

ITEM FOR FINANCE COMMITTEE

HEAD 173 - STUDENT FINANCIAL ASSISTANCE AGENCY

Subhead 149 General departmental expenses

Subhead 151 Remission of examination fees

Subhead 153 Textbooks and stationery grants

Subhead 155 Travel subsidy for primary school pupils

Subhead 156 Kindergartens-fee assistance

Subhead 213 Means-tested grant for post-secondary students

Subhead 274 Student finance-grants

Subhead 275 Student travel scheme

LOAN FUND

HEAD 254 - LOANS TO STUDENTS

Subhead 101 Students of the universities, the Hong Kong Institute of Vocational Education, Prince Philip Dental Hospital, Hong Kong Institute of Education and Hong Kong Academy for Performing Arts

Subhead 103 Means-tested loan for post-secondary students

Members are invited to accept the additional financial implications of the following improvement measures for means-tested student financial assistance schemes with effect from the 2002/03 school year –

- (a) adopting the Adjusted Family Income mechanism in place of the Points Scoring System for determining the eligibility of secondary, primary and kindergarten students for means-tested student financial assistance;

(b)

- (b) modifying, as appropriate, the ready reckoner and formula of the Adjusted Family Income mechanism for application to student financial assistance schemes at all levels of studies;
- (c) introducing a further level of remission at 75%, on top of the existing 50% and 100% remission levels, for the Kindergarten Fee Remission Scheme; and
- (d) the Student Financial Assistance Agency taking over from schools the responsibility of vetting applications for student financial assistance under the Adjusted Family Income system.

PROBLEM

The Student Financial Assistance Agency (SFAA) currently uses a Points Scoring System (PSS) to determine the eligibility of secondary, primary and kindergarten (KG) students for means-tested financial assistance. Under the PSS, families of the same size and within the same income brackets receive different levels of assistance (50% or 100%) as a result of differences in family composition. The eligibility cap on monthly family income irrespective of size of family also penalizes large families. Furthermore, there is a time lag in the provision of assistance for secondary and primary students and schools are loaded with the processing of applications. The use of the PSS is also inconsistent with the adoption of the Adjusted Family Income (AFI) means-testing mechanism in the case of financial assistance schemes for post-secondary students.

2. Separately, we need to take forward a recommendation of the Education Commission to improve pre-school education by improving direct financial assistance for parents.

/PROPOSAL

PROPOSAL

3. With the support of the Secretary for Education and Manpower, the Controller, Student Financial Assistance Agency proposes the following improvement measures with effect from the 2002/03 school year –

- (a) adopt the AFI mechanism in place of the PSS in means-testing secondary, primary and KG students, to ensure consistency in providing financial assistance to these students as well as to cater for the needs of large families (paragraphs 4 - 7);
- (b) modify, as appropriate, the ready reckoner and formula of the AFI mechanism for application to all means-tested student financial assistance schemes in Enclosure 1, in order to bridge the gap in income thresholds between the AFI and the PSS formulae and hence ensure that no secondary, primary or KG student would be worse off upon the change over proposed in (a) above (paragraphs 8 - 12);
- (c) introduce, for the Kindergarten Fee Remission Scheme (KGFRS), a further level of fee remission at 75%, on top of the current 100% and 50% rates, to better assist KG pupils (paragraphs 13-14); and
- (d) take over from schools the responsibility of vetting applications for financial assistance under the AFI mechanism (paragraph 15).

JUSTIFICATION**Comparison between the AFI mechanism and the PSS**

- Encl. 1 4. SFAA administers various means-tested financial assistance schemes for needy students at all levels of studies (a summary of these schemes is at Enclosure 1). For schemes catering to post-secondary students, we conduct means test by applying the AFI mechanism. As regards the schemes for secondary, primary and KG students, we conduct means test according to the PSS. Enclosures 2 and 3 illustrate the operation of the AFI and the PSS respectively.

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5. Under the PSS, the eligibility of families for 50% or 100% fee assistance is determined with reference to the size, income and composition of the dependent family members. Families of the same size and within the same income brackets may not receive the same level of financial assistance if their family compositions are different. Families whose monthly income exceeds \$23,700 would also not be assisted, irrespective of their size. Large families are thus disadvantaged.

6. On the other hand, we see a number of strengths with the AFI mechanism which is based on the following formula -

$$\text{AFI} = \frac{\text{Gross annual income of the family}}{\text{Number of household members} + 1}$$

The AFI mechanism takes into account the number of household members rather than the composition of the family, hence allowing consistency in the disbursement of assistance to families with similar household income and size. As it operates by reference to the adjusted average income of a household member and not the total household income, it ensures that large families with relatively larger household income are not denied financial assistance. At the same time, it does not overlook the needs of small families. By enlarging the denominator of the formula, the plus 1 factor helps ensure a lower AFI and hence a higher level of assistance for small families, so that they are not disadvantaged when compared with large families having the advantage of economy of scale.

Proposed Replacement of the PSS by the AFI

7. In view of the above, we propose to replace the PSS by the AFI mechanism for determining the eligibility for 50% and 100% assistance under various financial assistance schemes for secondary, primary and KG students. Specifically, families with AFI that would qualify for maximum grant (100%) under the Local Student Finance Scheme (LSFS)¹, which now operates by the AFI mechanism, should receive full grant assistance under schemes 3-8 in Enclosure 1. Those with AFI qualifying for minimum grant (4%) but below maximum grant under the LSFS will receive 50% grant assistance.

/Modification

¹ Under the LSFS, financial assistance is provided on a sliding scale of AFI. An applicant with an AFI of \$19,887 or below (see ready reckoner at Enclosure 2) is eligible for a grant at 100%. An AFI between \$19,888 and \$22,082 would render an applicant eligible for a 95% grant. At the other extreme, an applicant with an AFI between \$52,103 and \$54,257 is eligible for a 4% grant. An applicant with an AFI higher than \$54,257 is not eligible for assistance.

Modification of AFI Features

8. Although the AFI mechanism has many advantages over the PSS, some families receiving financial assistance under various schemes operating by the PSS will be worse off upon the switch. This is because the current income threshold for assistance under the AFI mechanism is lower than that for PSS. Unless this difference in threshold is removed in the run up to the 2002/03 school year (as a result of the annual price adjustments for the PSS and AFI formulae in accordance with different adjustment mechanisms), we propose to modify the features of the AFI mechanism with a view to bridging the gap between the income thresholds, and in so doing, ensuring that students will not be worse off upon the change in the means-testing mechanism. Subject to Members' approval of this principle, the Secretary for the Treasury will make the necessary adjustments as proposed in paragraphs 11 and 12 below, on the basis of the income thresholds prevailing before the start of the 2002/03 school year.

(a) Adjustment to AFI Ready Reckoner

9. In accordance with the 2001/02 AFI Ready Reckoner at Enclosure 2, tertiary students receive 100% grant for an AFI of \$19,887 or below, and 4% grant for an AFI between \$52,103 and \$54,257. The AFI Ready Reckoner is adjusted annually in accordance with the movement of the Consumer Price Index (A) (CPI(A)).

10. Under the 2001/02 PSS, a 4-member family with one child attending senior secondary school and another child attending junior secondary school and earning \$8,500 a month is eligible for 100% assistance. As this household income of \$8,500 will translate into an AFI of \$20,400 for a family of four, the same family would only be eligible for 50% assistance upon switch to the AFI system. Likewise, a 4-member family with monthly income of \$22,700 is now eligible to receive 50% assistance under the PSS. Under the AFI mechanism, the same family will be assessed as having an AFI of \$54,480, rendering them ineligible for any assistance upon the switch. In other words, these families would become worse off if we adopt the present AFI Ready Reckoner as it is.

11. In order that secondary, primary and KG students would not lose out from the switch to AFI, we propose to bridge the gap between the income thresholds of the two systems before the 2002/03 school year. Using the current levels as an

/example

example, we propose to modify the AFI Ready Reckoner for maximum and minimum grant assistance under all means-tested student financial assistance schemes at Enclosure 1 to \$20,400 (from \$19,887) and \$54,480 (from \$54,257) respectively.

(b) Adjustment to AFI formula

12. Even after the modification proposed in paragraph 11 above, a simulation exercise on the application of the AFI formula, using the 2000/01 profiles of applications made by secondary, primary and KG students, indicates that a number of 2-3 member single-parent families would lose out on changing over from the PSS to the AFI. To ensure that these students do not become worse-off under AFI, we propose to provide an additional plus 1 factor (ie a total of plus 2) in the denominator of the AFI formula (see paragraph 6 above) for 2-3 member single-parent families.

75% Level of Fee Remission under the KGFRS

13. As with financial assistance schemes for secondary and primary students, the KGFRS provides assistance at two levels, 100% and 50% rates. Applying the 2001/02 PSS reckoner to the profile of applicants in the 2000/01 school year, there would be 66 000 KG students eligible for KG fee remission, with 6 150 at 100% level. With the adoption of the modified AFI mechanism, 2 300 more students would benefit from the KGFRS. Some 10 000 existing recipients would also receive 100% instead of 50% fee remission.

14. In its report issued in September 2000, the Education Commission recommended that Government should consider relaxing eligibility criteria of the means-tested assistance schemes for pre-school students, and increasing the level of assistance to benefit more families. Parents will then be in a better position to choose quality institutions for their children. Government has accepted this recommendation. Accordingly, we propose to further enhance the fee assistance for KG students, by introducing a new level of 75% fee remission under the KGFRS for families not eligible for 100% remission but whose AFI is at or above a level qualifying for a notional 75% assistance under the AFI Ready Reckoner i.e. \$30,169 under the prevailing rates. This is equivalent to a household income of \$12,570 per month for a family of four. With this enhancement, another 29 000 families would receive more assistance under the scheme.

/Relieve

Relieve schools of the responsibility for processing applications and advance notification of results and payments

15. At present, SFAA receive applications for assistance only after the start of a school year. As a result, SFAA is only able to notify eligible secondary and primary students of the results of their applications and make payments in December, some three months after the start of the school year. Primary and secondary schools are also heavily involved in processing the applications received. Upon the adoption of the AFI system as proposed in this submission, the applications could be processed before the start of a school year. This is because the AFI mechanism, unlike PSS, does not take into account the composition (including level of study) of an applicant's dependents. Being per capita income based, it assesses a family's eligibility for assistance should a child attend school. Applications can therefore be submitted before the end of a school year and processed during the summer holidays. Under this arrangement, SFAA would be able to notify eligible students of their application results in August and advance the making of payments by about two months to October. As a further improvement measure, SFAA will take over from schools the responsibility of processing applications, thus relieving teachers of a heavy administrative chore.

Revised Eligibility

Encl. 4 16. If the above proposals are accepted, the monthly household income for various family sizes and levels of assistance are illustrated at Enclosure 4.

IMPLEMENTATION AND FINANCIAL IMPLICATIONS

17. We propose to implement the improvement proposals in the 2002/03 school year. Based on the 2000/01 application profile, we estimate that the additional annual cost would be about \$302 million in grants and fee remissions and \$19 million in loans, broken down as follows –

/Schemes

Schemes	Additional cost in grant / fee remission (\$ million)	Additional loan (\$ million)
Senior Secondary Fee Remission Scheme	31	
Examination Fee Remission Scheme	4	
School Textbook Assistance Scheme	62	
Student Travel Subsidy Scheme	35	
Cross Net Travel Subsidy Scheme	2	
Kindergarten Fee Remission Scheme	145	
Local Student Finance Scheme / Financial Assistance Scheme for Post-secondary Students	23	19
Total	<u>302</u>	<u>19</u>

The above takes into account the discontinuation of the disbursement of an exceptional “part travel allowance”² with effect from the 2002/03 school year, as the improvements proposed in this paper would have already addressed the needs of the majority of secondary and primary students now receiving this allowance.

18. SFAA will incur additional recurrent expenditure of about \$8 million mainly for the hire of temporary staff to take over from schools the vetting of applications and additional departmental expenditures on postage and printing. To support the standardisation of the means-test mechanism for all schemes of assistance, SFAA will enhance its existing computer systems and seek funds in the normal manner.

/19.

² Part travel subsidies are granted to certain students who marginally fail the PSS means test for travel allowance under the existing travel subsidy schemes for primary and secondary students. It is calculated at the rate of half the difference between the overall average fare for students eligible for the main travel subsidy and the average fare relevant to the applicant’s residence and place of study.

19. If Members approve the proposals, we will include the necessary provision in the annual draft Estimates for 2002-03 and thereafter. We estimate that over 108 000 students would benefit, including 90 000 existing recipients who will receive more assistance under the proposals and 18 000 new beneficiaries.

BACKGROUND INFORMATION

20. To ensure that no student will be denied access to education for lack of means, the Government administers various means-tested student financial assistance schemes (Enclosure 1) to assist needy students in meeting the cost of their education related expenses.

21. In the 2001 Policy Objective Booklet on “Quality Education”, the Government has committed to pursuing the following initiatives –

- (a) to further improve the KGFRS to enhance the financial assistance given to needy families with children attending KGs and to rationalise the assessment system; and
- (b) to improve and rationalise various student financial assistance schemes for primary and secondary school students and apply the modified mechanism to the LSFS and the FASP.

Although the proposals in this paper will only take effect from 2002/03 school year, the SFAA will need to start the preparatory work as soon as possible and invite applications before the end of the current financial year.

22. We briefed the Legislative Council Panel on Education on the proposals on 19 November 2001. The Panel was supportive of the proposals.

Means-tested Student Financial Assistance Schemes

1. The **Local Student Finance Scheme (LSFS)** provides financial assistance in the form of grants (to cover tuition fees, academic expenses and compulsory student union fees) and/or low interest loans (to cover living costs). Eligible students include those attending degree or sub-degree courses at publicly-funded institutions, namely the University Grants Committee-funded institutions, the Institute of Vocational Education (IVE) of the Vocational Training Council, the Prince Philip Dental Hospital and the Hong Kong Academy for Performing Arts. The LSFS also covers Diploma and Common First Year students of the IVE.
2. The **Financial Assistance Scheme for Post-secondary Student (FASP)** provides financial assistance to needy full-time students aged 25 and below and pursuing accredited, self-financing post-secondary education programmes. Assistance is in the form of grant or loan for the payment of tuition fees.
3. The **Senior Secondary Fee Remission Scheme (SSFRS)** provides assistance in the form of fee remission (full or half) to needy Secondary 4 to Secondary 7 students to continue their secondary education in government, aided, caput schools.
4. The **Examination Fee Remission Scheme (EFRS)** assists Secondary 5 and Secondary 7 students to meet their examination fees for the Hong Kong Certificate of Education Examination and Hong Kong Advanced Level Examination. Students who are eligible for full tuition fee remission in public sector and private schools are eligible for full examination fee remission.
5. The **School Textbook Assistance Scheme (STAS)** provides cash grants to eligible Primary 1 to Secondary 7 students in government, aided, caput schools, and local schools under the Direct Subsidy Scheme for purchasing essential textbooks and miscellaneous school-related expenses. A successful applicant receives a full grant or a half grant depending on the outcome of the means test.

6. The **Student Travel Subsidy Scheme** (STSS) provides travel subsidy to full-time students aged 12 or above who have not yet completed their first degree, and who live beyond ten minutes' walking distance from their school. A successful applicant will receive, depending on their means, a full rate or half rate subsidy for home-school travel during term time. The full rate subsidy is set at a level equivalent to full average fare and, in the case of the Mass Transit Railway, the concessionary fare.

7. The **Cross Net Travel Subsidy Scheme** (CTSS) provides travel subsidy to needy primary school students aged below 12 who attend government or aided schools outside their residing Primary One Admission Nets and live more than a 10-minute walk from their places of study.

8. The **Kindergarten Fee Remission Scheme** (KGFRS) provides financial assistance in the form of fee remission to needy parents with children attending kindergartens.

Adjusted Family Income System

Means-test under the Local Student Finance Scheme (LSFS)

“Adjusted Family Income” (AFI) Formula

The AFI is the –

- (a) **Sum** of the annual income of parents, 30% of the annual income of unmarried siblings living with the family and studentships;
- (b) **Less** unavoidable medical expenses (subject to a cap) for chronically ill household members; and
- (c) **Divided** by the number of household members (i.e. the applicant, his parents, unmarried siblings and dependent grandparents) with a “**plus one**” factor.

Ready Reckoner for 2001/02

AFI Groups between (HK\$)		% of Maximum Grant	% of Maximum Loan
0	19,887	100%	100%
19,888	22,082	95%	96%
22,083	24,278	91%	92%
24,279	26,473	86%	88%
26,474	28,665	82%	83%
28,666	30,813	72%	72%
30,814	32,961	63%	61%
32,962	35,110	53%	50%
35,111	37,255	44%	39%
37,256	39,349	36%	31%
39,350	41,444	28%	24%
41,445	43,540	21%	16%
43,541	45,632	13%	9%
45,633	47,789	11%	8%
47,790	49,945	8%	6%
49,946	52,102	6%	4%
52,103	54,257	4%	2%
	> 54,257	0%	0%

/Example

Example:

Parents' annual income	\$120,000
Annual income of unmarried sibling	\$120,000
Deductible medical expenses	Nil
Family size	4
* AFI $(\$120,000 + \$120,000 \times 30\%) \div (4 \text{ members} + 1)$	\$31,200 \Rightarrow discount factor 63% of maximum grant and 61% of maximum loan
Maximum grant (i.e. tuition fee + academic expenses + compulsory union fee)	\$50,000
Maximum loan	\$33,420
Income test¹	
Entitled grant ($\$50,000 \times 63\%$)	\$31,500
Entitled loan ($\$33,420 \times 61\%$)	\$20,386 (rounded down to \$20,380)

¹ In addition to the AFI-based income test, there is also an asset test under the LSFS to further adjust the level of assistance to students.

**The Means-test of Student Financial Assistance Schemes for
Secondary, Primary and Kindergarten Students**

Points Scoring System

Assessment of eligibility for financial assistance is based on a points system, which takes into account an applicant's average monthly income and the size and composition of dependent family members. A score of 18 points and above would entitle the student to full rate of assistance; scores ranging from 5 to 17 points would provide assistance at half rate. The distribution of points is at the Annex.

2. A comparison between similar sized families with comparable monthly incomes in terms of their eligibility for and level of assistance under the PSS is shown below –

4-member Families (same income level)

<u>Family composition</u>	<u>Monthly income</u>	<u>Points scored</u>	<u>Level of Assistance</u>
<i>1 couple and 2 children</i>			
• 1 in senior secondary	\$6,701 - \$8,500	18	Full rate
1 in junior secondary	\$19,201 - \$20,900	5	Half rate
• 2 in junior secondary	\$6,701 - \$8,500	17	Half rate
	\$19,201 - \$20,900	4	Ineligible

Single parent, 1 dependent parent and 2 children

• 2 in junior secondary	\$6,701 - \$8,500	17	Half rate
	\$19,201 - \$20,900	4	Ineligible

5-member Families (same income level)

<u>Family composition</u>	<u>Monthly income</u>	<u>Points scored</u>	<u>Level of Assistance</u>
<i>1 couple, 1 dependent parent and 2 children</i>			
• 1 in senior secondary	\$20,901 - \$22,700	5	Half rate
1 in junior secondary			
• 2 in junior secondary	\$20,901 - \$22,700	4	Ineligible

**The Means Test Reckoner
2001/02**

A Means Test Reckoner is used to assess the eligibility of students applying for financial assistance under the Kindergarten Fee Remission Scheme, Senior Secondary Fee Remission Scheme, Examination Fee Remission Scheme, School Textbook Assistance Scheme, Student Travel Subsidy Scheme and Cross-net Travel Subsidy Scheme. Eligibility and the level of assistance are based on a points system which takes into account the applicants' monthly average household income and the number and composition of dependants in the family.

(A) Average Monthly Family Income from All Sources

Average Monthly Income \$			Point
0	-	4,900	20
4,901	-	6,700	16
6,701	-	8,500	12
8,501	-	10,200	8
10,201	-	11,900	5
11,901	-	13,700	4
13,701	-	15,100	3
15,101	-	16,400	2
16,401	-	17,800	1
17,801	-	19,200	0
19,201	-	20,900	-1
20,901	-	22,700	-2
22,701	-	23,700	-3
over 23,700			✘ Ineligible

- ✘ SFAA will not conduct the means test for applications with family income exceeding this ceiling. These applications will not be eligible for any assistance.

/(B)

(B) Dependants

Dependants of the Applicant	Points Score for Each Dependant	
1. Spouse	1	
2. Dependent Parent	1	
3. Dependent Children a) Receiving full-time senior secondary education (S4-S7) and under the KGFRS kindergarten education	3	
b) Receiving full-time education up to first degree [including pre-primary education, primary to junior secondary (P1-S3) education, VTC, IVE, post-secondary / tertiary courses, etc.]	2	
c) Attending evening / part-time / special training courses OR not yet attending school OR not attending schools	1 (for children aged under 18 i.e. born on / after 1.9.1982)	0 (for children aged over 18 i.e. born before 1.9.1982)

**Monthly Household Income for
various family sizes and levels of assistance**

For primary and secondary students

<u>Family size</u>	<u>Monthly income ceiling for</u>	
	<u>100% remission</u>	<u>50% remission</u>
2 (single parent)	≤ \$6,800	\$6,801 – \$18,160
3	≤ \$6,800	\$6,801 – \$18,160
3 (single parent)	≤ \$8,500	\$8,501 – \$22,700
4	≤ \$8,500	\$8,501 – \$22,700
5	≤ \$10,200	\$10,201 – \$27,240
6	≤ \$11,900	\$11,901 – \$31,780
7	≤ \$13,600	\$13,601 – \$36,320

For kindergarten students

<u>Family size</u>	<u>Monthly income ceiling for KGFRS</u>		
	<u>100% remission</u>	<u>75% remission</u>	<u>50% remission</u>
2 (single parent)	≤ \$6,800	\$6,801 – \$10,056	\$10,057 – \$18,160
3	≤ \$6,800	\$6,801 – \$10,056	\$10,057 – \$18,160
3 (single parent)	≤ \$8,500	\$8,501 – \$12,570	\$12,571 – \$22,700
4	≤ \$8,500	\$8,501 – \$12,570	\$12,571 – \$22,700
5	≤ \$10,200	\$10,201 – \$15,084	\$15,085 – \$27,240
6	≤ \$11,900	\$11,901 – \$17,598	\$17,599 – \$31,780
7	≤ \$13,600	\$13,601 – \$20,112	\$20,113 – \$36,320