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Panel on Education

**Updated background brief prepared by the Legislative Council Secretariat
for the meeting on 14 December 2009**

Start-up Loan Scheme for post-secondary education providers

Purpose

This paper summarizes the deliberations of the Panel on Education (the Panel) on the Start-up Loan Scheme (SLS).

Background

2. In the 2000 Policy Address, the Chief Executive announced the policy commitment to enable 60% of senior secondary school leavers to have access to tertiary education in 10 years. In support of the policy objective, the Administration introduced support measures to promote the development of a self-financing post-secondary sector. One of the support measures was the introduction of SLS with a commitment of \$5 billion in June 2001.

3. Under SLS, providers should be non-profit making and offer self-financing, full-time accredited post-secondary programmes leading to a qualification at or above the levels of higher diploma, associate degree or professional diploma. When SLS was first introduced, the loan amount was determined with reference to the projected number of students and the providers' start-up expenses subject to a loan ceiling per student to be adjusted annually. The loan was interest-free, and the loan repayment period was no more than 10 years.

4. The Administration adopted a two-pronged approach in offering loan assistance to providers. In the first stage, a short-term loan was offered to enable post-secondary course providers to rent premises for two years and cover basic refurbishment and equipment. In the second stage, a medium-term loan was offered to providers with a good track record to purchase or build permanent college premises and cover refurbishment and equipment. Both the short-term loans and the medium-term loans were subject to ceilings. For the short-term loans, the ceiling was determined on the basis of the prevailing average two-year

rental cost of class "C" commercial office (based on the data provided by the Rating and Valuation Department), plus the average cost of refurbishment and equipment incurred by existing course providers. For the medium-term loans, the ceiling was determined on the basis of the purchase price of class "C" commercial office (based on the data provided by the Rating and Valuation Department), plus the same average cost of refurbishment and equipment for the short-term loan.

5. The Secretary for Education was empowered to approve applications at or below \$15 million. Applications for loans exceeding \$15 million were assessed by a Vetting Committee comprising officials and non-officials. To enhance accountability, the approval of the Vetting Committee was required for an application at or below \$15 million should the outstanding loan balance for the same course provider under SLS exceed \$15 million if the loan application under processing was factored in.

6. In 2005, the Administration initiated the Review of the Post-secondary Education Sector (the Review), and established a Steering Committee to oversee the Review which covered various issues including the support measures provided to the service providers. The Steering Committee comprised representatives of service providers, quality assurance agencies and members of the community. The Report of the Phase I Review was released in March 2006, and the Report of the Phase 2 Review in April 2008. Amongst other improvement measures, the Review recommended that SLS should be modified to support quality enhancement of the sector such that institutions might, 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. libraries, laboratories, student guidance/career counseling centres, etc) which served to enhance the learning experience of and support for students;
- (b) reprovisioning existing college campuses operating in sub-optimal environment; and
- (c) refurbishing the vacant school premises allocated to them to enhance students' learning environment.

7. Since the introduction of SLS in 2001, the Finance Committee (FC) had approved 20 loans to 12 institutions, amounting to a total of about \$4,077 million. The Secretary for Education had approved under delegated authority five loans totalling \$52 million. A list of the start-up loans approved is in **Appendix I**. As at the end of March 2009, a total of \$737 million had been repaid and all repayments had been made on time.

Deliberations of the Panel

8. The Panel had considered SLS in the context of the Review. At its meeting

on 29 May 2009, the Panel discussed the Administration's proposal to provide loans under SLS to the following three institutions –

- (a) \$350 million to Chu Hai College of Higher Education (Chu Hai);
- (b) \$40.344 million to the University of Hong Kong (HKU) for the operation of HKU SPACE Community College; and
- (c) \$29 million to Hong Kong College of Technology.

The deliberations of the Panel on SLS in general and the proposed loans to the three institutions are summarized below.

Extension of the repayment period

9. Members were concerned that the need to repay the start-up loans in 10 years had driven course providers to set high tuition fees for their self-financing programmes. Members were given to know that one-third of the fee incomes received by course providers had been used to repay the start-up loans. They noted a suggestion made by some course providers in Phase I of the Review to extend the repayment period of the interest-free loans. However, the Administration's stance then was that as the suggestion would involve substantial Government revenue foregone and an additional subsidy to the borrowers, it would require very strong justifications for varying the loan terms.

10. The concern about the loan repayment period was raised again in Phase 2 of the Review. It was claimed that as institutions had to repay their loans within 10 years, institutions had to reserve a significant portion of the tuition fees received for loan repayment, thus leaving little resources for programme delivery and quality enhancement. Sub-degree students had complained that the arrangement was unfair to them as the normal life-span of a building was over 40 years. They requested an extension of the loan repayment period so as to relieve the financial burden on the institutions and enable them to devote more resources to improve the quality of teaching and learning. The Administration accepted the recommendation of the Steering Committee in the Report of the Phase 2 Review to allow existing borrowing institutions with proven financial difficulties to apply for an extension of the loan repayment period up to 20 years with interest payment at the no-gains-no-loss interest rate after the first 10 years.

11. According to the Administration, as at April 2009, eight institutions had applied for an extension of the loan repayment period. In assessing the applications, the Vetting Committee would consider key factors including financial difficulties faced by the institutions and how resources were deployed to improve the quality of teaching and learning. If the applications were approved, the loan repayment period might be extended to 20 years, and the institutions' annual repayments might be reduced by about one half.

12. While welcoming the extension of the repayment period, members were

concerned whether the extension would apply to new loans. Quoting the proposed loan to Chu Hai as an example, members pointed out that the new borrowing institutions would be doubly jeopardized if they had to repay the loan within 10 years and to provide documentary proof of assets equivalent to 90% of the loan amount as guarantee of their repayment ability. Members considered it important to offer the extended loan repayment period to new borrowing institutions so that they could have resources to invest in improving the quality of education and the teaching and learning environment.

13. The Administration advised that as agreed at the FC meeting on 23 May 2008, the extension of the loan repayment period to 20 years would not apply to new loans as borrowers should plan carefully their repayment ability before applying for the loans. As SLS was established by public funds to support the development of self-financing post-secondary programme providers, the Administration had a duty to ensure cost-effective use of the funds. Nevertheless, in response to members' request for extension of the loan repayment period to 20 years for the proposed loan to Chu Hai, the Administration agreed to maintain close liaison with Chu Hai and to discuss with it should it encounter actual difficulties.

Adequacy of loan amount

14. Members noted that Chu Hai made its first application under SLS to fund part of the construction cost of a purpose-built campus at Tuen Mun east. Two building blocks (Block A and Block B) would be constructed in the new campus. There was a view that the proposed loan of \$350 million to Chu Hai was inadequate and the Administration should allocate more resources from the Loan Fund to assist Chu Hai in the provision of quality post-secondary education programmes.

15. The Vice-President of Chu Hai confirmed that \$350 million would be sufficient for the construction cost of Block A. Chu Hai would use its own resources of around \$50 million to \$70 million for the construction of Block B.

Allocation of vacant school premises

16. Members supported the Steering Committee's recommendation in the Report of the Phase 2 Review to modify SLS such that institutions might, without the need to provide additional student places, apply for interest-free loans for providing or enhancing teaching and other ancillary facilities at their existing premises, or for reprovisioning existing campuses operating in sub-optimal environment.

17. Members also welcomed the policy on the allocation of suitable vacant school premises to eligible post-secondary providers and the provision of start-up loans for refurbishing vacant school premises for the operation of full-time locally accredited post-secondary programmes. However, members pointed out that in the past, post-secondary institutions had to borrow funds for the construction of purpose-built campus. These institutions were using a substantial portion of their tuition fee incomes to repay the loans. As the allocation of vacant school

premises was a policy change, members considered it important to address the concern about disparity of treatment among borrowing institutions. Members were of the view that in the principle of equity, the Administration should consider providing appropriate subsidies to those institutions which had borrowed start-up loans for the construction of purpose-built campus so as to reduce their financial burden on loan repayment.

18. The three proposed loans were approved by FC at its meeting on 19 June 2009.

Relevant papers

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

Council Business Division 2
Legislative Council Secretariat
8 December 2009

**List of Loans Approved under the
“Start-up loan scheme for post-secondary education providers”**

| Loan No. | Applicant | Use | Loan Amount | Date of Approval |
|-----------------|------------------|--|------------------------|-------------------------|
| 1 | HKU | Renting and refurbishing of commercial premises in Wanchai | \$35,402,000 | 7 Dec 2001 by FC |
| 2 | HKU | Purchasing and refurbishing of commercial premises in North Point | \$176,124,000 | 7 Dec 2001 by FC |
| 3 | HKBU | Purchasing and refurbishing of commercial premises in Kowloon Tong | \$86,201,000 | 7 Dec 2001 by FC |
| 4 | Poly U | Renting and refurbishing the professional Complex at Hunghom Campus | \$32,700,000 | 7 Dec 2001 by FC |
| 5 | Lingnan U | Renting and refurbishing of commercial premises in Tuen Mun and Causeway Bay | \$10,597,000 | 7 Dec 2001 by FC |
| 6 | Lingnan U | Construction of new buildings in Tuen Mun Main Campus | \$205,735,000 | 7 Dec 2001 by FC |
| 7 | HKIEd | Renting and refurbishing of commercial premises in Tai Kok Tsui | \$15,000,000 | 26 Mar 2002 by SED |
| 8 | CUHK | Purchasing and refurbishing commercial premises in Central | \$135,274,000 | 26 Apr 2002 by FC |
| 9 | Caritas-HK | Renting and refurbishing of commercial premises at MTR Kowloon Station | \$15,000,000 | 21 Jun 2002 by SED |
| 10 | City U | Renting and refurbishing of commercial premises in Kowloon Bay | \$44,756,000 | 21 Jun 2002 by FC |
| 11 | VTC | Construction of new buildings in IVE Tsing Yi Campus | \$266,400,000 | 21 Jun 2002 by FC |
| 12 | IEAEF | Renting and refurbishing of commercial premises in Cheung Sha Wan and TST | \$7,148,000 | 30 Dec 2002 by SED |
| 13 | ELI | Renting and refurbishing of commercial premises in Causeway Bay | \$4,000,000 | 4 Mar 2003 by SED |
| 14 | HKU | Construction of new campus in Kowloon Bay | \$279,256,000 | 27 Jun 2003 by FC |
| 15 | HKBU | Construction of new campus in Shek Mun, Shatin | \$359,200,000 | 27 Jun 2003 by FC |
| 16 | Caritas-HK | Construction of new campus in TKO Area 73B | \$188,000,000 | 27 Jun 2003 by FC |
| 17 | Poly U | Construction of new campus in Hunghom | \$424,714,000 | 27 Jun 2003 by FC |
| 18 | CUHK-TW GH CC | Construction of new campuses in Mongkok | \$346,050,000 | 5 Dec 2003 by FC |
| 19 | Poly U | Construction of new campus in West Kowloon | \$458,100,000 | 4 Mar 2005 by FC |
| 20 | City U | Construction of new building in Kowloon Tong Main Campus | \$599,500,000 | 24 Jun 2005 by FC |
| 21 | PLK | Construction of new building at PLK's HQ in Causeway Bay | \$254,000,000 | 24 Jun 2005 by FC |
| 22 | OUHK | Construction of new building in Ho Man Tin Main Campus | \$120,000,000 | 24 Jun 2005 by FC |
| 23 | HKCT | Renting and refurbishing of commercial premises in Hunghom | \$10,875,000 | 3 Jan 2006 by SED |
| 24 | HSSC | Construction of new building in Siu Lek Yuen Campus | \$32,400,000 | 24 Mar 2006 by FC |
| 25 | CUHK | Renting and refurbishing of commercial premises in Central | \$22,743,000 | 24 Mar 2006 by FC |
| Total: | | | \$4,129,175,000 | - |

**Relevant papers on
Start-up Loan Scheme for post-secondary education providers**

| Meeting | Date of meeting | Paper |
|---------------------|----------------------------|---|
| Finance Committee | 6.7.2001 (Item 5) | FCR(2001-02)30 |
| Panel on Education | 27.3.2006 (Item IV) | Minutes Agenda CB(2)1449/05-06(01) CB(2)1455/05-06(01) |
| Panel on Education | 14.4.2008 (Item IV) | Minutes Agenda EDB (MPE)CR 8/2041/04 Report on Phase 2 Review of the Post-secondary Education Sector |
| Finance Committee | 23.5.2008 | Minutes FCR(2008-09)17 |
| Panel on Education | 17.7.2008 (pm) (Item I) | Minutes Agenda |
| Legislative Council | 22.4.2009 | [Question 18] Asked by : Hon CHEUNG Man-kwong Loans under the Start-up Loan Scheme to self-financing institutions Reply |
| Panel on Education | 29.5.2009 (Item II) | Minutes Agenda |
| Finance Committee | 19.6.2009 | FCR(2009-10)28 |