

立法會
Legislative Council

LC Paper No. CB(2)1657/10-11(02)

Ref : CB2/PL/ED

Panel on Education

**Updated background brief prepared by the Legislative Council
Secretariat for the meeting on 9 May 2011**

Student Financial Assistance Agency

Purpose

This paper sets out background information on the work of the Student Financial Assistance Agency ("SFAA") and summarizes the concerns of the Panel on Education ("the Panel") on the grants and loans schemes administered by SFAA.

Background

2. According to the Administration, its policy is to ensure that no student should be deprived of education owing to a lack of means. SFAA provides publicly-funded financial assistance in the form of grants and loans to students of different study levels and administers privately-donated and publicly-funded scholarship schemes. Financial assistance mainly takes the form of -

- (a) means-tested grants and loans under the Tertiary Student Finance Scheme ("TSFS") - Publicly-funded Programmes for eligible full-time students of publicly-funded institutions, i.e. University Grants Committee - funded institutions, the Hong Kong Institute of Vocational Education of the Vocational Training Council, the Hong Kong Academy for Performing Arts and the Dental Technology Course of the Prince Philip Dental Hospital;
- (b) means-tested grants and loans under the Financial Assistance Scheme for Post-secondary Students ("FASP") for eligible

full-time students aged 25 or below pursuing locally-accredited, self-financing post-secondary education programmes;

- (c) non-means tested loans for eligible students of publicly-funded institutions, and eligible students pursuing accredited post-secondary programmes, courses offered by the Hong Kong Shue Yan University and the Open University of Hong Kong, and eligible continuing and professional education courses provided in Hong Kong by registered schools, non-local universities and recognised training bodies;
- (d) allowances under the Student Travel Subsidy Scheme for needy students who are receiving formal primary or secondary education or attending a full-time day course up to first degree, provided that these students are living beyond 10 minutes' walking distance from their schools and have passed the means test;
- (e) fee remission under the Examination Fee Remission Scheme for needy Secondary 5* and Secondary 7 students taking public examinations conducted by the Hong Kong Examinations and Assessment Authority;
- (f) means-tested grants under the School Textbook Assistance Scheme for students in public sector schools and local private schools under the Direct Subsidy Scheme;
- (g) means-tested grants under the Subsidy Scheme for Internet Access Charges for low-income families with children who are full-time students receiving education at primary or secondary level;
- (h) fee remission under the Kindergarten and Child Care Centre Fee Remission Scheme for needy children attending kindergartens and child care centres;

* With the implementation of the New Senior Secondary academic structure from the 2009-2010 academic year, the Hong Kong Diploma of Secondary Education Examination ("HKDSEE") will be introduced in 2012 with a view to replacing the Hong Kong Certificate of Education Examination and the Hong Kong Advanced Level Examination. The Administration has proposed to extend the Examination Fee Remission Scheme to eligible students sitting for HKDSEE from the 2011-2012 school year.

- (i) tuition fee reimbursement under the Continuing Education Fund for eligible persons pursuing continuing education and training in specified sectors;
- (j) tuition fee reimbursement under the Project Yi Jin for eligible students completing modules under Project Yi Jin; and
- (k) tuition fee reimbursement under the Financial Assistance Scheme for Designated Evening Adult Education Courses for eligible students attending designated evening secondary courses.

3. SFAA is also responsible for assessing the eligibility of applicants under the Pre-primary Education Voucher Scheme from the 2007-2008 academic year onwards. In the 2009-2010 academic year, SFAA received a total of about 807 000 applications under the various student financial assistance schemes.

Deliberations of the Panel

4. The Panel discussed the implementation of an Integrated Student Financial Assistance System at its meeting on 18 March 2010. It had also discussed issues relating to the various grants and loan schemes administered by SFAA at a number of meetings. Members were concerned in particular about the non-means-tested loan schemes. The issues of concerns raised by members are summarized in the ensuing paragraphs.

The risk-adjusted factor

5. Members noted the current operation of the three non-means-tested loan schemes for post-secondary students, namely the Non-means-tested Loan Scheme applicable to full-time students eligible for TSFS ("NLSFT"), the Non-means-tested Loan Scheme applicable to full-time students eligible for FASP ("NLSPS"), and the Extended Non-means-tested Loan Scheme applicable to students pursuing part-time programmes and continuing and professional education courses ("ENLS"). These schemes aimed to provide loans to post-secondary students who were unable or unwilling to go through the income and asset tests under and to those who were not eligible for TSFS and FASP.

6. These non-means-tested schemes were administered by SFAA in an integrated manner and operated on a no-gain-no-loss and full-cost-recovery basis to ensure the proper use of public money. The interest rate was set at the Government's no-gain-no-loss interest rate plus a 1.5% risk-adjusted factor ("RAF") to cover the Government's risk in disbursing unsecured loans. The Government reviewed the no-gain-no-loss interest rate at the end of each month according to changes in the best lending rate in the month and adjusted the rate with effect from the first day of the following month.

7. Members were concerned that the adoption of RAF under the various non-means tested schemes imposed undue financial burden on students. Some members suggested that students who had made repayments on schedule should be reimbursed with the interest accrued under RAF. At the meeting on 9 February 2009, the Panel passed a motion urging the Administration, among others, to remove RAF permanently.

8. According to the Administration, the removal of RAF would only reduce the repayment amount of each student by \$100 per month on average but it would cost \$77 million to taxpayers on an annual basis. The removal of RAF would run counter to the full-cost-recovery principle of the non-means-tested loan schemes. Since the loans were not subject to means test and unsecured, the Administration considered it necessary to impose the levy of RAF at 1.5% to safeguard the possible loss of the Government due to default in repayment of the loans.

The default problem

9. The default situation of the non-means-tested loan schemes was another major concern of members. They noted that both the number of defaulting accounts and the total outstanding amounts involved had been increasing in recent years, particularly in respect of NLSPS and ENLS. The respective increases in the number of default cases for the three non-means-tested schemes from the 2008-2009 academic year to the 2010-2011 academic year (as at 31 January 2011) are in **Appendix I**.

10. Members were of the view that the fundamental issue lay with the current criteria for the provision of means-tested-grants and loans which had remained unchanged for many years. Many expenditure items which had become a necessity nowadays, such as computer expenses and property mortgage repayments, were not taken into account in assessing the expenditure of applicant families. As a result, many students of

low-income families were not eligible for grants and low-interest loans. The exceedingly high tuition fee charged by some profit-making institutions beyond the means of many families was another reason for the increasing number of applications for the non-means-tested loans.

11. Members had made various suggestions to address the default problem. There was a view that for full-time students, loan interest should be accrued only upon their graduation. It was also suggested that the interest accrued should be reimbursed to students after they had fully repaid their loans. Members also suggested that the interest accrued should be waived until the loan borrowers had successfully found employment. Furthermore, members proposed the adoption of a progressive repayment system under which the repayment amount should be smaller in the first few years after graduation, and increase progressively in subsequent years.

12. According to the Administration, waiving the interest accrued during the loan borrowers' study period under the non-means-tested loan schemes would be tantamount to changing the no-gain-no-loss principle of the schemes and would cost \$52 million to taxpayers on an annual basis. In order to enhance the operation of the non-means-tested schemes, SFAA had commenced a review on the operation of the non-means-tested loan schemes in 2010. Phase 1 of the public consultation was conducted between 15 March and 15 June 2010. SFAA was considering the views received and would draw up proposals on how to improve the operation of the loan schemes, including RAF. SFAA aimed to take forward Phase 2 of the public consultation in late 2011.

Recovery of debts

13. Members considered it important to educate loan borrowers about their obligations to repay loans. Members were concerned about the effectiveness of the existing mechanism and measures to recover arrears from defaulting borrowers.

14. The Administration advised that it had enhanced publicity on prudent financial management to address the problem of default payments. It had collaborated with post-secondary institutions to brief students on various loan schemes and loan repayment arrangements, and remind them of the need to consider seriously their repayment ability before applying for the loans. SFAA had reviewed the debt collection process, streamlined the workflow, and deployed additional staffing

resources to expedite debt recovery through legal means. SFAA had been seeking the advice of the Joint Committee of Student Finance ("JCSF") on measures to reduce the number of default cases. Some members of JCSF suggested that SFAA should provide information on the defaulters to relevant credit reference agencies so as to deter loan borrowers from defaulting loan repayment without reasons. SFAA was considering the feasibility of the suggestion, and would consult JCSF further on the proposal.

Relief measures and assistance to loan borrowers with financial difficulties

15. On 26 May 2009, the Financial Secretary announced a package of relief measures to mitigate the impact of the economic downturns on the livelihood of citizens. Members supported the Administration's proposal for providing two relief measures on student finance to alleviate the financial burden of needy families including the provision of a one-off grant of \$1,000 for each needy student and the extension of the total loan repayment period for a maximum of two years without charging interest during the deferment period for student loan borrowers with proven repayment difficulties, on an application basis for a period of two years from 1 August 2009 to 31 July 2011. While welcoming these measures, members enquired about the availability of other measures to help loan borrowers with financial difficulties.

16. The Administration advised that loan borrowers who had difficulties in repaying the loans due to further study in full-time courses, financial hardship or serious illness might apply for deferment of loan repayment with support of documentary proof. The total number of approved deferment cases under both the means-tested and non-means-tested loan schemes in the 2008-2009 financial year was around 6 000, with an average approval rate of over 80%.

Integrated Student Financial Assistance System

17. To enhance the effectiveness and efficiency of its operations, SFAA commissioned the Efficiency Unit ("EU") to conduct a holistic Business Process Review in February 2006. As a result of the review, EU recommended that SFAA should adopt a new service delivery mode under which applications should be processed on a household basis and the operations of SFAA should be supported by an integrated function-based computer system, i.e. an Integrated Student Financial Assistance System ("ISFAST"), to replace the current scheme-based

mode of operations in terms of both staffing and computer system. At the Panel meeting on 18 March 2010, SFAA sought members' views on the proposal to implement ISFAST with a total non-recurrent expenditure of \$65.371 million over seven years from the 2010-2011 academic year to the 2016-2017 academic year.

18. While supporting in principle the implementation of ISFAST, members expressed concern whether it would ensure correctness and completeness of information provided by applicants and rectification of deficiencies and vetting errors identified, such as omission of applicants' signature, failure to take into account certain information of applicants and take legal action against loan defaulters within the time-bar limit.

19. According to SFAA, ISFAST would incorporate functions to enable risk-profiling of applications, thereby improving the quality and effectiveness of vetting and counter-checking. With the change from scheme-based mode to function-based mode of SFAA's computer system, the administration of various schemes by SFAA would be improved. ISFAST would also incorporate case management functions with tracking of case progress to enhance monitoring of default cases and ensure that timely legal action would be taken against loan defaulters.

20. The funding proposal was approved by the Finance Committee at its meeting on 23 April 2010.

Eligibility for financial assistance

21. During the discussion on the Examination Fee Remission Scheme at the Panel meeting on 11 April 2011, some members expressed the view that with the implementation of the statutory minimum wage on 1 May 2011, the Administration should review the income thresholds of the financial assistance schemes administered by SFAA to ensure that students who were currently eligible for assistance under the schemes would not become ineligible due to an increase in household income arising from the implementation of the statutory minimum wage. In the context of the discussion on the School Textbook Assistance Scheme at the Panel meeting on 21 October 2010, some members opined that the Administration should consider relaxing the income thresholds for eligibility for the financial assistance schemes administered by SFAA with a view to providing more financial assistance to the underprivileged families.

Recent initiatives to enhance assistance to needy students

Increasing the income threshold for full level of assistance

22. In the 2011-2012 Budget, the Administration has announced a number of initiatives to provide greater support to needy students. In respect of the financial assistance schemes administered by SFAA, the Education Bureau ("EDB") has proposed to relax the income ceiling for full assistance under the existing means test mechanism of SFAA starting from the 2011-2012 academic year, so that more low-income families passing the means test can receive full level of assistance.

Adjusting the tiers of assistance

23. At present, there are more than 10 different tiers of financial assistance for post-secondary students, and the level of financial assistance for an applicant is assessed with reference to the "Adjusted Family Income" Formula. EDB has proposed to adjust the tiered structure of the financial assistance schemes for post-secondary students, so that those post-secondary students who are not on full assistance can receive a higher amount of assistance.

Providing an additional academic expenses grant

24. Currently, post-secondary students who pass the means test of TSFS and FASP can receive a grant to help cover tuition fees and another grant to help meet academic expenses. For academic expenses, the maximum amount of the grant currently ranges from \$3,210 to \$34,380 per year, depending on the types, disciplines and levels of the study programmes.

25. EDB has proposed that starting from the 2011-2012 academic year, an additional amount of academic expenses grant of up to \$1,000 be offered to all post-secondary students eligible for academic expenses grant, subject to the outcome of their means test. The needy students may make use of the sum total of academic expenses grant to acquire, replace or enhance necessary study aids, including computer and related equipment. This additional amount of grant will be adjusted annually as part of the academic expenses grant in accordance with the established price adjustment mechanism.

26. The Administration will brief members on the details of the measures to enhance the assistance provided by SFAA to needy students at the upcoming Panel meeting on 9 May 2011.

Relevant papers

27. A list of the relevant papers on the Legislative Council website is in **Appendix II**.

Council Business Division 2
Legislative Council Secretariat
5 May 2011

Appendix I

Number of default cases and the amount involved from the 2008-2009 to 2010-2011 academic years

	Academic year		
	2008-2009	2009-2010	2010-2011*
NLSFT			
No. of default cases	2 156	1 946	1 775
Amount in default (\$ million)	39.83	39.93	38.66
NLSPS			
No. of default cases	1 656	1 909	1 773
Amount in default (\$ million)	38.89	50.32	53.87
ENLS			
No. of default cases	9 365	9 751	9 820
Amount in default (\$ million)	96.86	117.39	124.90

* As at 31 January 2011

Notes:

- NLSFT – Non-means-tested Loan Scheme for full-time students covered under TSFS
- NLSPS – Non-means-tested Loan Scheme for full-time students covered under FASP
- ENLS – Extended Non-means-tested Loan Scheme for students pursuing part-time programmes and continuing and professional education courses

Source: Extracted from SFAA's replies to Legislative Council Members' initial written questions in examining the Estimates of Expenditure 2011-2012.

Relevant papers on Student Financial Assistance Agency

Committee	Date of meeting	Paper
Legislative Council	16.11.2005	Official Record of Proceedings Pages 56 - 67 (Question)
Panel on Education	26.1.2006 (Item II)	Agenda Minutes
Panel on Education	27.3.2006 (Item IV)	Agenda Minutes
Finance Committee	19.5.2006	Minutes FCR(2006-07)9
Panel on Education	11.12.2006 (Item IV)	Agenda Minutes
Legislative Council	23.1.2008	Official Record of Proceedings Pages 69 - 72 (Question)
Finance Committee	31.3.2008, 1, 2, 3 & 7.4.2008	Minutes
Panel on Education	14.4.2008 (Item IV)	Agenda Minutes
Legislative Council	23.4.2008	Official Record of Proceedings Pages 40 - 44 (Question)
Panel on Education	28.4.2008 (Item I)	Agenda Minutes
Legislative Council	30.4.2008	Official Record of Proceedings Pages 92 - 95 (Question)
Legislative Council	14.5.2008	Official Record of Proceedings Pages 74 - 79 (Question)

Committee	Date of meeting	Paper
Panel on Education	17.7.2008 pm (Item I)	Agenda Minutes
Panel on Education	23.10.2008 (Policy Briefing)	Agenda Minutes
Legislative Council	12.11.2008	Official Record of Proceedings Pages 81 - 87 (Question)
Panel on Education	9.2.2009 (Item V)	Agenda Minutes
Legislative Council	18.2.2009	Official Record of Proceedings Pages 188 - 285 (Motion)
Panel on Education	29.5.2009 (Item III)	Agenda Minutes
Panel on Education	18.3.2010 (Item V)	Agenda Minutes

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