

ITEM FOR FINANCE COMMITTEE

HEAD 190 – UNIVERSITY GRANTS COMMITTEE

Subhead 700 General non-recurrent

New Item “Fifth matching grant scheme for local degree-awarding institutions”

Members are invited to approve a new commitment of \$1,000 million for awarding grants to University Grants Committee-funded institutions, the Hong Kong Academy for Performing Arts and three self-financing degree-awarding institutions 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 degree-awarding institutions in Hong Kong.

PROPOSAL

2. The Secretary for Education proposes to implement the Fifth Matching Grant Scheme (MGS) to award grants up to \$1,000 million in total to the University Grants Committee (UGC)-funded institutions, the Hong Kong Academy for Performing Arts (HKAPA) and three self-financing degree-awarding institutions 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

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institutions. The institutions would then be in a better position to fulfil their strategic roles and compete at the international level. The Administration has since 2003 launched four rounds of MGS of \$1 billion each. The first three rounds were open to the eight UGC-funded institutions¹ only while the fourth round also included the two self-financing universities, namely Open University of Hong Kong (OUHK) and Hong Kong Shue Yan University (HKSJU). The results are tabulated as follows –

	Duration	Government matching grants allocated	Private donations secured
First MGS	1 July 2003 – 30 June 2004	\$1 billion	\$1.3 billion
Second MGS	1 August 2005 – 28 February 2006	\$1 billion	\$1.9 billion
Third MGS	1 June 2006 – 15 March 2007	\$0.9 billion	\$1.6 billion
Fourth MGS	1 January 2008 – 28 February 2009	\$1 billion	\$2.2 billion
Total²		\$3.9 billion	\$6.9 billion

As a result of the four rounds of MGS, the participating institutions have altogether secured additional resources of about \$10.8 billion in total, comprising around \$3.9 billion of government matching grants and around \$6.9 billion of 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 four rounds of MGS have attracted over 900 donations of \$1 million or above, which accounted for over 80% of the total private donations secured. At the same time, the importance of donors who made smaller donations below \$1 million should not be overlooked. Many of them were alumni, staff and students of the tertiary institutions. Overseas experience shows that this form of regular giving is very important in sustaining philanthropic giving. The MGS has thus encouraged the community to be more generous in supporting the tertiary institutions and has given rise to the emergence of a philanthropic culture.

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¹ UGC-funded institutions include City University of Hong Kong, Hong Kong Baptist University, Lingnan University, The Chinese University of Hong Kong, The Hong Kong Institute of Education, The Hong Kong Polytechnic University, The Hong Kong University of Science and Technology and The University of Hong Kong.

² Figures may not add up due to rounding.

Institutional efforts

5. With seed funding for institutional advancement, institutions have stepped up their efforts in fund-raising activities. They have recruited extra staff dedicated to fund-raising activities. They have also worked out fund-raising plans to reach out to the community, as well as to students and alumni, in a bid to establish diversified and sustainable sources of funding for institutional development. For example, they have built up a stronger and lifelong linkage with alumni through the establishment and maintenance of alumni database. They have also organised more alumni homecoming and reunion activities to keep up with the momentum in alumni bonding and fund-raising.

Use of matching funds

6. Based on information provided by the participating institutions, the resources secured under the four rounds of MGS has 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 the teaching and learning environment.
- (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. Recruitment of new academic staff and/or the funding of chair professorships and research projects are required by institutions to take forward their development plans.
- (c) **Student-oriented activities and development programmes** - to conduct student exchange programmes and activities for 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.

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- (d) **Capital projects** - to augment government provision for capital projects under their campus development programmes.

7. Out of the \$10.8 billion raised by the 10 participating institutions under the four rounds of MGS, some \$2.9 billion were set aside as endowments to generate investment income on a recurrent basis. Of this amount, about \$1.3 billion of the endowments is for funding teaching and research enhancement/professorships, \$0.8 billion for scholarships, and the rest for other purposes such as funding student development/activities.

8. The consolidated plan of the eight UGC-funded institutions for utilising the resources secured under the four rounds of MGS (including matching grants, matched donations, interest and investment income) is summarised below –

Area of Expenditure	Up to the 2008/09 academic year (\$m)	Plan from the 2009/10 academic year onwards (\$m)	Total (\$m)
Teaching and research enhancement	1,600	1,428	3,028
Academic strength and niche area development	1,000	1,615	2,615
Student-oriented activities and development programmes	1,585	1,645	3,230
Capital projects	206	1,148	1,354
Total	4,391	5,836	10,227

9. As for the two self-financing universities included in the Fourth MGS, their funds (including matching grants, matched donations, interest and investment income) are mainly used to support capital works projects. Details of the designation of funds are as follows –

Area of Expenditure	(\$m)
Teaching and research enhancement	9
Academic strength and niche area development	33
Student-oriented activities and development programmes	22
Capital projects	143
Total	207

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Proposed Fifth 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 Schemes. We therefore propose to allocate a further \$1 billion for launching the Fifth MGS.

Expansion of the Scheme to cover the HKAPA and Chu Hai College of Higher Education

11. The Chief Executive has set out in the 2009 Policy Address the policy objective of developing education services. Our objective is to enhance Hong Kong's status as a regional education hub and nurture talents for other industries, boosting Hong Kong's competitiveness and facilitating our long term development. One of the important elements in this process is to diversify the higher education sector. A more diversified higher education sector will benefit our school leavers by providing them with more education opportunities and a wider choice. Apart from the existing schemes (such as Land Grant Scheme, Start-up Loan Scheme and Quality Enhancement Grant Scheme) to support the development of the self-financing higher education sector, we consider that extending the MGS to non-UGC-funded degree-awarding institutions will allow the institutions to diversify their funding source and demonstrate the Government's support for them.

12. The expansion of the Fourth MGS to include OUHK and HKSYU has proven successful, with the two universities raising \$206 million between them. We consider it appropriate to include the other two degree-awarding institutions, namely the HKAPA, which is under the auspices of the Home Affairs Bureau (HAB), and the self-financing Chu Hai College of Higher Education (CHC).

Eligibility Criteria

UGC-funded institutions and the HKAPA

13. For the UGC-funded institutions and the HKAPA, we propose adopting essentially the same basic principles of the Fourth MGS for the Fifth round as follows –

- (a) private donations which are eligible for matching include those for –
 - (i) activities within the ambit of recurrent grants provided by UGC or HAB to the institutions;

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- (ii) providing scholarships to students of UGC or HAB-funded programmes; and
 - (iii) supporting outgoing student exchange programmes for students enrolled in UGC or HAB-funded programmes;
- (b) the government matching grants can be used for –
- (i) activities within the ambit of recurrent grants provided by UGC or HAB to the institutions; or
 - (ii) offering scholarships for meritorious non-local students enrolled in UGC or HAB-funded programmes; or
 - (iii) supporting outgoing student exchange programmes for students enrolled in UGC or HAB-funded programmes; and
- (c) private donations for capital works projects on campus in Hong Kong can be matched, provided that the government matching grants are used on activities set out in (b) above.

OUHK, HKSYU and CHC

14. As OUHK, HKSYU and CHC are all self-financing local institutions that are not receiving recurrent funding from the Government, 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 three self-financing local institutions. We propose that private donations received by the three institutions for the following purposes could be matched –

- (a) to support their locally-accredited self-financing programmes at degree or above level;
- (b) to provide scholarships and support outgoing student exchange programmes for students, local or non-local, enrolled in their locally-accredited self-financing programmes at degree or above level; and
- (c) to support capital works projects on campus in Hong Kong.

The matching grants allocated could also be used in the above three areas, thus providing additional resources for the three institutions to support their efforts in providing quality tertiary education.

Operating Terms and Conditions

15. We propose to adopt essentially the same basic terms and conditions of the Fourth MGS and again to invite the UGC to administer the Scheme for all of the 12 institutions. The broad operating principles for the Fifth MGS are as follows –

- (a) Only new donations paid to the institutions on or after a specified Effective Date (1 June 2010 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 stage after the Scheme is open for application (until 28 February 2011). 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 first stage, 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 (\$220 million) (i.e. a “ceiling”) applicable to the aggregate amount received by each institution. The ceiling has been reduced from \$250 million in previous rounds to give the smaller or younger institutions a better chance of securing grants.
- (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 of 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.

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- (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 stage will be carried over to the second stage for matching. The Scheme will end on 15 March 2011, so that funds can all be disbursed by the close of the 2010-11 financial year (i.e. 31 March 2011).
- (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. Recurrent consequences of all projects undertaken by institutions with funding secured under this Scheme will have to be met by the institutions from their own available resources.
- (f) For the UGC-funded institutions and HKAPA, private donations which are eligible for matching grants and the permitted use of government matching grants are set out in paragraph 13 above. Neither the grants nor the donations they match can be used for self-financing activities.
- (g) As regards the three self-financing local institutions, private donations which are eligible for matching grants and the permitted use of government matching grants are set out in paragraph 14 above.
- (h) The government matching grants received by UGC and HAB-funded institutions and any interest and investment income arising from the grants are additional to the Government's recurrent subsidy to the institutions.
- (i) The UGC and HAB-funded institutions may retain any unspent matching grants across funding periods, in addition to the reserve allowed to be accumulated from their recurrent grants. The three self-financing institutions are free to spend the matching grants according to their own schedules.
- (j) 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 proposed Scheme.

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- (k) To ensure the accountability and transparency of the operation of the proposed Scheme –
- (i) UGC will coordinate all the 12 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, separately in respect of matched donations and of the matching grants, the aggregate amount of donations/grants received and income generated; and the total amount of expenditure from the donations/grants broken down into broad category of purposes;
 - (ii) the use of government 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 government matching grants to be spent.

Implementation Timetable

16. Subject to Members' approval, the Scheme will be open for application from 1 June 2010 until 15 March 2011 (both dates inclusive).

FINANCIAL IMPLICATIONS

17. The Government has earmarked sufficient funds in the 2010-11 Estimates for implementation of the fifth MGS. The proposal has no recurrent financial implications for the Government.

18. For administrative convenience and simplicity, the UGC Secretariat will deal with donations matching from all of the 12 institutions, including OUHK, HKSYU, HKAPA and CHC. This arrangement carries no other policy or funding implications.

PUBLIC CONSULTATION

19. The UGC-funded institutions, the HKAPA and the three self-financing local degree-awarding institutions support the proposed Fifth MGS.

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The Legislative Council Panel on Education was consulted on 12 April 2010 and Members did not object to the proposal. Some Members suggested that the Administration should consider extending the Scheme to cover the self-financing sub-degree sector. Since the launch of the First MGS, the Administration has been gradually expanding the scope of the Scheme having regard to the results of successive rounds: the two self-financing universities were first included in the Fourth MGS; the proposed Fifth MGS will include HKAPA and CHC. The Administration considers that the priority for the Scheme at this stage should be to diversify the funding sources and support the development of the degree-awarding institutions. The Administration will continue its support to the self-financing post-secondary sector including the sub-degree sector through other channels such as start-up loans, land grant at nominal premium and quality enhancement grants.

BACKGROUND

20. The previous four rounds of MGS, which were approved by this Committee vide FCR(2003-04)22 dated 13 June 2003, FCR(2005-06)26 dated 8 July 2005, FCR(2006-07)12 dated 26 May 2006 and FCR(2007-08)36 dated 30 November 2007 respectively, have helped the participating institutions obtain additional resources totalling \$10.8 billion.

Education Bureau
April 2010