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**Panel on Education**

**Updated background brief prepared by the Legislative Council  
Secretariat for the meeting on 14 May 2012**

**Matching Grant Schemes**

**Purpose**

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

3. In taking forward the matching grant concept, the Administration introduced in July 2003 the First MGS 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 phase of the 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 and 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. Under the second phase of the Scheme, the Administration raised the relevant "ceiling" and "floor" to \$250 million and \$45 million respectively, in the light of the relative performance of the institutions and the need to give further assurance to the smaller/newer institutions regarding the amount of grants that they would be able to seek to match from the Scheme. At the close of the First MGS in June 2004, the eight institutions together secured \$1.3 billion of private donations, which were matched by the \$1 billion grant.

### Second MGS

5. In view of the encouraging response to the First MGS, the Administration launched in August 2005 the Second MGS with a financial commitment of another \$1 billion. The Second MGS adopted the same basic principles as the First MGS, but with relaxations to facilitate internationalization and campus development of the institutions in the higher education. Under the Second MGS, 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 MGS, 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 MGS 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 MGS

6. In view of the success of the First and Second MGSs, the Administration introduced in June 2006 the Third MGS 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 fostered by the first two MGSs. The same basic principles and relaxations applicable to the Second MGS were adopted for the Third MGS. Upon the close of the Third MGS on 15 March 2007, the eight UGC-funded institutions had altogether secured some \$1.6 billion of private donations, which was matched by the \$0.9 billion matching grant.

#### Fourth MGS

7. In view of the positive results of the previous MGSs, the Administration allocated a further \$1 billion for introducing the Fourth MGS in January 2008. The Fourth MGS covered the UGC-funded institutions and the two self-financing local universities, namely, The Open University of Hong Kong ("OUHK") and Hong Kong Shue Yan University ("HKSYU") which had been offering locally-accredited academic programmes at degree or above level.

8. The same basic principles of the Third MGS were adopted for the Fourth MGS for the UGC-funded institutions. As OUHK and HKSYU were self-financing without receiving recurrent funding from UGC, different parameters were adopted under which 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;
- (b) to provide scholarships for meritorious students; and
- (c) to support capital work projects.

The matching grants allocated could also be used in these areas in order to provide additional resources for the two universities to support their efforts in providing quality tertiary education. Upon the close of the Fourth MGS on 28 February 2009, the institutions had altogether secured \$2.2 billion of private donations, which were matched by the \$1 billion matching grant.

#### Fifth MGS

9. The Administration allocated a further \$1 billion to launch the Fifth MGS in June 2010. In view of success of OUHK and HKSYU in raising funds under the Fourth MGS, the Fifth MGS was expanded to cover the Hong Kong Academy for Performing Arts ("HKAPA"), which was under the auspices of the Home Affairs Bureau ("HAB"), and the self-financing Chu Hai College of Higher Education ("CHC"). Similar to the previous MGSs, there was a "floor" of \$45 million for matching by each institution. The

"ceiling" had been reduced from \$250 million in previous rounds to \$220 million to give the smaller and younger institutions a better chance of securing grants.

10. For the UGC-funded institutions and HKAPA, the same basic principles of the Fourth MGS were adopted. As for OUHK, HKSYU and CHC which were self-financing local institutions, private donations received by these 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 work projects on campus in Hong Kong.

11. The five rounds of MGS launched since 2003 have helped institutions secure additional resources of \$14.1 billion, comprising \$9.2 billion private donations and \$4.9 billion matching grants. The amount of private donations raised, matching grants allocated and unmatched donations during the past five rounds of MGS are in **Appendix I**.

### **Deliberations of the Panel**

12. The Panel had discussed each of the five MGSs before the Administration submitted its proposals to the Finance Committee for consideration. Members supported the launch of the five 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 and adequacy of matching grants

13. 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.

14. 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 adjusted the "ceiling" and "floor" levels to \$220 million and \$45 million respectively under the Fifth MGS. The adjustments were aimed at giving the smaller and younger institutions a better chance of securing grants

15. During the discussion on the Fourth MGS, members had requested the Administration to ensure that OUHK and HKSYU which were self-financing and relatively young in terms of their history of development would enjoy equal opportunities and would be subject to the same operating terms and conditions for the provision of matching grants.

16. The Administration stressed that it had consulted the eight UGC-funded institutions, OUHK and HKSYU, and had obtained their agreement to the terms and conditions of the Fourth MGS. The UGC would set aside an amount of \$45 million for matching by each institution as a guaranteed minimum in the first 12 months after the Fourth MGS was open for application so as to facilitate smaller and younger institutions with less fund-raising capabilities to secure a reasonable share of the matching grants. To offer further assistance to OUHK and HKSYU, the Administration had proposed different parameters to meet their needs. For instance, the matching grants received by these two universities could be used to support capital works projects, whereas the matching grants for the eight UGC-funded institutions could only be used on activities within the ambit of UGC recurrent grants or scholarships for non-local students.

17. On the inclusion of HKAPA and CHC in the Fifth MGS, some members were concerned whether the \$1 billion commitment was adequate to meet the needs of 12 institutions. Members pointed out that while the number of eligible institutions had increased from eight in the first three rounds to 12 in the fifth round, the financial commitment had remained unchanged, i.e. \$1 billion for each round.

#### Expanding MGS to cover the sub-degree sector

18. Members had been calling for the expansion of MGS to cover the sub-degree sector. Some members were gravely concerned that sub-degree students, without receiving any assistance from the Government, had been using their own resources or relying on high-interest loans to pay for their

tuition fees. These students had been assisting the self-financing tertiary institutions in repaying the mortgage of their school premises. Members considered that if private donations for sub-degree education were eligible for matching grants, institutions would have more resources for investment in sub-degree education, thereby alleviating the financial burden of sub-degree students. Students would also benefit from having more campus space if private donations could be secured for building campuses for sub-degree students.

19. Some members suggested that should the Administration change its policy to include sub-degree education in MGS, the Vocational Training Council ("VTC") should be included as an eligible institution on account of its large number of sub-degree students and its ability to raise donations. Members expressed the view that sub-degree students should not be discriminated in the allocation of public resources solely because they had not performed well in the Hong Kong Advanced Level Examination. The expansion of MGS to cover sub-degree programmes would provide an impetus to the institutions for raising private donations for sub-degree education and convey a positive message to the community of its recognition of sub-degree education.

20. The Administration explained that it had considered the view to expand MGS to cover sub-degree programmes but decided that having regard to the need for priority allocation of resources, the Fifth MGS should cover programmes at degree or above level but not at sub-degree level. The coverage of MGS had been expanded gradually to include OUHK, HKSYU, HKAPA and CHC. Sub-degree students could be benefitted by way of studying the articulation programmes in these institutions. Should sub-degree programmes be included in MGS, the matching grants for programmes at degree or above level would be reduced correspondingly. There were other schemes in place, such as the Land Grant Scheme and Start-up Loan Scheme, for assisting sub-degree education. The Administration's policy was to expand the coverage of MGS in a progressive manner.

#### Use of matching grants

21. 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.

22. The Administration advised that while the UGC-funded institutions enjoyed a high degree of autonomy in the use of private donations within the

ambit of their recurrent grants, they 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 also 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.

23. 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.

24. The Administration pointed out that the enrolment of non-local students in the UGC-funded institutions was subject to a quota (20% of the approved student number targets for sub-degree, degree and taught programmes). Non-local students who were awarded with scholarships funded by private donations or matching grants would be included in the 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 MGS

25. Members were concerned about the future development of the MGSs. 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.

26. The Administration explained that turning the MGSs 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.

27. 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.

### **Latest developments**

28. The Financial Secretary proposed in the 2012-2013 Budget to allocate \$2.5 billion to launch the sixth MGS in the post-secondary education sector to help institutions tap more funding sources, improve the quality of education and foster a philanthropic culture. The proposed six MGS will cover all statutory post-secondary institutions and approved post-secondary colleges to support their development. The Administration will consult the Panel on the proposal at the meeting on 14 May 2012.

### **Relevant papers**

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

Council Business Division 2  
Legislative Council Secretariat  
9 May 2012

**Amount of private donations raised, matching grants allocated and unmatched donations during the past five rounds of Matching Grant Scheme**

<b>Institution</b>	<b>Matching Grants (\$ million)</b>	<b>Donations raised (\$ million)</b>	<b>Unmatched Donations (\$ million)</b>
City University of Hong Kong	266	465	157
Hong Kong Baptist University	356	596	144
Lingnan University	180	185	5
The Chinese University of Hong Kong	1,198	2,766	778
The Hong Kong Institute of Education	136	137	1
The Hong Kong Polytechnic University	530	746	66
The Hong Kong University of Science and Technology	754	1,244	46
The University of Hong Kong	1,220	2,756	746
The Open University of Hong Kong*	116	151	8
Hong Kong Shue Yan University*	21	31	10
Hong Kong Academic for Performing Arts^	32	32	-
Chu Hai College of Higher Education^	77	110	1
<b>Total</b>	<b>4,888</b>	<b>9,219</b>	<b>1,963</b>

Note Figures may not add up due to rounding.

\* Participating since the fourth round.

^ Participating since the fifth round.

Source: Examination of Estimates of Expenditure 2012-2013

## Relevant papers on Matching Grant Schemes

Meeting	Date of meeting	Paper
Panel on Education	19.5.2003 (Item IV)	<a href="#">Minutes</a> <a href="#">Agenda</a>
Finance Committee	13.6.2003	<a href="#">Minutes</a> <a href="#">FCR(2003-04)22</a> <a href="#">FC140/02-03</a>
Panel on Education	9.12.2003 (Item II)	<a href="#">Minutes</a> <a href="#">Agenda</a>
Legislative Council	15.6.2005	<a href="#">Official Record of Proceedings</a> <a href="#">Pages 77 - 79 (Question)</a>
Panel on Education	20.6.2005 (Item I)	<a href="#">Minutes</a> <a href="#">Agenda</a> <a href="#">CB(2)2215/04-05(01)</a>
Finance Committee	8.7.2005	<a href="#">Minutes</a> <a href="#">FCR(2005-06)26</a> <a href="#">FC116/04-05</a> <a href="#">CB(2)795/05-06(01)</a>
Finance Committee	14.3.2006	<a href="#">Administration's replies to Members' initial written questions (Reply Serial Nos. EMB146, EMB148, EMB161, EMB167, EMB171, EMB176 and EMB182)</a>
Panel on Education	8.5.2006 (Item IV)	<a href="#">Minutes</a> <a href="#">Agenda</a> <a href="#">CB(2)2382/05-06(01)</a>
Finance Committee	26.5.2006	<a href="#">Minutes</a> <a href="#">FCR(2006-07)12</a>
Finance Committee	20.3.2007	<a href="#">Administration's replies to Members' initial written questions (Reply Serial Nos. EMB015, EMB200 and EMB215)</a>
Panel on Education	12.11.2007 (Item VI)	<a href="#">Minutes</a> <a href="#">Agenda</a>

<b>Meeting</b>	<b>Date of meeting</b>	<b>Paper</b>
Panel on Education	12.4.2010 (Item IV)	<a href="#">Minutes</a> <a href="#">Agenda</a>

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