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Panel on Education

Updated background brief prepared by the Legislative Council Secretariat for the meeting on 12 December 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. 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 and 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.

3. The Secretary for Education is empowered to approve applications 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.

4. 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);

(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.

5. 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 by $2 billion to support the expected loan requirements from degree-awarding institutions for developing college premises. The proposal was approved by the Finance Committee ("FC") on 5 February 2010.

6. According to the Administration, since the introduction of SLS in 2001, FC had approved 25 loans to 14 institutions, amounting to a total of about $5,121 million. The Secretary for Education had approved under delegated authority seven loan applications totalling $69 million. As at the end of November 2011, a total of $1,398 million had been repaid.

Deliberations of the Panel

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

Extension of the repayment period

8. When SLS was first introduced, the loan repayment period was no more than 10 years. 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 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. Subsequently, the Administration accepted the recommendation made in the Report of the Phase 2 Review and sought the approval of FC in May 2008 to allow an extension of loan repayment period from 10 years to no more than 20 years for loans granted on or before May 2008, subject to proven financial difficulty of the borrowing institutions and interest payment at the no-gain-no-loss rate after the interest-free period in the first 10 years.

9. 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 so that they could have resources to invest in improving the quality of education and the teaching and learning environment. In response to members' strong request, the Administration proposed to allow the extension of the repayment period for loans granted after May 2008. 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. The proposal was approved by FC on 5 February 2010.

Allocation of vacant school premises

10. 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.

11. 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

12. Members noted that the Administration had identified some potential sites for the development of self-financing degree awarding institutions. 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.

13. 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.

14. 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.

15. 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.

16. 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.

17. 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.

<u>Impact of loans on tuition fees</u>

18. Members had all along been concerned about the high tuition fees borne by students of self-financing post-secondary institutions. Also, there was a view among members that the Government should be financially responsible for the capital works projects undertaken by both self-financing and publicly-funded post-secondary institutions. Members were concerned 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.

19. When the Panel received a briefing by the Administration on the education initiatives in the 2011-2012 Policy Address, members once again raised the concern that the high costs for campus construction was one of the main reasons for the high tuition fees charged by self-financing post-secondary institutions. Some members suggested that matching grants for campus construction be provided to these institutions to alleviate the pressure for increase in tuition fees.

20. Noting the proposal in the 2011-2012 Policy Address for the provision of start-up loan for self-financing degree-awarding institutions for the construction of student hostels, some members were worried that institutions with weaker abilities to repay loans would eventually transfer the financial burden to students by increasing tuition fees. They 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.

21. According to the Administration, the new initiative of extending the ambit of SLS would help relieve the financial burden of self-financing awarding institutions to some extent and the Administration would not

consider the proposal of providing matching grants to self-financing post-secondary institutions at the present stage.

Recent developments

22. In the 2011-2012 Policy Address, the Chief Executive announced the proposals to extend the ambit of SLS to support the development of student hostels by self-financing degree awarding institutions and to increase the total commitment of the Scheme by $2 billion. The Administration will consult the Panel on these proposals and a start-up loan application from a post-secondary institution at the meeting on 12 December 2011.

Relevant papers

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

Council Business Division 2
Legislative Council Secretariat
7 December 2011

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
Panel on Education	29.5.2009 (Item II)	Minutes Agenda
Finance Committee	19.6.2009	FCR(2009-10)28

Meeting	**Date of meeting**	Paper
Panel on Education	14.12.2009 (ItemV)	Minutes Agenda
Finance Committee	5.2.2010	Minutes Minutes FCR(2009-10)53
Panel on Education	10.1.2011 (Item V)	Minutes Agenda CB(2)906/10-11(01)
Finance Committee	28.1.2011	FCR(2010-11)57
Panel on Education	14.3.2011 (Item VI)	Minutes Agenda

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