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Subcommittee on Poverty

**Background brief prepared by the Legislative Council Secretariat
for the meeting on 17 June 2013**

Financial assistance for needy students

Purpose

This paper provides background information and summarizes the discussions at meetings of the Council and the Panel on Education ("the ED Panel") on financial assistance for needy students.

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. The Student Financial Assistance Agency ("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 - Publicly-funded Programmes for eligible full-time students of recognized courses at publicly-funded institutions, i.e. University Grants Committee funded institutions, the Hong Kong Institute of Vocational Education, Hong Kong Design Institute of the Vocational Training Council ("VTC"), the Hong Kong Academy for Performing Arts and 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 30 or below pursuing

locally-accredited, self-financing post-secondary education programmes;

- (c) non-means tested loans for eligible students of locally-accredited, self-financing full-time post-secondary education programmes at the level of associate degree, higher diploma or degree, and specific part-time and full-time post-secondary and continuing and professional education courses provided in Hong Kong;
- (d) travel subsidy under the Student Travel Subsidy Scheme for needy students receiving formal primary, secondary education or attending a full-time day course up to first degree level in an acceptable institution, residing beyond 10 minutes walking distance from school and traveling to school by public transport;
- (e) fee remission under the Examination Fee Remission Scheme for eligible needy students taking public examinations conducted by the Hong Kong Examinations and Assessment Authority;
- (f) means-tested grants under the School Textbook Assistance Scheme for needy Primary 1 to Senior Secondary 3/Secondary 6 students in government, aided, per caput grant schools and local private schools under the Direct Subsidy Scheme for covering the costs of essential textbooks and miscellaneous school-related expenses;
- (g) means-tested grants under the Subsidy Scheme for Internet Access Charges for needy families whose children are full-time students receiving education at primary or secondary level, or full-time students pursuing Yi Jin Diploma programmes or equivalent courses of VTC to meet the Internet access charges for e-learning at home for their children;
- (h) fee remission under the Kindergarten and Child Care Centre Fee Remission ("KCCCFR") Scheme for needy children attending eligible local non-profit-making kindergartens, kindergarten-cum-child care centres or schools offering kindergarten classes;

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

3. Non-means-tested loan schemes ("NLS") are operated on a no-gain-no-loss and full-cost-recovery basis with interest charged on the loan once the loan is drawn down and throughout the repayment period¹ until the loan is fully repaid. The interest rate comprises a no-gain-no-loss interest rate and a risk-adjusted-factor ("RAF")² to cover the Government's risks in disbursing unsecured loans. The Administration reviews the non-gain-no-loss interest rate at the end of each month according to changes in best lending rate in the month and adjusts the rate with effect from the first day of the following month.

4. SFAA is also responsible for assessing the eligibility of applicants under the Pre-primary Education Voucher Scheme ("PEVS") from the 2007-2008 academic year onwards.

Members' deliberations and concern

Financial Assistance Scheme for DEAEC

5. While expressing support for the implementation of evening adult education courses, members of the ED Panel considered the existing mode of operation retrogressive and inadequate to meet the education needs of adult learners. Members reiterated their dissatisfaction about

¹ Having considered the views received from stakeholders and the public in the public consultation exercises on improvement proposals on NLS, the Administration has extended the standard repayment period from 10 years to 15 years starting from the 2012-2013 academic year.

² In the light of the views collected in the aforesaid consultation exercises, the Administration has reduced RAF from 1.5% to zero (subject to review in three years' time) starting from the 2012-2013 academic year.

the cessation of operation by the Administration of adult evening courses from September 2003 despite their strong objection. They were strongly of the view that with the implementation of the new senior secondary academic structure ("NSSAS"), the Administration should provide 12-year free education for adult learners, including the new immigrants. Members considered that the Student Travel Subsidy Scheme and the School Textbook Assistance Scheme should be extended to cover evening course students. The eligibility of the Schemes should also be relaxed to cover adult learners repeating a level of study given the new curriculum under NSSAS.

6. According to the Administration, it had acceded to members' request for reimbursement of tuition fees to adult learners who had to repeat a year of study for the purpose of articulating to NSSAS. It, however, had no plan to provide free evening secondary education. The Administration maintained its position that the Financial Assistance Scheme for DEAEC had already provided financial assistance for adult learners to attend evening secondary education. Other programmes such as Project Yi Jin, Skills Upgrading Scheme and Continuing Education Fund were in place to provide different pathways for adult learners.

7. Members did not accept the Administration's explanation. They stressed that Secondary 6 was the basic qualification for further study and employment. As the average unit cost for attending evening adult education courses was about \$9,000 as opposed to the average student unit cost of some \$40,000 for day-time Secondary 6, the great disparity in resources allocation to these two groups pointed to the need for free evening secondary education.

Eligibility for financial assistance

8. Some members of the ED Panel were concerned that the increase in household income of some families following the implementation of the statutory minimum wage ("SMW") would render them ineligible for financial assistance under the schemes administered by SFAA. Members were of the view that as the Administration had only proposed to relax the income ceiling for full level of assistance, the total number of students benefiting from the schemes had not actually increased. They urged the Administration to consider relaxing the income ceiling for any assistance and the net asset value limits to enable the lower middle class to benefit from the assistance schemes.

9. The Administration responded that families with income at

around or below the median monthly household income would be eligible for financial assistance. With the proposed relaxation of income thresholds for full level of assistance, the assistance level of around 98 000 students would be raised to the full level, and the percentage of students receiving full level of assistance would be substantially increased to around 60% of all beneficiaries in the 2011-2012 academic year. The Administration would closely monitor the changes in the median monthly household income levels following the implementation of SMW after the relaxation of SFAA's means test had come into effect. It would also consider the need for any further changes having regard to the needs of the low-income families for the various types of student financial assistance as well as the financial implications on public resources.

10. On the impact of the implementation of SMW on eligibility for student financial assistance, the Administration explained that as the Adjusted Family Income ("AFI") formula for assessing financial assistance was based on annual family income while SMW was an hourly rate, there was no absolute correlation between the two. The income of persons paid at the SMW rate would depend on the total number of hours they had worked. The Administration considered it appropriate to use AFI to determine the level of financial assistance. Members requested the Administration to conduct a review of the income ceilings of the means test mechanism of SFAA within a reasonable period after the implementation of SMW.

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

11. The ED Panel was concerned that only about 18% of the relevant age cohort had the opportunity to receive tertiary education in Hong Kong due to inadequate provision of publicly-funded first-year first-degree places in local universities. Given that not many students could afford the high tuition fee of sub-degree programmes and the number of articulation places for sub-degree graduates in local universities was limited, members called on the Administration to provide subsidies in the form of education vouchers for students to pursue further studies in self-financing post-secondary institutions.

12. The Administration responded that the self-financing post-secondary education sector had a long history of development in Hong Kong and had been developing rapidly in recent years. Students pursuing post-secondary programmes were eligible for means-tested

grant and loan as well as non-means-tested loan on largely the same basis as students in publicly-funded programmes.

13. At its meeting on 23 November 2011, the Council passed a motion to urge the Government to, among other things, increase the number of first-year and senior year articulation places for publicly-funded universities and offer subsidies in the form of education vouchers or direct subsidies to sub-degree graduates for enrolling on self-financing degree programmes.

14. In its progress report on the carried motion, the Administration stated that it had proposed a number of improvement measures to FASP. These measures included relaxing the age limit from 25 to 30, removing the requirements/restrictions on prior academic qualification for the purpose of applying for assistance and removing the repayment requirement of grants for those students who failed to complete the programme and attain the intended qualification within the prescribed period. It was the Administration's plan to implement these measures starting from 2012-2013.

Means-tested and non-means tested loans

Interest rate and repayment period

15. Regarding measures to improve loan schemes for post-secondary students, the ED Panel suggested that consideration should be given to waiving the interests accrued on non-means-tested loans during the borrowers' study period. Having regard to the financial need of borrowers of means-tested loans and given that the amount of interest income on such loans might barely cover the administrative cost, they considered that interest-free loans should be provided to borrowers of means-tested loans.

16. The Administration responded that it had reviewed the interest arrangements for loans offered under both NLS and means-tested assistance schemes. The additional interest savings for borrowers of NLS arising from abolishing the study interest was only about \$20 per month for a loan of \$100,000. However, the waiving of study interest on all existing loan borrowers would lead to a substantial loss of interest income of around \$33 million each year for the Government. The Administration was also concerned about possible abuse of NLS should interest-free loans be offered during the study period. As regards the interest rate for means-tested loans, the proposed reduction of the interest

rate from the existing 2.5% to 1% had already helped alleviate the repayment burden of needy borrowers. Given that interest was not accrued for means-tested loans during the study period, the effective interest rate was less than 1%.

17. The Administration further advised that reducing RAF to zero and extending the standard repayment period of non-means tested loans from 10 years to 15 years could significantly reduce the monthly repayment amount by up to 40%. For borrowers who had difficulties in repaying their loans on grounds of financial hardship or serious illness, the repayment period could be further extended for a maximum of two years.

The default problem

18. Noting that, as of May 2012, 600 cases out of the 13 000 default cases were serious default cases (i.e. the borrowers concerned owed more than \$100,000, had ceased repayment for more than a year and had failed to respond to the Administration's reminders nor provide any reasonable justification for delayed repayments), members of the ED Panel urged the Administration to step up the measures to recover the default loans to ensure prudent use of public money. Some members suggested that defaulters who had failed to respond to the repayment reminders should be charged a higher interest rate or required to pay a surcharge on the default amount.

19. The Administration responded that a mechanism was already in place to require loan borrowers to pay overdue interest at a rate equal to the prime rate if they failed to make their loan repayments on time. The overdue interest rate was higher than the proposed interest rate for non-means tested loans. For default cases convicted by the court, the defaulters would need to pay an even higher interest rate to be decided by the court. The Education Bureau and the Department of Justice ("DoJ") had agreed that about 3 000 serious default cases would be referred to DoJ annually for debt recovery through legal means. Cases with a default amount not exceeding \$50,000 would be brought to the Small Claims Tribunal.

20. According to the Administration, SFAA had implemented a series of improvement measures to enhance the recovery of debt from defaulters in recent years. In the 2010-2011 academic year, SFAA had deployed more resources to handle serious cases involving large amount in default with a view to speeding up their referral to DoJ for legal

recovery action. A total of 2 300 default cases had been referred to DoJ and the Administration had recovered some \$62 million from 1 611 default cases in the past four academic years.

Financial assistance for children receiving pre-primary education

21. Members expressed concern that under the current KCCCFR Scheme, parents applying for fee remission for their children attending whole-day kindergartens ("KGs") were subject not only to the income test, but also the social needs test. Pointing out that the Working Group on Review of PEVS had recommended the removal of social needs assessment for fee remission application for attending whole-day KGs, members urged the Administration to remove the social needs assessment for children aged three and above attending whole-day KGs as well as for those aged under three attending child care centres. Given that the amount of KG fee remission was calculated before deducting the voucher subsidy, members were of the view that the Administration should consider calculating the fee remission after deducting the voucher subsidy to enable needy families to benefit from both the voucher subsidy and fee remission.

22. According to the Administration, it would introduce a number of measures to enhance the assistance to KG children of needy families from the 2011-2012 school year. These included the calculation of the percentage of fee remission after deducting the voucher value and the removal of the social needs assessment for eligibility for the whole-day rate of fee remission. Whole-day KGs would also benefit from the latter measure.

Internet access for students in need

23. In answering an oral question raised at the Council meeting of 20 February 2013 concerning the provision of subsidy to needy students to buy notebook or tablet computers, the Administration pointed out that it launched the five-year Internet Learning Support Programme in July 2011 to assist students from low-income families to procure affordable computers and Internet access service through two implementation agents. The Government also disbursed an Internet access subsidy at full-rate of \$1,300 or half-rate of \$650 annually to these families. SFAA would review the level of subsidy annually in accordance with the market price of Internet access service. The Administration advised that according to a survey on digital inclusion of Hong Kong society conducted by the Office of the Government Chief Information Officer in 2011, around 97%

of students from low-income families had computer connected to the Internet at home.

24. Members pointed out that some children with disabilities could no longer use the computer after they had graduated from special school because their computers were not articulated with the required technologies. They called on the Administration to provide special schools with the necessary resources and technologies such that technology convergence would be provided to disabled children with special needs and the benefits of these services and technologies would be extended to their adulthood.

Relevant papers

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

Council Business Division 2
Legislative Council Secretariat
13 June 2013

Relevant papers on financial assistance for needy students

| Committee | Date of meeting | Paper |
|---------------------|---|--|
| Legislative Council | 16 November 2005 | Official Record of Proceedings Pages 56 - 67 |
| Panel on Education | 26 January 2006 (Item II) | Agenda Minutes |
| Panel on Education | 27 March 2006 (Item IV) | Agenda Minutes |
| Finance Committee | 19 May 2006 | Minutes FCR(2006-07)9 |
| Panel on Education | 11 December 2006 (Item IV) | Agenda Minutes |
| Legislative Council | 23 January 2008 | Official Record of Proceedings Pages 69 - 72 |
| Finance Committee | 31 March 2008 1, 2, 3 & 7 April 2008 | Minutes |
| Panel on Education | 14 April 2008 (Item IV) | Agenda Minutes |
| Legislative Council | 23 April 2008 | Official Record of Proceedings Pages 40 - 44 |
| Panel on Education | 28 April 2008 (Item I) | Agenda Minutes |
| Legislative Council | 30 April 2008 | Official Record of Proceedings Pages 92 - 95 |

| Committee | Date of meeting | Paper |
|---------------------|--|--|
| Legislative Council | 14 May 2008 | Official Record of Proceedings Pages 74 - 79 |
| Panel on Education | 17 July 2008 (Item I) | Agenda Minutes |
| Panel on Education | 23 October 2008 | Agenda Minutes |
| Legislative Council | 12 November 2008 | Official Record of Proceedings Pages 81 - 87 |
| Panel on Education | 9 February 2009 (Item V) | Agenda Minutes |
| Legislative Council | 18 February 2009 | Official Record of Proceedings Pages 188 - 285 |
| Panel on Education | 29 May 2009 (Item III) | Agenda Minutes |
| Panel on Education | 18 March 2010 (Item V) | Agenda Minutes |
| Panel on Education | 12 April 2010 (Item V) | Agenda Minutes |
| Panel on Education | 9 May 2011 (Item IV) | Agenda Minutes |
| Panel on Education | 13 June 2011 (Item VI) | Agenda Minutes |
| Panel on Education | 21 October 2011 | Agenda Minutes |
| Panel on Education | 14 November 2011 (Items IV & VI) | Agenda Minutes |

| Committee | Date of meeting | Paper |
|---------------------|-------------------------|--|
| Legislative Council | 23 November 2011 | Official Record of Proceedings Pages 245 – 332 |
| Panel on Education | 14 May 2012 (Item V) | Agenda Minutes |
| Legislative Council | 20 February 2013 | Official Record of Proceedings Pages 20 – 31 |

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