

For discussion
on 14 January 2008

Legislative Council Panel on Education

Establishment of a \$1 Billion Scholarship Endowment Fund

Introduction

This paper seeks Members' views on the Administration's proposal to establish a \$1 billion Scholarship Endowment Fund (the Fund) for providing Government scholarships to students studying in full-time publicly-funded degree or above level programmes in Hong Kong.

Objectives

2. The establishment of the Fund is part of a basket of measures introduced to further developing Hong Kong as a regional education hub. It will generate investment income to support the provision of Government scholarships to outstanding local and non-local students so as to –

- attract outstanding non-local students to study in publicly-funded degree or above level programmes in Hong Kong;
- reward outstanding local students who choose to pursue their studies in such programmes in Hong Kong;
- recognise the achievements of outstanding local and non-local students, with a view to attracting them to stay in Hong Kong after graduation; and
- promote the further development of Hong Kong as a regional education hub and enhance Hong Kong's competitiveness in the long run.

Proposal

3. It is proposed that the Administration should establish a \$1 billion Scholarship Endowment Fund to support the provision of HKSAR Government Scholarships to outstanding local and non-local students on an ongoing basis. A sum of money, to be funded by the investment income generated from the Fund, will be allocated every academic year to the nine institutions offering full-time publicly-funded programmes at degree or above levels (i.e. the eight University Grants Committee-funded institutions, plus the Hong Kong Academy for Performing Arts, assuming that they all choose to participate) on a pro rata basis in accordance with the actual enrolment of such programmes in the previous academic year, subject to the proviso that no institution will receive less than 2% of the total sum allocated.

4. Eligible institutions will participate in the scheme on a voluntary basis. Participating institutions will distribute scholarships to outstanding local and non-local students taking part in their publicly-funded full-time degree or above level programmes, with selection of recipients made having regard to the following considerations -

- (a) excellent performance in academic studies;
- (b) recognized contribution to the institution/society;
- (c) demonstrated leadership and good communication skills; and/or
- (d) strong commitment to the Hong Kong community.

5. It is proposed that the scholarship will be \$40,000 per year for local students and \$80,000 per year for non-local students. A higher amount is proposed for non-local students in view of the keen competition among countries and cities to attract the most talented students from all over the world, as well as the fact that non-local students are required to make a bigger commitment in deciding to study away from home. Once awarded, a scholarship will be tenable for the normal duration of the programme concerned and renewable annually subject to satisfactory academic performance of the awardees.

Financial Implications

6. We propose to establish the \$1 billion Fund in 2007-08. The investment income from the Fund, after deduction of reasonable disbursements such as investment manager fees and other expenses

incidental to the administration of the Fund, will sustain the award of scholarships on an ongoing basis. We plan to set aside about \$12 million to support the provision of scholarships in the 2008/09 academic year. To meet the requirements of existing and new recipients, we expect this amount to gradually increase to about \$48 million in the 2015/16 academic year, and to remain at around that level thereafter, although the actual amount set aside every year may vary having regard to the actual investment income of the Fund. The estimated cashflow requirements of the Fund are set out at **Annex**. The actual number of scholarships will depend on the mix of local and non-local students selected. Assuming that the recipients are all undertaking a four-year undergraduate programme, this could range from 150 (if all recipients are non-local students) to 300 (if all recipients are local students) students.

7. We expect that the investment income of the Fund should be able to fully cover the cashflow requirements for funding the scholarships as explained in paragraph 6 above as well as the disbursements incidental to its administration on an ongoing basis. However, in view of market volatilities, there may be years, in particular the initial years, that the Fund's capital may be depleted to pay for the scholarships.

Management of the Fund

8. The Fund will be set up under the Permanent Secretary for Education Incorporated (PSEI), who will act as the trustee of the Fund. The Fund will be managed in accordance with a trust deed which will stipulate the framework and the salient features necessary for its proper management and administration. A Steering Committee, chaired by SED or his representative and with three members from the education sector and three members from other sectors in the community, will be established to advise on the overall strategy and policy pertaining to the administration and development of the Fund.

9. The Treasury will be appointed to manage the investment and accounting matters of the Fund. An Investment Committee will be set up alongside the Steering Committee to set the policies for and to monitor the investment of the Fund, and to advise on the appointment of fund managers to handle the investment of the funds. It will be chaired by SED or his representative, with the Permanent Secretary for Education or his representative and the Director of Accounting Services or his representative as members. External members from the business and financial sectors will be appointed to strengthen the expertise in the investment areas.

10. The Education Bureau will provide secretariat support for the Steering Committee and the Investment Committee. It will be responsible for drawing up the detailed parameters and criteria of eligibility for the awards, disbursing the awards to the institutions, and arranging publicity. An annual report will be submitted to the Steering Committee for endorsement. SED will table the audited accounts before the Legislature as soon as practicable after the closing of the accounts at the end of each financial year.

Implementation Timetable

11. Subject to Members' views on the proposal, we will seek funding approval from the Finance Committee (FC) in February 2008. Subject to FC's approval, the first batch of scholarships will be awarded in the 2008/09 academic year.

Background

12. The Chief Executive announced in his 2007-08 Policy Address a basket of initiatives to further develop Hong Kong as a regional education hub. Measures to be introduced include increasing non-local student quotas for local institutions, the relaxation of employment and immigration restrictions for non-local students, and the establishment of a \$1 billion endowment fund to provide Government scholarships to outstanding local and non-local students. These measures will increase Hong Kong's attractiveness as a regional education hub and enhance Hong Kong's competitiveness in the long run.

Education Bureau
January 2008

**Cash flow Requirement Forecast for the
Scholarship Endowment Fund**

	Academic Year (\$ million) #							
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
2008/09 cohort	12	12	12					
2009/10 cohort		12	12	12				
2010/11 cohort			12	12	12			
2011/12 cohort				12	12	12		
2012/13 cohort*					12	12	12	12
2013/14 cohort*						12	12	12
2014/15 cohort*							12	12
2015/16 cohort*								12
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	12	24	36	36	36	36	36	48
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Notes: # The cash flow forecast is determined with reference to the development of the undergraduate student population in the tertiary sector, though all full-time publicly-funded degree or above students will be eligible for the scholarship.

* The four-year undergraduate programme will come into play from 2012/13 cohort onwards.