

ITEM FOR FINANCE COMMITTEE

HEAD 170 – SOCIAL WELFARE DEPARTMENT

Subhead 179 Comprehensive social security assistance scheme

Subhead 180 Social security allowance scheme

HEAD 62 – HOUSING DEPARTMENT

Subhead 700 General non-recurrent

New Item “Special rent payment for public housing tenants”

HEAD 173 – STUDENT FINANCIAL ASSISTANCE AGENCY

Subhead 700 General non-recurrent

New Item “One-off support grant for needy students in the 2009/10 school year”

LOAN FUND

HEAD 254 – LOANS TO STUDENTS

Subhead 101 Students of the universities, the Hong Kong Institute of Vocational Education, Prince Philip Dental Hospital, Hong Kong Institute of Education and Hong Kong Academy for Performing Arts

Subhead 102 Non-means-tested loan scheme

Subhead 103 Means-tested loan for post-secondary students

Members are invited to approve –

- (a) the provision of one additional month of the standard rate of Comprehensive Social Security Assistance payment to Comprehensive Social Security Assistance recipients, and one additional month of allowance to Social Security Allowance recipients, as well as supplementary provision of \$1,100 million and \$700 million required for the purposes under Head 170 Social Welfare Department Subhead 179 Comprehensive social security assistance scheme and Subhead 180 Social security allowance scheme respectively;

/(b)

- (b) a new non-recurrent commitment of \$1,800 million under Head 62 Housing Department Subhead 700 General non-recurrent for the provision of two months' rent for tenants/licencees living in the rental units of the Hong Kong Housing Authority and the Hong Kong Housing Society;
- (c) a new non-recurrent commitment of \$570 million under Head 173 Student Financial Assistance Agency Subhead 700 General non-recurrent for the provision of a one-off support grant to needy students in the 2009/10 school year; and
- (d) in respect of Head 254 Loans to Students under the Loan Fund, a time-limited concession on the repayment arrangement under means-tested and non-means-tested student loan schemes for deferment applications which are submitted between 1 August 2009 and 31 July 2011, and are subsequently approved, comprising –
 - (i) an extension of the total loan repayment period by up to a maximum of two years; and
 - (ii) a waiver of the interest during the approved deferment period for non-means-tested loan borrowers for a maximum of two years.

PROBLEM

In the context of the 2009-10 Budget Speech, the Financial Secretary (FS) undertook to introduce further relief measures if the economic situation deteriorated rapidly. As the latest economic indicators show that our economy is still facing steep challenges, there is a need for additional relief measures to counter the financial crisis and help our community tide over the difficulties.

/PROPOSAL

PROPOSAL

2. We propose to provide the following –
- (a) one additional month of the standard rate of Comprehensive Social Security Assistance (CSSA) payment to CSSA recipients, and one additional month of allowance to Social Security Allowance (SSA) recipients (comprising Old Age Allowance (OAA) and Disability Allowance (DA) recipients);
 - (b) necessary funding to the Hong Kong Housing Authority (HA) and the Hong Kong Housing Society (HS) so that their tenants/licencees¹ will not be required to pay all or part of the rent/licence fees for two months. Specifically, the Government will pay two months' rent in full for tenants/licencees of HA paying normal rent, tenants of HS Group A estates and tenants of Elderly Persons' Flats in HS Group B estates. As for HA tenants/licencees paying additional rent², the Government will pay on their behalf the portion of their net rent for two months. For tenants of non-Elderly Persons' Flats in HS Group B estates, the Government will pay on their behalf two-thirds of their net rent for two months;
 - (c) a one-off grant of \$1,000 each for needy students from kindergarten to post-secondary education who are eligible to receive means-tested subsidies in the 2009/10 school year under various student finance schemes administered by the Student Financial Assistance Agency (SFAA)³, or students from kindergarten to secondary education who are eligible in the same school year for the flat-rate grant for school-related expenses under the CSSA Scheme; and
- /(d)

¹ Licencees include mainly those households living in HA interim housing. HA interim housing is transit accommodation offered to people who are deprived of their living accommodation as a result of occurrence of natural disasters, Government's clearance operations or enforcement actions, and are not immediately eligible for public rental housing. Households paying market rent under the Policy of Safeguarding Rational Allocation of Public Housing Resources are also regarded as licencees of HA.

² Under the Housing Subsidy Policy and the Policy of Safeguarding Rational Allocation of Public Housing Resources, the concerned households are required to pay additional rent if their household income exceeds two times the respective Waiting List Income Limits at the time of income declaration.

³ These students include those eligible to receive means-tested subsidies under the Tertiary Student Finance Scheme – Publicly-funded Programmes (TSFS), Financial Assistance Scheme for Post-secondary Students (FASP), Tuition Fee Reimbursement for Project Yi Jin, Tuition Fee Reimbursement for the Financial Assistance Scheme for Designated Evening Adult Education Courses, School Textbook Assistance Scheme, Student Travel Subsidy Scheme and Examination Fee Remission Scheme, eligible kindergarten students under the Kindergarten and Child Care Centre Fee Remission Scheme, as well as kindergarten students who have opted to continue receiving means-tested assistance based on the formula of the former Child Care Centre Fee Assistance Scheme after the harmonisation of pre-primary services.

- (d) an extension of the total loan repayment period for a maximum of two years without charging interest during the deferment period, for borrowers of both means-tested⁴ and non-means-tested loans⁵ with proven repayment difficulties, on an application basis for a period of two years.

JUSTIFICATION

3. On 26 May 2009, FS announced additional relief measures to counter the financial crisis, help our people tide over the difficulties and prepare ourselves for economic recovery. This submission deals with four of the announced measures which involve mainly provision of immediate financial relief to members of the community, in order to relieve their burden and bolster public confidence. Subject to Members' approval, we will put in place the necessary arrangements so that the measures can be implemented the soonest possible.

One-off Assistance for Social Security Recipients

4. Given the profound impacts of the financial crisis and the fact that many at the grassroots level have also been affected, the FS has proposed to provide one-off welfare assistance for social security recipients. This comprises providing one additional month of the standard rate of CSSA payment for CSSA recipients and one additional month of allowance for SSA recipients.

/5.

⁴ Means-tested loan schemes include TSFS, which was known as the Local Student Finance Scheme before the 2007/08 academic year and is applicable to full-time students of recognised courses run by the University Grants Committee (UGC)-funded or publicly-funded institutions, and FASP, which is applicable to full-time students who are engaged in locally-accredited self-financing post-secondary education programmes. These schemes seek to ensure that needy students would not be deprived of education owing to lack of means. TSFS and FASP were first approved by the Finance Committee (FC) in May 1969 (vide Item B. 17) and July 2001 (vide FCR(2001-02)30) respectively. In addition to the TSFS and FASP, the proposed measure will also cover borrowers under the Student Finance Assistance Scheme (SFAS), which provided means-tested financial assistance to registered full-time students of the Hong Kong Shue Yan College (HKSYC) (presently known as the Hong Kong Shue Yan University (HKSJU)) who had enrolled in the 2000/01 academic year or before in respect of a four-year diploma course. SFAS was phased out as from the 2005/06 academic year. Currently, HKSJU students can apply for means-tested financial assistance under FASP.

⁵ Non-means-tested loan schemes seek to provide a source of finance to those students who prefer to pursue post-secondary and continuing education on their own without relying on family support, and those who do not wish to or fail to go through the means test as required under TSFS and FASP. The non-means-tested loan scheme applicable to students eligible for TSFS was approved by FC in December 1997 (vide FCR(97-98)74). The scheme was subsequently expanded to cover students of the Open University of Hong Kong and part-time students pursuing courses run by UGC-funded or publicly-funded institutions, etc. in July 1998 (vide FCR(98-99)20), part-time students pursuing local award-bearing programmes of HKSYC (presently known as HKSJU), etc. in November 1999 (vide FCR(1999-2000)44), students pursuing continuing and professional education courses operated locally by registered schools and recognised training providers, etc. in June 2000 (vide FCR(2000-01)39), and students eligible for FASP in July 2001 (vide FCR(2001-02)30).

5. If Members approve the proposal, we will work towards effecting the payment in August 2009.

Two Months' Rent Payment for HA and HS Tenants/Licencees

6. Having regard to the extensive impact of the financial tsunami, the rent payment proposal would cover all households in public rental estates. Specifically, the Government will pay two months' rent in full for tenants/licencees of HA paying normal rent, tenants of HS Group A estates and tenants of Elderly Persons' Flats in HS Group B estates. At the same time, to ensure rational allocation of public housing resources, for HA tenants/licencees paying additional rent (these tenants have income levels exceeding two times the HA's Waiting List Income Limits, and are paying at least 1.5 times net rent plus rates), the Government will pay on their behalf the portion of their net rent for two months. Similarly, for non-Elderly Persons' Flats tenants of HS Group B estates (these estates target families of relatively higher income as compared to HS Group A estates and HA estates), the Government will pay on their behalf two-thirds of their net rent for two months.

7. As the proposal is administrative in nature, no legislative amendment is necessary. Taking into account the necessary preparatory work by the HA and the HS, including computer system adjustment, verification of tenancy records and adjustment of auto payment with banks, etc., we expect that HA tenants/licencees and HS tenants will not be required to pay all or part of the rent/licence fees for the months of August and September 2009 if Members approve the proposal.

One-off Grant for Needy Students

8. To alleviate the financial burden of needy parents, FS has proposed to disburse, outside existing financial assistance schemes and on a non-accountable basis, a one-off grant of \$1,000 each for students from kindergarten to post-secondary education who are eligible to receive means-tested financial subsidies in the 2009/10 school year under various student finance schemes administered by SFAA as referred to in paragraph 2(c) above, or students from kindergarten to secondary education who are eligible in the same school year for the flat-rate grant for school-related expenses under the CSSA Scheme. We expect parents/students in receipt of the grant to make use of it flexibly to meet their education-related expenses in ways best suited to their needs.

9. Subject to Members' approval, similar to the disbursement arrangement of the one-off grant in the 2008/09 school year, SFAA will effect payment of the one-off grant to applicants who have passed the means test for financial assistance under SFAA schemes in the 2009/10 school year from October 2009. Applicants who pass the means test after October 2009 would be given the one-off grant and their normal financial assistance under the relevant schemes within the 2009/10 school year. The Social Welfare Department will also make available the one-off grant to eligible students under its scheme in the new school year.

Maximum Two Years' Interest-free Loan Deferment for Student Loan Borrowers with Proven Repayment Difficulties

10. Under current policy, eligible students pursuing post-secondary or continuing education programmes may, depending on their financial situation, apply to SFAA for means-tested or non-means-tested loans to pay for their tuition fees, academic expenses and/or living expenses. Generally, means-tested loan borrowers are required to repay their loans in quarterly instalments (due on the first day of January, April, July and October) within five years upon completion or cessation of their studies, and in some cases of hardship, the repayment period could be extended up to ten years. Borrowers of non-means-tested loans are required to repay the loans within ten years upon completion or cessation of their studies in similar quarterly instalments.

11. At present, if individual loan borrowers are unable to repay their loans owing to financial hardship, further studies or serious illness, they may apply to SFAA for deferring the loan repayment within the existing maximum repayment period of ten years. SFAA will, on the basis of individual merits, approve deferment of loan repayment. While we do not charge any interest during the approved deferment period in respect of the means-tested loan schemes, we are charging those non-means-tested loan borrowers interest during the approved deferment period on the ground that the non-means-tested loan schemes are operating on a no-gain-no-loss and full-cost-recovery basis⁶.

12. The total number of approved deferment cases under both the means-tested and non-means-tested loan schemes in 2008-09 was around 6 000, with an average approval rate of over 80%.

/13.

⁶ Non-means-tested loan schemes are not subject to means test and are unsecured. To ensure proper use of public money, these schemes are operating on a no-gain-no-loss and full-cost-recovery basis. Interest will be charged on the capital once the loan is drawn down. The current interest rate is 3.599%, which is lower than the interest rate for unsecured loans in the market.

13. To alleviate the financial burden of needy loan borrowers, the FS has proposed to extend the total loan repayment period for a maximum of two years without charging any interest during the approved deferment period. We propose to provide this loan extension arrangement for a two-year application period from 1 August 2009 to 31 July 2011. This seeks to provide short-term relief for those student loan borrowers who have difficulties in repaying their student loans because of financial difficulty, serious illness or further studies, particularly in the face of the economic downturn. This would relieve the burden of both existing loan borrowers with repayment difficulties, as well as those potential new loan borrowers who wish to make use of the student loans to undertake some short-term post-secondary educational programmes lasting one to two year(s) during the economic downturn, for the purpose of better equipping themselves.

14. During the two-year application period from 1 August 2009 to 31 July 2011, loan borrowers who apply for deferment and whose requests for deferment are subsequently approved by SFAA will be eligible for deferment from the quarterly instalment following the date of application, subject to a maximum of two years. Since interest for a quarter is due on the first day of the following quarter, the interest-free period for approved deferment cases will in effect commence from 1 July 2009 at the earliest.

15. For those means-tested loan borrowers whose deferment requests have been approved under the existing deferment mechanism, they may re-apply upon expiry of their previously approved deferment in case of need on or before 31 July 2011 in order to benefit from the above extension of loan repayment period. For those non-means-tested loan borrowers whose approved deferment periods expire at the end of the third quarter of 2009 or any subsequent quarter, their deferred loans would not be charged any interest with effect from 1 July 2009 for the remainder of their deferment or up to 30 June 2011, whichever is the earlier. They may also re-apply upon expiry of their previously approved deferment in case of need on or before 31 July 2011. However, the total interest-free and deferred repayment period for each of the above cases under the proposed deferment arrangement will be subject to a cumulative maximum of two years. SFAA will inform the loan borrowers concerned and seek their agreement to make the relevant changes to the deferment arrangements.

16. To protect public money, defaulters⁷ who wish to benefit from the relief measure should approach SFAA for assistance in loan restructuring or deferment arrangements, providing supporting information on financial hardship, further studies or serious illness.

/FINANCIAL

⁷ Defaulters are currently defined as loan borrowers who have failed to repay two or more consecutive quarterly instalments (i.e. more than six months).

FINANCIAL IMPLICATIONS

17. The extra one-month payment to CSSA/SSA recipients, two-month rental subsidy for public housing tenants and one-off grant for needy students will entail one-off expenditure for the Government. We set out below the estimated expenditure and number of beneficiaries for these three measures –

| | Measures | Estimated one-off expenditure (\$ million) | Number of beneficiaries |
|-----|---|--|--|
| (a) | One-off assistance for social security recipients | 1,800 | 480 000 CSSA recipients 490 000 OAA recipients 130 000 DA recipients |
| (b) | Two months' rent payment for HA and HS tenants/licencees ⁸ | 1,800 | 670 000 HA tenants/licencees 32 000 HS tenants |
| (c) | One-off grant for needy students | 570 | 570 000 students |
| | Total | 4,170 | |

18. The expenditure for the above three items is expected to be incurred fully in 2009-10. For item (a), we need to seek supplementary provision of \$1,100 million and \$700 million under Head 170 Social Welfare Department Subhead 179 Comprehensive social security assistance scheme and Subhead 180 Social security allowance scheme respectively. Supplementary provision for items (b) and (c) will be approved by the Administration under delegated authority after Members approve the proposals in this paper.

19. As for the proposal concerning student loans, the estimated financial implication comprises both the waived interest⁹ which should otherwise be charged on approved deferment cases under the non-means-tested loan scheme, as

/well

⁸ The Government will make the rental payment directly to the HA and HS. Taking into account the rates reduction measure announced by FS in the 2009-10 Budget Speech, the amount of payment to be made will be equivalent to the amount of rent/licence fees (discounting the rates concession) payable by the Government on behalf of all HA and HS tenants/licencees for the months concerned.

⁹ The calculation is based on the actual loan amount under deferment cases in the 2008-09 financial year. For non-means-tested loans, interest to be waived is computed by applying the current interest rate (i.e. 3.599%). This rate will be adjusted in accordance with the movement of the average best lending rate of note-issuing banks and the outcome of the biennial review of the no-gain-no-loss interest rate.

well as interest income forgone due to an extension of the repayment period of the deferred loans¹⁰. It is difficult to compile an accurate estimate of the total interest forgone, as the number of loan borrowers applying for deferment, the loan amounts due for payment, and the approved deferment arrangements vary from year to year. Based on the deferment cases in the 2008-09 financial year, the estimated total amount of interest to be waived and interest income forgone due to an extension of the repayment period of the deferred loans is around \$36.8 million and \$18.5 million respectively, assuming that the same number of loan deferment applications (around 6 000) involving the same amount of outstanding loan amounts is approved each year within the two-year application period. If the number of approved loan deferment applications increases, and brings about a 20% increase in the outstanding loan amounts involved in each year, the estimated total amount of interest to be waived and interest income forgone due to an extension of the repayment period of the deferred loans would increase to around \$44.2 million and \$22.2 million respectively.

PUBLIC CONSULTATION

20. FS attended a special meeting of the Legislative Council (LegCo) Panel on Financial Affairs on 29 May 2009 to brief Members on the package of additional relief measures, including but not limited to those in this submission. Members generally supported the additional measures. Some Members commented that not all those in need could benefit from the package. While endorsing the need for providing one-off and quick relief, some Members considered that the Government should also look into systemic issues affecting Hong Kong.

21. Responsible bureaux have also separately informed or consulted the relevant LegCo Panels of relief measures under their purview. On 29 May 2009, the Education Bureau consulted the Panel on Education on the two student-related proposals. On 8 June 2009, the Labour and Welfare Bureau consulted the Panel on Welfare Services on the extra payment to social security recipients. Both Panels were generally supportive of the measures. The Transport and Housing Bureau informed the Panel on Housing of the rent payment proposal, vide a paper of 9 June 2009. The Panel will further discuss the subject of relief measures at its meeting on 17 June 2009.

/BACKGROUND

¹⁰ The calculation of the interest income forgone is based on the difference between the cash flow repayment schedule with and without deferment discounted at 6.8% per annum, which is the current rate of return for fiscal reserves placed with Exchange Fund.

BACKGROUND

22. FS said during the Second Reading Debate on the Appropriation Bill 2009 on 22 April 2009 that the Government would introduce further relief measures if the economic situation deteriorated rapidly. As the latest economic indicators show that Hong Kong's economy is still facing steep challenges, the FS announced on 26 May 2009 further relief measures. These measures, including the four proposals covered in this funding submission, will cost the Government a total of \$16.8 billion. We are aiming to submit to this Committee before the end of the current legislative session other measures requiring Members' funding approval and ready for implementation in the next few months.

Education Bureau
Labour and Welfare Bureau
Transport and Housing Bureau
June 2009