

**For discussion
on 19 May 2003**

Legislative Council Panel on Education
Matching Fund for
University Grants Committee-funded Institutions

Introduction

This paper informs Members of the Administration's plan to establish a \$1 billion fund for awarding grants to University Grants Committee (UGC) - funded institutions to match private donations secured by them.

The need for matching grants

2. 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 fundraising capabilities of institutions. The Government 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.

3. To take the matching grant concept further, the Financial Secretary announced in the 2003-04 Budget the proposal to set up a \$1 billion fund to award matching grants to universities which succeeded in securing private donations for purposes other than the construction of campus buildings. At the same time, he proposed to raise the ceiling for tax-exempted donations from 10% of assessable income or profits to 25% to encourage private donations to educational and other charitable organisations.

Implementation of the matching grant scheme

4. To make the best use of the matching fund, we propose to implement a grant scheme in phases. Half of the fund (i.e. \$500 million)

will be set aside for the first phase of the scheme. It will last for one year from the date the scheme is open for application or when the \$500 million has been fully allocated to the institutions, whichever is earlier. The unspent amount in the first phase, if any, will be carried forward to the second or subsequent phase(s), following a review of the first phase (paragraph 6 below).

5. We propose that UGC be tasked to administer the proposed matching grant scheme, according to the following broad principles applicable to the first phase –

- (a) Only donations pledged and paid to UGC-funded institutions after 5 March 2003 (the Effective Date) are eligible for matching grants. The scheme will be open for application from 1 July 2003.
- (b) The grants will be disbursed on a dollar-for-dollar matching basis (i.e. a 1:1 matching ratio) in respect of the private donation or sponsorship received.
- (c) To encourage healthy competition amongst institutions and to allow the smaller institutions a fair chance, UGC will set aside an amount of \$20 million (i.e. a “floor”) for matching by each institution as a guaranteed minimum in the first six months after the fund is open for application. Any request of the institutions over and above this amount will be considered on a first-come-first-served basis. “Floor” grants which have not been fully used will also be open for application by all institutions on a first-come-first-served basis after the six-month period.
- (d) Apart from the floor in (c) above, there will be an upper limit (\$150 million) (i.e. a ceiling) applicable to the aggregate amount received by each institution during the first phase. All uncommitted funds in the first phase will be carried over to the second phase. This will ensure that the scheme will operate in such a way that, within the first phase, no institution can capture too large a share of the amount available, while every institution will have a guaranteed chance of being able to benefit from the scheme in a moderate way.

- (e) Both the matching grant and the corresponding private donation must be used for activities within the ambit of UGC recurrent grants and cannot be used for self-financing activities or for the construction of campus buildings.
- (f) Notwithstanding (e), as a special exception to respect the wish of the donors and in response to the needs of the institutions, private donation for scholarship will be matched. However, in such a case, the corresponding matching grant must still be used in accordance with the criteria set out at (e) above.
- (g) There will be no “double matching” or “double subsidies”. In other words, donations from various public / government funds (e.g. Quality Education Fund and Innovation and Technology Fund), and donations already matched with public funds under other matching schemes (e.g. the Mainland Scholarship Scheme), will not be eligible for any matching grants under the proposed scheme.
- (h) This is a one-off exercise. It does not commit the Administration to providing matching fund to any institution or project on a recurrent basis. Any recurrent consequences of projects undertaken by institutions with the matching fund have to be absorbed within the block grant or borne by the institutions themselves.
- (i) The matching grants received by an institution and any investment income arising from the grants are additional to Government’s recurrent subsidy to institutions.
- (j) The matching grants and private donations will be excluded from the calculation of the student unit cost for the purpose of future assessment of recurrent funding and tuition fees.
- (k) 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.

- (l) The grants will be subject to audit assurance; auditors will need to confirm to the UGC that the conditions of the grants have been met.

Review

6. A review of the scheme will be conducted towards the end of the first phase. The review will cover, among others, the amount to be set aside for the subsequent phase(s) of the matching grant scheme, the matching ratio, the scope of the scheme, the approval criteria and other implementation details.

Response of the Institutions

7. The UGC-funded institutions support the matching fund proposal and the underlying notion to diversify the funding source for higher education in Hong Kong.

Financial Implications

8. The Government has earmarked sufficient funds in the 2003-04 Estimates for the launching of the matching grant scheme in 2003-04. The actual cashflow and duration of the scheme will depend on the speed at which the institutions can secure the donations, and the amount involved. Subject to Members' agreement, we will include sufficient provision in the annual estimates of the relevant financial years.

The Way Forward

9. We plan to submit the proposal for the Finance Committee's consideration at its meeting on 13 June 2003.

Education and Manpower Bureau
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