

Legislative Council Panel on Education
Second Matching Grant Scheme for
University Grants Committee-funded Institutions

Introduction

This paper seeks Members' views on the Administration's proposal to introduce a \$1 billion Second Matching Grant Scheme for matching private donations secured by University Grants Committee (UGC) - funded institutions.

First Matching Grant Scheme

2. In November 2002, the Government accepted the UGC's recommendation in the Higher Education Review that the funding source for higher education should be diversified by strengthening the fundraising capabilities of institutions. The institutions would then be in a better position to fulfill their strategic roles and compete at the international level.

3. The Administration announced the initiative in March 2003 the Financial Secretary's 2003-04 Budget Speech and obtained the Finance Committee's approval in June 2003 to create a financial commitment of \$1 billion, for introducing a Matching Grant Scheme for UGC-funded institutions which succeeded in securing private donations for activities within the ambit of UGC recurrent grants.

4. Under this First Matching Grant Scheme, grants were disbursed to the institutions on a dollar-for-dollar matching basis (i.e. a 1:1 matching ratio) in respect of the private donations they received within a specified period ending 30 June 2004. In order to give smaller/younger institutions a fair chance, the UGC set aside a guaranteed minimum amount (i.e. a "floor") for matching by each institution. Any request of the institutions over and above this amount was considered on a first-come-first-served basis subject to an upper limit (i.e. "ceiling"). The Scheme was conducted in two phases, and the cumulative "floor" and "ceiling" were \$45 million and \$250 million respectively.

5. At the close of the First Matching Grant Scheme in June 2004, the eight UGC-funded institutions together secured nearly \$1.3 billion of donations, which was matched with Government's \$1 billion grants. In other words, the Scheme had helped the institutions obtain additional resources totaling \$2.3 billion within 18 months.

Second Matching Grant Scheme

6. In view of the very encouraging response of the First Matching Grant Scheme, the Administration sees merits in continuing to support the institutions' endeavors and community investment along this direction. We therefore propose to allocate a further \$1 billion for introducing a Second Matching Grant Scheme.

7. Since the First Matching Grant Scheme proceeded very well, the UGC proposed, and we agree, that the same basic principles should be adopted for the new round, with the following relaxations -

- (a) the matching grants can be used to offer scholarships for meritorious non-local students; and
- (b) donations for the construction of buildings on campus can be matched, provided that the matching grants are used on activities within the ambit of UGC recurrent grants or scholarships.

The above relaxations are to facilitate two significant developments in the higher education sector, namely internationalization and the campus development of the institutions, having regard to their long-term plans which go beyond the basic requirements in support of "3+3+4" academic structure.

Scholarships for internationalisation

8. As Hong Kong aspires to be the Education Hub of the region, internationalisation of the student body in the higher education sector is essential. Having more non-local students in our institutions will bring educational, cultural and economic benefits to Hong Kong. Apart from increasing our ethnic and cultural diversity, the presence of non-local students also helps broaden the perspectives of local students and stimulate healthy competition.

9. Hong Kong has the potential and the right conditions to attract non-local students, but our relatively high cost of living as compared to that of

our neighbouring regions has undermined our competitiveness in the quest for talents. Experience in countries such as New Zealand, Singapore, the United Kingdom and the United States have shown that providing scholarships is an effective means to attract high caliber students. By extending the scope of the matching grant to cover scholarships for non-local students, institutions will be better placed to tap private funds which can support and sustain scholarship offers in future. All scholarships to be provided under the matching grants will be offered by the institutions to the students direct and administered by the institutions.

Capital works projects

10. The Government is ready to implement a new “3+3+4” academic structure for the secondary and higher education sectors. While Government has undertaken to support capital works projects essential for the institutions to deliver a new 4-year undergraduate curriculum, the resources available may not be sufficient to meet in full the aspirations of the institutions in respect of their campus development. The institutions have, rightly, taken the opportunity of the academic reform to revisit their long-term visions and review the physical infrastructure they need to support future developments. For instance, they may wish to have additional hostel places to provide a more rounded education for local students and to accommodate exchange students; they may require additional research facilities, student amenities, and other facilities which enhance the teaching and learning environment but may be over and above what the Government could reasonably be expected to provide in the near future. By relaxing the matching rules so that private donations for capital works projects are counted for the purpose of matching, institutions will be incentivized to tap into private funding for these purposes.

11. We do not propose, however, that public and community resources should all be drawn towards campus development. To maintain a healthy balance between capital works and other investments in higher education, we propose that while donations for capital works can be matched by Government grants, the matching grants from the Government may only be used on activities within the ambit of UGC recurrent grants or scholarships.

Operating Terms and Conditions

12. We propose adopting essentially the same basic terms and conditions of the First Matching Grant Scheme and again inviting the UGC to administer the Scheme. The broad operating principles are as follows:

- (a) Only new donations pledged and paid to UGC-funded institutions after a specified Effective Date (say, 1 August 2005 if funding approval is obtained before then) are eligible for matching grants;
- (b) The Scheme should encourage healthy competition among institutions and give the smaller institutions a fair chance of securing grants. To this end :
 - (i) The UGC will set aside an amount of \$45 million (i.e. “floor”) for matching by each institution as a guaranteed minimum in the first six months after the scheme is open for application. Any request of the institutions over and above this amount will be considered on a first-come-first-served basis;
 - (ii) by the end of the six-month period, funding under the guaranteed minimum which has yet to be matched by the concerned institutions will be opened up for application by all institutions on a first-come-first-served basis; and
 - (iii) apart from the “floor” in (i) above, there will be an upper limit (\$250m) (i.e. a “ceiling”) applicable to the aggregate amount received by each institution.
- (c) The matching should be \$1 for \$1 up to the “floor”, beyond which a \$1 for \$2 matching is proposed i.e. \$1 Government grant for every \$2 donated. The matching ratio of \$1 for \$1 up to the “floor” is to facilitate those smaller/newer institutions with less fundraising capabilities to secure a reasonable share of matching grant. \$1 for \$2 matching is proposed for the level beyond the “floor” in order to maximize the amount of private donations to be solicited;
- (d) Subject to the limits in (b) and (c) above, all requests for matching funds will be considered on a first-come-first-served basis. All uncommitted funds after the end of the first six months will be carried over to the final month for matching. The scheme will end at end February 2006, so that funds can all be disbursed by the close of the financial year (31 March 2006);
- (e) The fact that an institution has secured a matching grant for a project does not commit the Administration to providing recurrent grants or further matching grants to the institution for the project on a recurrent basis. Any recurrent consequences of all projects

undertaken by institutions with funding secured under this scheme will have to be met by the institutions from available resources;

- (f) Private donations for activities within the ambit of UGC recurrent grants, scholarships and capital works can be matched by Government grants, although the matching grants may only be used on the former two categories. Neither the grants nor the donations they match can be used for self-financing activities;
- (g) The matching grants received by an institution and any investment income arising from the grants are additional to Government's recurrent subsidy to institutions;
- (h) To ensure fairness in the matching process, there will be no "double matching" or "double subsidies". In other words, donations from various public/Government funds (e.g. projects sponsored by the Quality Education Fund and the Innovation and Technology Fund), those from the Hong Kong Jockey Club, and donations already matched with public funds under other matching schemes will not be eligible for any matching grants under the proposed scheme;
- (i) The institutions may retain any unspent matching grants across triennium, in addition to the reserve accumulated from their recurrent grants; and
- (j) There will be accountability and transparency of the operation of the matching grant scheme. The institutions will need to ensure cost-effectiveness of the matching grants to be spent.

Implementation Timetable

13. The UGC-funded institutions strongly support the notion of diversifying the funding source for higher education in Hong Kong. They have benefited greatly from the First Matching Grant Scheme and would like to see a Second Scheme as soon as practicable. We intend to seek funding approval from the Finance Committee on 8 July 2005. The Scheme will then be open for application from 1 August 2005 and will last for seven months up to 28 February 2006.

Financial Implications

14. The Government has earmarked sufficient funds in the 2005-06 Estimates for the Second Matching Grant Scheme. The proposal has no recurrent financial implications for the Government.

Education and Manpower Bureau
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