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Legislative Council

LC Paper No.CB(4)685/12-13(05)

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Panel on Education

Meeting on 30 May 2013

Background brief on issues related to the 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. As part of a basket of measures to support the development of the self-financing post-secondary sector in Hong Kong, the Administration launched SLS in July 2001 with a commitment of $5 billion approved by the Finance Committee ("FC") to provide interest-free loans to non-profit-making post-secondary education providers for purchasing, renting or building campuses to operate full-time accredited programmes. With the approval of FC in May 2008, the ambit of SLS was expanded to offer loans for enhancing teaching and other ancillary facilities to improve students' learning experience. The loan repayment period under SLS was also extended from not more than 10 years to not more than 20 years for existing borrowing institutions with proven financial difficulties, subject to the payment of interest at the no-gain-no-loss rate after the first 10 years. In February 2010, the financial commitment for SLS was increased to $7 billion. With FC's approval, the aforesaid extended repayment period was also applied to start-up loans granted after May 2008 under which the borrowing institutions could 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. In May 2012, FC approved the extension of the ambit of SLS to support the development of student hostels and the increase of the commitment for SLS to $9 billion.

3. Applications for start-up loans are assessed by an independent Vetting Committee ("VC") comprising official and non-official members. Based on the information provided by the Administration in June 2012[1], the terms of reference of VC is at **Appendix I**. According to the Administration's latest information, the ambit of VC also covers the assessment of applications under the Land Grant Scheme for the allocation of sites[2].

Deliberations of the Panel

4. The Panel had considered SLS mainly in the context of the Administration's proposals to grant loans to individual institutions and/or to introduce changes to SLS prior to their submission to FC. The major concerns raised by members are summarized in the ensuing paragraphs.

Vetting criteria for SLS

5. At the meeting held on 12 December 2011, the Administration had informed the Panel of the following vetting criteria adopted by VC in considering loan applications from self-financing post-secondary education providers[3]:

(a) proposed use of the loan (i.e. enhancement to teaching and ancillary facilities, and/or reprovision of existing campus operating in sub-optimal environment);
(b) the estimated start-up costs; and
(c) the financial viability of the applicant.

According to the latest information provided by the Administration, the vetting criteria also include the applicant's organization and management structure, as well as its track record in delivering post-secondary education services[4].

6. Noting that it was the Administration's proposal to extend the ambit of SLS to cover the development of student hostels for self-financing post-secondary institutions, there was a query whether the future level of charges for hostel places, which would be determined by the institutions themselves, would be a factor for consideration when vetting loan applications. According to the Administration, factors including the proposed number of hostel places and complementary facilities would be taken into account when considering loan applications for the development of student hostels. As the

[1] See Annex C of LC Paper No. CB(2)2265/11-12(01) for the Panel meeting on 11 June 2012.
[2] See Annex A of LC Paper No. CB(4)685/12-13(04) for the Panel meeting on 30 May 2013.
[3] See Annex B of LC Paper No. CB(2)486/11-12(02) for the Panel meeting on 12 December 2011.
[4] See Annex B of LC Paper No. CB(4)685/12-13(04) for the Panel meeting on 30 May 2013.

student hostels were expected to operate on a self-financing basis, it would be for individual institutions to decide on the charges for hostel places.

7. In response to members' enquiry at the Panel meeting held on 11 June 2012, the Administration elaborated that when considering applications, the VC would also consider whether the programmes to be offered by the self-financing post-secondary institutions would meet the manpower needs of the community.

Sites for development of college premises

8. At past meetings, the Panel had deliberated on the potential sites identified by the Administration for the development of certain self-financing degree awarding institutions. 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 had sought further information on how this initiative would be taken forward.

9. According to the Administration, the policy objective of revitalizing old industrial buildings was to release the potential of these buildings for utilization. The existing use and ownership of industrial buildings would have a bearing on whether they would be suitable for conversion to other uses. It would be for interested parties to identify the industrial buildings suitable for specific purposes (e.g. educational use) and make applications to the Administration accordingly.

Impact of start-up loans on tuition fees

10. The Panel had all along been deeply concerned about the high tuition fees payable by students of self-financing post-secondary programmes. Members considered that if individual institutions had difficulties in funding their capital works projects, the only options would be to increase tuition fees and to borrow loans. The burden of loan repayment would also be transferred to students. Question was raised on the mechanism, if any, adopted by the Administration to monitor the level of tuition fees charged by institutions applying for start-up loans, as well as the percentage of tuition fee income of individual programmes being used by the institutions for the repayment of start-up loans.

11. According to the Administration, start-up loans for campus developments were long-term capital investments on the part of the institutions concerned. Construction costs and loan repayments were normally amortized over a long period of time. Loan repayment in a given year was not borne directly by tuition fee income in that year, and there was no direct relationship between the setting of tuition fees and the repayment of loans by institutions. On the monitoring of the level of tuition fees, the Administration considered it important, as a first step, to promote transparency and good practices in the

sector. The Administration would follow up members' concerns about tuition fees through the Committee on Self-financing Post-secondary Education.

12. Some members considered it necessary for the Administration to take steps to regulate the profits derived by the institutions from their provision of self-financing post-secondary educational programmes. Some of the 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 methods for the calculation of tuition fee income; and making public the relevant financial information to enhance the transparency of the operation of the self-financing post-secondary sector. The Administration undertook to bring members' concerns to the Committee on Self-financing Post-secondary Education, and to invite the Committee to discuss possible measures to promote transparency and good practices.

Change of use of campus buildings

13. At the Panel meeting on 12 December 2011, members referred to cases in which start-up loans had been granted to institutions for the construction of campus buildings to operate sub-degree programmes. However, the institutions concerned had subsequently used such buildings to run self-financing undergraduate or post-graduate programmes. Members were gravely 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. They noted from the Administration that it was actively following up the cases with the institutions concerned.

14. Regarding the ownership of the campus buildings for which start-up loans had been granted and fully repaid, members noted that according to the Education Bureau ("EDB")'s reply to a question 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 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.

Latest position

15. The Administration will consult the Panel on a start-up loan application from a post-secondary institution at the Panel meeting to be held on 30 May 2013.

Relevant papers

16. A list of the relevant papers on the Legislative Council website is at **Appendix II**.

Council Business Division 4
Legislative Council Secretariat
24 May 2013

Appendix I

Vetting Committee for
Start-up Loan for Post-secondary Education Providers

Terms of Reference

1. To examine and assess applications for start-up loan for post-secondary education providers in accordance with prevailing policies, and advise the Secretary for Education (SED) on whether to accept, modify or reject the applications, where the loan amount to be approved is at or below $15 million.

2. To examine and assess applications for start-up loan for post-secondary education providers in accordance with prevailing policies, and advise SED on whether to recommend the applications for approval by the Finance Committee of the Legislative Council, where the loan amount to be approved exceeds $15 million.

3. To advise SED on any other matters that may be referred to Vetting Committee by the Education Bureau (EDB) concerning the policy and execution of the post-secondary loan scheme.

Appendix II

List of relevant papers

Committee	Date of meeting	Paper
Finance Committee	23.5.2008	FCR(2008-09)17 Minutes
Finance Committee	5.2.2010	FCR(2009-10)53 Minutes
Legislative Council	7.12.2011	Official Record of Proceedings Pages 118 – 133 (Question 8)
Panel on Education	12.12.2011 (Item IV)	Agenda Minutes
Finance Committee	11.5.2012	FCR(2012-13)24 Minutes
Legislative Council	16.5.2012	Official Record of Proceedings Pages 69 – 82 (Question 11)
Panel on Education	11.6.2012 (Item IV)	Agenda Minutes
Finance Committee	13.7.2012	FCR(2012-13)51 Minutes

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