

ITEM FOR FINANCE COMMITTEE

**Head 156 – GOVERNMENT SECRETARIAT :
EDUCATION BUREAU**

Subhead 700 General non-recurrent

New Item “Injection into the HKSAR Government Scholarship Fund”

Members are invited to approve a new commitment of \$250 million for injection into the HKSAR Government Scholarship Fund.

PROBLEM

Additional injection into the HKSAR Government Scholarship Fund (the Fund) is required so that it can also benefit students of full-time publicly-funded sub-degree programmes.

PROPOSAL

2. The Secretary for Education (SED) proposes to create a new commitment of \$250 million for injection into the Fund to support the provision of scholarships to full-time publicly-funded sub-degree students on an ongoing basis from the 2011/12 academic year onwards. In the light of the operation of the Fund in the past three years, SED also proposes to introduce some enhancement measures for the better administration and management of the Fund, including the provision of scholarships to students from targeted regions.

JUSTIFICATION

3. The Fund was established in 2008 with a \$1 billion injection approved by the Finance Committee (FC). With the Permanent Secretary for Education Incorporated (PSEdI) as the trustee, it provides government scholarships to outstanding local and non-local students studying in full-time publicly-funded

/degree

degree or above level programmes in Hong Kong. It is managed in accordance with a trust deed which stipulates the framework and the salient features necessary for its proper management and administration. SED has established a Steering Committee for the Fund to advise the trustee on the overall strategy and policy pertaining to the administration and development of the Fund, and an Investment Committee under the Steering Committee to formulate policies for and monitor the investment of the Fund.

4. Both local and non-local students are eligible for scholarships under the Fund, with \$40,000 per year for local students and \$80,000 per year for non-local students. The amount of scholarship allocated and number of recipients from the 2008/09 to 2010/11 academic years are set out below –

Academic Year	Amount Allocated (\$)	Number of Recipients (Local/Non-local)
2008/09	11,970,000	230 (162 / 68)
2009/10	23,590,000	441 (286 / 155)
2010/11	29,300,000	514 (294 / 220)

As of end February 2011, the balance of the Fund stood at \$1.052 billion¹.

Proposed injection of \$250 million into the Fund

5. With FC's approval vide FCR(2011-12)11, the Self-financing Post-secondary Scholarship Scheme will be introduced in the 2011/12 academic year to provide scholarships for students of full-time locally-accredited self-financing sub-degree and degree programmes. To complement the Fund and the Self-financing Post-secondary Scholarship Scheme, we propose to inject \$250 million into the Fund to provide scholarships to students of full-time publicly-funded sub-degree programmes from the 2011/12 academic year onwards². We expect that when the new scheme is in full operation, it will benefit around 400 students in each academic year.

/Proposed

¹ The balance includes the original non-recurrent commitment of \$1 billion for the Fund and the investment income (net of investment manager fees and incidental expenses) since its inception in 2008 less the scholarship amount already allocated as highlighted in paragraph 4 above.

² There are currently five institutions offering full-time publicly-funded sub-degree programmes, i.e. City University of Hong Kong, the Hong Kong Institute of Education, the Hong Kong Polytechnic University, the Hong Kong Academy for Performing Arts and Vocational Training Council. The Scheme will also cover new operators of publicly-funded sub-degree programmes in future, if any.

Proposed Parameters and Operation of the Scholarship Scheme for Publicly-funded Sub-degree Students

6. Modelled on the prevailing scholarship scheme for full-time degree or above students in publicly-funded programmes, we will adopt the following criteria for awarding scholarships to sub-degree students –

- (a) high standard of academic performance;
- (b) demonstration of leadership and good communication skills;
- (c) valuable contribution to the institution/community; and/or
- (d) strong commitment to the Hong Kong community.

7. The scholarship scheme for sub-degree students under the Fund will take reference from the scholarship scheme for degree students with appropriate adaptations having regard to the prevailing situation of the sector. In gist, the following are the key operating parameters for the scholarship scheme for sub-degree students –

- (a) A sum of money to be funded by the investment income generated will be allocated every year to the participating institutions offering full-time publicly-funded sub-degree programmes 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.
- (b) The eligible institutions offering full-time publicly-funded sub-degree programmes will participate in the scheme on a voluntary basis and will distribute scholarships to outstanding students taking part in their relevant programmes by adopting selection criteria set out in paragraph 6.

8. As regards the amount of scholarship award –

- (a) For budgetary purpose, the scholarship amount will be pitched at \$30,000 each for the 2011/12 academic year. We propose that PSEdI, as the trustee, should be given the flexibility to adjust this amount normally on an annual basis on the advice of the Steering Committee, having regard to changing costs and relevant considerations.

/(b)

- (b) In view of the operational experience of the scholarship scheme for degree or above level students, institutions have suggested that they should be given some flexibility in determining the scholarship amount for individual recipient having regard to the merit and circumstances (e.g. academic disciplines) of recipients and the desirability of benefiting more students. To strike a balance between flexibility and consistency, we propose that the amount of the scholarship award should be kept within a limit prescribed by the trustee on the advice of the Steering Committee (starting from \$30,000 each in the 2011/12 academic year as mentioned in (a) above) and the institutions will decide the amount of scholarship of individual awardees subject to such a limit.
- (c) As our sub-degree sector is currently at its early stage in attracting non-local students³, the need for setting a higher scholarship amount for non-local students has not yet arisen. We propose that the same amount should be set for local and non-local students for the 2011/12 academic year, and the Steering Committee will be invited to review the levels for local and non-local students from time to time.
- (d) While we will not stipulate a fixed percentage split between local and non-local recipients, a majority of the recipients should be local recipients.
- (e) 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.

9. With the additional injection of \$250 million for the new scholarship scheme, the ambit of the Steering Committee set up under the Fund will be correspondingly widened to also cover this scheme and other schemes to be covered by the Fund.

Proposed revised management and operation arrangements of the Fund

10. Taking into consideration the operation in the first three years of the Fund, we plan to implement some modifications and enhancement measures relating to the administration and management of the Fund as set out in the ensuing paragraphs.

/Scholarship

³ In the 2010/11 academic year, there are 71 non-local students in the full-time publicly-funded sub-degree programmes, out of a total of 24 677 students.

Scholarship amounts

11. Under existing arrangement, local and non-local students of full-time publicly-funded degree or above level programmes are eligible for scholarships of \$40,000 and \$80,000 per year respectively. The amount has been kept at the same level since the establishment of the Fund in 2008, without any adjustment mechanism. There are requests from the institutions to adjust the scholarship amount to reflect changes in tuition fees and living costs, and to allow some flexibility in setting the scholarship amount to take into consideration specific circumstances such as availability of other scholarships.

12. To address these concerns, we propose that the trustee, on the advice of the Steering Committee, should be given the flexibility to adjust the scholarship amounts for degree or above level students having regard to changing costs and relevant considerations normally on an annual basis. Similar to the proposed arrangement for scholarships for sub-degree students set out in paragraph 8 above, we also propose that the amount of the scholarship award should be kept within a limit prescribed by the trustee on the advice of the Steering Committee from the 2011/12 academic year onwards and the institutions will decide the amount of scholarship of individual awardees subject to such a limit.

Targeted scholarships

13. One of the objectives of the Fund is to attract outstanding non-local students to study in Hong Kong to promote the further development of Hong Kong as a regional education hub. There have been suggestions that scholarships should be offered to students from targeted regions to raise the profile of Hong Kong and to increase our attractiveness to potential students. Indeed, other economies such as Singapore⁴ and Brunei⁵ have been offering scholarships to students from specific areas to attract international students.

14. In this connection, we propose to offer, initially, up to 10 scholarships per year to first-year non-local students from specific areas or regions (outside Mainland China and Hong Kong). This will help Hong Kong foster closer collaboration and relationship with places of strategic importance. Scholarships

/will

⁴ Examples of such scholarships include Association of Southeast Asian Nations (ASEAN) scholarships, A*Star India Scholarship, SIA Youth Scholarships (offered by Singapore Airlines to Indian students), and Hong Kong Scholarships and Awards.

⁵ Scholarships are offered to citizens of ASEAN, Organisation of the Islamic Conference, Commonwealth member countries and others covering tuition fees, air tickets, free medical and dental treatment and various allowances.

will cover the full tuition fee of the students and will be tenable for the normal duration of the programme concerned and renewable annually subject to satisfactory academic performance of the awardees. Nominations will be sought from institutions and considered by the Steering Committee. We estimate that on an ongoing basis, this initiative will require about \$4 to 5 million per year⁶. The amount will be covered by the investment income generated from the original \$1 billion injection into the Fund.

Steering Committee and Investment Committee under the Fund

15. As mentioned above, an Investment Committee has been set up under the Steering Committee to formulate policies for and monitor the investment of the Fund. Recommendations of the Investment Committee will be reviewed by the Steering Committee through circulation of papers before being submitted to the trustee.

16. We note that in the cases of the Quality Education Fund and the Self-financing Post-secondary Education Fund, a Steering Committee and an Investment Committee are set up under PSEdI in parallel, and both advise the trustee directly according to their respective terms of reference. Adopting this arrangement for the Fund will streamline and enhance the efficiency of the operation of the Fund. We therefore propose that the Investment Committee should be made independent from the Steering Committee and advise the trustee directly on investment strategies and related matters of the Fund. The Steering Committee will continue to be kept informed of the Investment Committee's advice and recommendations through circulation of papers or reports at meetings.

Management, operation and control of the Fund

17. PSEdI as the trustee will continue to invest the Fund in accordance with section 5 of the Permanent Secretary for Education Incorporation Ordinance (Cap. 1098) (the Ordinance) with the advice of the Director of Accounting Services and the Investment Committee. The Fund is estimated to generate a long-term average investment return of about 4-5% per annum. The investment income from the proposed injection of \$250 million, 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 to full-time publicly-funded sub-degree students on an ongoing basis. We propose to set aside

/about

⁶ The tuition fee for non-local students is around \$100,000 per year, i.e. around \$400,000 for a degree programme per student. It is estimated that when the initiative is in full operation, providing 10 scholarships per cohort will require about \$4 to 5 million per year.

about \$3 million from the investment income of the injection to support the provision of scholarships to around 100 sub-degree students in the 2011/12 academic year. To meet the requirements of the existing and new recipients, we expect this amount to gradually increase to about \$12 million in the 2013/14 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 cash flow for the provision of scholarships to the sub-degree students is set out at Enclosure.

Encl.

18. That said, to allow some flexibility for the trustee to redeploy funds to meet the changing needs of the publicly-funded post-secondary sector, the additional injection of \$250 million should form an integral part of the Fund in support of two parallel scholarship schemes for publicly-funded degree and above, and sub-degree students. We propose that the trustee, on the advice of the Steering Committee, be given the flexibility to deploy funds within and investment income from the entire Fund between the two scholarship schemes. Furthermore, in the light of potential market volatilities, the trustee may draw down on a small part of the capital under exceptional circumstances.

19. As are the current practices, an annual report on the operation of the Fund will be submitted to the Steering Committee for endorsement, and the audited accounts of the Fund will be tabled before the Legislative Council as required by the Ordinance.

FINANCIAL IMPLICATIONS

20. Subject to FC's approval, we will inject \$250 million into the Fund in 2011-12. We have earmarked sufficient provision in the 2011-12 Estimates for this purpose. The proposal will not create any additional recurrent financial commitment for the Government. It has no additional staffing implication as the existing staff will take up the increased secretarial support work and the management and investment of the injected sum into the Fund.

PUBLIC CONSULTATION

21. The proposal was discussed in the Legislative Council Panel on Education on 9 May 2011. Members supported the proposal. Supplementary information requested by Members on places of origin of non-local scholarship recipients, whether non-local recipients have stayed in Hong Kong after graduation and the experience of overseas countries in providing scholarships to non-local students was circulated to Members on 3 June 2011.

BACKGROUND

22. FC approved in February 2008 (vide FCR(2007-08)53) a commitment of \$1 billion to launch the Fund. The Fund provides government scholarships to outstanding local and non-local students studying in full-time publicly-funded degree or above level programmes in Hong Kong, so as to –

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

23. The Financial Secretary proposed in the 2011-12 Budget that \$250 million be injected into the Fund to extend its scope to provide scholarships to students of full-time publicly-funded sub-degree programmes.

Education Bureau
June 2011

**Estimated Cash Flow for the Provision of Scholarships to
Full-time Publicly-funded Sub-degree Students under the
HKSAR Government Scholarship Fund**

	<i>Academic Year (\$ million)[#]</i>				
	2011/12	2012/13	2013/14	2014/15	2015/16
2011/12 cohort	3	3			
2012/13 cohort		6	6		
2013/14 cohort			6	6	
2014/15 cohort				6	6
2015/16 cohort					6
	<u>3</u>	<u>9</u>	<u>12</u>	<u>12</u>	<u>12</u>

Assuming the scholarship recipients are all undertaking a two-year sub-degree programme
