

## **ITEM FOR FINANCE COMMITTEE**

### **Head 190 – UNIVERSITY GRANTS COMMITTEE**

#### **Subhead 700 General non-recurrent**

#### **New Item “Fourth matching grant scheme for UGC-funded institutions and self-financing local universities”**

Members are invited to approve a new commitment of \$1,000 million for awarding grants to University Grants Committee-funded institutions and two self-financing local universities to match the private donations they secure.

### **PROBLEM**

We need to further diversify the funding sources for higher education and support the development of self-financing local universities in Hong Kong.

### **PROPOSAL**

2. The Secretary for Education proposes to implement the Fourth Matching Grant Scheme (MGS) to award grants up to \$1,000 million in total to the University Grants Committee (UGC)-funded institutions and the two self-financing local universities to match the private donations they secure.

### **JUSTIFICATION**

#### **Matching Grant Schemes**

3. 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 fund-raising capability of institutions. The institutions would then be in a better position to

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fulfil their strategic roles and compete at the international level. The Administration has since 2003 launched three rounds of MGS of \$1 billion each for awarding grants to UGC-funded institutions to match private donations secured by them. The results are tabulated as follows –

<i>MGS</i>	<i>Duration</i>	<i>Government matching grant allocated</i>	<i>Private donations secured</i>
First MGS	1 July 2003 – 30 June 2004	\$1.0 billion	\$1.3 billion
Second MGS	1 August 2005 – 28 February 2006	\$1.0 billion	\$1.9 billion
Third MGS	1 June 2006 – 15 March 2007	\$0.9 billion	\$1.6 billion

As a result of the three MGS, the eight UGC-funded institutions have altogether secured additional resources of about \$7.7 billion in total, comprising about \$2.9 billion of government matching grants and close to \$4.8 billion private donations. The UGC has reviewed the effectiveness of the MGS and the key findings of the review are set out in paragraphs 4 to 9 below.

#### *Cultivation of a philanthropic culture*

4. The three rounds of MGS have attracted over 600 donations of \$1 million or above each, which accounted for over 80% of the total private donations secured. At the same time, there were over 20 000 donations of below \$1 million each. MGS has thus encouraged the community to be more generous in supporting the tertiary institutions and facilitated the emergence of a philanthropic culture. Indeed, when compared with previous years with no MGS, the level of private donations in the years when MGS were held was significantly higher.

#### *Use of matching funds*

5. Based on information provided by the UGC-funded institutions, the resources secured under MGS have been/will be put into good use in the following four broad areas –

- (a) **Teaching and Research Enhancement** – to recruit and retain top-notch academic staff for general and long term development of teaching and research programmes; and to adopt and apply new technologies and methodologies to improve teaching and learning environment. Specific projects under this area include providing support to research centres to enable them to be self-sustainable, hiring more staff to increase staff-student ratio so as to improve teaching and research capabilities, etc.;
- (b) **Academic Strength and Niche Area Development** – to support academics for engaging in focused research activities and pursuing developmental activities in the niche areas of institutions, with a view to attaining leading positions regionally or internationally. Initiatives under this area include providing support to existing specific disciplines and developing new niche areas by recruiting additional staff, funding chair professorships, procuring specialised equipment, etc.;
- (c) **Student-oriented Activities and Development Programmes** - to conduct student exchange programmes and activities for local students to widen their exposure and to promote internationalisation; to further student development by including community and social services as part of the regular curriculum, developing whole-person education, providing work-integrated education activities, and enhancing students' leadership skill and core competence; to provide scholarships for outstanding students; and to strengthen Hong Kong's position in the international education arena; and
- (d) **Capital Projects** - to augment government provision for capital projects under their campus development programmes.

6. The eight institutions have advised that out of the \$7.7 billion secured in the three rounds of MGS, about \$2.3 billion had been/would be set aside as endowments to generate investment income for funding teaching and learning activities on a recurrent basis. For example, \$1.0 billion were/would be used to set up about 80 endowment chair professorships and \$0.7 billion were/would be used for funding scholarships.

7. The consolidated plan of the UGC-funded institutions for utilising the resources secured under the three rounds of MGS (including interest and investment income) is summarised below –

*/Area .....*

<i>Area of Expenditure</i>	<i>Up to 2006/07 academic year (\$m)</i>	<i>Plan from 2007/08 academic year onwards (\$m)</i>	<i>Total (\$m)</i>
Teaching and research enhancement	827	1,827	2,654
Academic strength and niche area development	1,122	1,345	2,467
Student-oriented activities and development programmes	1,195	1,249	2,444
Capital projects	147	422	569
<b>Total</b>	<b>3,291</b>	<b>4,843</b>	<b>8,134</b>

8. With the additional funding acquired under MGS, institutions have also stepped up their efforts in fund-raising activities and introduced measures to strengthen their fund-raising capability. They have recruited extra staff to take on additional fund-raising activities, organised fund-raising projects, conducted feasibility studies and drawn up recommendations on fund-raising directions and strategies, and established stronger linkages with their alumni through the establishment and maintenance of alumni database.

9. As mentioned above, MGS has led to the emergence of a philanthropic culture and an increase in public recognition of the value of community investment in education. Some of the higher education institutions have mobilised major philanthropists to support their long-term strategic development in accordance with their specific roles and niche areas. MGS has thus effectively diversified the sources of funding of our tertiary institutions, and is of crucial importance in ensuring the international competitiveness and sustainable development of the higher education sector in Hong Kong.

### **Proposed Fourth Matching Grant Scheme**

10. In view of the positive and encouraging results of the MGS, the UGC and the Administration see merits in providing further support to the institutions' endeavours so as to sustain the momentum of the philanthropic culture of Hong Kong fostered by the previous rounds of the MGS. We therefore propose to allocate a further \$1,000 million for introducing a Fourth MGS.

*/Expansion .....*

*Expansion of the Scheme to cover self-financing local universities*

11. Traditionally, university education in Hong Kong has been provided primarily by the eight UGC-funded institutions. With the development of the self-financing post-secondary sub-degree sector since 2000, more and more sub-degree graduates aspire to obtain a degree through topping up their studies. In addition to the proposed creation of some 3 800 publicly-funded senior year places by phases from the 2005/06 to 2009/10 academic years (i.e. 1 927 places for Year 2 and Year 3 respectively) at the UGC-funded institutions, the self-financing degree awarding institutions are also taking the initiative to develop degree programmes to provide higher education opportunities to more students. Notably, the two self-financing universities in Hong Kong, namely the Open University of Hong Kong (OUHK) and Hong Kong Shue Yan University (HKSYU), are offering locally-accredited academic programmes at degree or above level. The two universities will provide a total of about 1 900 self-financed degree places at intake level in the 2007/08 academic year.

12. The success of OUHK and HKSYU shows that the community is receptive to the development of private universities as a way to diversify the higher education sector. While OUHK and HKSYU both operate on a self-financing basis and do not receive any recurrent government subvention (except for refund of rates and government rent), the Administration has supported OUHK by providing capital grants of more than \$600 million over the years for the implementation of various initiatives that are conducive to fulfilling OUHK's mission<sup>Note</sup>. A \$200 million one-off grant was provided to HKSYU in 2006-07 upon the upgrading of Shue Yan into a university for establishing a General Development Fund to support its long-term development.

13. To provide further support to these two self-financing universities, we propose to include them in the Fourth MGS, thus extending the coverage of the Scheme to ten tertiary institutions, viz. the eight UGC-funded institutions, as well as OUHK and HKSYU.

**Eligibility Criteria***UGC-funded institutions*

14. For the UGC-funded institutions, we propose adopting essentially the same basic principles of the Third MGS for the Fourth Scheme as follows –

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<sup>Note</sup> These included IT-related projects such as the establishment of an electronic library in 1996-97, establishment of a Centre of Excellence in 1997-98, implementation of the Information Technology Development Plan in 2000-01 and establishment of the Centre for Innovation in 2007-08.

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

### *OUHK and HKSYU*

15. As OUHK and HKSYU are both self-financing local universities that are not receiving recurrent funding from the UGC, there is a need to propose different parameters which could reflect the spirit and scope of the Scheme as well as addressing the needs of the two self-financing local universities. We propose that private donations received by the two universities for the following purposes could be matched –

- (a) to support locally-accredited self-financing programmes at degree or above level offered by OUHK and HKSYU;
- (b) to provide scholarships for meritorious students; and
- (c) to support capital works projects.

The matching grants allocated could also be used in the above three areas, thus providing additional resources for the two self-financing local universities to support their efforts in providing quality tertiary education.

### **Operating Terms and Conditions**

16. UGC will administer the proposed Fourth MGS, which will operate under essentially the same basic terms and conditions as that of the Third MGS as approved by the Finance Committee (FC) vide FCR(2006-07)12 on 26 May 2006. The broad operating principles for the Fourth Scheme are as follows –

- (a) only new donations paid to the institutions on or after a specified Effective Date (1 January 2008 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) .....

- (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 12 months after the Scheme is open for application (until end December 2008). 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 12-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 of \$250 million (i.e. “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 secured). The matching ratio of \$1 for \$1 up to the “floor” is to facilitate those smaller or younger institutions with less fund-raising 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 maximise the amount of private donations to be solicited;
- (d) subject to the limits in (b) and (c) above, all requests for government matching grants will be considered on a first-come-first-served basis. All uncommitted funds after the end of the first 12 months will be carried over to the remaining months for matching. The Scheme will end at the end of February 2009, so that funds can all be disbursed by the close of the 2008-09 financial year (i.e. 31 March 2009);
- (e) the fact that an institution has secured a government 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 received by UGC-funded institutions for activities within the ambit of UGC recurrent grants, scholarships and capital works projects can be matched by government grants, although the government 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. As regards the two self-financing local universities, private donations received to support locally-accredited self-financing programmes at degree or above level, scholarships and capital works projects can be matched. The government matching grants allocated can be used in all three areas;

- (g) the government matching grants received by UGC-funded institutions and any investment income arising from the grants are additional to the Government's recurrent subsidy to the institutions;
- (h) the UGC-funded institutions may retain any unspent matching grants across triennia, in addition to the reserve accumulated from their recurrent grants. The two self-financing universities may spend the matching grants according to their own schedules;
- (i) 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 government matching grants under the Scheme; and
- (j) to ensure the accountability and transparency of the operation of the Scheme –
  - (i) UGC will coordinate the institutions' disclosure of donations and the intended use of both the private donations and the government 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 government matching grants;
  - (ii) the use of government matching grants and the donations matched will be subject to audit assurance. Auditors will need to confirm that the conditions of the grants have been met; and
  - (iii) the institutions will need to ensure the cost-effectiveness of the government matching grants to be spent.

**/Implementation .....**

### Implementation Timetable

17. Subject to Members' approval, the Scheme will be open for application from 1 January 2008 and will last for 14 months up to 28 February 2009.

### FINANCIAL IMPLICATIONS

18. The Government has earmarked/will earmark sufficient funds in the 2007-08 and 2008-09 Estimates for implementation of the Scheme. The proposal has no recurrent financial implications for the Government. The estimated cash flow for the proposal is as follows –

	2007-08	2008-09
<i>Estimated expenditure</i>	\$600m	\$400m

19. For administrative convenience and simplicity, the UGC Secretariat will deal with donations matching from all ten institutions, including OUHK and HKSYU. This arrangement with respect to OUHK and HKSYU carries no other policy or funding implications.

### PUBLIC CONSULTATION

20. The Legislative Council Panel on Education was consulted on 12 November 2007 and supported the proposal. A Member expressed concern about the naming right for constituent colleges/faculties and capital works projects funded by private donations and government funding. Naming facilities or faculties after a benefactor is a common practice internationally. Institutions in Hong Kong have established their own internal guidelines in this aspect and will consider factors such as the donor's contribution to the institution or the community at large in considering whether or not to name facilities or faculties after the donor. Separately, some Members suggested that the Administration should consider extending the Scheme to cover self-financing sub-degree sector of the institutions concerned. The Administration has implemented a series of support measures for the self-financing post-secondary sector, including start-up loans, land grant at nominal premium and accreditation grants. The Administration is conducting a review of the post-secondary education sector, which will cover, among others, appropriate support measures to be put in place in the future. The review is expected to be completed by mid 2008.

**BACKGROUND**

21. The UGC-funded institutions and the two self-financing universities in Hong Kong support the proposed Fourth MGS. The previous three rounds of MGS, which were approved by the FC vide FCR(2003-04)22 dated 13 June 2003, FCR(2005-06)26 dated 8 July 2005 and FCR(2006-07)12 dated 26 May 2006 respectively, have helped the UGC-funded institutions obtain additional resources totalling \$7.7 billion.

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Education Bureau  
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