

For meeting
on 20 March 2018

Legislative Council Panel on Manpower

Proposed Further Enhancement Measure of Continuing Education Fund and Additional Funding Injection

Purpose

This paper briefs Members on the proposed further enhancement measure of Continuing Education Fund (CEF) and further additional funding injection of \$8.5 billion into CEF.

Further Enhancement Measure of CEF

Enhancement Measures Announced in November 2017

2. At the meeting of this Panel held on 21 November 2017, the Administration briefed Members on a series of proposed enhancement measures of CEF after review, and the proposed funding injection of \$1.5 billion into CEF. These originally proposed enhancement measures include the relaxation of the upper age limit for CEF applicants from 65 to 70¹, the expansion of the scope of CEF courses to all courses registered in the Qualifications Register (QR)², lifting restrictions on validity period and maximum number of reimbursement claims³, and enhancement of the quality assurance monitoring of CEF courses⁴. The above-mentioned series of measures will substantially increase the choices and flexibility for learners, streamline the administrative arrangements and strengthen the safeguards for learners' interests.

¹ Eligible applicants would increase by about 390 000.

² While programmes funded by University Grants Committee and provided by Employees Retraining Board are not included, the number of eligible CEF courses would increase from about 7 800 at present to at least 11 800 upon expansion of the scope.

³ Currently, applicants are required to complete relevant CEF courses within the four-year validity period after opening accounts, and may submit up to a maximum of four subsidy claims.

⁴ CEF courses that were registered in the past without QR registration are required to go through accreditation for registration under the QR within a four-year transitional period before they can continue to be registered as CEF courses. All CEF courses will be subject to the regulation of a more robust documentation checking system upon renewal.

Increased Subsidy Ceiling

3. While welcoming the above originally proposed enhancement measures and raising no objection in principle to the submission to the Legislative Council Finance Committee (FC) the proposed funding injection of \$1.5 billion, Members passed two motions requesting the Administration to consider increasing the subsidy ceiling of CEF which had not been adjusted since establishment of CEF in 2002. Members requested the Administration to raise the subsidy ceiling to \$20,000 and \$40,000 respectively.

4. The Panel's response is similar to the views of the public and other stakeholders, i.e. urging the Administration to raise the CEF subsidy ceiling. After careful consideration, the Financial Secretary announced in his 2018-19 Budget the proposed increase of CEF subsidy ceiling from the current level of \$10,000 to \$20,000 per applicant, with a view to further encouraging people, through increasing the subsidy ceiling, to pursue continuing learning so as to better equip themselves amid the rapidly changing vocational, technological and socio-economic developments.

Co-payment Ratios

5. Under the prevailing arrangements, a learner who has successfully completed a CEF course may claim 80% of the course fees, subject to the \$10,000 subsidy ceiling. In other words, as a learner has to co-pay 20% of the course fees, the learner can fully obtain the subsidy of \$10,000 for taking a course which costs \$12,500. We noted that when CEF was launched initially, certain course providers immediately increased courses fees to around \$12,500 to keep close to the CEF subsidy ceiling, but with no major revisions in the course content. At present, courses which cost below \$12,500 constitute about 78% of all CEF courses. In this regard, in implementing the new subsidy ceiling of \$20,000, to avoid recurrence of similar situations arising from the additional subsidies, we propose to raise the co-payment ratio by learners for the second \$10,000 subsidy to 40%, while maintaining the prevailing co-payment ratio for the first \$10,000 subsidy (i.e. 20%).

Re-activation of Closed Accounts

6. Since the establishment of CEF in 2002, a cumulative total of about 770 000 Hong Kong residents have opened CEF accounts. As at 31 December 2017, there were 680 000 closed accounts of CEF⁵. Among them, more than

⁵ Under the prevailing arrangements, a CEF account will be immediately closed when the applicant has used up the subsidy of \$10,000, made a total of four claims, or when the four-year validity period of account has expired or the applicant has exceeded the upper age limit.

half (or around 395 000) had not used up the subsidy of \$10,000⁶, and some 200 000 among them did not use any subsidy before closure of their accounts. The unused balance of these 395 000 closed accounts amounted to \$2.76 billion. At the same time, in view of our proposal to double the subsidy ceiling to \$20,000, we propose, as a one-off discretionary arrangement, to allow re-activation of all closed accounts. In other words, for applicants who had used up the subsidy of \$10,000 in the past, their accounts can be re-activated with the benefit of the additional subsidy of \$10,000. For applicants who had not used up the subsidy of \$10,000, their accounts can be re-activated with the additional second subsidy of \$10,000 on top of the unused balance under the original subsidy of \$10,000. An illustration of re-activated accounts under the new co-payment ratios is at **Annex 1**.

7. A table summing up all the above enhancement measures in paragraphs 2 and 4 to 6 above with comparison to the existing arrangements is at **Annex 2**.

Proposed Additional Funding Injection into CEF

8. The current approved commitment for CEF is \$6.2 billion⁷. As at end December 2017, CEF has a total commitment of about \$5.2 billion⁸ and an uncommitted balance of about \$1 billion. Assuming that CEF will operate on the present parameters (i.e. not taking into account any of the proposed enhancement measures), the funding balance would be used up by 2020. To support the increase in the subsidy ceiling which at the same time applies to the closed accounts, and to sustain the operation of CEF, the 2018-19 Budget has announced that the Government would further inject an additional \$8.5 billion into CEF, on top of the \$1.5 billion injection announced in the 2017-18 Budget.

9. Subject to the approval of FC, the total funding provision for CEF will increase to \$16.2 billion. The funding will be used to meet the payment of subsidy and costs for administering CEF. The actual cash flow and duration of CEF will depend on the pace at which eligible applicants seek reimbursement and the amount of subsidy sought in the light of the enhancement measures.

⁶ Another 285 000 closed CEF account holders had used up the subsidy to the ceiling of \$10,000.

⁷ FC approved in April 2002 (vide FCR(2002-03)6) a provision of \$5 billion to launch CEF. FC further approved in July 2009 (vide FCR(2009-10)35) a provision of \$1.2 billion to increase the commitment for CEF.

⁸ Including \$4.4 billion of subsidy disbursed to learners and administrative cost, and \$0.8 billion of commitment earmarked to learners who have opened accounts but have not made reimbursement claims within the four-year validity period.

We estimate that upon the increase of total funding provision to \$16.2 billion, CEF may continue to operate until mid-2026, and around 610 000 learners⁹ in total will be benefited.

Implementation Arrangements

10. Subject to Members' comments, we plan to seek FC's approval for the proposed injection of \$10 billion into CEF in one go. We will also promptly start the preparation for implementing various enhancement measures and system upgrade as set out above. The further enhancement measure involves increase in the subsidy ceiling to \$20,000, adjustment of the co-payment ratios and re-activation of closed accounts and their unused balances. These are not standing functions which could be handled by the original systems. Office of CEF (OCEF) will have to review and substantially revise the operational procedures and the computer systems to cope with the requirements for re-activation, conversion and verification of the data for some 680 000 closed accounts, as well as ongoing maintenance and systematic retrieval of information for over hundreds of thousands re-activated, currently valid and new accounts. In this regard, we expect that it would take about 12 months to prepare for all the proposed enhancement measures with a view to a simultaneous implementation from early 2019 (subject to the approval of FC). The enhancement measures, including the new subsidy ceiling, will be applicable to classes of CEF courses which commence on or after the effective date.

Advice Sought

11. Members are invited to note and comment on the further enhancement measure and the proposed additional funding injection for CEF set out above.

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⁹ The estimated 610 000 learners to be benefited comprise: (i) 150 000 currently valid account holders; (ii) 15% of the closed account holders who will re-activate their accounts and apply for subsidies, i.e. 100 000 learners; and (iii) 360 000 learners who will open new accounts upon the implementation of enhancement measures (i.e. around 52 500 per year or a 50% increase over the existing figure).

Re-activation of Closed Accounts

Illustration of New Co-payment Ratios

Scenario: A learner takes a course of **\$15,000** commences after the effective date of the enhancement measures

Example 1) The learner has used up the original subsidy of \$10,000 in the past (i.e. an unused balance of \$0 in the account)

	Unused balance in account	Co-payment ratio by learner	Cost to be borne by learner concerned	Cost to be subsidised by Government	Account balance after disbursement of subsidy
Original ceiling of \$10,000	\$0	20%	\$0	\$0	\$0
Additional ceiling of \$10,000	\$10,000	40%	\$6,000	\$9,000	\$1,000
Total			= \$6,000	= \$9,000	= \$1,000

Example 2) The learner has used \$5,000 subsidy in the past (i.e. an unused balance of \$5,000 in the account)

	Unused balance in account	Co-payment ratio by learner	Cost to be borne by learner concerned	Cost to be subsidised by Government	Account balance after disbursement of subsidy
Original ceiling of \$10,000	\$5,000	20%	\$1,250	\$5,000	\$0
Additional ceiling of \$10,000	\$10,000	40%	\$3,500	\$5,250	\$4,750
Total			= \$4,750	= \$10,250	= \$4,750

Example 3) The learner has not claimed any subsidy in the past (i.e. an unused balance of \$10,000 in the account)

	Unused balance in account	Co-payment ratio by learner	Cost to be borne by learner concerned	Cost to be subsidised by Government	Account balance after disbursement of subsidy
Original ceiling of \$10,000	\$10,000	20%	\$2,500	\$10,000	\$0
Additional ceiling of \$10,000	\$10,000	40%	\$1,000	\$1,500	\$8,500
Total			= \$3,500	= \$11,500	= \$8,500

A Comparison of Existing Arrangements and All Proposed Enhancement Measures of Continuing Education Fund (CEF)

All proposed enhancement measures would apply to all new, currently valid and closed accounts. The enhancement measures will only be applicable to classes of CEF courses which commence on or after the effective date. Learners enrolling CEF courses with commencement dates before the effective date are still subject to the existing arrangements.

Existing arrangements	Proposed enhancement measures
a) Subsidy Ceiling	
- \$10,000 per applicant	- \$20,000 per applicant
b) Co-payment Ratios by Learner	
- 20% of the course fee	- 20% of the course fee (applicable for the first \$10,000); and - 40% of the course fee (applicable for the second \$10,000)
c) Currently Closed CEF Accounts	
- Nullified upon closing of individual CEF accounts	- To be re-activated - May re-apply for the unused balance, with co-payment ratio of 20% by learner - Will be given an additional subsidy of \$10,000, with co-payment ratio of 40% by learner
d) Age Limit	
- Between 18 and 65	- Between 18 and 70
e) Scope of CEF Courses	
- Within the eight specified domains of CEF; - Specification of Competency Standards-based (SCS-based) courses under the Qualifications Register (QR)	- All registered courses under the QR ¹ , including SCS-based courses; Specification of Generic (Foundation) Competencies-based (SGC-based) courses; and non SCS/SGC-based courses which are divided into 14 classified Areas of Study and Training

¹ The programmes funded by University Grants Committee and provided by Employees Retraining Board are not included.

Existing arrangements	Proposed enhancement measures
<i>f) Validity Period, Maximum Number of Claims and Other Administrative Arrangements</i>	
<u>Validity period of CEF accounts</u> - Four years since the opening of CEF accounts	- No validity period
<u>Maximum number of CEF claim submissions</u> - Four claims	- No limit
<u>Application procedures</u> - To submit the application for opening an account before commencement of the applicant's first CEF course	- To submit application for opening an account together with application for the first reimbursement claim after the successful completion of the applicant's first CEF course ²
<i>g) Quality Assurance of Courses and Safeguards to Better Protect Applicants</i>	
<u>QR registration of CEF courses</u> - No such requirement before May 2008 - Since May 2008, all new CEF courses must be registered under the QR	- All new CEF courses must be registered under the QR - CEF courses registered before May 2008 are required to be registered under the QR within a transitional period of four years
<u>Validity period of CEF course registration</u> - For courses which have a validity period of QR registration, the validity period of the CEF registration will expire on the end date of their QR validity period - For other CEF courses, no expiry date of the CEF registration	- Every CEF course will have a validity period of four years, or until the expiry of their respective QR registration, whichever is the shorter - A more robust documentation checking system for the renewal procedures

² To ensure the effective processing of the large number of reimbursement applications and better management of the sizable number of CEF accounts upon the implementation of the enhancement measures, applicants would be required to submit their reimbursement claims **within one-year** upon the completion of a CEF course.

Existing arrangements	Proposed enhancement measures
<p data-bbox="164 192 783 271"><u><i>Deterrence of non-compliance with CEF terms and conditions</i></u></p> <ul data-bbox="164 277 767 544" style="list-style-type: none"> <li data-bbox="164 277 767 360">- Issue of warning letters upon infringement of terms and conditions <li data-bbox="164 376 767 544">- For severe non-compliance, cancellation of course registration or referral to law enforcement agencies for formal investigation 	<ul data-bbox="810 277 1406 528" style="list-style-type: none"> <li data-bbox="810 277 1406 528">- In addition to the existing sanctions, set up a probation list which records course providers that have repeated/serious contraventions of terms and conditions, and publicise the list on CEF's website