

ITEM FOR FINANCE COMMITTEE

HEAD 173 – STUDENT FINANCIAL ASSISTANCE AGENCY Subhead 228 Student financial assistance

LOAN FUND

HEAD 254 – LOANS TO STUDENTS

Subhead 102 Non-means-tested loan scheme

Members are invited to approve –

- (a) improvement of the means-tested grant under the Financial Assistance Scheme for Post-secondary Students with effect from the 2006/07 academic year by –
 - (i) applying the same sliding scale of the Local Student Finance Scheme for determining the grant level for each applicant as a percentage of the maximum grant level; and
 - (ii) increasing the amount of grant to cover academic expenses (in addition to the grant for tuition fees);
- (b) consequential to (a)(ii) above, increase in the maximum loan ceiling under the Non-means Tested Loan Scheme for Post-secondary Students to cover academic expenses (in addition to tuition fees and living expenses) with effect from the 2006/07 academic year; and

/(c)

- (c) supplementary provision of \$291 million under Head 173 Student Financial Assistance Agency Subhead 228 Student financial assistance in 2006-07.

PROBLEM

The financial assistance schemes for needy students pursuing locally accredited self-financing post-secondary programmes are less favourable than those for students pursuing publicly-funded post-secondary programmes. There are calls for improvement to reduce the financial burden on the former group of students.

PROPOSAL

2. With the support of the Secretary for Education and Manpower (SEM), the Controller, Student Financial Assistance Agency proposes the following measures with effect from the 2006/07 academic year –

- (a) improvement of the means-tested grant under the Financial Assistance Scheme for Post-secondary Students (FASP) (which is applicable to students pursuing self-financing post-secondary programmes) by –
 - (i) putting the means-tested grants on par with that of the Local Student Finance Scheme (LSFS) (which is applicable to students pursuing publicly-funded post-secondary programmes) by applying the same sliding scale as set out in the Enclosure for determining the grant level for each applicant as a percentage of the maximum grant level; and
 - (ii) increasing the amount of grant under the FASP by up to \$3,000 per student per annum to cover academic expenses. The grant rate will be subject to annual price adjustment in accordance with the movement of the Consumer Price Index (A) (CPI(A)); and

Encl.

/(b)

- (b) consequential to (a)(ii) above, increasing the maximum loan ceiling for Non-means-tested Loan Scheme for Post-secondary Students (NLSPS) to also cover academic expenses (in addition to tuition fees and living expenses) for those students who do not receive the maximum grant under the FASP.

JUSTIFICATION

Financial assistance for students pursuing self-financing post-secondary programmes

3. It is Government policy to ensure that no student is deprived of education for lack of means. As far as students of post-secondary programmes are concerned, student finance is provided in the form of means-tested grants, means-tested loans and non-means-tested loans, but the coverage, terms and conditions vary among individual schemes, all of which are administered by the Student Financial Assistance Agency (SFAA).

4. At present, the FASP provides a means-tested grant **or** loan to cover tuition fees for locally accredited, self-financing full-time post-secondary programmes leading to a sub-degree or higher qualification. The level of means-tested assistance is subject to price adjustment in accordance with the movement of CPI(A), and will be capped at \$56,560 for the 2006/07 academic year. Local students aged 25 or below without a sub-degree or higher qualification are eligible to apply. They may also apply for non-means-tested loans under the NLSPS to cover tuition fees (after deducting the actual amount of means-tested assistance, if any) and living expenses.

5. At present, under the FASP, the most needy students who pass the means test may receive full grant for tuition fees. Those who fail the means test receive no grant at all but are eligible for a partial means-tested loan according to a 17-level scale under the Adjusted Family Income (AFI) mechanism (as set out in the Enclosure). In contrast, under the LSFS (which is applicable to students pursuing publicly-funded post-secondary programmes), the most needy students receive full grant for both tuition fees and academic expenses while the less needy students may receive partial grant for payment of tuition fees and academic expenses according to another scale also with 17 levels (as set out in the Enclosure).

6. Students of self-financing post-secondary programmes eligible for the FASP are concerned about the differential treatment. They also claim that cumulative loans under the FASP create a heavy financial burden on them.

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7. To enhance the financial support to needy students pursuing self-financing post-secondary programmes, we propose to bring the means-tested grant under the FASP on par with that of LSFS with effect from the 2006/07 academic year by applying the same sliding scale as set out in the Enclosure for determining the grant level for each applicant as a percentage of the maximum grant level. We also propose to cover academic expenses under the FASP by increasing the amount of grant by up to \$3,000¹ per student per annum. In line with the existing annual price adjustment mechanism, SEM will adjust the grant rate for academic expenses annually in accordance with the movement of CPI(A). The eligibility criteria and conditions for the FASP will continue to apply.

8. In effect, the most needy FASP applicants would continue to receive in the 2006/07 academic year full grant assistance for payment of tuition fees (up to \$56,560). They would also receive a new grant of \$3,000 for payment of academic expenses. On the other hand, applicants who currently receive no grant at all and are only eligible for means-tested loans may, with the proposed improvements, receive partial grant assistance for both tuition fees and academic expenses ranging from 95% to 4% of the maximum grant.

Change in funding mode for sub-degree programmes

9. In 2003, following a comprehensive review of the higher education sector in Hong Kong, the Government decided that subject to a few exceptions², sub-degree programmes should in general be self-financing. The withdrawal of recurrent subvention for publicly-funded sub-degree programmes used to be run by University Grants Committee-funded institutions and the Vocational Training Council would result in annual net savings which are expected to rise from about \$117 million by the end of the 2005/06 academic year to about \$470 million on completion of the withdrawal programme scheduled at the end of the 2007/08 academic year. The Government undertook at the time to plough back the savings into the sub-degree sector, for example, by enhancing financial assistance for needy students. Our current proposal is in line with the undertaking.

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¹ Because of the wide spectrum of self-financing post-secondary programmes, it is not practicable to introduce an elaborate scale for determining the level of academic expenses for different disciplines of studies. The proposed maximum grant level is applicable to all disciplines and is worked out with reference to the average grant for academic expenses of about \$3,700 disbursed to undergraduate applicants under the LSFS in the 2004/05 academic year and availability of funding.

² Sub-degree programmes which should remain publicly-funded are those that –
(a) require high start-up and maintenance costs or access to expensive laboratories/equipment;
(b) meet specific manpower needs; or
(c) can be regarded as “endangered species”, i.e. lacking market appeal to the course provider and the average student, such as pure arts or pure science.

FINANCIAL IMPLICATIONS

10. Subject to Members' approval, we propose to introduce the improvements with effect from the 2006/07 academic year. Based on the student profiles in the 2004/05 and 2005/06 academic years and the projected student enrolment figures, we estimate that the additional expenditure on means-tested grants under Head 173 Student Financial Assistance Agency Subhead 228 Student financial assistance would be as follows –

	2005/06 academic year	2006/07 academic year	2010/11 academic year
Estimated expenditure	\$215m	\$537m	\$780m
Additional expenditure over that for the 2005/06 academic year	Not applicable	\$322m (150%)	\$565m (260%)
Estimated number of beneficiaries	5 200	18 200	26 400

The exact amount of additional expenditure will depend on the actual size of student population, the take-up rate and price adjustment of the grant level.

11. The additional funding requirement under Loan Fund Head 254 Loans to Students Subhead 102 Non-means-tested loan scheme due to the proposed increase in the maximum loan to cover academic expenses is estimated at \$27 million in the 2006/07 academic year and \$39 million in the 2010/11 academic year.

12. Subject to Members' approval, we will arrange for supplementary provision of \$291 million to be made to Head 173 Student Financial Assistance Agency Subhead 228 Student financial assistance in 2006-07 (thus increasing the provision in 2006-07 from the original estimate of \$246 million to \$537 million), offset by an equivalent provision under Head 106 Miscellaneous Services Subhead 251 Additional commitments, to meet the additional expenditure requirement for means-tested grants in the 2006/07 academic year. The additional requirement in non-means-tested loans in the 2006/07 academic year will be absorbed under Loan Fund Head 254 Loans to Students Subhead 102 Non-means-tested loan scheme in 2006-07. We shall earmark sufficient provision in the context of the annual Estimates to meet the funding requirements in subsequent financial years.

13. The introduction of the 17-tier means-tested grants for tuition fees under the FASP would replace the existing loans under Loan Fund Head 254 Loans to Students Subhead 103 Means-tested loans for post-secondary students.

14. The additional staffing requirements arising from the improvement proposals are expected to be minimal and will be absorbed from within existing manpower resources of SFAA. To support the operation of the improved schemes, SFAA will enhance its existing computer system and will seek the necessary funds in the region of \$0.4 million in the normal manner.

BACKGROUND

Expansion of post-secondary education

15. Hong Kong is rapidly developing into a knowledge-based economy. To improve the competitiveness of our workforce and upgrade the quality of our manpower, the Chief Executive announced a policy objective in 2000 that within ten years, 60% of our senior secondary school leavers would receive tertiary education. Members approved vide FCR(2001-02)30 on 6 July 2001 a package of support measures to facilitate a progressive expansion in self-financing post-secondary programmes, namely –

- (a) a new means-tested financial assistance scheme (i.e. FASP) providing eligible students with either a grant or a loan to meet the tuition fees of locally accredited, self-financing post-secondary education programmes;
- (b) a new non-means-tested loan scheme (i.e. NLSPS) for eligible students pursuing locally accredited, self-financing post-secondary education programmes to meet basic living expenses in addition to tuition fees; and
- (c) a new loan scheme for post-secondary education providers to support their initial start-up costs.

16. With the implementation of various support measures and a quality assurance infrastructure, we have witnessed a robust response from education service providers leading to a remarkable growth in the number of self-financing places at both degree and sub-degree levels. The post-secondary education participation rate has increased from about 33% in the 2000/01 academic year to about 66% in the 2005/06 academic year. In other words, we have achieved the policy objective five years ahead of schedule.

17. Against this background, we have initiated a review of the post-secondary education sector and established a Steering Committee (comprising representatives of service providers and quality assurance agencies, and members of the community) to oversee the review. The Steering Committee completed its deliberations on Phase 1 of the review in January 2006 and made a number of recommendations.

Consultation with the Legislative Council Panel

18. We briefed the Legislative Council Panel on Education on 27 March 2006 on the key findings and recommendations of Phase 1 of the above review, including the proposed improvements to student financial assistance. Members were in general supportive of the proposal to improve the FASP, while expressing concern over the demand and supply situation of post-secondary student places, the articulation and employment opportunities of sub-degree graduates and quality assurance of self-financing programmes. We are separately addressing these concerns in Phase 2 of the review on post-secondary education.

Assistance disbursed under the FASP and the NLSPS

19. Assistance disbursed to eligible students under the FASP and the NLSPS in the past two academic years is as follows –

Academic year	FASP			NLSPS
	Means-tested grant (\$ million)	Means-tested loans (\$ million)	Total (\$ million)	Non-means-tested loans (\$ million)
2004/05	141	87	228	316
2005/06 (Revised estimate)	215	122	337	447

20. For the 2005/06 academic year, we expect some 5 200 students to benefit from grant assistance and another 4 700 students from means-tested loan assistance under the FASP. In addition, about 8 800 students would take out non-means-tested loans under the NLSPS. The average means-tested grant and loans received by a successful applicant are estimated at about \$42,000 and \$26,000 respectively; and the average non-means-tested loans approved under the NLSPS are at about \$51,000.

**Determination of financial assistance under
the Financial Assistance Scheme for Post-secondary Students (FASP)**

Adjusted Family Income (AFI) ¹ for the 2006/07 academic year (\$)		Existing Scale		Proposed Scale ²
From	To	% of maximum grant ³	% of maximum loan ³	% of maximum grant ³
0	19,564	100	0	100
19,565	20,818	0	96	95
20,819	22,887		92	91
22,888	24,957		88	86
24,958	27,023		83	82
27,024	29,048		72	72
29,049	31,073		61	63
31,074	33,099		50	53
33,100	35,122		39	44
35,123	37,096		31	36
37,097	39,070		24	28
39,071	41,047		16	21
41,048	43,019		9	13
43,020	45,053		8	11
45,054	47,085		6	8
47,086	49,118		4	6
49,119	52,250		2	4
> 52,250			0	0

Note –

- (1) The Adjusted Family Income (AFI) mechanism was introduced in the 1998/99 academic year with the approval of the Finance Committee vide FCR(97-98)74 and currently applies to all means-tested student financial assistance schemes administered by the Student Financial Assistance Agency. The formula is as follows –

$$\text{AFI} = \frac{\text{Gross annual income of the family} - \text{unavoidable medical expenses}}{\text{Number of family members} + 1}$$

The AFI determines whether an applicant is eligible for any financial assistance, and if so, the percentage of maximum assistance payable. The sliding scale is subject to annual price adjustment in accordance with the movement of the Consumer Price Index (A).

The “Gross annual income of the family” in the numerator of the formula refers to the sum of annual income of parents, studentships and 30% of annual income of unmarried siblings living with the family. The “+1” factor in the denominator will be changed to “+2” for single parent families with two to three members to minimise the adverse impacts arising from the small number of household members of small families.

- (2) The same scale has been adopted for determining the grant level for individual applicants as a percentage of the maximum grant level under the Local Student Finance Scheme (LSFS) (which is applicable to students of publicly-funded post-secondary programmes).
- (3) An asset test applies to applicants of both the FASP and the LSFS. The AFI grouping determines the percentage of the maximum financial assistance for an applicant. The resulting amount is to be reduced according to the following sliding scale, if the net asset value per family member exceeds the prescribed ceilings (which are revised annually in accordance with the movement of the Consumer Price Index (A)) –

**Sliding Scale of Asset Value for Discounting Grant and Loan Assistance
(for the 2006/07 academic year)**

Net Asset Value per Family Member (\$)	Discount Factor of Grant / Loan Assistance
Over \$509,000	-100% (i.e. no assistance)
\$428,001 to \$509,000	-80%
\$346,001 to \$428,000	-60%
\$273,001 to \$346,000	-40%
\$181,001 to \$273,000	-20%
\$181,000 or below	-0% (i.e. no reduction of assistance)
