

**Extract from the minutes of meeting of the
Panel on Education held on 19 May 2003**

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IV. Matching Fund for University Grants Committee-funded Institutions

[LC Paper No. CB(2)2069/02-03(01)]

4. The Chairman informed the meeting that the Administration intended to submit the proposal to the Finance Committee for consideration at its meeting on 13 June 2003.

Introduction

5. At the invitation of the Chairman, Secretary for Education and Manpower (SEM) introduced the Administration's plan to establish a \$1 billion fund for awarding grants to University Grants Committee(UGC)-funded institutions to match private donations secured by them. He highlighted that the Administration aimed to use the matching grants to increase the momentum for developing a stronger philanthropic culture in the community. He added that the Financial Secretary had proposed to raise the ceiling for tax-exempted donations from 10% of assessable income or profits to 25% to encourage private donations to educational and other charitable organisations.

Funding cuts and matching grant for the UGC-sector

6. Mr CHEUNG Man-kwong said that he did not object to the establishment of a matching fund to encourage UGC-funded institutions to strengthen their fund-raising activities so as to diversify the funding source for higher education. He, however, expressed concern that the management of institutions and their staff were shocked by the proposed funding cuts for the UGC-sector. He pointed out that according to UGC-funded institutions, some 30% to 40% reduction in their recurrent block grants would be implemented in the 2004-05 rollover year. He asked whether the matching grant could compensate the institutions with the proposed reduction in recurrent block grant and if not, how the Administration would help institutions overcome their financial difficulties in the short run.

7. SEM clarified that the 10% reduction in UGC's funding (around \$1.1 billion) in the 2004-05 rollover year was an estimate proposed to facilitate discussions between UGC and individual institutions on the latter's academic development proposals. He stressed that for the 2003-04 academic year, funding for UGC-funded institutions would not be reduced, but the

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Administration would set up a \$1 billion fund to award grants to institutions which had succeeded in securing private donations for purposes other than the construction of campus building. To recognize institutions' fundraising efforts made immediately after the Financial Secretary had announced the proposal to set up the matching fund in his 2003-04 Budget on 5 March this year, the Administration proposed to include donations pledged and paid to UGC-funded institutions after 5 March 2003 for award of the matching grants. The scheme would be open for application from 1 July 2003. The matching grants would be disbursed on a dollar-for-dollar matching basis in respect of the private donation or sponsorship received by institutions in the first phase; on this basis the total funding support available through the proposed matching fund should amount to \$2 billion. He therefore did not see much difficulties for UGC-funded institutions to absorb the proposed 10% funding cut (around \$1.1 billion) in the 2004-05 rollover year.

8. The Chairman asked whether further funding cuts would be proposed in the 2005-08 triennium. SEM replied that the Administration had yet to consider the budget for the UGC sector in the 2005-08 triennium, which would be determined in the light of the government's fiscal position as well as the prevailing economic conditions in due course.

9. Mr CHEUNG Man-kwong asked whether the proposed 10% reduction in budget allocation had incorporated the reduction in funding support arising from the 80% and 50% funding cuts for the sub-degree programmes of the City University of Hong Kong (CityU) and the Polytechnic University of Hong Kong (PolyU) respectively. He pointed out that CityU had decided to prepare for the phasing out of the 13 associate degree programmes which would not be funded by the Government. He questioned whether the Administration considered it appropriate to withdraw funding support for the sub-degree programmes in CityU and PolyU and let the institutions decide whether these programmes should continue operation or not. He considered that the Administration should protect the interests of the students and should value the history and contributions of these programmes to the education sector and community development.

10. SEM responded that the Administration held the view that development of sub-degree programmes should evolve in the light of the changing circumstances and community expectation, and considered that sub-degree programmes should in general operate eventually on a self-financing basis. He pointed out that savings recovered from the sub-degree sector would be ploughed back mainly to benefit students in the sub-degree sector through enhancing their financial assistance. SEM explained that students would then be in a better position to choose to enrol in programmes offered by private institutions or subsidized institutions. The market force would also help maintain the quality of self-financing sub-degree programmes.

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11. Mr CHEUNG Man-kwong pointed out that the sad fact was that the Management Board of CityU had examined the feasibility of continuing to run the sub-degree programmes on a self-financing basis and concluded that it was not feasible to maintain the existing quality of these programmes without Government subsidies. He asked how the Administration would react to the decision of the Management Board of CityU to discontinue the programmes when the Government had withdrawn its funding support.

12. The Chairman said that according to newspaper report, CityU had decided to phase out the 13 programmes which would not be funded by the Government over the period 2004-08, even though the staff concerned were willing to receive lower pay in order to operate the programmes on a self-financing basis.

13. Secretary General, UGC (SG(UGC)) responded that withdrawal of funding support for sub-degree programmes of CityU and PolyU would be implemented in phases to minimize the impact. He pointed out that only two and four sub-degree programmes of CityU would start to phase out in the 2004-05 and 2005-06 academic years respectively, and the total reduction of funding support in the 2007-08 academic year would amount to about 20% of the CityU's recurrent block grant. He also pointed out that the policy that sub-degree programmes in UGC-funded institutions should switch to be operated on a self-financing mode was adopted after the Higher Education Review. However, the Administration would continue to subsidize three types of sub-degree programmes, including courses that required high start up and maintenance costs or access to expensive laboratories and equipment; courses that met specific manpower needs; and courses that lacked market appeal to the provider and the average student which were inadequately provided in the market. He added that students already enrolled in subsidized sub-degree programmes would not be affected before their graduation.

14. Mr CHEUNG Man-kwong requested the Administration to liaise with the CityU Management on its decision to discontinue the operation of the sub-degree programmes when they were not publicly-funded. He pointed out that the decision would bring about serious consequences and would mean fewer choices to students in pursuit of higher education, and was at odds with the Government policy of providing 60% of senior secondary school leavers the access to post-secondary education in the year 2010-11. He added that the Hong Kong Professional Teachers' Union had received a number of complaints from staff of CityU on the issue.

15. The Chairman echoed Mr CHEUNG Man-kwong's concern. He requested that the Administration and UGC should look into the issue and revert to the Panel on the latest development of the issue. The Administration agreed.

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16. Mr SZETO Wah expressed concern about the financial situation of CityU and PolyU as they would suffer a huge funding cut as a result of the policy change that the funding for sub-degree programmes would be changed from publicly-funded to self-financing. He pointed out that under the prevailing economic circumstances, fewer students could afford the higher tuition fees of programmes which would be running on a self-financing basis. He considered the self-financing policy a major setback to the materialization of the policy commitment to provide 60% of senior secondary school leavers the access to post-secondary education.

17. SEM responded that private operators running similar sub-degree programmes on a self-financing basis considered the provision of subsidies to UGC-funded institutions unfair. He believed that more operators would enter into the market and more sub-degree places would be provided in a free market, which would help materialize the policy objective of enabling 60% students to pursue post-secondary education by 2010. Mr SZETO Wah remarked that the Administration should establish a mechanism to monitor the quality of the sub-degree programme offered by private operators.

18. Ms Cyd HO shared the concern. She pointed out that private operators of sub-degree programmes would not be in a position to compete with UGC-funded institutions on an equal basis as they did not have a spacious campus and library with voluminous collections of books and research facilities. She asked about the cost of a sub-degree programmes which would be recovered from parents and students and how the Administration would monitor the quality of programmes run by private operators.

19. SEM responded that recognized sub-degree programmes run by private operators would have to undergo the accreditation process conducted by the Hong Kong Council for Academic Accreditation. He pointed out that the average student unit cost of similar sub-degree programmes offered by CityU and the Hong Kong Institute of Vocational Education (HKIVE) were about \$150,000 and around \$50,000 respectively. He considered the library collections of HKIVE might not necessarily be inferior to those of university libraries for the students concerned. At the request of Ms Cyd HO, SEM agreed to provide information on the volume of the library collections in HKIVE and CityU for members' reference.

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20. The Chairman asked about the quality of sub-degree programmes run by HKIVE and UGC-funded institutions.

21. SEM replied that the overall quality of sub-degree programmes run by HKIVE was notably satisfactory. SG(UGC) supplemented that the sub-degree programmes offered by HKIVE, the School of Professional and Continuing Education and the Hong Kong Caritas were of a satisfactory standard. However, these sub-degree programmes had lower student unit costs than their

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UGC-funded counterparts because the recurrent operating costs of the latter were substantially higher. He explained that the higher cost was caused by higher staff salaries and provision of more facilities in UGC-funded institutions.

22. Ms Cyd HO asked whether the self-financing policy for the sub-degree sector would affect the continuity between sub-degree and degree programmes currently established in some UGC-funded institutions such as CityU.

23. SEM responded that where resources permitted, the Administration intended to increase places in senior years of undergraduate programmes to provide more articulation opportunities for sub-degree programme graduates with good academic achievement. The Chairman, however, remarked that only very few top graduates could gain direct entry to senior years of undergraduate programmes in universities.

Implementation of the matching grant scheme

24. Mr SZETO Wah said that he did not object to the proposed establishment of a matching fund, but pointed out that UGC-funded institutions with a long history would be in a more advantageous position to attract private donations than those with a relatively short history such as the Lingnan University. He expressed concern that institutions with a longer history and more alumni would be able to secure more private donations and hence derive the biggest benefits from the matching fund.

25. SEM responded that to encourage healthy competition amongst institutions and to allow the smaller institutions a fair chance, UGC would set aside an amount of \$20 million for matching by each institution as a guaranteed minimum in the first six months after the fund was open for application. In addition, there would also be an upper limit of \$150 million applicable to the aggregate amount of matching grants received by each institution during the first phase. He added that members should not underestimate the ability of Heads of UGC-funded institutions to attract private donations and pointed out that Lingnan University also had a long history and many alumni.

26. Mr SZETO Wah asked how the Administration would handle the unspent matching fund set aside for the first phase of implementation. SEM replied that the unspent amount, if any, would be carried forward to the second or subsequent phase(s) following a review of the scheme to be conducted towards the end of the first phase.

27. Mr YEUNG Yiu-chung expressed support for the establishment of a matching fund to encourage private donations to the higher education sector and the proposal to raise the ceiling for tax-exempted donations from 10% of assessable income or profits to 25%. He asked whether the Administration had

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maintained a record of the private donations received by UGC-funded institutions in the past.

28. SG(UGC) replied that according to audited financial reports submitted by UGC-funded institutions, private donations amounting to around \$870 million were received by UGC-funded institutions in the 2002-03 academic year, about one-third of which was donated for the construction of campus buildings and outside the ambit of the matching grant scheme. Given the different histories and fundraising capabilities of institutions, UGC would review the scheme with a view to adjusting the amount to be set aside for the subsequent phase(s), the matching ratio, the scope of the scheme, the approval criteria and other implementation towards the end of the first phase.

29. Mr YEUNG Yiu-chung asked about the distribution of the \$870 million private donations received by the UGC sector. He suggested that “affirmative measure” should be taken in the allocation of the matching grant such as giving a higher matching ratio to institutions who were less capable or in a disadvantageous position in attracting private donations.

30. SG(UGC) replied that the University of Hong Kong and the Chinese University of Hong Kong by virtue of their longer history had secured a larger sum of private donation. In contrast, the Lingnan University, the Hong Kong University of Science and Technology and the Hong Kong Institute of Education had been less successful in attracting private donations.

31. Mr MA Fung-kwok expressed support for the proposal to establish a matching fund for awarding grants to UGC-funded institutions to encourage private donations. He asked about the reason for setting the effective date of 5 March 2003 for consideration of eligible donations while the scheme would be open for application from 1 July 2003.

32. SEM responded that in 2001-02, UGC had allocated a grant of \$5 million for UGC-funded institutions to examine feasible options for diversifying their funding sources. Institutions should now have developed their strategies in procurement of private donations. SG(UGC) supplemented that the effective date of 5 March 2003 was set in recognition of institutions' fundraising efforts made immediately after the Financial Secretary had announced the proposal to set up the matching fund in his 2003-04 Budget on the same date.

33. Mr MA Fung-kwok asked whether the Administration would consider a two-tier or three-tier structure for allocation of matching grants to institutions which for various reasons were less capable in raising private donations. He also asked about the schedule for review of the matching grant scheme.

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34. SEM responded that the Administration would consider members' view in its review of the matching grant scheme, the scope of which would include the matching ratio of the scheme. He considered it fair to start with a 1:1 matching ratio for all institutions.

35. SG(UGC) supplemented that the Administration had set aside half of the matching fund (\$500 million) for the first phase of the scheme which would last for one year from 1 July 2003 or when the \$500 million had been fully allocated to the institutions, whichever was earlier. The unspent amount in the first phase, if any, would be carried forward to the second or subsequent phase(s) following a review of the first phase.

36. Mr LEUNG Yiu-chung held a strong view that the Administration should take into account the difference in historical background among institutions and assist those institutions which were less capable in fundraising.

37. SEM responded that the Administration was well aware of the potential difference among institutions in attracting private donations, but considered that the Heads of institutions should endeavour to secure private donations in the first place. By setting an upper limit and a lower limit of \$150 and \$20 million respectively, no institution could capture too large a share of the amount available and it would be guaranteed that each institution would have a chance of being able to benefit from the scheme during the first phase. He stressed that the Administration would make the best use of the matching fund to encourage institutions to step up their fundraising activities. SEM added that he had confidence in the capabilities of Heads of institutions in fundraising.

38. In concluding the discussion, the Chairman said that members were concerned about the provision of a level-playing field in competition for awards from the matching grant scheme. He suggested that the Administration should in its review of the first phase examine the advantages enjoyed by some UGC-funded institutions in attracting private endowments and recommend appropriate measures to offset any imbalance. The Chairman requested and the Administration agreed to report to the Panel following the review of the first phase of the scheme.

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