

ITEM FOR FINANCE COMMITTEE

HEAD 156 - GOVERNMENT SECRETARIAT : EDUCATION BUREAU
Subhead 700 General non-recurrent
New Item “Quality Enhancement Grant Scheme”

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

LOAN FUND

HEAD 252 – LOANS TO SCHOOLS/TEACHERS

Subhead 106 Start-up loan for post-secondary education providers

HEAD 254 – LOANS TO STUDENTS

Subhead 102 Non-means-tested loan scheme

Subhead 103 Means-tested loan for post-secondary students

Members are invited to approve –

- (a) improvement of the Financial Assistance Scheme for Post-secondary Students with effect from the 2008/09 academic year by –
 - (i) providing means-tested loans to students under the Scheme to cover their living expenses; and
 - (ii) extending the Scheme to cover sub-degree graduates studying full-time locally-accredited self-financing degree or top-up degree programmes in Hong Kong;

/(b)

- (b) supplementary provision of \$55 million under Head 173 Student Financial Assistance Agency Subhead 228 Student financial assistance for meeting the additional grant assistance in 2008-09 arising from the proposal in paragraph (a)(ii) above;
- (c) modification of the Start-up Loan Scheme with effect from the 2008/09 academic year by –
 - (i) expanding the scope of the Scheme so as to offer loans to course providers of full-time locally-accredited self-financing post-secondary programmes for enhancing teaching and other ancillary facilities; and
 - (ii) extending the loan repayment period under the Scheme from no more than ten years to no more than 20 years for existing borrowing institutions with proven financial difficulties, subject to the payment of interest at the no-gain-no-loss rate after the interest-free period in the first ten years; and
- (d) creation of a new commitment of \$100 million under Head 156 Government Secretariat : Education Bureau Subhead 700 General non-recurrent for providing one-off grants to support quality enhancement initiatives of self-financing post-secondary institutions.

/PROBLEM

PROBLEM

We need to enhance financial assistance to needy students pursuing full-time locally-accredited self-financing post-secondary education programmes. We also need to adjust some of the Government's existing support measures and introduce new ones to put major emphasis on improving the quality of the self-financing post-secondary sector.

PROPOSAL

2. The Secretary for Education proposes to implement the following measures with effect from the 2008/09 academic year –

- (a) improvement of the Financial Assistance Scheme for Post-secondary Students (FASP) by –
 - (i) providing means-tested loans to full-time post-secondary students pursuing locally-accredited self-financing programmes to cover their living expenses, based on the same terms and conditions as those under the Tertiary Student Finance Scheme for Publicly-funded Programmes (TSFS); and
 - (ii) extending the FASP to cover sub-degree graduates pursuing full-time locally-accredited self-financing degree or top-up degree programmes;
- (b) modification of the Start-up Loan Scheme (SLS) by –
 - (i) offering loans to course providers of full-time locally-accredited self-financing post-secondary programmes for enhancing teaching and other ancillary facilities to improve students' learning experience; and
 - (ii) extending the loan repayment period under the SLS from no more than ten years to no more than 20 years for existing borrowing institutions with proven financial difficulties, subject to the payment of interest at the no-gain-no-loss rate after the first ten years; and
- (c) implementation of a new Quality Enhancement Grant Scheme (QEGS) to support quality enhancement initiatives in the self-financing post-secondary sector.

/JUSTIFICATION

JUSTIFICATION

Improvement of the FASP

3. Currently, students pursuing full-time locally-accredited self-financing post-secondary programmes leading to a sub-degree or higher qualification may apply for means-tested grants under the FASP to meet tuition fees and academic expenses. Unlike their counterparts pursuing publicly-funded programmes, these students are at the moment not eligible for means-tested loans to cover their living expenses and may only apply for non-means-tested loans under the Non-means-tested Loan Scheme for Post-secondary Students (NLSPS) at a higher interest rate¹ to meet such expenses. This may pose a heavy repayment burden on students of self-financing sub-degree programmes.

4. To alleviate their financial burden and put them largely on par with their publicly-funded counterparts, we recommend that the FASP should be improved with effect from the 2008/09 academic year such that means-tested loans at the same level as that under TSFS (i.e. at a maximum of \$34,770 per student per annum (pspa) in the 2007/08 academic year²) should be provided to students pursuing full-time locally-accredited self-financing post-secondary programmes to cover their living expenses, based on the same terms and conditions as those under the TSFS³. In other words, the loans will be interest-free during the study period and will be interest-bearing at 2.5% per annum during the five-year repayment period after graduation or termination of studies. The proposal would bring major relief to students, particularly at times of high interest rates.

/Extension

¹ Non-means-tested loans under the NLSPS are offered at the no-gain-no-loss rate plus 1.5% risk adjustment factor chargeable upon drawdown, with the interest rate pitched at 4.382% per annum as at April 2008; while means-tested loans are interest-free during the study period and are interest-bearing at 2.5% per annum during the repayment period.

² The maximum amount of means-tested loans for living expenses will be determined on par with the relevant component for the TSFS and will be price-adjusted annually.

³ The TSFS provides means-tested financial assistance to eligible full-time students of publicly-funded programmes in the University Grants Committee-funded institutions, the Hong Kong Institute of Vocational Education, the Prince Philip Dental Hospital and the Hong Kong Academy for Performing Arts. Under TSFS, means-tested loans provided to publicly-funded sub-degree students are repayable in 20 quarterly instalments within five years after he/she has graduated or ceased to be a student of the institution.

Extension of FASP to cover sub-degree graduates pursuing self-financing degree or top-up degree programmes

5. At present, sub-degree graduates who wish to pursue self-financing top-up studies are not eligible for financial assistance under the FASP. They may only apply for non-means-tested loans under the extended Non-means-tested Loan Scheme (ENLS)⁴ applicable to students not covered by TSFS and FASP to cover the tuition fees of the top-up studies.

6. To enhance the articulation opportunities of sub-degree graduates and facilitate the development of the self-financing degree sector, we recommend extending the scope of FASP to cover sub-degree graduates pursuing self-financing degree or top-up degree programmes. To ensure that public resources are dedicated to supporting sub-degree graduates pursuing quality degree or top-up degree programmes, the extended FASP would only be made available to eligible students who pursue full-time locally-accredited self-financing degree or top-up degree programmes. The proposed extension of the FASP will enable eligible students pursuing degree or top-up degree programmes to apply for means-tested grants for tuition fees and academic expenses (subject to a ceiling of \$57,520 and \$3,050 pspa respectively for the 2007/08 academic year), as well as means-tested loans for living expenses (subject to a ceiling of \$34,770 pspa for the 2007/08 academic year). If necessary, they may also apply for non-means-tested loans under the NLSPS (up to the difference between their tuition fees, academic expenses and living expenses and the financial assistance they may receive under the FASP).

Encl. 1 7. The eligibility criteria for the extended FASP are shown at Enclosure 1.

Support measures geared towards quality enhancement

8. Since the announcement of the policy objective to increase the post-secondary education participation rate in 2000, the Government has introduced various measures to support the development of the self-financing post-secondary education sector, including a \$5 billion SLS to support initial setting-up costs and a \$30 million Accreditation Grant Scheme (AGS) to subsidise accreditation expenses incurred by course providers.

/Modification

⁴ The ENLS provides financial assistance in the form of loans for tuition fees to eligible students of the Open University of Hong Kong and the Hong Kong Shue Yan University, students pursuing part-time publicly-funded programmes or self-financing local award-bearing programmes offered by publicly-funded institutions and programmes under the "Project Yi Jin", as well as persons pursuing continuing and professional education courses provided in Hong Kong by registered schools, non-local universities and recognised training bodies. Interest on the non-means-tested loans under the ENLS is chargeable at the no-gain-no-loss rate plus a 1.5% risk-adjusted factor upon drawdown.

Modification of the SLS

9. The SLS provides interest-free loans to non-profit-making institutions for purchasing, renting or building campuses. The loan amount is determined with reference to the projected number of student places and the providers' start-up expenses subject to a loan ceiling per student place. The scheme has led to robust growth and expansion of the post-secondary education sector in the past seven years. To facilitate consolidation of the sector and to address concerns about the standard of campus facilities provided by some institutions, we propose to modify the SLS such that it would gear towards supporting quality enhancement and improving students' learning experience. Institutions may, without the need to provide additional student places, apply for interest-free loans for –

- (a) providing or enhancing teaching and other ancillary facilities (e.g. library, laboratories, student guidance/career counseling centres, etc.) which serve to enhance the learning experience of and support for students; and/or
- (b) re-provisioning existing college campuses operating in sub-optimal environment.

10. Applications under the modified SLS will continue to be scrutinised by a Vetting Committee under the Education Bureau (EDB) when the scheme was first established in 2001. The Vetting Committee will work out the detailed vetting criteria and determine the loan amount having regard to the justifications and merits of individual applications rather than the loan ceiling per student place.

11. In addition, we shall identify vacant school premises suitable for operating post-secondary programmes and encourage post-secondary institutions to make use of such premises to operate sub-degree or top-up degree programmes. Similar to the existing SLS, institutions may apply for interest-free loans under the modified SLS⁵ to refurbish the vacant school premises allocated to them to enhance students' learning environment.

AGS and the Qualifications Framework Support Schemes (QFSS)

12. The AGS was set up in 2001 to provide grants to non-profit-making post-secondary course providers to meet their accreditation expenses. We reviewed the scheme in 2005 and concluded that the grants were effective to encourage the provision of quality-assured post-secondary programmes. With the

/support

⁵ As at end April 2008, of the \$5 billion originally approved for the SLS, \$0.9 billion remains uncommitted and is open to application under the modified scheme.

support of the grants, a total of 15 institutions and 72 self-financing post-secondary programmes have successfully been accredited by the Hong Kong Council for Accreditation of Academic and Vocational Qualifications. The original \$30 million provided for the scheme has largely been expended. With the formal launch of the Qualifications Framework on 5 May 2008, the role of the AGS has been taken up by the QFSS (the latter was endorsed by Members vide FCR(2007-08)22 dated 22 June 2007). Henceforth, non-profit-making course providers can apply for grants under the QFSS to cover accreditation expenses of self-financing post-secondary programmes⁶.

Extension of loan repayment period under SLS

13. Under the SLS, self-financing institutions which have borrowed interest-free loans from the Government have to repay their loans within ten years. As a result, some institutions have to reserve a significant portion of the tuition fees received (being their main source of income) in the first ten years for loan repayment, leaving fewer resources for programme delivery and quality enhancement.

14. To relieve the burden on institutions and to enable them to devote more resources to improving the quality of teaching and learning, we recommend that existing borrowing institutions with proven financial difficulties should be allowed to apply for an extension of the loan repayment period to up to 20 years. The outstanding loans however will be subject to interest payment at the no-gain-no-loss rate⁷ after the first ten years. The Vetting Committee set up for the SLS will draw up the detailed criteria for vetting applications for extension of the repayment period. Each application will be considered by the Vetting Committee on its own merits. The concession will not apply to new loans to be granted under the SLS as the borrowers should plan carefully their repayment ability before borrowing.

Introduction of a QEGS

15. To promote quality enhancement of the sector, we propose to launch a new QEGS of \$100 million to fund worthwhile one-off non-works projects that could help enhance the quality of teaching and learning of self-financing post-secondary programmes. The QEGS will initially operate for a period of three years commencing from the 2008/09 academic year. Applications for the grant will

/be

⁶ Under the QFSS, \$65 million has been earmarked for providing accreditation grants to non-profit-making course providers on a reimbursement basis upon successful accreditation as an incentive for them to quality assure their programmes.

⁷ Pitched at 2.882% per annum as at April 2008, and subject to revision from time to time.

Encl. 2

be considered by a new Vetting and Selection Committee to be set up by EDB. The proposed eligibility criteria and operational parameters of the scheme are at Enclosure 2. Since the QEGS is a new endeavour, we will keep in view the responses from institutions and circumstances of individual proposals, and may refine the operational details of the scheme (such as the duration of the scheme, eligibility criteria, method of disbursement, etc.), having regard to the actual operational experience.

FINANCIAL IMPLICATIONS

FASP

16. Based on the student profiles in the past years and projected student enrolment figures, we estimate that the proposed provision of means-tested loans for students under FASP to cover living expenses and the proposed extension of FASP to cover students pursuing self-financing degree or top-up degree programmes will bring about the following financial implications –

| | 2008/09 academic year | 2012/13 academic year |
|---|----------------------------------|----------------------------------|
| (a) Estimated expenditure on <u>means-tested grants</u> for tuition fees and academic expenses under FASP, and means-tested subsidy under the Student Travel Subsidy Scheme | \$55m | \$318m |
| (b) Estimated amount of <u>means-tested loans</u> for living expenses under FASP | \$410m | \$544m |
| (c) Estimated net amount of <u>non-means-tested loans</u> under NLSPS | -\$93m | \$9m |
| (d) Estimated number of beneficiaries arising from (a), (b) and (c) | 20 800 | 27 600 |

17. Subject to Members' approval, we will arrange for supplementary provision of \$55 million to be made to Head 173 Student Financial Assistance Agency Subhead 228 Student financial assistance in 2008-09 (thereby increasing the provision in 2008-09 from the original estimate of \$2,841 million to \$2,896 million), offset by an equivalent provision under Head 106 Miscellaneous Services Subhead 251 Additional commitments, to meet the additional requirements for the means-tested grants/subsidy under item (a) of the above table. The additional requirement in means-tested loans in the 2008/09 academic year under item (b) will be absorbed under Loan Fund Head 254 Loans to Students Subhead 103 Means-tested loan for post-secondary students in 2008-09. The reduced net requirement for non-means-tested loans in the 2008/09 academic year under item (c) will be reflected under Loan Fund Head 254 Loans to Students Subhead 102 Non-means-tested loan scheme in 2008-09. We shall earmark sufficient provision in the context of the annual Estimates to meet the funding requirements in subsequent financial years. The actual expenditure or requirement under these subheads will depend on the actual size of the student population and the take-up rate.

18. The Student Financial Assistance Agency will need additional resources to implement the proposed improvement measures to FASP. These include about \$2 million to upgrade its computer system, as well as additional recurrent resources of about \$8 million in the 2008/09 academic year rising to about \$18 million in the 2012/13 academic year for staffing and other departmental expenses. Funding for the computer project will be sought in the normal manner while the recurrent expenditure will be absorbed from within existing resources. The creation of posts will be sought through established procedures.

SLS

19. The modified SLS supporting quality enhancement will continue to operate with its original commitment of \$5 billion approved in July 2001, and will not introduce any new financial implications.

QEGS

20. The proposed QEGS involves the creation of a new non-recurrent commitment of \$100 million, under Head 156 Government Secretariat: Education Bureau Subhead 700 General non-recurrent. The scheme will initially operate for a period of three years commencing from the 2008/09 academic year.

21. The estimated cash flow requirement is set out below. The actual expenditure for each financial year will be dependent on the number of applications received and approved for the year. EDB has earmarked sufficient funds in the 2008-09 Estimates for the requirement for the year. For 2009-10 and onwards, EDB will include relevant provisions in the draft Estimates of the respective years.

| Financial year | Estimated cash flow (\$ million) |
|-----------------------|---|
| 2008-09 | 20 |
| 2009-10 | 30 |
| 2010-11 | 30 |
| 2011-12 | 20 |
| Total | 100 |

PUBLIC CONSULTATION

22. At its meeting on 14 April 2008, the Legislative Council Panel on Education was briefed on the key findings and recommendations of the Phase 2 review on the development of the self-financing post-secondary education sector. While expressing concern on the quality of post-secondary programmes and the articulation opportunities for sub-degree graduates, Members generally supported the recommendations in the review.

BACKGROUND

23. In the 2000 Policy Address, the Chief Executive announced that within ten years, 60% of our senior secondary school leavers would receive tertiary education. In support of this policy, we have been focusing our efforts and support measures to foster the provision of locally-accredited self-financing post-secondary programmes. The post-secondary education participation rate has increased from about 33% in the 2000/01 academic year to 66% in the 2005/06 academic year, and stabilised at over 60% in the 2006/07 academic year.

24. Against this background, EDB conducted the Review of the Post-secondary Education Sector to take stock of developments and to map out the way forward. Phase 1 of the Review was completed in March 2006. Taking into account views expressed in Phase 1, EDB conducted Phase 2 of the Review and

made a total of 22 recommendations. More than half of these recommendations are focused on improvement of the quality and transparency of the self-financing institutions and their programmes. Other recommendations are related to enhancement of student financial assistance, support measures for institutions, recognition of sub-degree qualifications and articulation opportunities. This submission deals with recommendations in the Phase 2 Review, which require funding approval of this Committee before implementation.

Education Bureau
May 2008

**Eligibility Criteria for the Extended
Financial Assistance Scheme for Post-secondary Students**

Eligible students –

- (a) are local students aged 25 or below;
- (b) are engaged in full-time locally-accredited self-financing post-secondary education programmes leading to a qualification at sub-degree level or above; and
- (c)
 - (i) for students engaged in a sub-degree programme, have not obtained any qualifications at sub-degree level or above; or
 - (ii) for students engaged in a top-up degree programme, have not obtained any qualifications at degree level or above, and have obtained a locally-accredited sub-degree qualification; or
 - (iii) for students engaged in a degree programme, have not obtained any qualifications at degree level or above, and if they are in possession of a sub-degree qualification, such qualification must be a locally-accredited sub-degree qualification.

Where –

- (a) “local student” is defined as “a student who has a right of abode in Hong Kong, or has resided or has his/her home in Hong Kong continuously for three years immediately prior to the commencement of his/her course”.
- (b) for face-to-face teaching programmes, “full-time” study should normally have a curriculum of not less than 450 contact hours per year. Based on the formula of “one credit point equals 15 contact hours”, this translates into a minimum of 30 credit points per year. For non-face-to-face teaching programmes, “full-time” study should normally have a curriculum of not less than 1 350 study hours.
- (c) “locally-accredited” programmes refer to post-secondary programmes that have successfully undergone accreditation in Hong Kong. In the case of programmes offered by self-accrediting institutions, these programmes must undergo their own internal quality assurance mechanism as applied to their regular publicly-funded programmes. For non-self-accrediting institutions, the programmes must be validated by the Hong Kong Council for Accreditation of Academic and Vocational Qualifications.

**Quality Enhancement Grant Scheme
for self-financing post-secondary institutions**

Objectives

In line with the policy direction to ensure a healthy and sustainable development of the self-financing post-secondary sector, it is necessary to provide relevant institutions with one-off grants to support initiatives dedicated to quality enhancement.

Quality Enhancement Grant Scheme

The proposed scheme

A new scheme of \$100 million will be set up for enhancing the quality of teaching and learning in the self-financing post-secondary education sector (Quality Enhancement Grant Scheme). The scheme will be non-recurrent in nature offering one-off grants to self-financing post-secondary institutions to support projects or initiatives on quality enhancement. The institutions concerned will be responsible for the recurrent expenses, if any, of the proposed projects.

Scope of scheme

The scheme aims to provide funding support to cover the cost of projects on quality enhancement. Institutions will be encouraged to identify suitable projects or initiatives for consideration of funding support. The following are possible areas for funding under the scheme –

- improvement to the learning experience and effectiveness of students in language proficiency;
- development and adoption of effective teaching methods or approaches; and
- strengthening the quality assurance mechanism for post-secondary learning programmes, and enhancing student support and career guidance services.

We will encourage collaboration among institutions in order to maximise the benefits of projects to the post-secondary sector.

Eligibility

Non-profit-making educational institutions offering full-time locally-accredited self-financing post-secondary programmes (including sub-degree, degree and top-up degree programmes), or federation of these institutions would be eligible.

Mode of operation

Applications will be invited from eligible institutions annually with effect from the 2008/09 academic year for an initial period of three years. They will be considered on a competitive basis by an independent Vetting and Selection Committee set up by the Education Bureau.

Detailed selection criteria will be worked out in due course in consultation with the Vetting and Selection Committee. Priority will be accorded to the following quality enhancement projects –

- collaborative projects among post-secondary institutions;
- projects which will benefit students across the post-secondary sector;
- projects towards which the initiating institutions have demonstrated strong commitment such as through their own financial contribution;
- projects with sustainable or long term impact on the institution or the sector; and/or
- projects proven to be feasible by factors, including the implementation time-frame, budget and cost effectiveness.
