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Panel on Education

Updated background brief prepared by the Legislative Council Secretariat for the meeting on 10 January 2011

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. In his 2009-2010 Policy Address, the Chief Executive announced that the Administration would embark on measures to further support the development of self-financing post secondary institutions. One of the measures was to increase the total commitment of SLS. To support the expected loan requirements from degree-awarding institutions for developing college premises, the Administration proposed to increase the total commitment of SLS by \$2 billion. The proposal was approved by the Finance Committee ("FC") on 5 February 2010.

8. Since the introduction of SLS in 2001, FC had approved 23 loans to 14 institutions, amounting to a total of about \$4,497 million. The Secretary for Education had approved under delegated authority six loans totalling \$58 million. A list of the start-up loans approved is in **Appendix I**. As at the end of November 2009, a total of \$968 million had been repaid and all repayments had been made on time.

Deliberations of the Panel

9. The Panel considered SLS in the context of the Review and examination of the proposals to provide loans to three institutions and increase its total commitment. The major concerns raised by members on SLS are summarized in the ensuing paragraphs.

Extension of the repayment period

10. 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 understand that one-third of the fee incomes received by course providers had been used to repay the start-up loans. 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 but the repayment responsibility was transferred to students studying in the relevant institutions during the 10-year repayment period. Members 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.

11. The concern about the loan repayment period was raised again in Phase 2 of the Review. Sub-degree students 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 and sought FC's approval 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-gain-no-loss interest rate after the first 10 years. FC approved the proposal on 23 May 2008.

12. According to the Administration, as at the end of December 2009, eight out of 12 eligible institutions had applied for and successfully obtained 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 might be extended to 20 years, and the institutions' annual repayments might be reduced by about one half.

Extension of the repayment period to new loans

13. While welcoming the extension of the repayment period, members considered it important to offer the extended loan repayment period to new borrowing institutions such as Chu Hai College of Higher Education ("Chu Hai") so that they could have resources to invest in improving the quality of education and the teaching and learning environment.

14. The Administration initially refused to take on board members' proposal. The Administration's stance was 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 loans granted after May 2008 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.

15. Members of the Panel did not accept the Administration's explanation and unanimously requested the Administration to apply the extended repayment period to loans granted after May 2008. Members stressed that some of the loans granted thereafter were to first-time borrowing institutions such as Chu Hai which should be entitled to assistance no lesser than other borrowing institutions. In response to members' strong request, the Administration eventually proposed to establish a mechanism for extending

the repayment period of start-up loans granted after May 2008 in order to help reduce repayment pressure on institutions with proven financial difficulties so that they might set aside more resources for quality enhancement. Under the proposal, institutions borrowing loans for constructing new college premises would be allowed to apply for an extension of repayment period up to a maximum of 20 years in aggregate after making the first five repayment instalments, with loans outstanding after the initial 10-year interest-free period subject to interest payment at the no-gain-no-loss rate. Applications for loan extension would be considered by the Vetting Committee on a case-by-case basis having regard to the financial position of the institutions concerned. The new arrangement would apply to the start-up loan to Chu Hai approved by FC in June 2009. The proposal was approved by FC on 5 February 2010.

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.

Sites for development of college premises

18. Members noted that the Administration had identified five potential sites for the development of self-financing degree awarding institutions. A list of these sites is in **Appendix II**. With regard to the two sites reserved for the development of self-financing post secondary institutions in Ho Man

Tin and Wong Chuk Hang, members were concerned whether they were large enough for the purpose.

19. According to the Administration, the two sites would provide about 4 000 self-financing degree places without boarding facilities. The student size of the institutions to be built would be comparable to that of the Lingnan University. Apart from these two sites, the Administration would identify more suitable sites to facilitate the development of degree-awarding institutions in future.

20. Noting the introduction of a new policy to revitalize old industrial buildings to enable institutions to run self-financing programmes as announced in the 2009-2010 Policy Address, members sought information on the number of industrial buildings identified to be suitable for the purpose for the consideration of school sponsoring bodies and whether the Administration had undertaken any studies in this regard.

21. The Administration explained that the policy objective of revitalizing old industrial buildings was to release the potential of these buildings for utilization. The existing usage and ownership of industrial buildings would have a bearing on whether they would be suitable for conversion for other uses. The Administration had no intention of identifying certain industrial buildings for conversion or redevelopment for certain purpose. Interested parties had to identify the industrial buildings suitable for certain industries and make applications to the Administration.

Relevant papers

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

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

Loan No.	Applicant	Premises	Loan Amount	Date of Approval
1	The University of Hong Kong	Renting and renovating a commercial premises in Wanchai	\$35,402,000	7 Dec 2001 by FC
2	The University of Hong Kong	Purchasing and renovating a commercial premises in North Point	\$176,124,000	7 Dec 2001 by FC
3	Hong Kong Baptist University	Purchasing and renovating a commercial premises in Kowloon Tong	\$86,201,000	7 Dec 2001 by FC
4	The Hong Kong Polytechnic University	Renting and renovating Professional Complex at Hunghom Campus	\$32,700,000	7 Dec 2001 by FC
5	Lingnan University	Renting and renovating a commercial premises in Tuen Mun and Causeway Bay	\$10,597,000	7 Dec 2001 by FC
6	Lingnan University	Constructing new buildings in Tuen Mun Main campus	\$205,735,000	7 Dec 2001 by FC
7	The Hong Kong Institute of Education	Renting and renovating a commercial premises in Tai Kok Tsui	\$15,000,000	26 Mar 2002 by SEM
8	The Chinese University of Hong Kong	Purchasing and renovating a commercial premises in Central	\$135,274,000	26 Apr 2002 by FC
9	Caritas-Hong Kong	Renting and renovating a commercial premises at MTR Kowloon Station	\$15,000,000	21 Jun 2002 by SEM
10	City University of Hong Kong	Renting and renovating a commercial premises in Kowloon Bay	\$44,756,000	21 Jun 2002 by FC
11	Vocational Training Council	Constructing new buildings in IVE Tsing Yi Campus	\$266,400,000	21 Jun 2002 by FC
12	International Education and Academic Exchange Foundation Company Limited	Renting and renovating a commercial premises in Cheung Sha Wan and TST	\$7,148,000	30 Dec 2002 by SEM
13	Education and Learning Institute (Hong Kong) Limited	Renting and renovating a commercial premises in Causeway Bay	\$4,000,000	4 Mar 2003 by SEM
14	The University of Hong Kong	Constructing a new campus in Kowloon Bay	\$279,256,000	27 June 2003 by FC
15	Hong Kong Baptist University	Constructing a new campus in Shek Mun, Shatin	\$359,200,000	27 June 2003 by FC
16	Caritas - Hong Kong	Constructing a new campus in TKO Area 73B	\$188,000,000	27 June 2003 by FC
17	The Hong Kong Polytechnic University	Constructing a new campus in Hunghom	\$424,714,000	27 June 2003 by FC
18	The Chinese University of	Constructing a new campus	\$346,050,000	5 Dec 2003 by FC

Loan No.	Applicant	Premises	Loan Amount	Date of Approval
	Hong Kong-Tung Wah Group of Hospitals Community College	in Mongkok		
19	The Hong Kong Polytechnic University	Constructing a new campus in West Kowloon	\$458,100,000	4 Mar 2005 by FC
20	City University of Hong Kong	Constructing new buildings in its Kowloon Tong main campus	\$599,500,000	24 Jun 2005 by FC
21	Po Leung Kuk (for The University of Hong Kong School of Professional and Continuing Education – Po Leung Kuk Community College)	Constructing new buildings in its HQ in Causeway Bay	\$254,000,000	24 Jun 2005 by FC
22	The Open University of Hong Kong	Constructing new buildings in its Ho Man Tin campus	\$120,000,000	24 Jun 2005 by FC
23	HKCT Group Ltd. (for Hong Kong College of Technology)	Renting and renovating a commercial premises in Hunghom	\$10,875,000	3 Jan 2006 by SEM
24	Hang Seng School of Commerce	Constructing a new building in its Siu Lek Yuen campus	\$32,400,000	24 Mar 2006 by FC
25	The Chinese University of Hong Kong	Renting and renovating a commercial premises in Central	\$22,743,000	24 Mar 2006 by FC
26	Hong Kong Arts Centre	Renovating the ex-premises of PLK Ho To Shui Hing Primary School in Shaukeiwan	\$5,500,000	16 Feb 2009 by SED
27	Hong Kong College of Technology	Renovating the ex-premises of Ho Fai Primary (sponsored by Sik Sik Yuen) in Ma On Shan	\$29,000,000	19 Jun 2009 by FC
28	The University of Hong Kong	Renovating the ex-premises of Kwong Yuet Tong Excel Foundation Primary School in Pokfulam	\$40,344,000	19 Jun 2009 by FC
29	Chu Hai College of Higher Education	Constructing a new campus in Tuen Mun East	\$350,000,000	19 Jun 2009 by FC
Total Loan Amount approved:			\$4,554,019,000	

Source : Education Bureau

**Potential Sites Earmarked for the Development of
Self-financing Degree Awarding Institution**

	Location	Site Area	Potential Developable GFA
1.	Homantin Chung Hau Street	4,300m ²	21,500m ²
2.	Wong Chuk Hang Police School Road	4,600m ²	23,000m ²
3.	Siu Lek Yuen Kwong Sin Street	5,650m ²	11,200m ²
4.	MTR Tai Wai Station	6,200m ²	15,000m ²
5.	Tseung Kwan O Town Lot 97	7,500m ²	30,000m ²

**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
Panel on Education	14.12.2009 (Item V)	Minutes Agenda
Finance Committee	5.2.2010	Minutes Minutes FCR(2009-10)53