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Panel on Education

Background brief prepared by the Legislative Council Secretariat for the special meeting on 29 May 2009

Start-up Loan Scheme for post-secondary education providers

Purpose

This paper sets out background information on the introduction of the Start-up Loan Scheme (SLS) for post-secondary education providers, and summarizes the concerns of Members on the matter.

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 the 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.

Members' concerns

7. The Panel on Education held three meetings to discuss the Review, and members raised concern about SLS in that context. A question on SLS had also been raised in the Council. The concerns raised by Members on SLS are summarized below.

Extension of the repayment period

8. 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.

9. 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 few resources to 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 40 years or more. 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 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.

10. Members welcomed the extension of the repayment period. They noted that the extension would not apply to new loans as the Administration held the view that borrowers should plan carefully their repayment ability before borrowing to improve facilities.

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.

Modification of SLS

12. 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 (for example, libraries, laboratories, student guidance/career counselling centres) at their existing premises, or reprovisioning existing campuses operating in sub-optimal environment. Members urged the Administration to identify and allocate suitable vacant school premises for providers to operate self-financing post-secondary programmes.

Relevant papers

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

Council Business Division 2
Legislative Council Secretariat
25 May 2009

Appendix

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

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