

## **LegCo Panel on Education**

### **Improvements to Student Financial Assistance Schemes**

#### **Problems**

Financial assistance schemes for secondary, primary and kindergarten (KG) students use a Points Scoring System (PSS) to means test the family income of applicants. Under the PSS, families of the same size and within the same income brackets receive different levels of assistance 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.

#### **Recommendations**

2. We **recommend** the following improvements and rationalisation with effect from the 2002/03 school year –

- (a) replace the current PSS in means-testing secondary, primary and KG students by the Adjusted Family Income (AFI) system, to ensure consistency in providing financial assistance as well as to cater for the needs of large families (**paragraphs 7, 8 and 19**);
- (b) adjust, where necessary, the AFI Ready Reckoner of per capita income levels for maximum and minimum assistance and modify the AFI formula to ensure that on changeover to the new arrangement, secondary, primary and KG students would not lose out (**paragraphs 9 - 11**);
- (c) remove the provision of partial travel subsidies under the student travel subsidy schemes which will largely be subsumed by the improvements under (a) and (b) above (**paragraphs 12 - 13**);

- (d) advance dates of payment of financial assistance for secondary and primary students (**paragraph 16**);
- (e) relieve schools in vetting applications for financial assistance, the responsibility for which would be taken up by the Student Financial Assistance Agency (SFAA) (**paragraph 17**);
- (f) apply the adjusted AFI Ready Reckoner and the modified AFI formula to tertiary students in the Local Student Finance Scheme (LSFS) and post-secondary students in the Financial Assistance Scheme for Post-secondary Students (FASP) (**paragraph 18**); and
- (g) introduce, for the KG fee remission scheme, a further level of fee remission at 75%, on top of the current 100% and 50% rates, to better assist KG pupils (**paragraph 20**).

## **Financial Assistance for Secondary and Primary Students**

### *Financial Assistance Schemes*

3. SFAA administers various financial assistance schemes for needy secondary and primary students. They are –
- (a) the Senior Secondary Fee Remission Scheme (SSFRS);
  - (b) the Examination Fee Remission Scheme (EFRS) for secondary 5 and secondary 7 students;
  - (c) the School Textbook Assistance Scheme (STAS) for both secondary and primary students;
  - (d) the Student Travel Subsidy Scheme (STSS) – for full-time students aged 12 and above who have not completed their first degree and live beyond ten minutes' walking distance from their schools; and
  - (e) the Cross Net Travel Subsidy Scheme (CTSS) – for primary pupils aged below 12 who attend schools outside of their Primary One Admission Net and live beyond ten minutes' walking distance from their schools.

4. These schemes provide eligible students who pass a PSS with assistance at 100% or 50% rate. However, families of the same size and within the same income brackets may obtain different eligibility results under the PSS. Families whose monthly income exceeds \$23,700 would also not be assisted, irrespective of their size. An illustration of the operation of the PSS is at **Annex 1**.

5. We notify students of the results of their applications and make payments in December, some three months after the start of the school year. The reasons are two-fold –

- (a) to ensure prudent disbursement of funds to students actually attending school and as eligibility and also the level of assistance may be affected by a student's class level, applications are submitted through schools to SFAA after the start of the new school year, towards late September and early October; and
- (b) we rely on schools to collect and collate applications, including the checking of supporting documents. Since the beginning of September is a very busy time for schools and to allow time for parents to complete and submit their applications, schools normally carry out the processing work towards the latter part of September.

6. The time taken to provide assistance, especially in respect of grants for the purchase of textbooks, has been a subject of criticism. Teachers also feel the pressure of work in processing applications for assistance at a very busy time of the school year. At the Finance Committee meeting held on 17 November 2000, we undertook to review the possibility of advancing the payment of textbook assistance to provide more timely assistance to needy families. We also gave an assurance that the Administration would continue to seek to simplify and streamline application procedures to help reduce the administrative burden on schools.

#### *Switch from PSS to AFI*

7. To ensure that families of the same size with comparable income and large families are fairly treated, we propose to extend, to secondary and primary students, the AFI per capita income formula and the AFI Ready Reckoner now being used under the LSFS for tertiary students. Details of the LSFS means-test mechanism are at **Annex 2**.

8. The AFI is arrived at by dividing the gross annual income of the family by the number of household members plus a factor of 1. The plus 1 factor helps ensure that small families are not disadvantaged under a per capita income based formula compared with large families, which have the advantage of economy of scale. We propose that families with AFI qualifying for maximum grant (100%) under the LSFS system should receive full grant assistance under the SSFRS, EFRS, STAS, STSS and CTSS. Those with AFI qualifying for minimum grant (4%) but below maximum grant under the LSFS system will receive 50% grant assistance.

*Adjustment to AFI Ready Reckoner and Modification of Formula*

9. In accordance with the 2001/02 AFI Ready Reckoner at Annex 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 (equivalent to an AFI of \$20,400) is eligible for 100% assistance. Likewise, a 4-member family with monthly income of \$22,700 (equivalent to an AFI of \$54,480), is eligible to receive 50% assistance. In other words, these families would become worse off if the AFI formula is adopted. In order that secondary and primary students would not lose out from the switch to AFI, we propose to bridge the gap between the two. Using the current levels as an example, we propose to modify the AFI Ready Reckoner for maximum and minimum grant assistance under ALL schemes using the AFI to \$20,400 (from \$19,887) and \$54,480 (from \$54,257) respectively.

11. A simulation exercise on the application of the AFI formula, using the 2000/01 profiles of applications made by secondary and primary 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 in the AFI divisor for 2-3 member single-parent families.

*Removal of Part Travel Subsidies*

12. Under the STSS and CTSS, eligible students may receive a travel allowance, calculated at a rate based on the average fare on public transport

between the student's residence and the location of his school. However for students who marginally fail the means test (points score of 1 to 4), they may still receive an allowance if the average fare pertaining to the student exceeds the overall average fare for all eligible students. The part travel allowance is calculated at the rate of half the difference between the overall average fare and the average fare relevant to the student's residence and place of study.

13. The provision of a part travel subsidy for students who marginally fail the PSS was introduced when the present STSS first came into operation in 1991. It was intended to assist students who incurred higher than average travelling expenses. We consider that this practice should discontinue for the following reasons –

- (a) needy tertiary students meeting the LSFS means test are not provided part travel allowances. They either fulfil the criteria for obtaining assistance (grants and loans) and also a travel allowance if they reside beyond 10 minutes' walking distance from their place of study, or receive no travel allowance; and
- (b) under the proposed AFI model explained at paragraphs 7 to 11 above, the equalisation of treatment would result in about 80% of students presently qualifying for part travel allowance, becoming eligible for a travel allowance at 50% rate. They would therefore have been subsumed in the improvement proposal.

#### *Revised Eligibility and Beneficiaries*

14. If the above proposals were accepted, the monthly household income for various family sizes and levels of assistance would be –

<u>Family size</u>	<u>Monthly income ceiling for</u> <u>SSFRS/EFRS/STAS/STSS/CTSS</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

<u>Family size</u>	<u>Monthly income ceiling for</u> <u>SSFRS/EFRS/STAS/STSS/CTSS</u>	
	<u>100% remission</u>	<u>50% remission</u>
5	≤ \$10,200	\$10,201 – \$27,240
6	≤ \$11,900	\$11,901 – \$31,780
7	≤ \$13,600	\$13,601 – \$36,320

15. We estimate that some 65 000 students (32 300 secondary students and 32 700 primary students) would benefit. Among the beneficiaries, about 50 000 students would become eligible for 100% (instead of 50%) assistance and some 15 000 students would become newly eligible for 50% assistance.

#### *Advancement of Payments*

16. Adoption of AFI would enable SFAA to advance the notification of eligibility results before the start of the school year and also facilitate earlier payment of various assistance. Unlike PSS, AFI does not take into account the composition 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 the school year (in May/June) and be processed by SFAA during the summer holidays. Under this arrangement, eligible students would be given a certificate by August to bring to school at the beginning of term for resubmission to SFAA for making payments. Non-attendance at approved schools would not result in payments being made. The benefits are as follows –

- (a) eligibility for senior secondary fee remission would be known at the outset. Eligible students would not have to pay fees for the first few months of the school year and seek reimbursement from schools as presently required under PSS;
- (b) Secondary 5 and Secondary 7 students eligible for full fee remission are also eligible for examination fee remission. With advancement of the means test results in August, they would not have to pay their examination fees in November, as presently is the case under PSS;
- (c) payments for textbook assistance would be advanced by about two months to October;

- (d) payments for travel allowance would also be advanced by about one month to November. A slightly longer period is required to assess eligibility based on the walking distance criterion and to calculate the appropriate rate having regard to the location of the student's residence and school; and
- (e) access to Direct Subsidy Schools (DSS) by needy students would be facilitated. Under the DSS scheme, needy DSS students are eligible for assistance under the SFAA schemes for textbook assistance and school travel subsidies. Assistance on tuition fees is up to the discretion of individual DSS schools to provide scholarships or fee assistance under the recently revised arrangements approved by Finance Committee. Since 1999, new DSS schools are bound by a service agreement to provide financial assistance to needy students up to 10% of the total enrolment. The certificate to be issued by SFAA would facilitate DSS schools in identifying needy students for scholarships or fee assistance.

### *Relieving Schools of Responsibility for Processing Applications*

17. We also propose to relieve schools of the responsibility for processing applications which will be centrally handled by SFAA. This will relieve teachers of a heavy administrative chore at a very busy time of the school year. We will also simplify the application procedures to permit the submission of one application to cover all students in the family attending secondary and primary schools. Based on the applications received in the 2000/01 school year, a **family-based** application would reduce the number of applications by some 35%, from about 400 000 student-based applications to about 260 000 family-based applications. This substantial reduction in applications would reduce paper work and facilitate SFAA in taking over from schools the vetting process, which would provide greater consistency and better assurance that assistance is only provided to the genuinely needy.

### **Application of Modified AFI to LSFS and FASP**

18. With the proposed adjustment to the AFI Ready Reckoner and the modification to the AFI formula, we estimate that some 2 000 tertiary and post-secondary students would benefit under the LSFS and the newly-introduced FASP.

## Financial Assistance for KG Students

### *Switch from PSS to AFI with a New 75% Level of Fee Remission*

19. Our policy is to have, as far as it is practicable, one set of income-testing mechanism to assess eligibility of students for financial assistance at all level of studies. We therefore propose to apply the adjusted AFI mechanism to the KG Fee Remission Scheme (KGFRS). This would ensure that families of the same size with comparable income and large families are fairly treated.

20. As with financial assistance schemes for secondary and primary students, the KGFRS provides assistance at two levels, 100% and 50% rates. Members will note from paragraph 10 above that families earning slightly more than an AFI of \$20,400 will only receive 50% remission. 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 introduce 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 LSFS 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.

### *Revised Eligibility and Beneficiaries*

21. If the above proposals were accepted, the monthly household income for various family sizes and levels of assistance would be –

<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



<u>Family size</u>	<u>Monthly income ceiling for KGFRS</u>		
	<u>100% remission</u>	<u>75% remission</u>	<u>50% remission</u>
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

22. We estimate that some 41 000 KG students would benefit. Among the 60 000 existing beneficiaries who are currently receiving 50% assistance, about 10 000 students would become eligible for 100% assistance and 29 000 students 75% assistance. A further 2 000 students would become newly eligible for 50% assistance.

### **Implementation and Financial Implications**

23. We propose to implement the improvement proposals in the 2002/03 school year at an estimated additional annual cost of \$302 million in grants and fee remissions and \$19 million in loans. In addition, SFAA will require additional recurrent expenditure of about \$8 million for the hire of temporary staff to take over from schools the vetting of applications and additional operating costs, such as postage.

### **Advice Sought**

24. Members are invited to advise on the recommendations set out in paragraph 2 above.

Education and Manpower Bureau  
November 2001

## 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 Annex 1.1.

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)

<b>Family composition</b>	<b>Monthly income</b>	<b>Points scored</b>	<b>Level of Assistance</b>
<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
<i>Single parent, 1 dependent parent and 2 children</i>			
• 2 in junior secondary	\$6,701 - \$8,500	17	Half rate
	\$19,201 - \$20,900	4	Ineligible

#### 5-member Families (same income level)

<b>Family composition</b>	<b>Monthly income</b>	<b>Points scored</b>	<b>Level of Assistance</b>
<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) 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)	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 <b>OR</b> not yet attending school <b>OR</b> 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)

### Local Student Finance Scheme

The means test of the Local Student Finance Scheme assesses eligibility for and extent of assistance with reference to the gross annual income (less unavoidable medical expenses) and net assets of the applicant's family. The first tier of the means test is the **Adjusted Family Income (AFI)** formula, which determines against a **Ready Reckoner** whether, and if so, how much grant/loan the applicant is eligible. The second tier is the assets test which further discounts the amounts by taking into consideration the family's net assets (excluding the value of the first home) based on a sliding scale of net asset values.

#### “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%

## Assets Test

The following sliding scale sets out the discount factor to be applied to the grant/loan level calculated under the Adjusted Family Income ready reckoner.

Net Asset Value per Household Member (HK\$)	Discount Factor of Grant/Loans Assistance
Over \$540,000	0%
Over \$454,000 to \$540,000	20%
Over \$367,000 to \$454,000	40%
Over \$290,000 to \$367,000	60%
Over \$192,000 to \$290,000	80%
\$192,000 or below	100%

### 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
Net asset value of applicant and parents (not counting the first home)	\$1,050,000
* Per capita asset value $(\$1,050,000 \div 4)$	\$262,500 $\Rightarrow$ discount factor 80% of grant/loan level calculated under AFI ready reckoner
Maximum grant (i.e. tuition fee + academic expenses + compulsory union fee)	\$50,000
Maximum loan	\$33,420
<b>Income test</b>	
Entitled grant $(\$50,000 \times 63\%)$	\$31,500
Entitled loan $(\$33,420 \times 61\%)$	\$20,386 (rounded down to \$20,380)
<b>Asset test</b>	
Entitled grant $(\$31,500 \times 80\%)$	\$25,200
Entitled loan $(\$20,380 \times 80\%)$	\$16,304 (rounded down to \$16,300)