

## ITEM FOR FINANCE COMMITTEE

### HEAD 190 – UNIVERSITY GRANTS COMMITTEE

#### Subhead 700 General non-recurrent

#### New Item “Third matching grant scheme for UGC-funded institutions”

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

### PROBLEM

We need to further diversify the funding sources for higher education in Hong Kong.

### PROPOSAL

2. The Secretary for Education and Manpower proposes to further strengthen the fund-raising capabilities of the University Grants Committee (UGC)-funded institutions by implementing the Third Matching Grant Scheme to award grants up to \$1,000 million in total to match the private donations they secure.

### JUSTIFICATION

#### *First and Second Matching Grant Schemes*

3. To diversify the funding sources for higher education in Hong Kong, the Administration introduced a \$1,000 million First Matching Grant Scheme in July 2003 for awarding grants to UGC-funded institutions to match private

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donations secured by them. At the close of the First Matching Grant Scheme in June 2004, the eight UGC-funded institutions together secured \$1,320 million of private donations, which were matched by the Government's \$1,000 million grant. In other words, the Scheme has successfully helped the institutions secure additional resources totalling \$2,320 million.

4. In view of the success of the First Matching Grant Scheme, the Administration launched a second Scheme in August 2005. The \$1,000 million Second Matching Grant Scheme adopted the same basic principles as the First Matching Grant Scheme, but with relaxations to facilitate two major developments in the higher education sector, namely internationalisation and the campus development of the institutions. Similar to the First Matching Grant Scheme, there was a "floor" (i.e. \$45 million) and "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 matching grant for every \$2 private donations.

5. Upon the close of the Second Matching Grant Scheme at the end of February 2006, the eight UGC-funded institutions had altogether secured close to \$1,890 million of private donations and the \$1,000 million government matching grant was fully allocated. The Second Scheme has thus helped institutions obtain additional resources totalling \$2,890 million within seven months.

### **Proposed Third Matching Grant Scheme**

6. In view of the very encouraging response of the First and Second Matching Grant Schemes, we see merit in providing further support to the institutions' endeavours so as to sustain the philanthropic culture of Hong Kong fostered by the Schemes. We therefore propose to allocate a further \$1,000 million for introducing a Third Matching Grant Scheme.

7. Since the First and Second Matching Grant Schemes proceeded very well, we propose to adopt the same basic principles for the Third Scheme, which include the following relaxations introduced under the Second Scheme –

- (a) the government matching grants can be used to offer scholarships for meritorious non-local students; and
- (b) 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.

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The above parameters aim to facilitate further internationalisation and the campus development of the institutions, which are essential for the development of Hong Kong as the regional education hub and for realising the long-term visions of the institutions.

### **Operating Terms and Conditions**

8. UGC will administer the proposed Third Matching Grant Scheme, which will operate under essentially the same terms and conditions as that of the Second Matching Grant Scheme as approved by the Finance Committee (FC) vide FCR(2005-06)26 on 8 July 2005. The broad operating principles are as follows –

- (a) only new donations paid to UGC-funded institutions on or after a specified Effective Date (say 1 June 2006 if funding approval is obtained before then) are eligible for government matching grants;
- (b) the Scheme should encourage healthy competition among the institutions and give the smaller or younger institutions a fair chance of securing grants. To this end –
  - (i) UGC will continue to set aside an amount of \$45 million (i.e. “floor”) for matching by each institution as a guaranteed minimum in the first eight months after the Scheme is open for application (i.e. until the end of January 2007). 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 eight-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 (\$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 matching grant for every \$2 private donations secured). The matching ratio of \$1 for \$1 up to the “floor” is to facilitate those institutions with less fund-raising capabilities to secure a reasonable share of government matching grants. We propose a \$1 for \$2 matching 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 eight months will be carried over to the final month for matching. The Scheme will end in end February 2007, so that funds can all be disbursed by the close of the financial year (31 March 2007);
- (e) the fact that an institution has secured government matching grants 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 projects undertaken by institutions with funding secured under this Scheme will have to be met by the institutions from available resources;
- (f) private donations for activities within the ambit of UGC recurrent grants, scholarships and capital works 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;
- (g) the government matching grants received by an institution and any investment income arising from the grants are additional to the Government's recurrent subsidy to institutions;
- (h) 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;
- (i) the institutions may retain any unspent government matching grants across triennium, in addition to the reserve accumulated from their recurrent grants; and
- (j) to ensure the accountability and transparency of the operation of the proposed 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;

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- (ii) the use of government matching grants and the private donations matched will be subject to audit assurance. Auditors will need to confirm to 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**

9. Subject to Members' approval, the Scheme will be open for application from 1 June 2006 and will last for nine months up to 28 February 2007.

10. UGC will conduct a review of the effectiveness of the Matching Grant Schemes after the completion of the Third Scheme.

### **FINANCIAL IMPLICATIONS**

11. The Government has earmarked sufficient funds in the 2006-07 Estimates for the Third Matching Grant Scheme. The proposal has no recurrent financial implications for the Government.

### **BACKGROUND**

12. The UGC-funded institutions support the proposed Third Matching Grant Scheme and the underlying notion of diversifying the funding source for higher education in Hong Kong. The First and Second Matching Grant Schemes, which were approved by the FC vide FCR(2003-04)22 dated 13 June 2003 and FCR(2005-06)26 dated 8 July 2005 respectively, have helped the institutions obtain additional resources totaling \$5,210 million.

13. The Legislative Council Panel on Education was consulted on 8 May 2006 and supported the proposal. Some Members suggested that the Administration should extend the duration of the proposed Scheme to give institutions, especially the smaller and younger ones, more time to solicit private donations. Based on the experience of the First and Second Schemes, we trust that the institutions would have sufficient time to solicit private donations under the Third Scheme.

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