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Panel on Education

**Background brief prepared by the Legislative Council Secretariat
for the meeting on 12 November 2007**

**Matching Grant Schemes
for the University Grants Committee-funded Institutions**

Purpose

This paper summarizes the areas of concern raised by the Panel on Education (the Panel) about the Matching Grant Schemes for the University Grants Committee (UGC)-funded institutions.

Background

2. In November 2002, the Administration accepted the UGC's recommendation in the Higher Education Review to diversify the funding source for higher education by strengthening the fund-raising capabilities of institutions. The Administration also agreed to consider the use of matching grants and other incentives to increase the momentum for developing a stronger philanthropic culture in the community towards investment in education.

First Matching Grant Scheme

3. In taking forward the matching grant concept, the Administration introduced in July 2003 the First Matching Grant Scheme (the First Scheme) for awarding grants to the UGC-funded institutions up to \$1 billion to match private donations secured by them. At the same time, the Administration raised the ceiling for tax-exempted donations from 10% of assessable income or profits to 25% to encourage private donations to educational and other charitable organizations. Under the First 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 one year ending on 30 June 2004. The broad principle was that both the matching grants and the corresponding private donations must be used for activities within the ambit of UGC recurrent grants and could not

be used for self-financing activities or for the construction of campus buildings. To allow smaller/younger institutions a fair chance, UGC set aside a guaranteed minimum amount of \$20 million (a "floor") for matching by each institution in the first six months after the Scheme was open for application. Any request of the institutions over and above this amount was considered on a first-come-first-served basis subject to an upper limit of \$150 million (a "ceiling"). By the end of the first six-month period, funding under the guaranteed amount which had yet to be matched by the concerned institutions would be opened up for application by all institutions on a first-come-first-served basis.

4. The First Scheme was conducted in two phases, and the cumulative "floor" and "ceiling" were \$45 million and \$250 million respectively. At the close of the First Scheme in June 2004, the eight institutions together secured \$1.3 billion of private donations, which were matched by the \$1 billion grant.

Second Matching Grant Scheme

5. In view of the very encouraging response to the First Scheme, the Administration launched in August 2005 the Second Matching Grant Scheme (the Second Scheme) with a financial commitment of another \$1 billion. The Second Scheme adopted the same basic principles as the First Scheme, but with relaxations to facilitate internationalization and campus development of the institutions in the higher education. Under the Second Scheme, the matching grants could be used to offer scholarships for meritorious non-local students. Private donations for the construction of buildings on campus could be matched, provided that the matching grants were used on activities within the ambit of UGC recurrent grants or scholarships. Similar to the First Scheme, there was a "floor" (i.e. \$45 million) and a "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 donation. Upon the close of the Second 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.

Third Matching Grant Scheme

6. In view of the success of the First and Second Schemes, the Administration introduced in June 2006 the Third Matching Grant Scheme (the Third Scheme) with a financial commitment of a further \$1 billion to provide support to the institutions' endeavours and to sustain the momentum of the philanthropic culture of Hong Kong fostered by the first two Schemes. The same basic principles and relaxations applicable to the Second Scheme were adopted for the Third Scheme.

Deliberations of the Panel

7. The Panel had discussed each of the three Matching Grant Schemes before the Administration submitted its proposals to the Finance Committee for

consideration. Members supported the launch of the three Schemes to diversify the funding source for higher education. Nevertheless, they had raised concern about a number of issues the deliberations on which are summarized below.

Distribution of matching grants

8. Members were concerned that although the Administration had set a "ceiling" and a "floor" for the provision of matching grants, reputable institutions with a long history were more capable of raising funds than those with a shorter history. Members urged the Administration to ensure a fair distribution of matching grants amongst institutions. There was a suggestion that the Administration should consider allocating a higher level of matching grants for smaller and younger institutions.

9. In the Administration's view, fund-raising capabilities were not related to the size and age of the institutions. The Administration pointed out that the smaller and younger Lingnan University was able to secure more donations (in proportion to its recurrent grant) than others. It would be unfair if institutions which were unable to secure donations were given favourable treatment. Having considered the relative performance of the institutions and the needs of the smaller/newer institutions, the Administration had already raised the "ceiling" and "floor" levels to \$250 million and \$45 million respectively. The adjustments were aimed at encouraging institutions to make more efforts to raise funds and giving further assurance to the smaller institutions regarding the amount of grants they would be able to obtain from the Schemes. The institutions were in general satisfied with the arrangements under the Matching Grant Schemes.

10. For the purpose of facilitating smaller and younger institutions to secure private donations up to the guaranteed minimum amount within the specified period, members had requested the Administration to extend the application period for the Third Scheme which lasted eight months until the end of February 2007.

11. The Administration explained that the funding earmarked for the Third Scheme came from savings in the then Secretary for Education and Manpower's operating expenditure envelope for the 2006-2007 financial year. Extending the Third Scheme beyond the 2006-2007 financial year would require earmarking funds in advance in the 2007-2008 Budget for this specific purpose. In line with the principle of prudent financial planning, the Administration considered it inappropriate to make such a commitment. The Administration further advised that younger and smaller institutions, such as the Hong Kong University of Science and Technology, had been very successful in securing private donations for matching under the Second Scheme, and most of the institutions were capable of raising private donations before the deadline.

12. A table setting out the amount of matching grants received by each of the UGC-funded institutions under the three Schemes is in **Appendix I**.

Use of matching grants

13. Members had sought information on measures adopted to enhance accountability and transparency in the use of the matching grants and private donations. Members considered it necessary to require institutions to set out their policies and procedures for solicitation and use of private donations which should be made available for public access.

14. The Administration advised that the UGC-funded institutions enjoyed a high degree of autonomy in the use of private donations within the ambit of their recurrent grants. However, institutions were accountable to the Administration and UGC for the use of public funds, and to the donors for the use of private donations. UGC had set out the rules and principles for the matching of private donations. Institutions were required to use the grants on activities within the ambit of UGC recurrent grants or scholarships. UGC coordinated the institutions' disclosure of donations and the intended use of both the private donations and the matching grants received. Institutions would disclose publicly in their annual accounts the amount and purpose of any private donations received which were matched by the matching grants. Moreover, the grants were subject to audit assurance, and auditors would need to confirm to UGC that the conditions of the grants had been met.

15. Members were concerned whether the relaxation to allow the use of the matching grants to offer scholarships for meritorious non-local students would affect the award of scholarships to their local counterparts. There was a suggestion that a quota should be set for the provision of scholarships to non-local students.

16. According to the Administration, the enrolment of non-local students in the UGC-funded institutions was restricted to not more than 10% of the total publicly-funded places. Non-local students who were awarded with scholarships funded by private donations or matching grants would be included in the 10% quota. Scholarships for meritorious non-local students were formerly supported by the Hong Kong Jockey Club. With the relaxation in the use of the matching grants, the UGC-funded institutions could exercise discretion in offering scholarships for meritorious non-local students.

Long-term policy for Matching Grant Schemes

17. Members were concerned about the future development of the Matching Grant Schemes. They requested the Administration to consider providing matching grants to the UGC-funded institutions on a recurrent basis. Members also suggested raising the ceiling for tax-exempted donations to encourage more private donations.

18. The Administration explained that turning the Matching Grant Schemes recurrent would be tantamount to an increase in the recurrent grant to the UGC sector, which should be considered in a comprehensive manner vis-à-vis the overall

resource allocation to the education policy area, and more specifically to the UGC sector.

19. As regards the suggestion to raise the ceiling for tax-exempted donations to encourage private donations, the Administration advised that the Financial Secretary had increased the deduction ceiling for charitable donations under profits tax and salaries tax from 10% to 25% of assessable income or profits in the 2003-2004 Budget. After the increase, the percentage of taxpayers claiming the maximum rate of deductions dropped from 5% for salaries tax payers and 12.6% for profits tax payers for the 2002-2003 year of assessment to only 0.2% and 5.8% respectively for the 2003-2004 year of assessment. The Administration considered that any further increase in the deduction ceiling might not have a significant impact on private donations, but would nevertheless review the situation from time to time.

Relevant papers

20. A list of the relevant papers on the Legislative Council website is in **Appendix II**.

Council Business Division 2
Legislative Council Secretariat
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**Allocation of matching grants to the UGC-funded institutions
under the First, Second and Third Matching Grant Schemes**

Institutions	Matching grants allocated under the <i>First</i> Scheme (\$ million)	Matching grants allocated under the <i>Second</i> Scheme (\$ million)	Matching grants allocated under the <i>Third</i> Scheme (up to the end of <i>February 2007</i>) (\$ million)
City University of Hong Kong	45	45	82
Hong Kong Baptist University	79	64	58
Lingnan University	45	45	19
The Chinese University of Hong Kong	228	250	250
The Hong Kong Institute of Education	21	22	30
The Hong Kong Polytechnic University	201	81	76
The Hong Kong University of Science and Technology	131	243	65
The University of Hong Kong	250	250	250
Total :	1,000	1,000	830
	(Round to the nearest million dollar)		

**Relevant papers on Matching Grant Schemes
for the University Grants Committee-funded Institutions**

Meeting	Date of meeting	Paper
Panel on Education	19.5.2003 (Item IV)	Minutes Agenda
Finance Committee	13.6.2003	Minutes FCR(2003-04)22 FC140/02-03
Panel on Education	9.12.2003 (Item II)	Minutes Agenda
Legislative Council	15.6.2005	Official Record of Proceedings Pages 77 - 79 (Question)
Panel on Education	20.6.2005 (Item I)	Minutes Agenda CB(2)2215/04-05(01)
Finance Committee	8.7.2005	Minutes FCR(2005-06)26 FC116/04-05 CB(2)795/05-06(01)
Finance Committee	14.3.2006	Administration's replies to Members' initial written questions (Reply Serial Nos. EMB146, EMB148, EMB161, EMB167, EMB171, EMB176 and EMB182)
Panel on Education	8.5.2006 (Item IV)	Minutes Agenda CB(2)2382/05-06(01)
Finance Committee	26.5.2006	Minutes FCR(2006-07)12
Finance Committee	20.3.2007	Administration's replies to Members' initial written questions (Reply Serial Nos. EMB015, EMB200 and EMB215)