

**For discussion
on 28 May 2010**

FCR(2010-11)15

ITEM FOR FINANCE COMMITTEE

HEAD 173 – STUDENT FINANCIAL ASSISTANCE AGENCY

Subhead 700 General non-recurrent

New Item “Subsidies for Internet Access”

HEAD 47 – GOVERNMENT SECRETARIAT :

OFFICE OF THE GOVERNMENT CHIEF INFORMATION OFFICER

Subhead 700 General non-recurrent

New Item “Internet Access for Needy Students”

Members are invited to approve the creation of –

- (a) a new commitment of \$280 million for providing subsidies for Internet access charges for needy families; and
- (b) a new commitment of \$220 million for facilitating needy students and parents to gain access to the Internet for learning.

PROBLEM

We need to reduce the financial burden of, and provide facilitation to, low-income families in providing their school-age children with access to the Internet at home so that they can undertake web-based learning and research on the Internet.

/PROPOSAL

PROPOSAL

2. The Administration proposes –
- (a) to launch a household-based cash subsidy scheme for Internet access charges in the 2010/11 school year, for two categories of low-income families –
 - (i) at full subsidy rate of \$1,300 for families with children who are full-time students receiving education at primary and secondary levels and who are eligible for the flat-rate grant for School-related Expenses (SRE) under the Comprehensive Social Security Assistance (CSSA) Scheme;
 - (ii) at full subsidy rate of \$1,300 or half subsidy rate of \$650 for families with children who are full-time students receiving education at primary and secondary levels, and who pass the existing means test for receiving financial assistance under the Student Financial Assistance Agency (SFAA). The granting of the full rate or half rate will depend on the result of the means test; and
 - (b) to create a new commitment of \$220 million for the implementation of a five-year Programme to help needy students and parents from low-income families to gain access to the Internet for learning by providing economical Internet access services, suitable computers and necessary complementary services such as training and technical support.

JUSTIFICATION**Provision of convenient and suitable Internet learning opportunities**

3. In the 2009-10 Policy Address, the Chief Executive announced that as the younger generation increasingly uses the Internet and electronic tools in their learning activities in this digital age, convenient and suitable Internet learning opportunities should be provided for students in need through tripartite collaboration between the community, the business sector and the Government in order to mitigate the impact of the digital divide on the quality of learning.

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4. According to the latest findings from a survey on the usage of Internet amongst low-income families, the broadband penetration rate of low-income families with children in primary and secondary schools, i.e., CSSA families with school-age children and families receiving student financial assistance, is about 87%¹. The main reasons for these families getting online are that the children need Internet access to allow them to do schoolwork, or that the children have asked to get online. By contrast, the broadband penetration rate for low-income families without children is under 30%. It is reasonable to conclude from this evidence that education is the primary motivator for families with children to get online.

5. Low-income families which do not subscribe to Internet service have similar income levels as those families who are online and have an accurate perception of the price of Internet access. However, the parents are less likely to perceive the educational value of being online and are more likely to be concerned about the possible downsides. They are also concerned about the cost of obtaining a computer. Indeed, some families have had to give up Internet service when their computer broke down as they do not have the financial resources or technical expertise to have it repaired, fixed or replaced.

6. The Government proposes to adopt a holistic approach to provide students from low-income families with Internet learning opportunities. Specifically, we propose to grant these families a subsidy for Internet access charges and provide training and technical support to address their concerns, whilst encouraging the market to provide students in these families with an option of economical Internet services. To this end, the Financial Secretary (FS) proposed in his 2010-11 Budget that we should adopt a two-pronged approach to help primary and secondary school students from low-income families with Internet learning. We will grant them a subsidy for Internet access charges, and collaborate with private service providers and community organisations to provide economical Internet services and computer hardware, and complementary services such as parent education and technical support.

/Household

¹ Latest findings in the final report of the survey conducted by Policy 21 and The University of Hong Kong dated February 2010 indicated that 92.3% of families receiving half grant school textbook assistance have Internet connection at home, whereas 76.9% of the families receiving full grant school textbook assistance or CSSA have Internet access at home. A weighted average of the findings suggests 87% broadband Internet penetration amongst low-income families which was lower than the 92% penetration from the Interim report of the survey.

Household-based subsidy scheme for Internet access charges

7. In this digital age, web-based learning and research on the Internet have become an integral part of education. The use of the Internet is considered to be conducive to students' learning. Alongside the wide use of the Internet in teaching and learning in schools, access to the Internet at home has become widespread. Students can now search for information, complete their homework, maintain their social networks, acquire knowledge and understand the world with Internet access at home. This has become increasingly a way of life for students.

8. To help students from low-income families to access the Internet after school, the Administration has made continuous efforts to introduce measures to help these students gain access to computers and the Internet. These include disbursement of recurrent subsidies to schools to open their computer rooms for use by students after school; implementation of the Computer Recycling Programme to provide students from CSSA families and students receiving assistance under the School Textbook Assistance Scheme administered by SFAA with recycled computers and one year's free Internet connection; launching a pilot District Cyber Centre Scheme by the Office of the Government Chief Information Officer (OGCIO), which includes lending laptop computers with free wireless Internet access to students in need. These initiatives have helped more students from low-income families to gain access to the Internet. Nevertheless, there remains a group of students who are digitally excluded.

9. Recognising that Internet access at home is becoming as important as other learning resources and that students from low-income families should be supported on access to Internet learning opportunities at home, we propose that a new subsidy scheme should be implemented in the 2010/11 school year to provide a subsidy for Internet access charges as follows –

- (a) full subsidy rate of \$1,300 for families with children who are full-time students receiving education at primary and secondary levels and who are eligible for the flat-rate grant for SRE under the CSSA Scheme; and
- (b) full subsidy rate of \$1,300 or half subsidy rate of \$650 for families with children who are full-time students receiving education at primary and secondary levels, and who pass the existing means test for receiving financial assistance under SFAA². The granting of the full rate or half rate will depend on the result of the means test.

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² These families are those who pass the existing means test of SFAA and whose children are full-time students receiving education at primary or secondary level, or full-time students pursuing Project Yi Jin Programmes or equivalent courses of the Vocational Training Council.

10. We propose that the subsidy should be granted on a household and non-accountable basis, such that parents can use the subsidy flexibly to acquire Internet access services that best meet their children's learning needs. The Social Welfare Department (SWD) and SFAA will be responsible for disbursement of the proposed subsidy to these two categories of eligible families respectively.

11. The proposed full subsidy rate of \$1,300 for Internet access charges for the 2010/11 school year is set with reference to the prevailing market prices of Internet access services. We plan to provide the subsidy scheme initially through a commitment to be created for the school year 2010/11 and thereafter on a recurrent basis. We would review the subsidy rate in each school year with reference to the latest prices of Internet access services in the market, including the prices of the relevant Internet access services offered by the non-profit-making organisation discussed in paragraph 14 after it has come into operation. The Secretary for Education will determine the level of the subsidy in each school year on that basis.

12. We estimate that around 300 000 low-income families can benefit from the proposed subsidy scheme in the 2010/11 school year, including 80 000 CSSA families and 220 000 families passing the existing means test of SFAA. The number of students who can benefit from the proposed subsidy scheme in the 2010/11 school year will be around 410 000, including around 120 000 CSSA students and around 290 000 students eligible for financial assistance from SFAA. The proposed subsidy will be able to reduce the burden of the low-income families in meeting the Internet access charges for e-learning at home for their children.

Facilitating students and parents to access the Internet for learning

13. In order to increase the take-up of e-learning at home by students from low-income families, we propose a five-year programme (the Programme) to help these families acquire suitable and affordable computers and economical Internet access, and to provide the necessary training and technical support to the students and their parents.

14. The Programme aims at helping students from the families eligible for the proposed subsidy scheme, especially those who currently do not have Internet connection at home, to gain access to the Internet. The Programme will be managed by a non-profit-making organisation which will work closely with community organisations, educators, Internet service providers (ISPs), IT suppliers and government agencies, to –

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- (a) identify needy students' Internet learning needs; and
 - (b) make available, by making use of existing facilities and services of government departments and non-governmental organisations where possible –
 - (i) affordable Internet access services and computers; and
 - (ii) training and technical support
- to the target families in a cost-effective manner.

Affordable Internet access and computers

15. There is currently a wide range of prices for Internet access. In locations where competition is intense, one is currently able to access the Internet for under \$100 a month. However, those in other locations are paying over \$200 a month. Based on consultations with ISPs, we consider there is scope both to achieve lower prices for low-income families and to reduce the price disparities between different locations. This could be achieved by developing a mechanism with ISPs to serve low-income families on a marginal cost basis, without disrupting the mainstream Internet market, and by working with them to reduce the costs of sales and marketing and supporting the customers. The non-profit-making organisation will facilitate access by ISPs and IT suppliers to the low-income market segment by performing the role of, for instance, a reseller or a sales channel for internet access and computers, depending on the outcome of its discussions with the industry.

Training and technical support

16. Apart from the cost of Internet access and computers, the limited knowledge of parents from low-income families about the Internet and the lack of technical support for them also inhibit their children's learning through the Internet. These parents are also concerned about the possible negative effects of the Internet such as Internet addiction. Hence, suitable guidance should be provided for them and their children on the healthy and safe use of the Internet. We consider that these concerns have to be addressed through the concerted efforts of all the parties concerned, including schools, parents, the community and the Government.

17. The non-profit-making organisation will design tailor-made training programmes to enhance the technical know-how of parents and students from low-income families and their knowledge about the safe and healthy use of the Internet, building on the experience of various Internet education initiatives organised by OGCI and community organisations to-date, and making use of the resources that have been developed. That will help foster a better Internet culture and will encourage the take-up of Internet-based learning among the low-income families that currently do not have Internet connection at home.

Benefits of engaging a non-profit-making organisation

18. The non-profit-making organisation will operate as a business entity so that it can implement the Programme with maximum flexibility. It can work with ISPs/IT suppliers and community organisations to develop affordable and flexible product and service solutions in a more effective manner. The organisation can also seek sponsorships or donations where appropriate.

Selection and governance of the non-profit-making organisation

19. OGCI has invited interested organisations to submit proposals to implement the Programme. The proposals will be evaluated through an open and fair process by an evaluation panel led by Government Chief Information Officer and comprising representatives from the Education Bureau, the Office of Telecommunications Authority and OGCI as members.

20. The Request For Proposal (RFP) issued by OGCI has clearly stipulated the information to be provided, including the proposed operating and financial models, key performance indicators, risk assessment, collaboration with various parties, as well as the expertise, track record and commitment of the non-profit-making organisation and other parties involved. The following aspects of the proposals will be assessed –

- (a) in respect of the proposed non-profit-making organisation and other parties involved –
 - (i) business skills required to develop the necessary product and service offerings;
 - (ii) knowledge and understanding of the learning needs of children from the target low-income families;

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- (iii) capability of managing and sustaining a business start-up of comparable target market and turnover in relevant industries or businesses;
 - (iv) experience of managing a project involving substantial public money;
 - (v) ability to work with non-governmental organisations and government departments in the sale and marketing of the organisation's services;
 - (vi) ability to work with ISPs and IT suppliers; and
 - (vii) ability to work with district and community service networks to provide services in, for example, distributing computers, providing technical support and Internet education.
- (b) in respect of the implementation of the proposal –
- (i) delivery against Programme objectives;
 - (ii) cost effectiveness of operation and financial management of the Programme;
 - (iii) governance mechanism for the Programme and for the non-profit-making organisation ;
 - (iv) effectiveness of relationship management among the parties involved in the Programme; and
 - (v) risk management of the Programme.

21. The proposal should also describe the constituents of the governing body of the non-profit-making organisation, how it will be formed, as well as the arrangements for corporate governance, management and control, and public accountability. The non-profit-making organisation would operate as an independent legal entity and would be allowed flexibility in planning and operating its services and resources. It is expected to be a limited company under the Company Ordinance and shall satisfy the provisions for being exempted from tax under Section 88 of the Inland Revenue Ordinance.

Control and Review Mechanism

22. It is important that public money will be used properly, effectively and solely for the Programme objectives. OGCIO will enter into a legally binding funding and operation agreement with the organisation, stipulating the terms and conditions under which the Government will provide funding support to the non-profit-making organisation to implement the Programme and how the performance of the Programme will be measured, reviewed, and publicly accounted for. The organisation will be required to submit business plans to outline the use of government funding with defined time frame, missions, deliverables, performance indicators, staffing structures etc. for Government approval before disbursement of funds. The following measures will also be put in place to govern the performance of the organisation –

- (a) setting up a Board of Directors (Board) that has the relevant expertise and an appropriate number of independent Directors. The Board will be responsible for corporate governance and overall performance management of the organisation;
- (b) the organisation is required to submit annual business plan, budget, audited financial account and performance report, etc. for Government review and approval. Annual allocation of funding support is subject to the acceptance of the above annual reports by the Government. The annual audited financial and performance report will be published for public review; and
- (c) the organisation will be subject to value for money audits by the Audit Commission and compliance checks by the Independent Commission Against Corruption.

23. The Programme will operate for five years. We will review at least annually the operational and financial performance of the Programme and the non-profit-making organisation, as well as the prevailing online learning needs of the low-income families. A mid-term review will also be conducted around the end of the third year of implementation of the Programme to facilitate assessment and planning on the way forward beyond the five-year Programme. Regular progress reports will be provided to the Information Technology and Broadcasting Panel to keep Members abreast of the implementation progress of the Programme and operational performance of the organisation.

/FINANCIAL

FINANCIAL IMPLICATIONS

Household-based subsidy scheme for Internet access charges

24. Based on the proposed subsidy rate in the 2010/11 school year and the estimated number of families benefitted in paragraph 12 above, the estimated expenditure required for disbursement of the subsidy for Internet access charges in the 2010/11 school year is \$280 million, including \$98 million for CSSA families and \$182 million for families passing the means test of SFAA. The financial implications for subsequent school years will depend on the subsidy rate and the number of beneficiaries. SWD and SFAA would review the need for strengthening staff resources for administering the new subsidy scheme on a recurrent basis in light of practical experience. The resources required will be reflected in the Estimates of the relevant years.

Facilitating the students and parents to access the Internet for learning

25. We estimate that the Programme, proposed to be implemented during 2011-12 to 2015-16, for facilitating access by the students from low-income families to the Internet for learning will require a non-recurrent expenditure of \$220 million. This will be used to provide start-up funding for the non-profit-making organisation responsible for implementing the Programme as mentioned in paragraphs 13 to 17 above. Where applicable, the non-profit-making organisation will collaborate, through an open and fair process, with relevant non-governmental organisations and the private sector.

26. The Board of the non-profit-making organisation will determine the detailed arrangements for its activities and the precise allocation of funds amongst different areas of the Programme in the light of the outcome of its commercial negotiations and collaborations with ISPs and IT suppliers, the evolution of market needs, its own business plans and comments of the OGCIO. The non-profit-making organisation will have flexibility in its operation as long as the objectives of the Programme could be achieved in a cost-effective manner³.

27. For the purpose of budgetary planning, we have made certain assumptions about the future operation of the organisation and drawn up an indicative allocation of funds and cash flow requirements for the Programme as follows. The exact allocation of resources for achieving the objectives will be determined by the Board of the non-profit-making organisation –

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³ This flexibility will be subject to the requirement to submit its business plan and budget for Government approval.

	2010-11 \$'000	2011-12 \$'000	2012-13 \$'000	2013-14 \$'000	2014-15 \$'000	2015-16 \$'000	Total \$'000
(a) Cost to facilitate low-cost Internet access		7,200	7,200	7,200	7,200	7,200	36,000
(b) Cost to facilitate the acquisition of affordable computers		34,000	36,200	4,600	4,600	4,600	84,000
(c) Training and technical support		25,000	10,000	10,000	10,000	10,000	65,000
(d) Programme support costs	800	3,000	2,300	2,900	2,300	1,200	12,500
(e) General administration expenses including Programme set-up and preparation cost	2,500	4,000	4,000	4,000	4,000	4,000	22,500
Total	3,300	73,200	59,700	28,700	28,100	27,000	220,000

28. On paragraph 27(a) above, the \$36 million is the amount assumed for facilitating the provision of affordable Internet access services as described in paragraph 15 above. The planning assumption is that the organisation will procure wholesale Internet access services from one or more ISPs and offer a territory-wide service at an affordable price to all needy families⁴. The non-profit-making organisation may make different arrangements for the delivery of economical Internet access, e.g. by encouraging ISPs to offer such packages directly to low-income families – as long as the objectives of the Programme could be achieved more cost-effectively.

29. On paragraph 27(b) above, the \$84 million is the amount assumed for facilitating the provision of affordable computers to needy students. The planning assumption is that the non-profit-making organisation will collaborate with private sector and community organisations to make available economical and suitable

/computers

⁴ Based on indications of the wholesale price that the Government has received from a variety of fixed and wireless ISPs, we have made the planning assumptions that the non-profit-making organisation will be able to cover its costs in serving the families living in the 90% of the buildings served by more than one fixed-line ISP, but that the non-profit-making organisation may need to make an allocation of \$36 million from the start-up funding provided by the Government so that it can provide service to all the target families.

computers to the needy students through affordable acquisition options, for example, lease-to-own. The provision is earmarked for meeting the cost that may be incurred in facilitating options made by partners to the needy students in acquiring economical computers. We expect that the Programme would make available one computer during the five years for acquisition by each of the initial target group of 410 000 students, as well as for an additional 112 000 students⁵ from low income families who may become eligible in the following four years. For the purpose of estimation, we assume that the unit cost of computer is \$2,200, the facilitation cost is around 3.75% per student each year for two years (one year in the case of the addition in 2015-16). The facilitation cost for the initial target group will be incurred in 2011-12 and 2012-13 and that for the additional students will be incurred starting from 2012-13.

30. On paragraph 27(c) above, the \$65 million is the amount assumed for providing training and technical support to parents and students of low-income families on the safe, healthy and technically sound use of computers and the Internet for learning. Such training and support may be provided in the form of workshops, support hotline and technical support home visits. The estimate is drawn from the experience from the earlier Internet Education Campaign.

31. On paragraph 27(d) above, the \$12.5 million is the amount assumed for meeting the costs over five years for communicating and marketing of the Programme and the products and services offered to the target families and students, for professional services for procurement and contract management, and conducting annual market research and surveys on the Internet support needs of the families and students as well as benchmarking the performance of the Programme to facilitate services development, including a mid-term review during the third year of the Programme.

32. On paragraph 27(e) above, the \$22.5 million is the amount assumed for the start-up expenses incurred by the organisation in the first year (\$2.5 million) and the general administration expenses (\$4 million each year), which comprise office setup expenses, recruitment expenses, initial working capital, staff cost and professional services. We expect this amount to be the maximum administration expenses to be incurred for the Programme.

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⁵ The estimates is based on the projected new addition of school aged children from 2012/13 to 2015/16 who will be eligible for CSSA, full grant and half grant STA.

33. The actual funding and cash flow requirement for the Programme will be subject to the business proposal and operation solution selected as a result of the RFP, as well as the subsequent funding agreement to be entered with the non-profit-making organisation. OGCIIO will review the cash flow requirement in the light of the annual business plan prepared by the selected non-profit-making organisation for the Programme, and the actual service demand. Subject to the administration expenses ceiling referred to in paragraph 32 above, the non-profit-making organisation would flexibly deploy its start-up funding and fine-tune its activities so that it would be able to enhance the support to be provided for Internet learning.

34. OGCIIO would require strengthening of staff resources for overseeing the development and operation of the Programme. Resources required from OGCIIO to oversee the start-up and during the five years of the Programme will be reflected in the Estimates of the relevant years.

IMPLEMENTATION PLAN

Household-based subsidy scheme for Internet access charges

35. Assuming that the proposal is approved by the Finance Committee (FC) in May 2010, SFAA will start to disburse the subsidy to eligible families as from late August 2010. SWD will also arrange for disbursement of the subsidy to eligible CSSA families in August 2010.

Facilitating the students and parents to access the Internet for learning

36. OGCIIO issued the RFP in mid May 2010 to invite proposals from interested parties. The deadline for submission of proposal is 5 July 2010. The evaluation panel plans to select a proposal in late September 2010.

37. We expect the selected organisation to commence discussion with ISPs/IT suppliers and community organisations as soon as possible after the selection and submit a funding proposal for consideration by OGCIIO. We aim to conclude the funding and operation agreement by end of 2010 and expect the non-profit-making organisation to launch its services as soon as possible, but no later than at the beginning of the 2011/12 school year. The proposed implementation plan is as follows –

/Activities

Activities	Target Completion
(a) Submission of proposals	by July 2010
(b) Selection of proposal	by September 2010
(c) Conclusion of funding and operation agreement	by December 2010
(d) Rollout of services to low-income families	by September 2011

We will update the Information Technology and Broadcasting Panel on the latest development after the funding and operation agreement is concluded with the selected organisation, and on the implementation progress of the Programme after the rollout of services to low-income families.

PUBLIC CONSULTATION

38. We consulted the Education Panel of the Legislative Council on the proposals on 12 April 2010. Members were generally supportive of the proposals and raised no objection to submission of the proposals to FC for funding approval.

BACKGROUND

39. In the 2010-11 Budget, FS proposed to dedicate \$500 million as the start-up capital for the provision of convenient and suitable Internet learning opportunities to students in need. It was proposed that a two-pronged approach be adopted to help primary and secondary school students from low-income families with Internet learning, through granting them a subsidy for Internet access charges, and encouraging the market to provide them with economical Internet services.

Education Bureau
Office of the Government Chief Information Officer
May 2010