

## **ITEM FOR FINANCE COMMITTEE**

### **HEAD 190 – UNIVERSITY GRANTS COMMITTEE**

#### **Subhead 700 General non-recurrent**

#### **New Item “Injection into the Research Endowment Fund”**

Members are invited to approve a new commitment of \$3 billion for injection into the Research Endowment Fund for providing non-means-tested studentships for local students enrolled in University Grants Committee-funded research postgraduate programmes, with a view to incentivising more local students to apply for admission to research postgraduate programmes.

### **PROBLEM**

We need to incentivise more local students to apply for admission to University Grants Committee (UGC)-funded research postgraduate (RPg) programmes so as to build up a pool of local research talents.

### **PROPOSAL**

2. The Secretary for Education proposes to create a new commitment of \$3 billion for an injection into the Research Endowment Fund (REF), which will be used to generate investment income for providing non-means-tested studentships for local students enrolled in UGC-funded RPg programmes with a view to incentivising more local students to apply for admission to UGC-funded RPg programmes.

**/JUSTIFICATION .....**

## JUSTIFICATION

3. Research is crucial to the development of higher education and enhancing the competitiveness of an economy. Over the years, the number of local students enrolled in UGC-funded RPg programmes has declined. In 2006/07 academic year, out of 5 465 students enrolled in UGC-funded RPg programmes, 2 568 were local students. While the total number of UGC-funded RPg students increased to 7 567 in 2016/17 academic year, only 1 519 were local students.

4. The decline in local student enrolment can be attributed to a number of factors such as prevailing employment opportunities in the market, personal career orientation and prospect in the teaching/research fields. We observe that, in recent years, local graduates have become less interested in applying to study in UGC-funded RPg programmes after obtaining their first degrees. In fact, our estimation is that the number of local students who would apply for admission to UGC-funded RPg programmes is now fewer than 1 000 per year<sup>1</sup>, even though the “success rate” of local applicants is generally higher than their non-local counterparts<sup>2</sup>.

5. While we reaffirm our policy to allow UGC-funded universities to admit the best talents to their UGC-funded RPg programmes regardless of origin, we also see a need to incentivise more local students to apply for admission to RPg programmes. Our goal is to build up a pool of local research talents to sustain Hong Kong’s competitiveness and propel the development of our higher education sector. In this connection, we propose the establishment of a new RPg studentships scheme and we expect the scheme could incentivise more local graduates to pursue RPg programmes.

### Studentships for local students enrolled in UGC-funded RPg programmes

6. As announced in the Chief Executive’s Policy Address in October 2017, the Government will inject \$3 billion into the REF to generate investment income so as to provide studentships for local students enrolled in UGC-funded RPg programmes. The detailed proposal on the new studentships scheme is set out in the ensuing paragraphs.

*/Eligibility .....*

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<sup>1</sup> While UGC-funded universities have maintained statistics on the number of applications received, we are unable to ascertain the actual number of students who are interested in applying for RPg programmes because a student may submit more than one application to different universities. That said, UGC-funded universities estimate that, on average, each local applicant would submit two applications for admission to UGC-funded RPg programmes.

<sup>2</sup> In 2016/17 academic year, about 28.7% of the applications for admission to UGC-funded RPg programmes by local students were successful. In contrast, the success rate was about 13.8% for non-local students. The chance for local students to be admitted to UGC-funded RPg programmes is more than double of that for non-local students and this shows that local students are competent RPg applicants.

***Eligibility***

7. We propose that the studentship should be provided on a non-means-tested basis. All local students who are enrolled in UGC-funded RPg programmes (including students who are already studying in RPg programmes and new students), regardless of their discipline of study, are eligible for the studentship. Having regard to the objective that the studentship is provided to cover the tuition fees of local RPg students, if the tuition fee of the RPg student has been waived under any circumstances, the student will no longer be eligible for the studentship.

***Coverage and funding***

8. The studentship will cover the tuition fees for the normative study period of UGC-funded RPg programmes<sup>3</sup>. The amount of studentship will be pegged to the prevailing tuition fee payable by RPg students (i.e. \$42,100 per student per annum currently).

9. We propose that the studentships scheme should commence from the 2018/19 academic year. There will be no cap on the number of studentship recipients. Subject to the approval of Finance Committee (FC) of the Legislative Council (LegCo) for the proposed injection, we will make appropriate investment arrangements. The UGC will use its own resources to cover any shortfall if the accumulated investment return to be generated from the proposed \$3 billion endowment is not sufficient to provide studentships for all eligible students.

10. As it takes time to generate investment income from the \$3 billion endowment to fund the studentships scheme, as a one-off measure, EDB will deploy existing resources for UGC to provide sufficient studentships for all local RPg students to be enrolled in the 2018/19 academic year<sup>4</sup>.

***/Administration .....***

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<sup>3</sup> The normative study period for Master of Philosophy studies is two years. The normal duration of Doctor of Philosophy studies is three years (for students who have a research master's degree) or four years (for students who do not have a research master's degree).

<sup>4</sup> Assuming that there will be a 10% increase from the number of local students enrolled in 2016/17 after the introduction of the studentships scheme, \$70 million will be earmarked in 2018-19 draft Estimates for such purpose to provide studentships for about 1 660 eligible students.

*Administration of the studentships scheme*

11. Under the studentships scheme, selection and admission of students to UGC-funded RPg programmes continues to fall within the institutional autonomy of universities. UGC is working on the detailed operational arrangements and will discuss with the universities before the scheme is implemented.

**CONTROL AND MONITORING MECHANISM**

12. The existing REF control and monitoring mechanism will continue to apply. More specifically, the Permanent Secretary for Education Incorporated will act as the trustee of the REF; and the UGC will advise the trustee on the policies and procedures governing the operation and development of the REF, and be responsible for managing the investment and accounting matters of the REF. The Education Bureau will also continue to table the annual audited accounts of REF before LegCo.

13. The UGC will work out an appropriate mechanism in consultation with its funded universities to ensure prudent use of public money when administering the studentships scheme.

**FINANCIAL IMPLICATIONS**

14. The proposed injection into the REF will require a one-off funding of \$3 billion. On the assumption that the rate of return is in the range from 2.4% to 3.3% per annum, the annual funding available from the investment income generated by the proposed injection would be around \$72 million to \$99 million, which could provide studentships for about 1 710 to 2 350 eligible students annually.

15. With the introduction of the studentships scheme, there will be estimated savings of around \$900,000 per academic year from student financial assistance<sup>5</sup>.

**PUBLIC CONSULTATION**

16. The LegCo Panel on Education discussed the proposed injection at its meeting on 3 November 2017. Whilst some Members have expressed concerns on the employment prospects of RPg students upon graduation, they supported the proposed injection into the REF.

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<sup>5</sup> For reference, in 2016/17 academic year, tuition fee grants of about \$860,000 was approved under Tertiary Student Finance Scheme - Publicly-funded Programmes for RPg students.

17. Regarding employment prospects of RPg students, we note that different openings of teaching or research positions are offered by local post-secondary institutions. As far as the UGC-funded sector is concerned, there were about 2 740 openings of teaching or research positions in 2016. On the other hand, through the new “Postdoctoral Hub” programme and the enhanced “Internship Programme” under the Innovation and Technology Fund (ITF) as announced in the latest Policy Address, the Innovation and Technology Bureau will provide funding support to organisations undertaking ITF projects as well as incubatees and tenant companies of the Hong Kong Science and Technology Parks Corporation and Cyberport for recruiting university graduates and postdoctoral talents for research and development work. The abovementioned programmes would provide more employment opportunities for RPg graduates.

## BACKGROUND

18. With FC’s approval vide FCR(2008-09)55, the REF was established in 2009 with an original endowment of \$18 billion. The investment income of the endowment is intended to –

- (a) replace, from the 2010/11 academic year onwards, \$506 million of annual recurrent subvention to Research Grants Council (RGC) for distribution as earmarked research grants to the UGC-funded institutions; and
- (b) support theme-based research with investment income of up to \$4 billion of the REF, thus allowing the UGC-funded universities to work on research proposals on themes of a more long-term nature and strategically beneficial to the development of Hong Kong.

19. To enhance the research capacity of the higher education sector, with the approval of FC vide FCR(2011-12)55, we injected another \$5 billion endowment into the REF in 2012. The investment income from \$2 billion of the endowment replaces the \$100 million annual recurrent subvention to RGC for distribution as earmarked research grants to the UGC-funded institutions, thus providing greater funding stability and certainty. The investment income from the remaining \$3 billion of the injection is distributed on a competitive basis to full-time academics in the local self-financing degree sector (including applications submitted by such academics in collaboration with academics from UGC-funded institutions). The balance of REF as at 30 November 2017 was \$26.2 billion.