

**For discussion
on 8 May 2006**

Legislative Council Panel on Education
Third 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 Third Matching Grant Scheme for matching private donations secured by University Grants Committee (UGC)-funded institutions.

First and Second Matching Grant Schemes

2. To diversify the funding sources for higher education in Hong Kong, the Administration introduced a \$1 billion First Matching Grant Scheme in July 2003 for awarding grants to UGC-funded institutions to match private donations secured by them. At the close of the First Matching Grant Scheme in June 2004, the eight institutions together secured \$1.3 billion of private donations, which were matched by the Government's \$1 billion grant. In other words, the Scheme has successfully helped the institutions secure additional resources totaling \$2.3 billion.

3. In view of the very encouraging response of the First Matching Grant Scheme, the Administration launched a further \$1 billion Second Matching Grant Scheme in August 2005. The Second Matching Grant Scheme adopted the same basic principles as the First Matching Grant Scheme, but with relaxations to facilitate two significant developments in the higher education sector, namely internationalisation and the campus development of the institutions. Similar to the First Matching Grant Scheme, there was a "floor" (i.e. \$45 million) and "ceiling" (i.e. \$250 million) for each institution. The matching was \$1 for \$1 up to the "floor", beyond which it was a \$1 for \$2 matching, i.e. \$1 government grant for every \$2 private donations.

4. Upon the close of the Second Matching Grant Scheme at the end of February 2006, the eight UGC-funded institutions had altogether secured close to \$1.9 billion of private donations and the \$1 billion matching grant was fully allocated. The Second Scheme has thus helped institutions obtain additional resources totaling \$2.9 billion within 7 months.

Third Matching Grant Scheme

5. In view of the very encouraging response of the last two Matching Grant Schemes, the Administration sees merit in providing further support to the institutions' endeavours and to maintain the momentum of the philanthropic culture of Hong Kong generated by the Schemes. We therefore propose to allocate a further \$1 billion for introducing a Third Matching Grant Scheme.

6. Since the First and Second Matching Grant Schemes proceeded very well, the UGC proposed, and we agree, that the same basic principles should be adopted for the Third Scheme, which will continue to include the following relaxations introduced under the Second Scheme -

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

The above parameters aim to continue to facilitate internationalization and the campus development of the institutions, which are essential for the development of Hong Kong as the regional education hub, and for realizing the long-term visions of the institutions.

Operating Terms and Conditions

7. We propose adopting essentially the same terms and conditions of the Second Matching Grant Scheme and again to invite the UGC to administer the Scheme. The broad operating principles are as follows:

- (a) Only new donations paid to UGC-funded institutions on or after a specified Effective Date (say, 1 July 2006 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 or younger 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 seven 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 seven-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 (\$250 million) (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 private donations. The matching ratio of \$1 for \$1 up to the “floor” is to facilitate those smaller or younger institutions with less fundraising capabilities to secure a reasonable share of the matching grant. A \$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 seven months will be carried over to the final month for matching. The Scheme will end at end February 2007, so that funds can all be disbursed by the close of the financial year (31 March 2007);
- (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 the 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) To ensure the accountability and transparency of the operation of the proposed Scheme –
 - (i) UGC should coordinate the institutions' disclosure of donations and the intended use of both the private donations and the matching grants received. Institutions should also disclose publicly in their annual accounts the amount and purpose of any private donations received which are matched by the matching grants;
 - (ii) the use of matching grants and the donations matched will be subject to audit assurance; auditors will need to confirm to the UGC that the conditions of the grants have been met; and
 - (iii) the institutions will need to ensure the cost-effectiveness of the matching grants to be spent.

Implementation Timetable

8. The UGC strongly supports the early introduction of a Third Matching Grant Scheme, which it believes will be good for the higher education sector in Hong Kong. The UGC-funded institutions also support the notion of diversifying the funding source for higher education in Hong Kong. They have benefited greatly from the First and Second Matching Grant Schemes. We intend to seek funding approval from the Finance Committee before the end of June 2006. The Scheme will then be open for application from 1 July 2006 and will last for eight months up to 28 February 2007.

Financial Implications

9. The Government has earmarked sufficient funds in the 2006-07 Estimates for the Third Matching Grant Scheme. The proposal has no recurrent financial implications for the Government.

**Education and Manpower Bureau
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