (Welsch et al., 1988).

However, the public sector generally does not attempt to maximize profit. Rather, the public sector is usually concerned with the quality of services provided. These services may include social welfare services, social security and education. The goals of public sector organizations are to increase the living standard of citizens and stability of society, and since their revenues are relatively constant, therefore, they are not trying to maximize their profit, but to make sure that their revenue can cover their expenditure (Garner, 1991).

#### ✧ Budgeting in Practice

As we have mentioned, the main objective of the private sector is to maximize profit, therefore, budgets ordinarily contain revenues, costs, output volume and various kinds of supplemental information. The master budget coordinates all the financial projections in the organization for a set time period, usually a period of one year. The master budget includes the impact of both operating and financing decisions. The operating budget focuses on the acquisition and use of scarce resources, and includes the following budgets: Revenue Budget, Production Budget, Direct Materials Costs Budget, Direct Manufacturing Labour Budget, Manufacturing Overhead Budget, Ending Inventory Budget, Cost of Good Sold Budget, and other non-production costs budgets. The financial budget focuses on how to get funds to acquire resources, and it includes the Capital Budget, Cash Budget, Budgeted Revenue Statement, Budgeted Balance Sheet and Budgeted Statement of Cash Flows (Horngren et al. 1997).

In the public sector, an organizational objective is to provide a specified level of service, not to maximize profit. Therefore, public sector organizations prepare

Revenue and Expenditure budgets, which are concerned mainly with the estimation of current operating revenues and expenditures. According to Hay and Wilson (1995), revenue is defined as increases in fund financial resources other than from interfund transfers and debt issue proceeds, whereas expenditures are defined as decreases in fund financial resources other than through interfund transfers. Public sector organizations focus on the amount of revenue, e.g. taxes, which must be generated to cover required expenditures. A public sector organization usually develops the revenue budget first, then approves expenditures for the provision of services (Premchand, 1994).

#### ❖ Sources of Revenue

In the private sector, revenue mainly comes from sales of an organization's products. Normally, sales revenue is calculated by multiplying the unit sold by the price per unit. Revenues from the private sector may fluctuate, since the numbers of units sold and its selling price are usually based on the demand of the market and the strength of competitors. Private sector organizations are said to be self-supporting organizations, as no funding is usually received from the government.

The top tier of a Government is primarily supported by tax revenues. The sub-units of the Government are primarily supported by either Government appropriations or grants and user fees. Apart from these block amounts of funds received from government, public sector organizations may also receive funding in the form of donations, gifts, sponsorship and user fees.

#### ❖ Flexible and Static Budgets

By their nature, private sector organizations require flexible budgets for effective planning and decision making due to the potential of significant changes in the economic environment and changes in customer needs. For example, increased or

decreased competition can result in major shifts in a company's production volume and/or selling prices. As volume changes, managers require budgeted information at different levels of potential output. Therefore, private organizations require budgets that flex with changes in activity to insure effective decisions are made.

Compared with private sector organizations, revenue and expenditures for public sector organizations tend to be relatively constant from year to year. The reason is that the needs of the society do not change significantly over time. Since public sector organizations lack competitors, and overall service levels remain relatively constant for the same groups of people, their amounts of revenue and expenditure are relatively constant. As a result, governments tend to use budgets that are static; that is, based on a fixed level of activity throughout the year (Horngren et al. 1997).

#### ✧ Measurement of Efficiency and Effectiveness

In private sector organizations, most costs may be characterized as engineered costs. Engineered costs result specially from a clear cause-and-effect relationship between costs and output (Horngren et al., 1997). Therefore, private organizations can use profit to measure and control efficiency and effectiveness. For efficiency, private sector organization's production is said to be more efficient when the actual cost used is less than the planned cost and the price of goods sold. Private sector organizations are said to be effective when there are sufficient sales, which can meet the output they produced. Thus, both the efficiency and effectiveness of a firm is captured by earned profit or loss.

In public sector organizations, costs may be characterized as discretionary costs. They arise from periodic decisions regarding the maximum outlay to be incurred, in order to achieve an expected level of service quality. Usually, there is no clearly measurable cause-and-effect relationship between costs and outputs (Horngren et al.,

1997). In public sector organizations, the input is money, the level of which is determined by management judgement; however, the organization's output is the quality of services provided (which is difficult to measure). For example, governments provide health services to the general public. The government must plan how much money is required to insure a certain level of quality services. However, it is difficult for governments to measure the quality of service. Therefore, efficiency is generally not measured in government organizations. Public sector organizations tend to consider the effectiveness rather than efficiency. Public sector organizations are said to be effective when they can provide the services which are beyond the expectation of citizens. After a service is provided, public sector organizations may conduct certain tests or surveys to evaluate the effectiveness by looking at the differences between the actual and expected outputs.

## **3.2 Characteristics of Budgeting between Universities and Non-universities in Public Sector**

Typical organizations that are generally classified as public sector units include government agencies, schools, universities and hospitals. There can be several similarities and differences in budgeting between different types of organizations within the public sector. We will use governments and universities for comparison.

Before discussing differences, we will first review some similarities between governments and universities. The main purpose for budgeting for both governments and universities is the allocation of scarce resources in order to meet various service needs. Therefore, budgets are used to plan and control the use of resources effectively. As previously mentioned, public sector organizations emphasize the quality of services. Therefore, governments and universities plan their budgets in order to provide a certain level of service relative to their mission statement. In addition, the concept of “public accountability” is applied to public sector budgeting systems. In essence, it means the citizens have the “right to know” how public resources are used and what these resources were used for. As such, budgets become formal documents available for public consumption, and to enhance the control of expenditures, the budget is formally integrated into the accounting system (Granof, 1998).

Apart from the similarities, the following discussion will highlight some different characteristics of governments and universities. To illustrate the differences, the Hong Kong government and Hong Kong Baptist University (HKBU) will be used as an example.

### ✧ Degree of Complexity

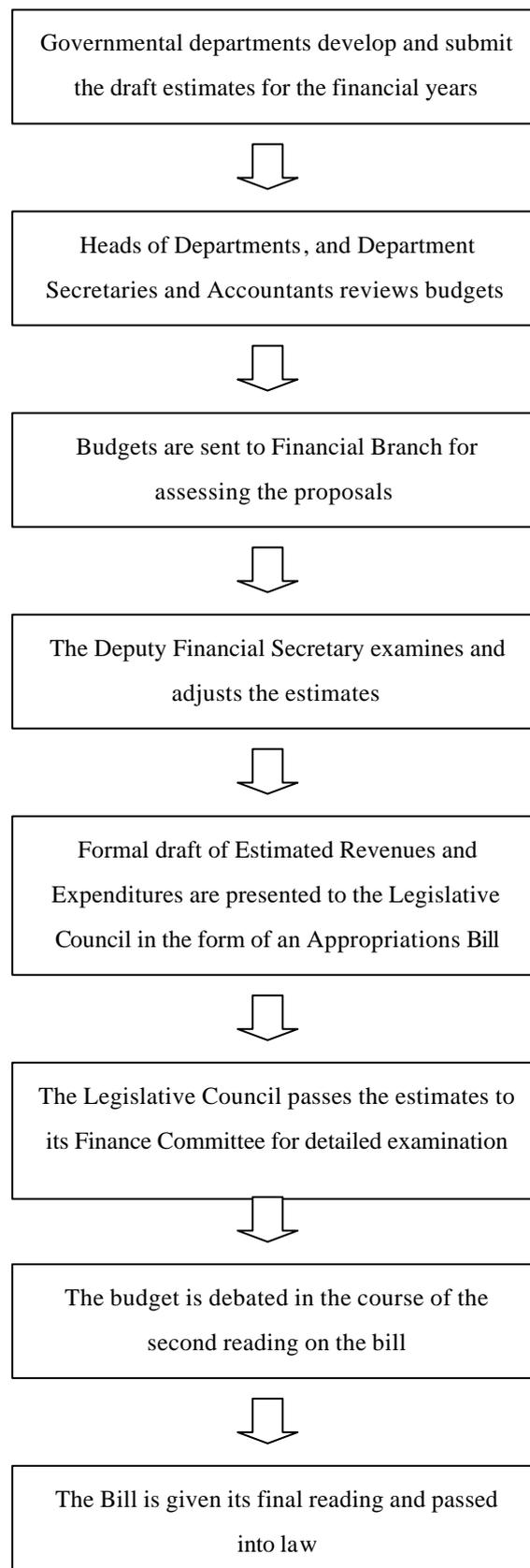
To compare the degree of complexity with governments and universities, we have to consider the size of the organization structure, the budget sizes in terms of money and the procedures for setting budgets. Governments’ budgets are generally more

complex than university's budgets. For example, according to Civil Service Branch Government Secretariat (1995-96), there were about 74 departments and 180,000 civil servants included in the structure of the Hong Kong Government in 1995-96. All departments are required to develop their own budgets. Having a huge departmental network, the Hong Kong government must consider different needs of different departments. In addition, sequential procedures for setting budgets are also complicated (See Figure 3.1). In the Hong Kong Government's budgeting process, demographic and economic data are important factors to be considered since it provides services to the citizens in the society. For example, the Hong Kong Government has to consider the growth of populations, before planning the housing budget (Lee et al. 1983; Rabushka, 1976).

In 1996-97, the total amount of general revenue was \$196,795 million, whereas the total public expenditure was \$183,740 million, it indicated that the size of budget of Hong Kong government is very large (Hong Kong (China). Financial Secretary, 1996-97).

Compared with governmental budgets, university budgets are less complex. For example, the number of departments or units in HKBU's structure is much less than in Hong Kong Government. There are about 659 staff, 4,735 students and 40 departments in HKBU (Hong Kong Baptist University: Annual Report, 1996-97). Units are only classified as Academic units and support units. Since the HKBU is also a part of one department in the governmental structure i.e., Department of Education, the amounts of money involved in the HKBU budget are relatively small compared to the Hong Kong government. In 1996-97, the total revenue of HKBU was \$1,012.064 million, the ratio of total revenue of BU to the total revenue of Hong Kong government was very small (0.00618:1), whereas the total expenditure was \$922.845 million, it was

**Figure 3.1 Procedures for Setting Budgets in Hong Kong Government**



only 0.425% of Hong Kong government total expenditure. In addition to structure size, the procedures for university budget processes are also less complex. In Hong Kong, there are several steps associated with the budget process in universities (See Figure 3.2).

Given the numbers of units, the size of budget, and the time consuming budgetary processes, the preparation of governments' budget is much more complicated than the preparation of university budgets.

#### ✧ Nature

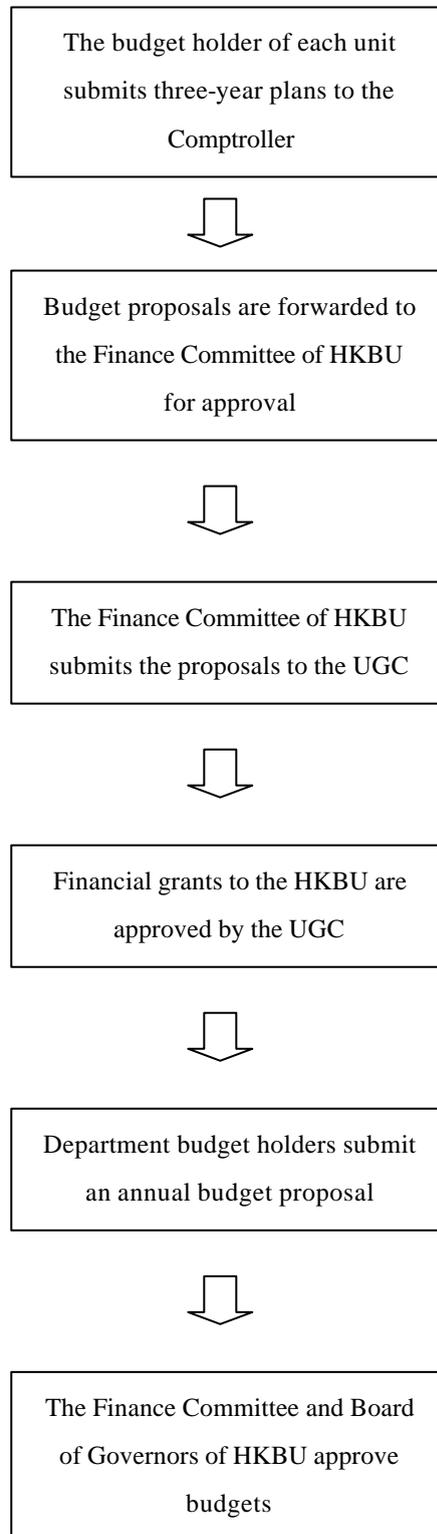
From an operational perspective, governments may be generally characterized as non-self-supporting organizations. For the most part, governments financially support their activities through the collection of taxes. Other forms of financial support include various user fees and the issuance of bonds.

For the Hong Kong government, the main source of revenue comes from taxes (78.52% in 1996-97), which is a non-self support financial inflows. The tax revenue collection for 1996-97 was \$120.03 billion, an increase of 16.8% over that of the previous year. According to the data from Hong Kong (China), Inland Revenue Department (1996/97), Profit Tax and Salaries Tax together contributed 65.63% of the total revenue collected. (See Figure 3.3).

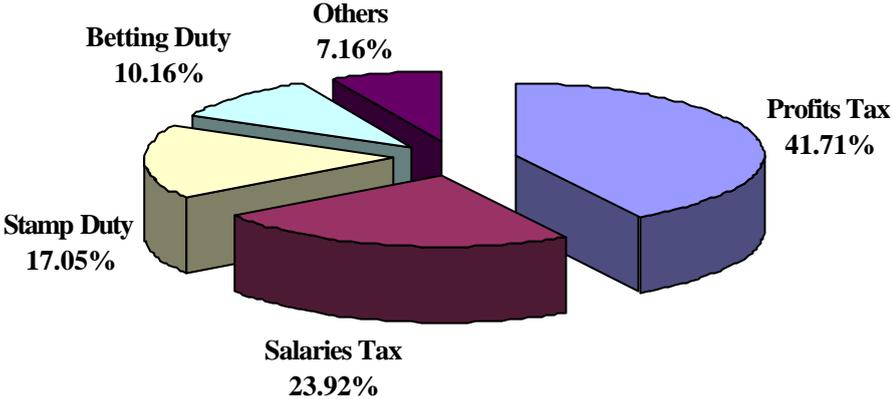
Referring to Figure 3.4, we found that there are ten expenditure items for Hong Kong Government (Hong Kong (China). Financial Secretary, 1996/97). The major expenditure for the Hong Kong Government is education (18.13% of total expenditure in 1996-97)

Universities usually include non-self-supporting and self-supporting activity centers. Universities not only receive Government funding, but also generate revenue through internal activities. For example, according to Hong Kong Baptist University

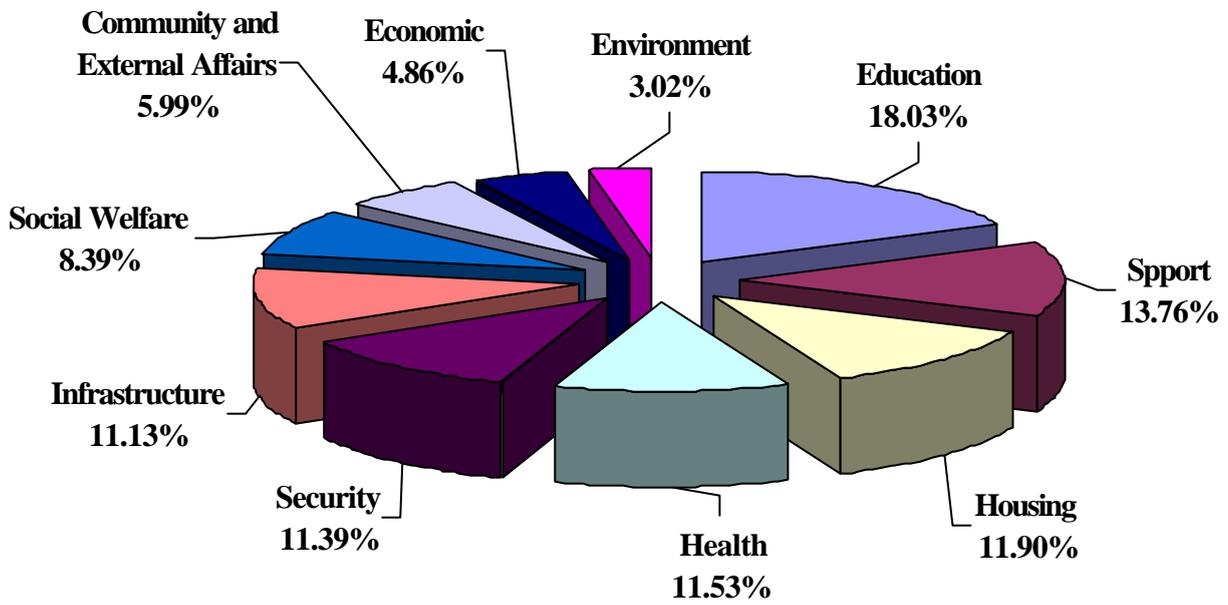
**Figure 3.2 Procedures for Setting Budgets in  
Hong Kong Baptist University**



**Figure 3.3 Composition of Revenue Collection of Hong Kong Government in 1996-97**



**Figure 3.4 Percentages of Expenditures of Hong Kong Government in 1996-97**



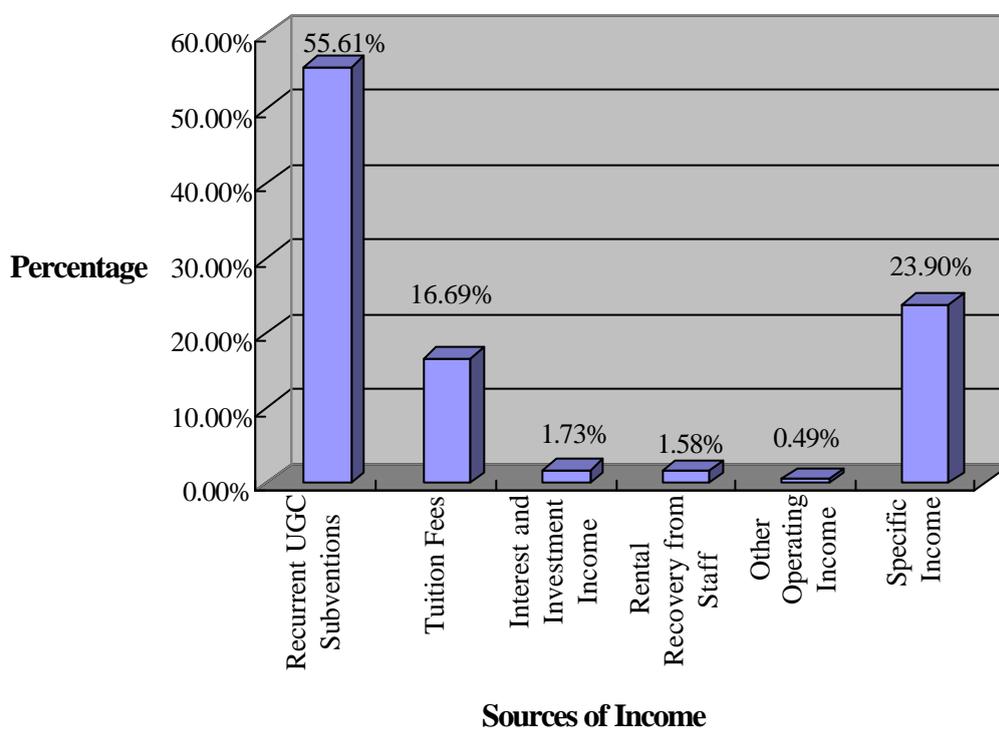
Financial Report (1996-97), HKBU has nearly 50% non-self-supporting funds and 50% self-supporting funds. The non-self-supporting funds are mainly from the government. In effect, HKBU receives the funding from recurrent UGC subventions every year. In 1996-97, UGC funding provided 55.61% of HKBU's total revenue. On the other hand, since HKBU is also a self-supporting organization, the main self-support funding is Tuition Fee which is about 16.69% of the total revenue of HKBU (See Figure 3.5).

The main purpose of HKBU is to provide tertiary education. Therefore, the major expenditure for HKBU is academic and academic support. In 1996-97, academic expenditure occupied 49.30% of the total expenditure. Figure 3.6 shows the other six general expenditures at HKBU.

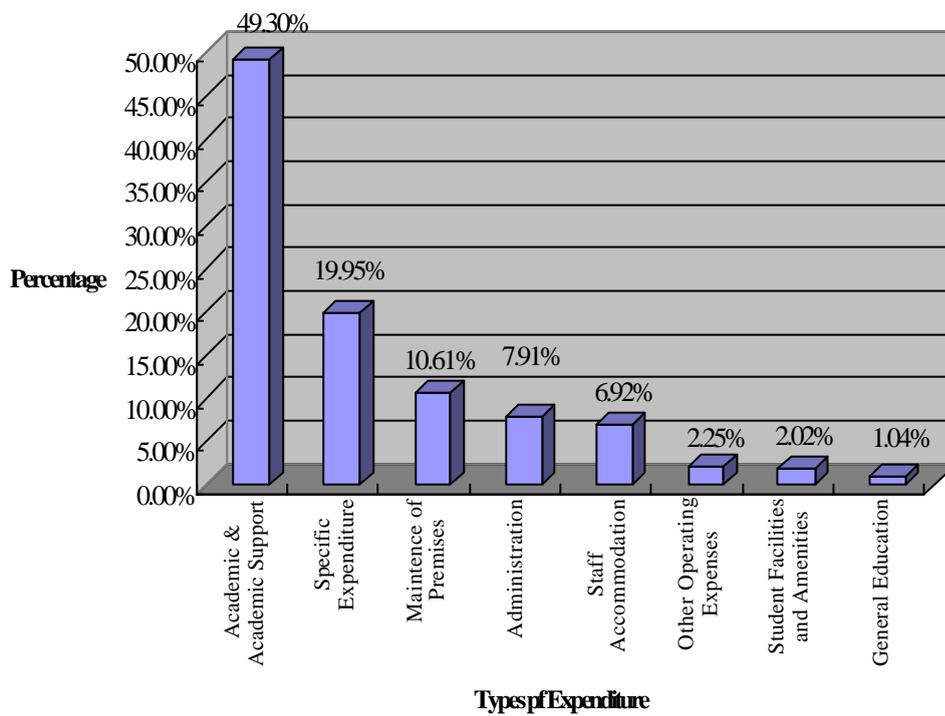
To conclude, the budgeting system of the government is more complex than universities in terms of the size of structure, amount of money involved and the procedures for setting budgets.

In order to have a thorough understanding of budgeting in universities in Hong Kong, the following chapters will focus on the Lingnan budgeting system as an example.

Figure 3.5 Percentages of Income of Hong Kong Baptist University in 1996-97



**Figure 3.6 Percentages of Expenditures of Hong Kong Baptist University in 1996-97**



# Chapter Four

## Lingnan College: Current Budgeting System

## **4.1 Why does Lingnan College need to prepare budgets?**

In Chapter 3, we mentioned that the budget process becomes the means for planning and tracking revenues and expenditures so that resources can be used most effectively to meet the institution's educational goals as well as to comply with contracts that limit the use of the revenue (Meisinger et al., 1984). Since the limited resources of Lingnan College are insufficient to meet fully meet all department requests, a budget is a tool for setting plans and priorities for Lingnan College. The budget can sum up which activities will be supported first within limited resource constraints.

The budget is said to be a control mechanism. The flow of resources to activities is regulated in accordance with Lingnan College's objectives. Once resources are allocated, their expenditure can be monitored and checked for conformity with plans and expectations.

Current budgets have influence on the future budgets. If the current budget has some deviations, it will affect the decision for the next-year budget. For example, if the actual expenditure is less than the budgeted expenditure for the current year, then management may cut the budgets for the next year.

The budget acts as a network of communication. It is the best way to enhance interaction among Lingnan College departments, because academic and administrative units can express their objectives, and can identify the resources they needed, and therefore reduce conflict between them.

## 4.2 Budgets at Lingnan College

At Lingnan College, there are several kinds of budgets including operating budgets, capital budgets, restricted budgets, auxiliary enterprise budgets, and service center budgets. The management of faculties, support units and administration units may be affected by some of these budgets.

The operating budget is usually viewed as the core budget. The operating budget includes all regular unrestricted funds available to Lingnan College for instructional activities and departmental support. Activities include the basic expenses of departments and college; libraries; administration; campus operations and maintenance; development and students aids. For decision making, the operating budget is most responsive to the changes in program priorities.

The capital budget generally covers expenditures for major facilities construction and renovation. There is an inter-relationship between the operating budget and the capital budgets. For example, when Lingnan College decides to build a new facility on campus, the expenditure will be classified in the capital budget. Then, when the new facility is placed into operation, the annual expenditures will be budgeted through the operating budget.

Restricted budgets usually encompass sponsored research grants, contracts, certain endowment and gift revenue. A significant aspect of restricted revenue is its limited duration. All funding is subjected to specific activities (e.g. research programs) and to specific graduate students. In 1998, the total University Grant Committee earmarked grants of \$11.6 million were received during the year, which included \$8 million for research and teaching development purposes, \$3.5 million for language enhancement, and \$0.16 million for use in academic exchanges with China (Lingnan College (Hong Kong): Financial Report, 1997-98).

Auxiliary enterprises are those activities that support the College but are financially self-supported. Each auxiliary enterprise has a source of revenue derived from students and or the public. Such activities include student union retail activities, bookstores and college presses, like Caves Books (H.K.) Co. Ltd.

Service centers are units in Lingnan College that are established to provide services within the College. Most of their revenue is received from internal sources. These units include central word processing facilities, campus stores and photography. The service centers have their own internal budgets and are excluded from the total budget of College, because they are considered self-supportive.

## **4.3 Budget Cycle at Lingnan College**

### **Introduction of University Grants Committee**

In Hong Kong, there are eight higher education institutions including City University of Hong Kong, Hong Kong Baptist University, Lingnan College, The Chinese University of Hong Kong, The Hong Kong Institute of Education, The Hong Kong Polytechnic University, The Hong Kong University of Science and Technology as well as The University of Hong Kong. All higher education institutions are funded through the University Grants Committee (UGC). Lingnan College has received UGC funding since 1993. The approved grants for the 1995/98 triennium are proved in Figure 4.1.

Established in 1965, the UGC performs its function as the advisory body to the Hong Kong Government in the development and funding needs of higher education. The UGC financially support the institutions for academic and professional programs, and research developments.

Under UGC funding, Lingnan College is an autonomous body, responsible for controlling the curricula and academic standards, the selection of staff and students and the

**Figure 4.1 Approved Grants for the 1995-98 Triennium at Lingnan College**

	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>Total</u>
	\$M	\$M	\$M	\$M
Lingnan College				
<u>Recurrent Funding</u>				
Earmarked Grants				
(a) Senior Staff	123.7	126.0	125.8	375.5
(b) Subordinate Staff	38.1	42.7	39.8	120.6
(c) General Expenses	91.0	101.1	93.1	285.3
(d) Equipment	<u>19.2</u>	<u>3.0</u>	<u>14.3</u>	<u>36.5</u>
Total expenditure	272.0	272.8	273.0	817.8
Less Assumed Revenue	<u>(70.9)</u>	<u>(91.2)</u>	<u>(106.2)</u>	<u>(268.3)</u>
Net Grants	201.1	181.6	166.8	549.5
Add Supplementary Recurrent Grants	-	0.5	3.6	4.2
Add Supplementary Grants for Minor Works	-	-	7.6	7.6
Add Supplementary Grants 1995 Revision	16.2	16.6	16.6	49.4
Add Supplementary Grants 1996 Revision	3.6	14.0	14.0	31.6
Add Supplementary Grants 1997 Revision	-	3.5	13.6	17.0
Teaching Development Grants	1.7	1.7	3.2	6.5
Language Enhancement Grants	3.0	3.3	3.5	9.8
Central Allocation Vote Projects	-	-	1.2	1.2
RGC Earmarked Research Grants	<u>1.6</u>	<u>2.3</u>	<u>2.4</u>	<u>6.4</u>
Sub-total:	227.2	223.5	232.5	683.2
Capital Account – Academic	0.1	0.1	0.2	0.4
Links with China*				
Total Recurrent Funding:	227.3	223.6	232.7	683.6
<u>Capital Funding*</u>	177.0	50.8	38.0	265.8

internal allocation of resources. The UGC acts as a “buffer”, safeguarding the academic autonomy of Lingnan College, and ensuring the proper use of money from taxpayers.

The UGC has two different kinds of grants: UGC Recurrent Grants and Research Grants. For the Recurrent Grants, the UGC normally follows a triennial planning cycle to coincide with the recurrent grant allocation for Lingnan College. The management of Lingnan College is required to submit their plan for next three years to UGC. A diagrammatic illustration of this cycle is shown in Figure 4.2. Also, the Research Grants support the specific academic research in the institutions of higher education in Hong Kong. The Research Grants Committee formulates principles, guidelines and procedures for the allocation of Earmarked Research Grant. A portion (currently about 18%) of the Grant is directly allocated to the UGC-funded institutions to support small-scale research projects (costing less than \$200,000). The distribution of this sum is determined by a formula based on the numbers of academic staff engaged primarily in degree level work with some weighting in favor of newly appointed staff (Hong Kong University Grants Committee, 1997-98).

#### **4.4 Total Revenues**

In Hong Kong, colleges and universities rely on different kinds of sources for financial support. At Lingnan College, the main source of revenue comes from the recurrent UGC subvention. In 1997-98, about \$229 million was received from the UGC (63.03% of total revenue). The recurrent grants are made on the basis of the approved student numbers and the agreed Academic Development proposals.

Apart from the UGC funding, Tuition Fees are the main revenue at Lingnan College (26.86% of total revenue) which included full-time and part-time course fees, enrolment fees, graduation fees, and sundry fees. Figures 4.3 and 4.4 shows the general revenues and

**Figure 4.2 Diagrammatic Illustration of UGC Recurrent Grant Cycle**

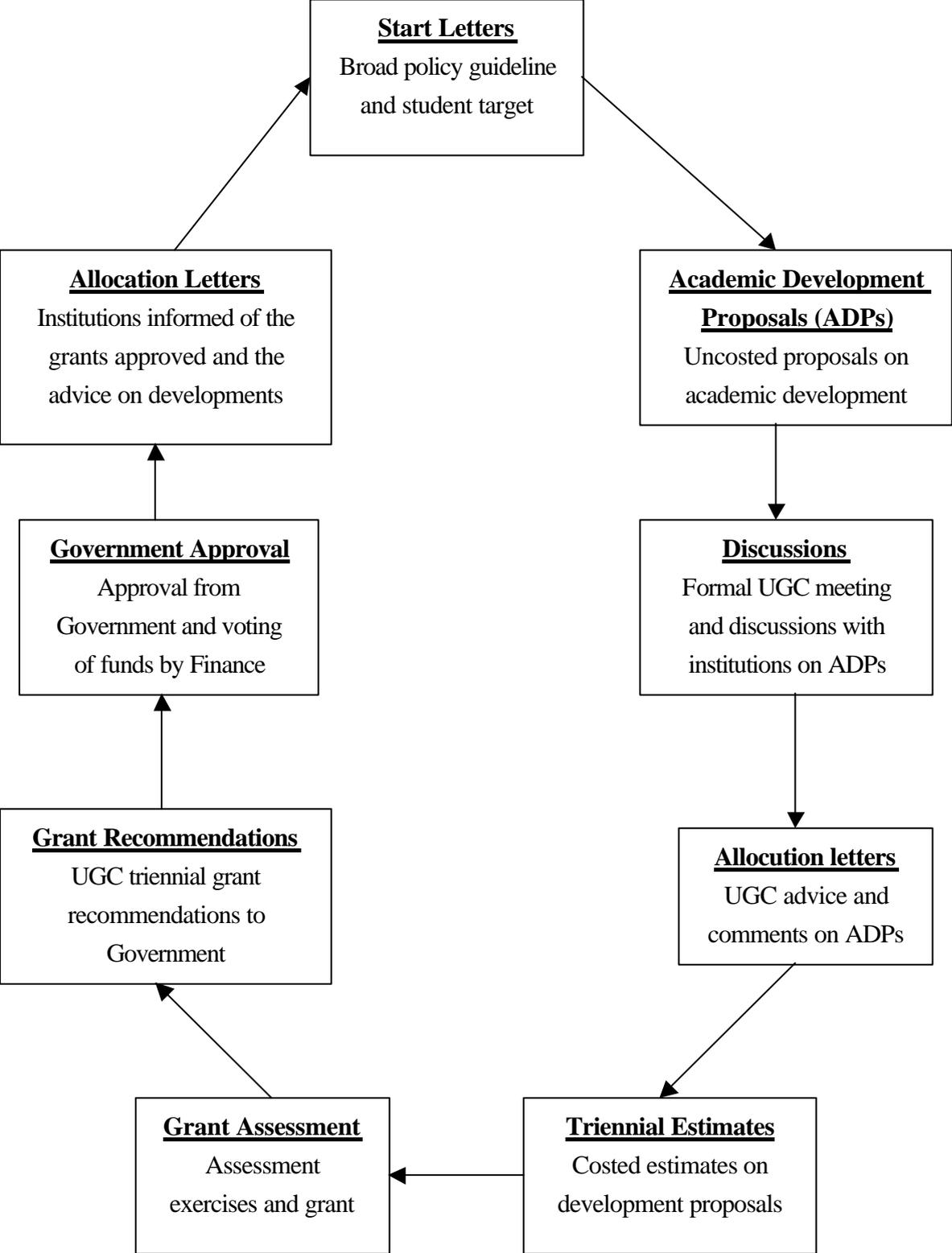


Figure 4.3 Percentages of the Amounts of General Revenues at Lingnan College in 1998

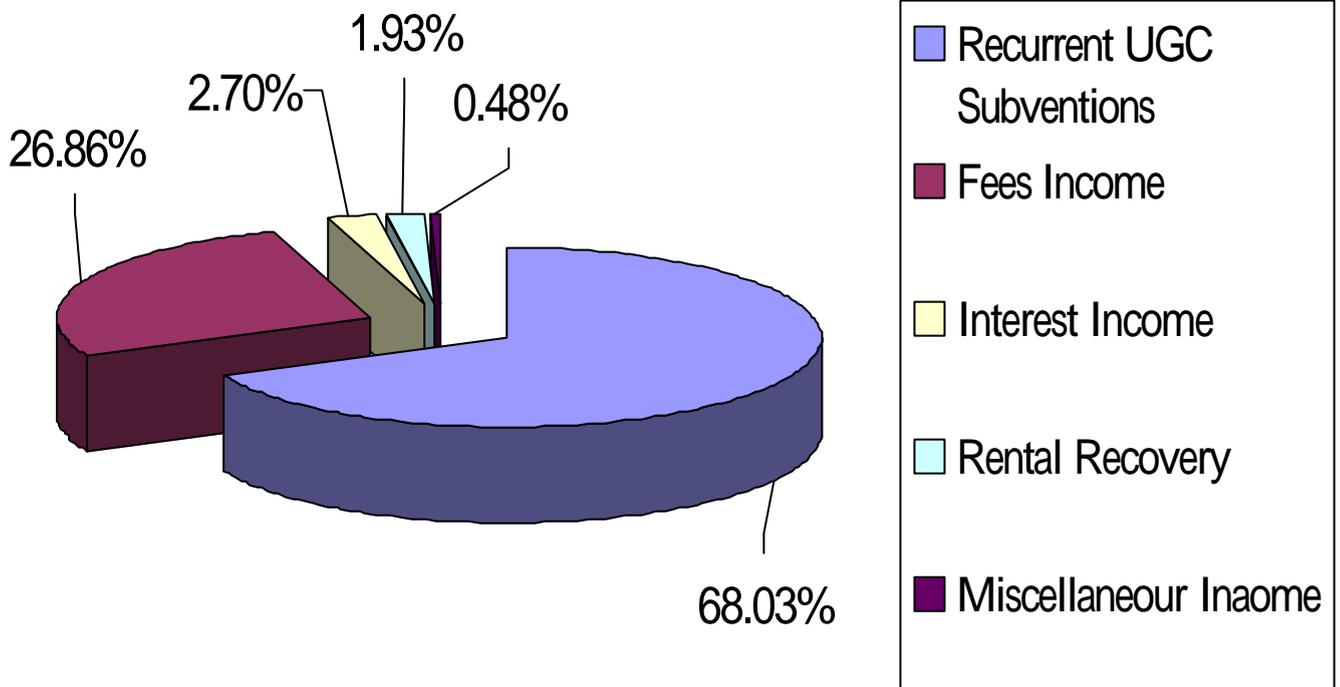
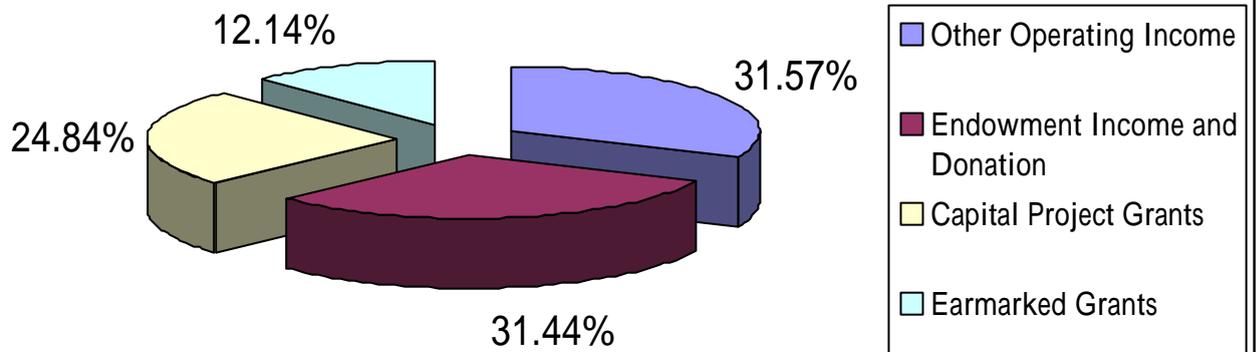


Figure 4.4 Percentages of the Amounts of Specific Revenues at Lingnan College in 1998



specific revenues for Lingnan College respectively. Moreover, Lingnan College also raises private funds to finance Campus capital projects and various academic and non-academic activities, these include the conversion and joint programs, conferences or seminars, and hostel residence operations (Lingnan College: Financial Report, 1997-98).

## **4.5 Total Expenditures**

The largest general expenditure in 1997-98 was for Academic activities (46.47% of total expenditure). Academic activities included expenditures within Academic Departments (salaries of staff, office equipment, teaching aids, research project expenses, etc), Computer Services Center (salaries, staff training, and equipment maintenance, etc), Library (Books, periodicals Information services, etc.), Educational Technology and Development Center, Language Center, and Research Centers. Other than Academic activities, 10.61% of funds were spent on Administration. It includes salaries of staff, office equipment and expenses, and auditors' remuneration, etc. About 9.64% was allocated to Maintenance of Premises, which mainly include salaries, campus management service costs, utilities, repairs and maintenance, and minor works, etc. Other expenditures included Staff Accommodation (8.87%), Student Facilities and Amenities (3.64%), General Education (1.16%), and Miscellaneous Expenditure (2.35%); whereas specific expenditure was 17.26% of the total expenditure(Lingnan College (Hong Kong): Financial Report, 1997-98).

## **4.6 Resources Planning and Allocation**

The major source of revenue for Lingnan College comes from the University Grants Committee (UGC) on triennial basis and student tuition fees. UGC triennial block grants and student tuition fees are earmarked under four headings: (1) Senior Staff Salaries, (2) Subordinate Staff Salaries, (3) General Expenses, and (4) Equipment on a triennial basis. The triennial budget is then partitioned into three separate annual budgets at the college level.

Within Lingnan College, there are 38 budget centers in 1997 (Refer Table 4.1). Under a three-year budget cycle, all budget centers have to submit their budget proposals to Comptroller's Office, after the approval of financial of finance committee of Lingnan College, proposals will be submitted to UGC. The estimation of various resource requirements, including staffing and non-staffing, is based on the planned student target numbers, approved course curriculum, planned staff-student ratio and senior-junior staff level ratio.

After the triennial budget has been approved, annual budgets are required. For the annual resources allocation process, the Comptroller considers both academic staffing requirements and non-academic staffing (equipment and general expenses). For the recruitment of academic staff, the academic departments are asked to submit their teaching requirements and staffing needs for the following year to the Academic Planning and Development Committee (APDC). These requests are assessed using a Student Staff Ratio Model, which calculates the academic staffing requirements of individual departments based on the student staff ratios

For non-staffing requirements, the Senior Management Group first determines and formulates the general policy for the budget allocation. Then all budget holders are asked to submit their estimates of requirements for the coming year based on the general policy

**Table 4.1 Budget Centers at Lingnan College in 1997**

<b>Code</b>	<b>Budget Center</b>	<b>Code</b>	<b>Budget Center</b>
100	Dean of Arts' Office	195	Centre for Public Policy Studies
101	Department of Chinese	198	Hong Kong Institute of Business Studies
102	Department of English	199	Centre for Literature & Translation
103	Department of English	200	Office of the President
110	Department of translation	220	College Secretariat
111	Department of Accounting & Finance	230	College Secretariat
112	Department of Computer Studies	231	Office of the Comptroller
113	Department of Management	232	Building Development Division
114	Department of Marketing & International business	233	Campus Management Division (A)
120	Dean of Social Sciences' Office	234	Campus Management Division (B)
122	Department of Economics	237	Operations Staff Quarters
123	Department of Politics & Sociology	238	President' s Lodge
131	School of General Education	239	Visitors' Quarters
140	Library	240	Management Information Unit
150	Educational Technology & Development Centre	250	Registry
160	Computer Services Centre	260	Student Affairs Office
190	Asian-Pacific Institute of Aging Studies	261	Physical Education Unit
191	Office of Research & Staff Development	270	Counseling & Career Unit
192	Centre for Policy Studies	305	Language Centre

in four areas: additional non-academic staffing requirements, equipment, general expenses, and special requirements. The estimates must include justifications and explanations for new expenditures, and the relative priority of items requested. When all budget proposals are summarized, then a preliminary College-wide budget is prepared. All annual faculty/department/centers/units budget proposals are discussed, justified, evaluated, revised and finally agreed upon in the Resources Allocation Committee (RAC). All budgets are then consolidated into an annual Lingnan College budget.

After the Board of Governors has approved the annual college budget, the Comptroller allocates the financial resources to each faculty/department/centers/units according to prior approvals by the RAC. Salary budget allocations are based on the staff establishment for each department. Equipment and general expense budgets are allocated to faculty/department/centers/units based on prior spending levels approved by the RAC.

Funding for research is allocated by the Research Grants Council (RGC) through its direct allocation procedures, or bid under the Competitive Bids or central allocation schemes. The funds received through the Direct and Central Allocation procedures are allocated by the College's Research Committee. Funds obtained by Competitive Bids are allocated directly to the successful principal investigator.

## 4.7 Factors affecting allocation of resource

When preparing the budgets at Lingnan College, the budget holders should consider some factors which influence the allocation of resources.

### ✧ Environmental Changes

One possible change at Lingnan College is a change in the enrollment distribution among the faculties. There are three faculties including Art, Business, and Social Science. The enrollment of different streams in Lingnan College changes every year. The budget holders have to reallocate the resources when there is a change in the enrollment distribution among the faculties. For example, when the students of a faculty increase, more resources should be allocated to that faculty to meet the new demands.

The demands and expectations of new academic programmes will influence the budget for next year. For example, with the establishment of the English program, the Comptroller must internally re-allocate some funding, since the amounts received from the UGC are fixed. The Comptroller will need to reduce the funds to some existing departmental/faculty budgets, so that, funds can be re-allocated to the new programme.

### ✧ Course Credit weighting Factor

The allocation of resources for faculties is frequently done on the basis of course credit hours taught. For example, if the weights of a subject increase, it means the need of resources of that subject increase, then more resources should be allocated to that course.

### ✧ Unexpected Expenditure

In designing budgets, management usually includes the estimates for equipment and facilities repair and replacement. A contingency fund is also established in order to

insure a prompt response to an emergency. However, if the actual funds used for some contingent problems are over the amount budgeted, a virement of resources between departments is needed.

## **4.8 Problems of the Existing Budget System**

The current budgeting system offers a simple way of projecting expenditures based on analysis of historical expenditure pattern and anticipated new activities. Allocations are based on overall picture of total funds available and setting of priorities for items of expenditure. However, the Comptroller's Office at Lingnan College found many problems associated with the current system. First of all, estimations of budgets have not been very precise, because the budgets are based on the historical costs and past practice. In fact, the departmental budget proposals did not consider the strategic plans in the future. As a result, budget figures tended to be understated, and biases may be introduced in the projection.

Secondly, the communication between academic and support units has been weak because no inter-department charging and lack of measurement of service quality which provided by support units to academic departments.

In addition, since the current budget system is a centralized system, the flexibility of the internal distribution and use of resources were limited. This occurs because the UGC grants are earmarked under the four general headings and the amounts allocated to departments for various expenditures are strictly controlled by the Comptroller's Office.

Furthermore, voluminous paper work is involved in the preparation of budget proposals, the application for the approval of budget proposals and the approval of virement under the four earmarked headings.

# Chapter Five

## Revenue Center Management: The Proposal Budgeting System

Given the financial crisis that began in 1997, many organizations including Lingnan College have reconsidered their planning process in order to use limited resources efficiently. As we mentioned in Chapter Four, nearly half the revenues of Lingnan College are received from the UGC, however, these amounts received are declining. Therefore, in order to maximize their ability to offer better quality education given the limited resources and allocate limited resources efficiently, Lingnan College is in the process of re-evaluating the effectiveness of their current budgeting system and Revenue Center Management (RCM) which are proposed by eight universities in Hong Kong.

## **5.1 Introduction of Revenue Center Management**

Revenue Center Management (RCM) is a financial management system which has been successfully implemented in some leading universities in USA. It offers a rational management tool for academic management in higher education. Under RCM, organizational units fall into two classes; academic and support units. At Lingnan College, academic units include the Faculty of Arts, Business, Social Science and General Education. Support units include the Library, Computer Service, and Registry, etc.

By using the RCM budget system, several goals are intended. First, administrative decision making is to be decentralized. The aim is to have most operational decisions made at the departmental level; close to the point of implementation. As a result, the new budget system should improve the effectiveness of resource allocations system, and empower the department heads to accomplish their objectives more effectively. In addition, budgetary procedures and decisions are intended to be simplified and clarified by reducing the multiple layers of institutional involvement. Also the quality of budget forecasting and planning can be improved by placing revenue at the department level.

RCM focuses on the relationship between financial resources and the college mission

together with the objectives of academic units. There are three basic principles underlying the RCM system. Firstly, all costs and revenues attributable to each academic unit should be allocated to that unit. Secondly, appropriate incentives should exist for each academic unit to increase revenues and reduce costs. Finally all costs of other units, that is support units (such as library, computer service) should be charged to the academic units that use their services. Therefore, RCM creates incentives for the generation of new resources and for the efficient use of all resources, and enhances performance of each department and unit (Whalen, 1991).

### **Structure of RCM**

Lingnan College receives revenue from different sources each year. Under the RCM system, the Office of Comptroller will reserve 3-5% of the UGC lump sum as a Contingency fund for new developments in the college. The remaining 95-97% of the funding is allocated to departments for teaching and research activities. The revenues for the academic units (profit centers) are used for the absorption of their own costs of academic units; for example, staff salaries, teaching facilities and research development. The heads of departments take the responsibility to deal with budgeting. In addition, all academic departments are required to share the cost of all Support Units (clearing units) as their indirect expenses; for example, Library, Computer Services, and Registrar's Office. Each Support Units must submit a budget proposal to the Comptroller's Office, and the Comptroller will determine how much of their cost each academic unit is required to absorb.

Under RCM, the categories of sources of revenue, application of expenditure and allocation methods are different from the current budgeting system in Chapter 4.

## **5.2 Total Revenue**

The sources of funds available to the College include general revenues and specific revenue. A discussion of the categories of revenues at Lingnan College follows.

### **Block Grant (G)**

The Block Grant is a one-line allocation from the UGC for a period of normally three years. After sending the budget proposal to the UGC, Lingnan College will receive a lump sum from UGC to support the College activities. The amount represents the recurrent grant to be received from UGC after deducting the assumed tuition fee income and other assumed income such as rental on housing benefits, interest income and other miscellaneous income.

### **Fee Income (F)**

Tuition revenue for Lingnan College includes Undergraduate (Full-time course), Postgraduate (Full-time course), Undergraduate (Part-time course), Postgraduate (Part-time course), Enrolment Fee, Graduation Fee and other fees received from students. In Hong Kong, it is important to note that the Hong Kong government determines and controls the student tuition payments every fiscal year.

### **Research Grant (R1)**

The Research Grant comes from the UGC as a specific fund. This includes Direct Allocation Research, Competitive Earmarked Research and Teaching Development Grants.

### **Language Enhancement Grant (L1)**

The Language Enhancement Grant also comes from the UGC as a specific fund. This represents earmarked funds for supporting College language enhancement programs.

### **Miscellaneous Income (M)**

Miscellaneous Income includes rental for housing benefits, interest income and other miscellaneous incomes. In 1998, there were about 6.5 millions dollars of rental recovery. Lingnan College received interest revenues of nearly 9 millions dollars. Other Miscellaneous Revenue includes Canteen Management Fees and Sales Commission, Library and LaserJet Printer Keycards, Car Park Revenue.

Therefore, the total income for the Lingnan College is equal to  $G + F + R1 + L1 + M$ .

## **5.3 Total Expenditures**

The application of funds for the College includes general and specific expenditure. For a balanced budget, the College total income should be equal to the total expenditure. A discussion of the categories of expenditure at Lingnan College follows.

### **Contingency (C)**

The need for any contingency will be determined and removed from the overall planned expenditure limit for the College.

### **Discretionary Funding for the President (D)**

A sum will be allocated to the President for discretionary funding of priority items.

### **Earmarked Research Grant Expenditure (R2)**

The earmarked research grant will be allocated to various applicants by the Research Committee and the Teaching Quality and Development Committee. This expenditure is equal to the Research Grant Revenue (R1).

### **Language Enhancement Grant Expenditure (L2)**

The Language Enhancement Grant should be allocated to the Language Centre. This expenditure is equal to the Language Enhancement Grant Revenue (L2).

### **Teaching and Research Portion (TP and RP)**

After deducting the above expenditure, the remaining amounts will be split between Teaching and Research. The Teaching and Research elements will be allocated to the academic departments and research centers.

Therefore, The total expenditure is equal to  $C + D + R_2 + L_2 + TP + RP$

## **5.4 Resources Planning and Allocation**

Basically, RCM treats all academic departments of the College as profit centers which generate income for the College. The servicing and support units' expenses will be absorbed by a charge to each profit centers based on an equitable charging method which is either on a percentage charge or on actual incurrence of a specific expenditure. The structure for allocation of resources under RCM is shown in Figure 5.1

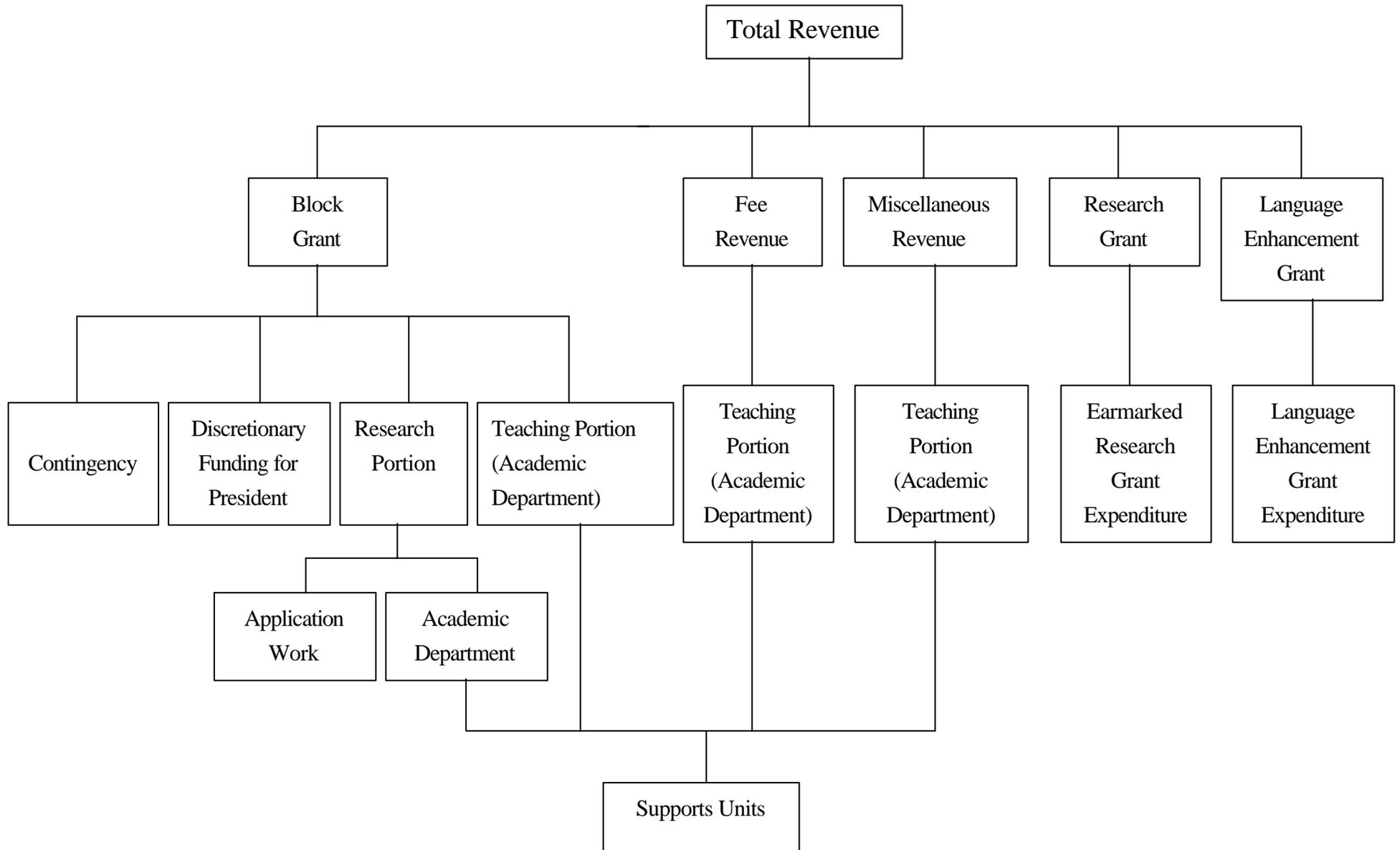
Based on the formulae of the total revenue and expenditure, the following conclusion is reached.

- a) The Research Grant will be directly allocated to applicants doing researches.
- b) The Language Enhancement Grant will be directly allocated to Language Center.
- c) The revenue of the UGC Block Grant (G) will be allocated to Contingency expenditure (C), Discretionary funding for the President (D), Teaching Portion (TP) and Research Portion (R). The details will be discussed as follows:

### **Contingency expenditure (C) and Discretionary funding for the President (D)**

The contingency (C) and the discretionary funding (D) for the President should be deducted from the Block Grant. The percentages of Block Grant to the contingency (C) and the discretionary funding (D) are about 3% to 5%.

**Figure 5.1 Resources Allocation Model under Revenue Center Management**



### **Research Portion (RP)**

The research portion of the Block Grant is primarily related to staff number. It is proposed that 80% of this portion should be used for academic research and could be allocated to academic departments according to the number of research workers involved in each department. The remaining 20% is allocated to academic departments based on research topics applied for by staff.

### **Teaching Portion (TP)**

After deducting the contingency (C), the discretionary funding for the President (D) and the Research Portion (RP) from the Block Grant (G), the remaining portion of the Block Grant (G) and the total Fee Revenue (F) and Miscellaneous Revenue (R) will be treated as teaching revenue, and will be allocated to the academic departments.

Therefore,  $TP = (G - RP - C - D) + F + M$

- a) The teaching portion from the Block grant (i.e.  $G - RP - C - D$ ) should be allocated to the academic departments based on a weighting system which reflects the relative costs of the programs concerned. For example, teaching costs in the Department of Information Systems is more expensive than others due to the need for special computer equipment or computer laboratory, or because they are more labour intensive.
- b) All Fee Revenue (F) will be allocated to academic departments based on projected student enrolments. That is, the Accounting and Financial Department (about 390 students) will receive more fee revenue than the Department of Information Systems (about 120 students).

- c) The estimated miscellaneous income should be allocated to academic departments based on a weighting system as mentioned in paragraph (a) above.

### **Support Units**

As the non-academic departments (Support Centers and Administration) render services to the academic profit centers (academic departments), their expenses should be covered by the profit centers. Different methods of cost absorption should be used to cover the cost of support units. Library, Registry's Office and Information Technology Service Center are examples to elaborate the bases for allocation.

### ***Registrars' Office***

The expenses of the Registrars' Office become an indirect cost of the academic units. The total cost of administration will be allocated to each academic unit. All academic departments will share the costs of administration based on student numbers. For example, there are 2,000 students at Lingnan College which include 80 students in Accounting and Finance Departments. If the cost of Registrar's office is \$20,000, the Accounting and Finance Department has to pay  $(\$20,000 \times (80/2,000))$  \$800 to Registrars' office

### ***Library***

Since Academic departments and researches use the facilities provided by the library, the budgeted revenues of the library appear as expenditures in the academic departments and research budgets. The expenses of library should be charged to the academic units based on student numbers, and to the researches based on number of staff involved in research.

### ***Information Technology Service Center***

For Computer Services, the allocation should be based on a unit rate of computer usage by different academic departments (different usage for different departments). For example, the Information Systems Department should likely bear more cost in computer

services than the translation department.

## **5.5 Surplus and Deficit**

As a financial plan covers a definite financial period and its affairs must be wound up in an orderly manner at the end of that period, the budget should be closed at the end of the financial year. Under RCM, for the first and second years of the triennium, budget holders may apply in writing to the Office of the Comptroller for setting aside part of the unused appropriation for use after the close of the financial year. The budget holders should specify the amount to be set aside, the purpose of the fund to be set aside, reason for making the request and expected date for utilizing the fund.

However, for the third year of the triennium, according to the regulations of UGC, no fund from the recurrent grant can be carried forward to the next triennium. Therefore unused appropriations must be forfeited.

If there is a deficit, the departments have to cover their expenses by themselves, such as short-term borrowing from Comptroller's Office. If the amount of deficit is large, the Comptroller's Office will take the responsibility to investigate the reasons and modify the next budget.

After discussing the current budgeting system in Chapter Four and RCM in Chapter Five, the following chapter will analyse both systems.

# Chapter Six

## Comments and Analyses

In this chapter, we focus on the comments of the interviewees. We interviewed five heads of academic departments and three directors of support units. The opinions from the interviewees include comments on: (1) advantages and disadvantages of the current budgeting system, (2) the basis of allocation of resources under Responsibility Center Management, (3) the advantages and disadvantages of RCM, (4) comparisons between the current budgeting system, and (5) factors to be considered when implementing RCM at Lingnan College.

## 6.1 Advantages of Current Budgeting System

The current budgeting system has been used by Lingnan College for several years. Three main advantages associated with the current budgeting system are shown in Table 6.1.

**Table 6.1 Advantages of Current Budgeting System**

Advantages	<u>Numbers of Respondents</u>	
	Academic Department Heads	Directors of Support Units
(i) Familiar with System	2 (Heads from BBA and BA)	1
(ii) Easy to Calculate	1 (Head from BA)	2
(iii) Comptroller's Office is professional for dealing with budgets	2 (Heads from BSS and GE)	0

BBA = Business Administration Faculty  
BSS = Social Science Faculty

BA = Arts Faculty  
GE = School of General Education

Staff members at Lingnan College seem to be reasonably familiar with the current budgeting system; primarily because Lingnan College has used the current budget system for a long time. Also, the current budgeting system is apparently easy to understand and straightforward, as the funds are earmarked under four familiar headings.

In addition, the current budgeting system seems easy to calculate because the current

budgets were based on the historical costs. Inflation rates, new developments of the departments, and factors such as student numbers and courses are generally considered quite stable.

Under the current budgeting system, the budgets were prepared by the central administration, it was reasonable because Comptroller's Office was a professional in dealing with budgets. When the units received their funding allocations, department heads only had to spend the money under the control of Resources Allocation Committee (RAC).

## 6.2 Disadvantages of Current Budgeting System

Weaknesses of the current budget system are shown in Table 6.2.

**Table 6.2 Disadvantages of Current Budgeting System**

Disadvantages	Numbers of Respondents	
	Academic Department Heads	Directors of Support Units
(i) Complication of Procedure	1 (Head from BA)	0
(ii) Inappropriate allocation bases	1 (Head from BBA)	1
(iii) Biases of RAC	2 (Heads from BBA and BSS)	0
(iv) Little Flexibility	2 (Heads from GE and BA)	3
(v) No Incentive to Generate Money	1 (Head from BA)	2

BBA = Business Administration Faculty

BA = Arts Faculty

BSS = Social Science Faculty

GE = School of General Education

The current budgeting system appears overly cumbersome, because there are many procedures involved in the approval of budgeting and virement. That is, the budget proposals of each department must pass through many levels and, therefore the steps require redundant work.

Historical cost is the main basis for budgeting under the current system, but historical

cost does not reflect the actual needs of the current year. Furthermore, the allocations for equipment and general expense based on prior spending levels might lead to further inefficiencies. For example, if a unit spends too much money inappropriately, it may continue to receive more resources next year based on the over expenditures of the previous year.

Since the Resources Allocation Committee (RAC) manages the budget, decides the amounts to be received by each department and controls the use of funding, departments seem to have little flexibility. Under the current budgeting system, a fixed amount of money is allocated to different lines of expenditure. As such, departments can not transfer funds from one expenditure category to another, and all year end surpluses are required to be paid back to the Central Administration.

Under the current budgeting system, we found that the departments had no strong incentive to create additional funds or spend money more efficiently, because they spend all funds under the control of RAC.

Two academic department heads, one from BBA and the other from BSS, regarded the RAC as having too much power given that its members might not understand the special needs of each department. As a result, the judgements of RAC might be subjective and biased in favor of particular departments; such that funds might not be used effectively. However, we believe that the Academic Planning & Development Committee at Lingnan College should make the recommendations on the allocation of resources and new plans of academic development among various teaching Departments/School, in order to balance the power of RAC.

### 6.3 Basis for Allocating Revenue to Academic Departments

Under RCM, the interviewees recommended various bases to allocate revenue to the academic departments. These results are summarized in Table 6.3:

**Table 6.3 Basis for Allocating Revenue to Academic Departments**

Bases	Numbers of Respondents	
	Academic Department Heads	Directors of Support Units
(i) Number of Student Enrolled in streams offered by particular department.	2 (Heads from BA and GE)	1
(ii) Productivity	1 (Head from BBA)	1
(iii) Historical Costs and Neutral Formal Resource Allocation Model	1 (Head from BA)	0
(iv) Equal Allocation and Special Needs	1 (Head from BSS)	1

BBA = Business Administration Faculty  
 BSS = Social Science Faculty

BA = Arts Faculty  
 GE = School of General Education

Two interviewees suggested that departmental productivity was the basis best for allocation. Productivity means the activities in teaching, in research and in services. A formula would be necessary to calculate the workload of each academic department. Productivity could be measured in terms of teaching, full-time equivalent staff and credit hours. In our opinion, we preferred to use the course credits which was successful adopted by the Indiana University. The course credits are based on the number of credits of the courses provided by departments. The advantages for using course credits are that the course credits can reflect the courses, lecturers and tutors needed, the workload of teaching and the number of students involved. Course credits are more stable as all students are required to take a certain amount of credits for graduation. For example, the business students need to earn 96 credits for a BBA degree. However, we found that there is one limitation of using course credit as the basis at Lingnan College. That is, some of the

course codes being used do not reflect the department offering the course. For example, the course code for Business Strategy is BUS 3030. We suggest this should be changed to MGT 3030, in order to indicate that the Business Strategy course is offered by the Management Department.

Two academic department heads and one support unit director recommended the number of student enrolled for allocating revenues to academic departments. The main reason was that serving the students was the main mission of the College. As the numbers of students for each year was relatively stable, students numbers could determine the number of staff to be recruited. However, we regarded this rational as a problem given that students may shift their majors in the middle of semester.

In addition, one department head from BA proposed that a mixed model should be adopted. This means taking into account a number of important aspects which include historical costs and a neutral formal resource allocation model. A neutral model suggests the allocation model should be determined by all department heads, or an independent committee, in order to avoid any bias. However, we believe historical cost is not a good practice for the reasons we mentioned earlier.

Two respondents suggested that an equal allocation plus special needs should be taken into account for allocation. Equal allocation implies a certain fixed amount of funds should be allocated to each academic department. The second principle is that each academic department is different, thus there must be some special needs of each academic unit, therefore, special needs must also be considered. For example, if the Information Systems Department needs more computers for teaching, more funds should be allocated to this department in order to suit their special needs. However, we felt that it might be unfair to allocate the first round of funds equally, because the sizes of departments are not equal. Further, the additional allocation depends on each department's needs and this would

intensify the budgetary competition among departments.

## 6.4 Basis for Allocating Research Funding to Academic Departments or Staff

For allocating Research funding to academic departments or staff, the interviewees recommended the bases as shown in Table 6.4:

**Table 6.4 Basis for Allocating Research Funding to Academic Departments or Staff**

Bases	<u>Numbers of Respondents</u>	
	Academic Department Heads	Directors of Support Units
(i) Research Assessment Exercise	2 (Heads from BBA and BA)	2
(ii) Moving Average	1 (Head from BBA)	0
(iii) Historical Approach and Future Projections	2 (Heads from BA and GE)	1
(iv) Equity and Special Needs	1 (Head from BSS)	0

BBA = Business Administration Faculty  
BSS = Social Science Faculty

BA = Arts Faculty  
GE = School of General Education

Four interviewees recommended that the current policy used by UGC – Research Assessment Exercise should be adopted. Under the Research Assessment Exercise, all researcher of the eight universities would submit their research results to the UGC. The research results would be assessed and marked by the specialists of different fields employed by UGC. A lump sum of funding would be allocated to the Lingnan College according to relative percent of UGC active researchers. After Lingnan College received the funding, the Research Grant Council (RGC) would re-assess researcher results for internal allocation. The lump sum would be allocated between researchers based on the RGC assessment. We thought that the RAE can be used to allocate the research funds to academic department, because this exercise has been implemented for many years, therefore many staff at Lingnan College is familiar with this system. The advantage of the

Research Assessment Exercise is that it is fair (assessments are made by the different specialists for different fields, and better outputs receive more funds).

One BBA department head suggested a moving average should also be introduced in order to reduce the fluctuation of funds allocated and to include an estimate of the expected research needs. For example, assume an academic unit used 100 million in the first year, 80 million in the second year, and 90 million in the third year, so the three-year moving average for the fourth year is 90 million  $((100+80+90)/3)$ . However, the moving average method has a problem in practice. For example, if a department receives 90 million in the third year for only 5 research workers, under the moving average method, the department may get 90 million in the fourth year for 10 research workers. Since the moving average method only focus on the expenses of the previous years, it cannot link the relationship between the funds received by the departments and the performance or the numbers of staff who conducted the research.

A suggestion from three respondents was that the historical approach and future projections should be considered for research allocation. The historical approach suggests looking at how much resource the departments needed measured by past data while the projections refer to the research activities that relate to in the future. However, we do not believe the historical cost is a good practice as previously mentioned in points 6.2 and 6.3.

One respondent felt that an equal allocation plus special needs should be considered. Equal allocation suggests allocating a certain amount equally to all academic departments which was to be decided by a central administration. Second was to allow additional allocation or transfers to other units depending on their special needs to be judged by a screening committee. From our point of view, these two bases are not good enough to allocate the funds, it will increase the budgetary competition among departments (stated before in point 6.3).

## 6.5 Basis for Charging Support Units Expenses to Academic Departments

We were also concerned with the basis for charging support units' expenses to academic departments. Table 6.5 shows the opinions of the interviewees.

**Table 6.5 Basis for Charging Support Units Expenses to Academic Departments**

Bases	Numbers of Respondents	
	Academic Department Heads	Directors of Support Units
(i) Benchmarking	1 (Head from BBA)	1
(ii) Degree of Usage of facilities	1 (Head from GE)	1
(iii) Equal allocation and student numbers / special needs	2 (Heads from BA and BSS)	1
(iv) Determined by Central Administration	1 (Heads from BA )	0

BBA = Business Administration Faculty  
BSS = Social Science Faculty

BA = Arts Faculty  
GE = School of General Education

A department head from BBA proposed that benchmarking should be adopted. Benchmarking involves the setting of standards for action, measurement, and quality assurance. These standards were used for comparisons at the local and international levels. For example, according to the standard of international Liberal Arts College, the total expenses of library is 5% of total expenditure of College. Then, Lingnan College should allocate 5% of total revenue to library. However, we find that benchmarking cannot explain how to charge the support units expenses to individual academic departments. Moreover, the standards of other international Liberal Art Colleges is not suitable to Lingnan College, because there were different culture, norms and structure of units between local and oversea countries. Furthermore, there is no other Liberal Arts College in Hong Kong, it was difficult for Lingnan College to use benchmarking.

The department head of GE recommended that the basis could be the frequency of

usage of the facilities, because all the services of the support units were related to the academic departments. This means the departments which use facilities frequently should cover more costs of support units. However, we feel that it is difficult to calculate the frequency of usage of each department. Under this allocation method, Lingnan College has to purchase the machine or employ staff to record, control and monitor the frequency of usage. In other words, this method will increase the cost of Lingnan College.

Another interviewees suggested equal distribution plus student numbers or special needs of units should be considered. That is, a flat rate would be charged to each academic unit regardless of their use of the services, and an additional costs would be charged depending on the academic departments based on the student numbers or special needs. In some special cases, a department might have some special requests on library services, then the cost should be charged to that department. We think that both bases are not good enough, because it is unfair to charge the amounts equally to the academic departments given the different sizes of each academic department. Another disadvantage is that some academic departments may argue that they should not bear the costs of some of support units, if they do not request special needs from these units.

The department head of BA disagreed with the concept of charging support unit expenses to academic departments. He suggested the Comptroller's Office should determine the spending level for each support unit as central funding, because all support units were very important to the College. In exceptional cases, if the academic department employs a research assistant for its use, the expense for the employment should be charged to that department.

To conclude, we felt that the above suggested bases fall short for an effective RCM, since different support units provide different services. Therefore, we believed that different methods of cost absorption should be used to recover the cost of support units.

For example, the Library and Registrar's Office could be based on the number of students enrolled in a programme. This is because the library is available to all students, and Registrars' Office is supposed to serve all students. Furthermore, the Student Affairs Office is responsible for rendering student services, therefore the numbers of students should be a basis for charging. For the Information Technology Service Center (ITSC), it should charge based on a fixed amount plus needs from different academic departments. That means, all academic departments should cover an equal amount of the base cost of support units at a certain percentage (such as 30-40%), then the remaining costs will be charged to the academic departments based on the usage of facilities related to the courses provided (different usage for different departments). For example, students of Information System are required to use the computer laboratory more than other students, so the Department of Information System should cover more cost of the ITSC.

## 6.6 Advantages of RCM

The opinions of the interviewees about the advantages of RCM are summarized in

Table 6.6

**Table 6.6 Advantages of RCM**

Advantages	<u>Numbers of Respondents</u>	
	Academic Department Heads	Directors of Support Units
(i) Easy to Understand	1 (Head from BA)	0
(ii) Freedom to use resources	4 (Heads from BBA, BA, BSS and GE )	2
(iii) Understanding of needs	0	2
(iv) Increase in Communication	0	1

BBA = Business Administration Faculty  
BSS = Social Science Faculty

BA = Arts Faculty  
GE = School of General Education

Most of the interviewees regarded that under RCM system, departments could decide on their own expenditure priorities. Also, academic departments could keep surpluses for further use. This provides more flexibility for the departments, and departmental operation could be more efficient and cost effective.

Another cited advantage of RCM was that each department could take care of its own needs. Also, RCM motivates creativity and enthusiasm, and it could influence academic departments to work harder by the characteristics of the RCM system. RCM motivates the departments to generate money by themselves and allows discretion on how to use the money. In our opinion, RCM is healthy because it encourages academic departments to go out to raise funds and bring in additional revenue (Adams, 1999).

Two respondents felt that RCM could enhance support units' communications with students, administration and teaching staff, so the quality of services provided by support units can suit the needs of academic departments.

From the view of one support unit director, the RCM model is rational and logical; suggesting everybody can easily understand the system in theory. We agree that RCM is logical because the service provided by the support units is really supporting the academic departments and research work. For example, ITSC provides service in teaching and assist the processes of researchers.

## 6.7 Disadvantages of RCM

The opinions of the interviewees about the disadvantages of RCM are summarized in Table 6.7.

**Table 6.7 Disadvantages of RCM**

Disadvantages	Numbers of Respondents	
	Academic Department Heads	Directors of Support Units
(i) Difficult for department heads who have little knowledge on budgeting	3 (Head from BA, GE and BSS)	1
(ii) No incentives for some departments and support units for outsourcing	1 (Head from BBA)	2
(iii) Increase in Workload	1 (Head from BA)	1

BBA = Business Administration Faculty  
BSS = Social Science Faculty

BA = Arts Faculty  
GE = School of General Education

RCM system may increase the workload and working time of department heads, because they need to attend meetings with their colleagues for discussing the departmental budget, and with other departments for discussing the college budget. We believe that the increase in workload to deal with budgeting will dilute their attention away from teaching unless there is a reasonable remission for department heads. Also, for those departments which have less knowledge on budgeting, training should be provided. Therefore, it will increase the costs for those departments.

Four interviewees said that some department heads, such as in the Art Faculty, General Education Department, have less budgeting knowledge, and it may be more difficult for them to learn how to allocate resources efficiently. However, the department heads are at the managerial level. To a certain extent, they have accepted the responsibility to manage the revenues and costs of a department. In addition, the department heads could delegate some of the budgeting responsibilities to an individual departmental staff member or to a committee.

Every unit has a different capability to raise funds or bring in the additional revenue. The business faculty is thought to have a greater opportunity for generating additional revenue. For example, the Management Department can perform projects for business companies to generate funds. However, the Arts Faculty has little to sell their constituency, so that it has a more difficult time raising funds independently. For support units, there is no incentive for them to raise money because all expenses of support units are covered by academic departments. In our opinion, different units have different capabilities to raise funds. For example, the staff from Arts Faculty can raise funds by composing some books. Most importantly, we think that the main mission of support units is to provide services to the academic departments, so the support units do not need to generate funds by outsourcing for themselves.

## 6.8 Comparisons between the current budgeting system and RCM

Referring to the opinions of interviewees and the information of reference books, comparisons and analysis between the current budgeting system and Revenue Center Management (RCM). The points raised in Table 6.8 will now be discussed.

**Table 6.8 Comparisons between Current Budgeting System and RCM**

	<u>Numbers of Respondents</u>		
	Current Budgeting System	RCM	No Comment
(i) Fairer	0	7 (Heads from BBA, BA, BSS, GE and 3 directors from SU)	1 (Head from BA)
(ii) More Flexible	2 (2 Heads from BA)	6 (Heads from BBA, GE, BSS and 3 directors from SU)	0
(iii) More Efficient	3 (2 Heads from BA and 1 director from SU)	5 (Heads from BSS, GE, BBA and 2 directors from SU)	0
(iv) More Effective	1 (Head from BA)	7 (Heads from BBA, BA, GE, BSS and 3 directors from SU)	0
(v) More Paper Work	1 (Head from GE)	6 (Head from BSS, 2 Heads from BA and 3 directors from SU)	1 (Head from BBA)

BBA = Business Administration Faculty  
BSS = Social Science Faculty  
SU = Support Units

BA = Arts Faculty  
GE = School of General Education

### (i) Fairness

Seven of the eight interviewees stated that the RCM is fairer than the current budgeting system, because they believe RCM could provide a better allocation of funds within Lingnan College. For example, the costs of support departments should be covered by the academic units based on the usage of service from the support units.

In our opinion, RCM is fairer because RCM can reflect a more accurate cost each department is incurring since it is a user-pay system and resembles a full absorption costing system. Furthermore, the allocation method of resources is based on a consistent basis to all academic departments (Kvavik, 1999).

**(ii) Flexibility**

Two department heads of BA agreed that the current system is more flexible than the RCM, because the department heads can easily request the central administration for virement internally. On the other hand, six respondents regarded the RCM as more flexible. Their reasons are that the department heads can decide how to use and reallocate their funds internally, and they can generate revenue on their own.

We believe that a major feature of RCM is flexibility. RCM allows department heads to shift funds from one spending category to another, depending on needs, with accountability only for the total. Also, academic departments have the ability to carry forward, from one year to the next, any residual year-end funds generated through savings or extra income generated by greater-than projected enrollments (Stocum and Rooney, 1997). However, under the current budgeting system, flexibility for academic departments to shift resources is significantly limited. And, academic and support units are not permitted to carry forward unused balances to be used at later time.

**(iii) Efficiency**

Three interviewees stated that the current budgeting system is more efficient. Two reasons were cited. Firstly, the current budgeting system is easy to calculate, because the current budgets are based on the historical costs, inflation rates and new developments of the departments. Secondly, budgeting for the College is conducted by the professional – Comptroller’s Office. However, five interviewees disagreed, because, under RCM, they believe departments can use the money .when it is needed without the approval of

virement.

In summary, under the RCM system, decentralizing financial decision-making authority to departments' facilities the quickest responses to solving problems and meeting shifting challenges (Stocum and Rooney, 1997), so RCM is efficient in accommodating changes.

**(iv) Effectiveness**

Seven interviewees agreed that the RCM system is more effective than the current budgeting system. This is because departments heads produce the budgets by reviewing last year's budgets and preparing the strategic plans and priority lists of the plans, so the outcomes will be more effective and accurate.

From our point of view, we agree with the above comments from the interviewees. We find that the current budget system, which is based on historical data often does not match current and future needs.

**(v) Paper Work**

From the views of academic department heads and support unit directors, the paper work under RCM would be more than the current budgeting system. This is because the RCM system involves more meetings and more procedures for department heads. We believe that RCM has less paper work for departmental level and the Comptroller's Office, because all virement do not need to be approved by filling forms and complicated procedures.

## 6.9 Factors to be Considered When Implementing RCM

If RCM is implemented at Lingnan College, respondents found that several factors should be considered. These factors are summarised in Table 6.9.

**Table 6.9 Factors to be Considered when Implementing RCM**

	<u>Numbers of Respondents</u>	
	Academic Department heads	Directors of Support Units
(i) Understanding of RCM system	2 (Heads from BA and BSS)	2
(ii) Training	3 (Heads from BA, BBA and GE)	2
(iii) Stable allocation method	2 (2 Heads from BA)	1
(iv) Quality Assurance Process	2 (Heads from BA and BSS)	2

BBA = Business Administration Faculty  
BSS = Social Science Faculty

BA = Arts Faculty  
GE = School of General Education

Most respondents agreed that the academic department heads and support unit directors should be trained and educated. They also suggested some expertise should be employed within some departments to deal with budgeting. On this point, our comment is that training courses should only be provided to department heads and directors who have less experience on budgeting. Furthermore, the expertise should be recruited by the individual departments when needed, and they should bear the employment costs by themselves.

We agree that Lingnan College should prepare for a transitional period for its change and that the department heads and their staff should understand the objectives and processes of RCM clearly. This understanding will facilitate a smooth implementation for RCM.

Four respondents suggested that specific Quality Assurance Processes (QAP) would be needed. We believe that QAP is important to guarantee the level of quality of services, and a monitoring system is also needed to supervise the use of funds within all departments.

In addition, the basis for allocation of resources should be stable in order to insure the budget is consistent with previous years.

## **6.10 Reasons for or against RCM**

In our study, we found that six out of eight interviewees, including department heads of BBA, BA, GE, BSS and two support unit directors, agreed that the RCM system should be implemented at Lingnan College because the system is viewed as fairer, more effective and more efficient. Also, RCM allows the head of each academic department to be in a better position to urge his colleagues to work harder in their research output, in order to generate more research funding.

The other two interviewees, including one department head of BA and one support units director, had generally negative responses to RCM, because they thought the current system is good enough for Lingnan College. They believe RCM will make procedures more complex than before. They also believe it is unfair to the support units, because RCM deprives their chances for outsourcing to earn money.

In summary, RCM seems quite suitable for universities as a method of budget preparation. By using the RCM system, problems from the current budgeting system can be solved. However, Lingnan College is not yet in a position to implement RCM, because the RCM system is not familiar at Lingnan College, so difficulties must be further explored, and all staff members need to understand the benefits of RCM system. In the meantime, a step-by-step approach should be adopted. Our recommendations for this approach will follow in the next chapter.

# Chapter Seven

## Recommendations

Given the mission of Lingnan College, the College has always been proud of its unique academic culture which is distinguished by its liberal arts orientation with Hong Kong characteristics. This orientation is achieved in several ways: by ensuring a curriculum of studies that combines both professional training with a component of General Education; academic programmes that emphasize the broadening cross-cultural perspectives of both eastern and western traditions; language training in Chinese and English as well as information literacy in all undergraduate studies. An important component of this orientation is the belief in the value of service to others and a whole-person approach to teaching and learning, which results in a comprehensive and rounded means of education (Lingnan College (Hong Kong): President's Report, 1997-98). Since the academic development and self-development are important to a Liberal Arts College, the budgeting system used at Lingnan College should reflect College's emphasis on both areas. However, we find that there are several weaknesses in using the RCM system at Lingnan College as a Liberal Art College. Therefore, we propose some recommendations to Lingnan College in order to facilitate the use of the RCM system in the College.

### **Weaknesses of RCM**

- (1) We believe that RCM places more focus on teaching, and less on support units. That is, RCM assumes that support units provide services to academic departments, and academic departments pay for the service provided by support units. However, the main problem is that if the academic departments only concern the services that related to the academic departments, they are not willing to pay for the services which are unrelated to academic subjects. For example, at Lingnan College, a student Affairs Office (SAO) may provide services, such as physical education and sports activities. These services are not related to academic subjects. Consequently, the academic

departments may not be willing to pay for these services because they want to save money.

- (2) As for the support units, there is no incentive for them to raise money because all expenses of the support units are covered by academic departments
- (3) RCM system may increase the workload and working time of department heads, because they need to attend meetings with their colleagues to discuss the departmental budget, and with other departments to discuss the college budget.
- (4) Some department heads, such as in the Art Faculty, General Education Department, has less budgeting knowledge, and it may be more difficult for them to learn how to allocate resources efficiently.

### **Recommendations**

In light of the findings reported above, we suggest that the current version of RCM should be maintained. However, in order to meet the missions of Lingnan college and to solve the above problems, we recommend that RCM should be modified as follows.

- (1) Each unit at Lingnan College, all heads and their staff of academic departments and support units should understand the objectives and processes of the RCM system clearly.
- (2) The department heads should understand the relationship between the use of funds of their departments and the goal of Lingnan College. Therefore, in order to meet the missions of Lingnan College, all academic departments should consider not only the academic teaching, but also the self-development of the students.
- (3) At Lingnan College, the main mission of support units to provide services to the academic departments, so the support units do not need to generate funds by outsourcing for themselves. In this situation, the Comptroller's Office should

guarantee the amount of income for the support units at Lingnan Collage. Therefore, we recommend that the academic departments should use the services provided by support units. In general, support units are expected to provide baseline services at reasonable prices. Furthermore, fees and fee rates of services charges by support units should be reviewed carefully by the Comptroller' s Office.

- (4) In order to reduce the workload, the academic department heads should delegate some of the budgeting responsibilities to an individual departmental staff member or to a committee.
- (5) Some department heads, i.e., the Arts Department, who have less knowledge of budgeting should be trained and educated. In addition, we believe that all academic department heads can improve discretion with the RCM system to use their resources efficiently throughout the year.
- (6) According to our analysis in Chapter 6, in order to allocate the three resources, the Block Grant, Fee Revenue and Miscellaneous Revenue to different academic departments, course credits are suggested as the allocation basis. Then, the Research Assessment Exercise should be used as a fair basis to allocate the research portion to various academic departments at Lingnan College. The best basis for allocating the resources to different support units should depend on the nature of the support units. Therefore, we recommend that the basis for allocation of resources should be used consistently, because it can help the department heads to estimate the budgets for the coming years.
- (7) A Monitoring system is needed to ensure the department heads and directors use their funds appropriately. Therefore, a plan for using the carry-forward must be submitted to the Comptroller' s Unit. If there is a deficit, the departments should cover their expenses by themselves. If the amount of deficit is large, the Comptroller' s Office will

take the responsibility to investigate the reasons and modify the next budget.

(8) A Quality Assurance Process is needed to guarantee the level of quality of services.

Therefore the performance of all academic departments and support units should be evaluated to minimize the risk of unproductive outcomes.

To sum up, RCM should be implemented at Lingnan College. In order to make the RCM system operate smoothly, the above modifications should be carried out..

# Chapter Eight

## Conclusion and Limitation

## **Conclusion**

According to the results of our research, most respondents agreed that the RCM system resource allocations at Lingnan College could be better than the current budgeting system. Proponents suggest this is true because under RCM, all academic departments can decide the way to use the funds by themselves. However, the RCM system does not seem to conform the College mission, because the RCM only focuses on the academic knowledge of the students, but does not highlight self-development. From our point of view, the current version of the RCM should be maintained, however, modifications are needed in order to solve the fundamental problems of RCM, and to meet the mission of Lingnan College.

## **Limitation**

Our main limitation of this research is that we were limited to only eight interviews with academic department heads and directors of support units to perform our study. It was very difficult to establish interviews with all department heads because of the limitation of interview periods. Furthermore, these individuals were very busy during January to March as they were preparing budgets for the next year.

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# Appendices

## Appendix A

Comptroller  
Lingnan College  
Tuen Mun  
Hong Kong

5<sup>th</sup> February, 1999

Dear Mr. Herdip Singh,

### Invitation for Research

We are third year students conducting a study on the proposed Responsibility Center Management (RCM) budgeting system that is currently being considered at Lingnan College. Professor Maschmeyer has advised us that you are willing to respond to the attached questions during an interview to be set sometime after 21 February. Please let us know a day/time that is convenient for you to meet with us for about one hour.

We have also attached our class timetable. You may contact us at either 77283999 (Winnie Chan) or 92096414 (Carrel Ho).

Yours sincerely,

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Chan Wai Yee

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Ho Kar Yun

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Professor Maschmeyer  
(Project Supervisor)  
Department Head of Accounting &  
Finance, Lingnan College

Encl.

**Interview Questions for the Comptroller's Office**

**(I) Current Budget System**

1. On what basis are funds now allocated to academic units for teaching and other non-research activities?
2. On what basis are funds now allocated to academic units for research activities?
3. What are the advantages of the current budgeting system?
4. What are the disadvantages of the current budgeting system?

**(II) Responsibility Center Management**

1. Why are the eight universities in Hong Kong considering the RCM system? Why not some other system?
2. On what basis do you believe revenues targeted for teaching and other non-research activities should be allocated to academic units?
3. On what basis do you believe revenue targeted for research should be allocated to academic units?
4. On what basis do you believe supporting department expenses should be charged to academic units, can you provide examples? (Library? Computer Services? Registrar's Office?)
5. Is the intention to allocate revenues to the department level or to the programme level? Given the College's new organization structure. Why?
6. How would the new budget system facilitate internal reallocation of academic staff between units? (e.g. establishment of a new faculty)

7. In your opinion, what are the specific benefits of using the RCM system at Lingnan College?
8. What do you see as the major difficulties of implementing the RCM system at Lingnan College?
9. In 1998, the UGC announced a planned 10% reduction for all Hong Kong universities over the next three years. How will the RCM budget system be helpful in the planning, administrating and controlling of these cost reductions?
10. Please comment on both budgeting systems in the terms of the following aspects:
  - (a) Fairness,
  - (b) Flexibility,
  - (c) Efficiency,
  - (d) Effectiveness,
  - (e) Paper-work.

**Interview Questions for the Department Heads and Directors**

**(I) Current Budget System**

1. What are the advantages of the current budgeting system?
2. What are the disadvantages of the current budgeting system?

**(II) Responsibility Center Management**

1. In your opinion, what is the best basis for allocating revenue to the academic units?
2. In your opinion, what is the best basis for the allocation of research funding to academic units/staff?
3. In your opinion, what is the best basis for charging supporting department expenses to academic units? (Library / Computer Services / Registrars' Office / Student Affair Office)
4. In your opinion, what are the specific benefits of using the RCM system at Lingnan College?
5. In your opinion, what will the major difficulties be in the implementation of the RCM system at Lingnan College?

### **(III) Comparisons**

1. Please comment on both budgeting systems in terms of the following aspects:
  - (a) Fairness,
  - (b) Flexibility,
  - (c) Efficiency,
  - (d) Effectiveness,
  - (e) Paper-work.
2. Do you agree that the RCM system should be implemented at Lingnan College?  
Why?
3. What are the factors the College should consider when implementing RCM at Lingnan College?