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Panel on Education

**Updated background brief prepared by the Legislative Council
Secretariat for the meeting on 11 June 2012**

Start-up Loan Scheme for post-secondary education providers

Purpose

This paper provides background information on the Start-up Loan Scheme ("SLS") and summarizes the major areas of concern of the Panel on Education ("the Panel") about SLS.

Background

2. The Administration has launched various support measures to promote the development of the self-financing post-secondary sector in Hong Kong. One of the support measures was the introduction of SLS with a commitment of \$5 billion in June 2001 to provide interest-free loans to help non-profit-making post-secondary education providers to meet the start-up costs. When SLS was first introduced, the loans were offered to providers for purchasing, renting or building campuses to operate full-time accredited post-secondary programmes.

3. In 2005, the Administration initiated the Review of the Post-secondary Education Sector ("the Review"). Amongst other improvement measures, the Review recommended that the scope of SLS should be modified such that institutions might 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);

- (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.

4. In May 2008, the Finance Committee ("FC") approved a modification of SLS to permit offering loans for enhancing teaching and other ancillary facilities to improve students' learning experience, without requiring the borrowing institutions to provide additional student places. FC also approved the extension of the loan repayment period under SLS from no more than 10 years to no more than 20 years for existing borrowing institutions with proven financial difficulties, subject to the repayment of interest at the no-gain-no-loss rate after the first 10 years. In February 2010, FC approved an increase of commitment by \$2 billion to \$7 billion for SLS to meet the prospective loan requirements from institutions for the construction of campuses to operate self-financing degree programmes. In May 2012, FC approved the extension of the ambit of SLS to support the development of student hostels for the self-financing tertiary education sector and a further increase of commitment of SLS by \$2 billion.

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

6. According to the information provided by the Administration in May 2012, since the introduction of SLS in 2001, FC had approved 25 loans to 14 institutions, amounting to a total of about \$5,121 million. SED had approved under delegated authority seven loan applications totalling \$69 million. As at the end of March 2012, a total of \$1,577 million had been repaid. Details of the start-up loans approved are given in **Appendix I**.

Deliberations of the Panel

7. The Panel considered SLS in the context of the Review and examination of the proposals to provide loans to post-secondary education providers and increase its total commitment. The major concerns raised by members are summarized below.

Sites for development of college premises

8. At the meeting on 10 January 2010 when the Administration briefed members on the provision of loans under SLS to The Open University of Hong Kong ("OUHK") and the Hang Seng School of Commerce ("HSSC") for the operation of Hang Seng Management College for constructing purpose-built campuses mainly for the operation of full-time locally accredited degree programmes, members were concerned that the two new sites were too small to accommodate the expected intake of students. Members were of the view that it would be difficult for a post-secondary institution to provide quality teaching and a quality teaching environment in such a small campus.

9. The Administration advised members that the two sites were near the existing campus of OUHK and HSSC to facilitate the coherent development of the existing and the new campuses. Subject to the development plan of the institutions and competing uses, there were potential sites in the vicinity of the two new campuses for further development.

10. 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.

11. 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.

Impact of start-up loans on tuition fees

12. Members had all along been concerned about the high tuition fees borne by students of self-financing post-secondary institutions. Members expressed concern that if institutions had difficulties in raising fund for their capital works projects, the only ways were to increase tuition fees and to borrow loans. The burden of repaying loans would then be transferred to students.

13. Some members suggested that the Government should be financially responsible for the capital works projects undertaken by both self-financing and publicly-funded post-secondary institutions. Some other members considered that the Administration should provide recurrent funding to self-financing post-secondary institutions with a view to reducing the level of tuition fees. There was also a view that matching grants for campus construction should be provided to self-financing post-secondary institutions to alleviate the pressure for increase in tuition fees. In this regard, the Financial Secretary proposed in the 2012-2013 Budget to allocate \$2.5 billion to launch the sixth Matching Grant Scheme ("MGS") in the post-secondary education sector to help institutions tap more funding sources. The proposed six MGS covered all statutory post-secondary institutions and approved post-secondary colleges to support their development.

14. Regarding members' enquiry about the percentage of tuition fees of individual programmes being used by self-financing post-secondary institutions for the repayment of start-up loans, the Administration advised in May 2012 that campus developments were long term capital investments, and construction costs and loan repayment were normally amortized over a long period of time. Therefore, loan repayment in a given year was not borne directly by tuition fee income from students in that year. As such, it would not be appropriate to provide any percentage of tuition fees being used by institutions for the repayment of start-up loans.

Surplus generated by UGC-funded institutions from self-financing programmes

15. Members had raised grave concern about the large amount of surplus generated by UGC-funded institutions from self-financing programmes. Members considered this unfair to students who had to pay high tuition fees and had in effect shouldered part of the repayment of start-up loans borrowed by the institutions. They noted that in the 2010-2011 academic year, the surplus and tuition fee income of the self-financing programmes offered by UGC-funded institutions amounted to some \$1 billion and \$50 billion respectively. The financial situation of the operation of self-financing programmes by University Grants Committee ("UGC")-funded and self-financing institutions are given in **Appendix II**.

16. Members considered it necessary for the Administration to take concrete steps to regulate the quality of and surplus generated from self-financing programmes, in particular the UGC-funded institutions, and ensure that such surplus would be used on students. Regulatory measures proposed by members included setting a cap on the profit margin of self-financing programmes as a condition for the grant of start-up loans; specifying that the amount of surplus exceeding the profit margin cap, if any,

should be used for reduction or remission of tuition fees or scholarship; adopting uniform accounting guidelines and method by institutions for the calculation of tuition fee income, operating expenses and surplus; and making public the relevant financial information to enhance the transparency of the operation of the self-financing sector.

17. The Administration advised that institutions had the autonomy to determine the tuition fees for self-financing programmes according to market forces. As different types of programmes (including sub-degree, degree and taught postgraduate programmes) were offered by different institutions, it would be difficult to generalize the situation and set a cap on the tuition fees of these programmes. It was necessary to strike a balance between regulating self-financing post-secondary programmes and preserving the autonomy of the institutions concerned. The Administration undertook to bring members' concerns for discussion by the newly established Committee on Self-financing Post-secondary Education and invite the Committee to discuss possible measures to promote transparency and good practices.

Extension of ambit of SLS to cover student hostels

18. At the meeting on 12 December 2011, members discussed the Administration's proposal to extend the ambit of SLS to support the self-financing degree sector in developing student hostels. Noting that these student hostels were expected to operate on a self-financing basis and charges levied on hostel places would be determined by the institutions themselves, members sought information on whether the level of charge for hostel places would be a factor taken into account in vetting the applications for start-up loans, and whether the Administration would monitor the level of charges for hostel places. Members also suggested that in considering loan applications, the Administration should take into account the loan repayment records of the borrowing institutions and the impact of loans on tuition fees.

19. The Administration responded that it would take into account a host of factors, including the proposed number of hostel places and complementary facilities, when considering loan applications for the development of student hostels. As student hostels were expected to operate on a self-financing basis, institutions concerned were given flexibility in deciding the charges for hostel places.

Change of use of campus buildings

20. At the meeting on 12 December 2011, members raised concern about cases where start-up loans were granted to institutions for the construction of campus buildings for the operation of sub-degree programmes but the institutions concerned had subsequently used such buildings to run

self-financing undergraduate or master degree programmes. Members were concerned that some of these institutions had earned huge profits at the expense of the students who had to borrow loans to pay for the high tuition fees and were in heavy debt as a result.

21. Members sought information from the Administration on the ownership of the campus buildings for which start-up loans had been granted after the loans had been fully repaid. Members considered it unfair to students if the institutions concerned leased the campus buildings for the operation of other self-financing programmes to make profits after the start-up loans had been fully repaid.

22. According to the Administration's response to Hon CHEUNG Man-kwong's question on SLS raised at the Council meeting of 16 May 2012, all premises built, purchased or renovated with a start-up loan, regardless of ownership, should be used to operate self-financing post-secondary programmes during the repayment period in accordance with the development proposal submitted by the institution concerned when applying for the loan. No change of use of the premises was allowed without the prior approval of the Education Bureau ("EDB"). Applications for change of use of premises would be considered by EDB on a case-by-case basis. For premises built on land owned by the institution or sponsoring body concerned, they should still be used for the purposes specified in the land lease, such as operation of a post-secondary institution, after the loan was fully repaid.

Recent developments

23. The Administration will consult the Panel on start-up loan applications from post-secondary institutions at the meeting on 11 June 2012. The Administration aims to submit the proposals to FC in July 2012.

Relevant papers

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

Appendix I

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 Finance Committee (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 Secretary for Education & Manpower (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 (for Hong Kong Institute of Technology)	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

Loan No.	Applicant	Premises	Loan Amount	Date of Approval
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 Hong Kong-Tung Wah Group of Hospitals Community College	Constructing a new campus in Mongkok	\$346,050,000	5 Dec 2003 by FC
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 HKUSPACE – 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 Secretary for Education (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
30	The Open University of Hong Kong	Constructing a new purpose-built campus in Ho Man Tin	\$317,000,000	28 Jan 2011 by FC
31	Hang Seng School of Commerce (for Hang Seng Management College)	Constructing a new purpose-built campus in Siu Lek Yuen	\$308,000,000	28 Jan 2011 by FC
32	International Education and Academic Exchanges Foundation Company Limited (for Hong Kong Institute of Technology)	Renovating the ex-premises of St. Thomas Primary School	\$11,000,000	21 Feb 2011 by SED
Total Loan Amount approved:			\$5,190,019, 000	

Appendix II

Operation of self-financing post-secondary programmes

(\$ million)		2008/09				2009/10				2010/11			
		Tuition fee income		Before-investment surplus/deficit		Tuition fee income		Before-investment surplus/deficit		Tuition fee income		Before-investment surplus/deficit	
		FT	PT	Amount	%	FT	PT	Amount	%	FT	PT	Amount	%
Self-financed post-secondary programmes offered by University Grants Committee (UGC)-funded institutions													
CityU (Note 2)	PG	38	172	25	12%	65	181	43	17%	106	185	49	17%
	UG	122	226	93	27%	178	213	108	28%	192	174	91	25%
	SD	250	8	58	22%	264	7	65	24%	275	8	85	30%
	Total		816		176	22%	908		216	24%	940		225
HKBU	PG	40	89	23	18%	47	99	4	3%	62	98	17	11%
	UG	37	46	-20	-24%	57	53	-3	-3%	74	55	1	1%
	SD	87	9	-41	-43%	118	10	-21	-16%	161	11	1	1%
	Total		308		-38	-12%	384		-20	-5%	461		19
LU (Note 3)	PG	6	11	4	24%	8	11	4	21%	12	11	6	26%
	UG	6	2	5	63%	7	2	4	44%	8	3	5	45%
	SD	72	6	-5	-6%	110	6	7	6%	169	7	28	16%
	Total		103		4	4%	144		15	10%	210		39
CUHK	PG	142	194	37	11%	181	247	62	14%	210	288	100	20%
	UG	5	12	1	6%	6	14	3	15%	6	14	2	10%
	SD	106	83	24	13%	112	88	20	10%	134	80	3	1%
	Total		542		62	11%	648		85	13%	732		105
HKIEd	PG	-	24	0	1%	-	35	4	11%	-	44	4	9%
	UG	2	-	-	-	5	-	0	4%	9	3	1	5%
	SD	11	6	-1	-6%	15	4	-4	-20%	21	0	-2	-8%
	Total		44		-1	-2%	59		0	1%	77		3
PolyU	PG	65	242	39	13%	87	242	45	14%	108	238	44	13%
	UG	122	197	54	17%	156	194	75	21%	189	193	85	22%
	SD	209	1	-19	-9%	241	0	23	9%	305	-	46	15%
	Total		836		74	9%	920		142	15%	1,034		175
HKUST	PG	61	145	52	25%	86	179	93	35%	100	175	53	19%
	Total		206		52	25%	265		93	35%	275		53
HKU	PG	101	283	81	21%	146	300	109	24%	169	312	140	29%
	UG	69	167	17	7%	78	143	22	10%	85	133	24	11%
	SD	280	198	10	2%	277	187	25	5%	306	172	26	5%
	Total		1,098		108	10%	1,131		156	14%	1,177		190
Self-financing post-secondary institutions													
CIHE	SD	26	-	-7	-28%	25	2	-3	-10%	30	4	0	0%
	Total		26		-7	-28%	27		-3	-10%	34		0
CHC	UG	45	-	-1	-2%	56	-	7	12%	60	-	5	9%
	Total		45		-1	-2%	56		7	12%	60		5
HSMC	UG	-	-	-	-	-	-	-	-	32	-	-3	-9%
	SD	-	-	-	-	-	-	-	-	19	-	-5	-26%
	Total									51		-8	-15%
HKSJU (Note 4)	PG	-	-	-	-	-	-	-	-	1	0	-	-
	UG	196	6	-	-	224	14	-	-	232	5	-	-
	Total		202		102	51%	238		99	42%	238		103
OUHK (Note 5)	PG	3	40	3	7%	3	43	6	14%	4	42	13	28%
	UG	176	203	27	7%	226	213	60	14%	238	208	125	28%
	SD	10	3	1	7%	11	5	2	14%	16	4	5	28%
	Total		434		31	7%	500		69	14%	510		144

Notes

- 1 The operating surpluses exclude tuition fees from non-award bearing courses. The income does not include investment income, major capital investment and repayment of loans under the Start-up Loan Scheme.
- 2 In the case of CityU, its Community College of CityU (CCCU) achieves a steady income and surplus primarily because of cost containment through using shared on-campus facilities and administrative support, lower depreciation charges and facilities management fees.
- 3 In the case of LU, it achieves a relatively high surplus primarily because of the use of part-time staff and lower administrative charges.
- 4 In the case of HKSYU, it achieves a steady surplus primarily because of vigorous cost containment measures such as maintaining a very lean administrative set-up, keeping the remuneration of senior management at a nominal or modest level and using self-owned premises without any additional charges. The surplus, if any, is kept in the university's reserve for enhancing its teaching and learning facilities and implementing new capital projects such as its new Research Complex and hostel development.
- 5 The surpluses/ deficit of OUHK are reported on a university-wide basis. Surpluses are therefore apportioned based on programme income.

Abbreviations

PG	Postgraduate	FT	Full-time
UG	Undergraduate	PT	Part-time
SD	Sub-degree		
CityU	City University of Hong Kong	HKIEd	The Hong Kong Institute of Education
HKBU	Hong Kong Baptist University	PolyU	The Hong Kong Polytechnic University
LU	Lingnan University	HKUST	Hong Kong University of Science and Technology
CUHK	The Chinese University of Hong Kong	HKU	The University of Hong Kong
CIHE	Caritas Institute of Higher Education	HKSYU	Hong Kong Shue Yan University
CHC	Chu Hai College of Higher Education	OUHK	The Open University of Hong Kong
HSMC	Hang Seng Management College		

Source: Education Bureau, April 2012

Appendix III

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)	Agenda Minutes CB(2)1449/05-06(01) CB(2)1455/05-06(01)
Panel on Education	14.4.2008 (Item IV)	Agenda Minutes 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)	Agenda Minutes
Legislative Council	22.4.2009	Official Record of Proceedings Page 76-78 (Question)
Panel on Education	29.5.2009 (Item II)	Agenda Minutes
Finance Committee	19.6.2009	FCR(2009-10)28
Panel on Education	14.12.2009 (Item V)	Agenda Minutes
Finance Committee	5.2.2010	Minutes Minutes FCR(2009-10)53
Panel on Education	10.1.2011 (Item V)	Agenda Minutes CB(2)906/10-11(01)

Meeting	Date of meeting	Paper
Finance Committee	28.1.2011	FCR(2010-11)57
Panel on Education	14.3.2011 (Item VI)	Agenda Minutes
Legislative Council	7.12.2011	Official Record of Proceedings Page 137-156 (Question)
Panel on Education	12.12.2011 (Item IV)	Agenda Minutes
Panel on Education	20.4.2012 (Item VII)	Agenda CB(2)1950/11-12(01)
Legislative Council	16.5.2012	[Question 11] Asked by : Hon CHEUNG Man-kwong Start-up Loan Scheme Reply

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