

立法會
Legislative Council

LC Paper No. CB(4)284/13-14(02)

Ref : CB4/PL/ED

Panel on Education

Meeting on 13 January 2014

Background brief on issues related to the Start-up Loan Scheme

Purpose

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

3. In February 2010, the financial commitment for SLS was increased to \$7 billion. With FC's approval, the 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.

4. 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 require the assessment of a Vetting Committee ("VC")¹ comprising official and non-official members. The terms of reference and membership of VC are at **Appendix I**. As at 30 April, 2013, loans totalling \$6,200,019,000 have been approved under SLS, details of which are set out in **Appendix II**.

Members' deliberations on major issues

Use and ownership of college premises

5. At the meeting of the Panel on Education ("the Panel") on 12 December 2011, members referred to cases where start-up loans had been granted to institutions for the construction of campus buildings for operating sub-degree programmes but the institutions concerned had subsequently used the premises to run self-financing undergraduate or master degree programmes. Concern was raised about measures, if any, to regulate changes in the use of start-up loans by institutions. The Administration's response at that time was that it was actively following up the cases with the institutions concerned.

6. Hon CHEUNG Man-kwong raised a question regarding the ownership or the use of college premises before or after full repayment of the start-up loans at the Council meeting of 16 May 2012. There was concern about measures, if any, to prevent the institutions in receipt of start-up loans from using their premises for activities unrelated to post-secondary education or even for profit-making purposes.

7. In its written reply, the Administration confirmed that so far, no institutions granted start-up loans had changed the ownership of their premises. It further advised that 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. For premises built on sites granted under the Land Grant Scheme, they should be used to operate self-financing post-secondary programmes in accordance with the institution's Education and Site Development Proposals both before and after full repayment of the start-up loan. Applications for change of use of premises required the prior approval by the Education Bureau ("EDB") on a case-by-case basis. As regards the premises built on land owned

¹ The assessment of VC is required for an application at or below \$15 million if the outstanding loan balance for the same course provider exceeds \$15 million when the loan application under processing is also included.

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 full repayment of the start-up loan.

Impact of start-up loans on tuition fees

8. One of the major concerns raised by Panel members about SLS was that individual self-financing post secondary institutions might have transferred the burden of repaying the start-up loans to their students through charging them high tuition fees. Question had been raised on the mechanism, if any, 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 repayment of start-up loans.

9. 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 tuition fees, the Administration considered it important, as a first step, to promote transparency and good practices in the sector. The Administration indicated that it would follow up members' concerns about tuition fees through the Committee on Self-financing Post-secondary Education.

10. Some members had proposed that the Administration should take measures such as 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 convey members' views to the Committee on Self-financing Post-secondary Education, and to invite the Committee to discuss possible measures to promote transparency and good practices.

Repayment of start-up loans

11. When considering a proposal to grant a start-up loan to an institution at the Panel meeting held on 30 May 2013, some members expressed the view that to support the development of the self-financing post-secondary sector, the Administration should consider providing grants, instead of loans, to the institutions so that they could focus on how best to deploy their resources for

educational development rather than loan repayment.

12. Concern about the repayment of start-up loans by the institutions was expressed by some members when considering the relevant financial proposal at the FC meeting on 21 June 2013. Questions had been raised as to whether interest should be charged on the borrowing institution for the outstanding loan after the initial 10-year interest-free repayment period. The Administration responded that it was necessary to adhere to the principle of prudent use of public money in administering SLS. Whilst there might be unforeseen circumstances under which an institution would need a longer loan repayment period, the charging of an interest at the "no-gain-no-loss" rate after the initial 10-year period was considered appropriate.

13. At members' request, the Administration had provided supplementary information on approved applications for extension of loan repayment period under SLS². It was reported that as at 30 June 2013, eight institutions had applied for extension of repayment period in relation to 10 approved start-up loans. According to EDB, each application had been considered by VC on its merits. On VC's recommendation, SED had approved all the applications with a view to relieving the financial burden of the institutions and enabling them to devote more resources to improve the quality of teaching and learning.

Student hostels funded by start-up loans

14. At the Panel meeting held on 12 December 2011, members noted that the Administration would propose to extend the ambit of SLS to cover the development of student hostels for self-financing post-secondary institutions. Query was raised as to whether the future level of charges for hostel places would be a factor for consideration when vetting start-up loan applications. According to the Administration, factors such as the proposed number of hostel places and complementary facilities would be taken into account when considering loan applications for development of student hostels. As the 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.

15. At the Panel meeting on 30 May 2013, members further noted from the Administration that as a matter of policy, the Government would support the provision of hostel and amenities facilities by self-financing post-secondary institutions if they were viable and of benefit to students.

² See LC Paper No. FC172/12-13 issued by EDB to FC members on 1 August 2013.

Regulation of the self-financing post-secondary sector

16. Panel members had raised concerns about related regulatory issues. Enquiry had been made as to whether self-financing post-secondary institutions in receipt of government support such as start-up loans would be subject to reviews by the Audit Commission. As advised by the Administration, since the use of public resources was involved, the Audit Commission could conduct value-for-money studies on these institutions where it deemed necessary.

17. There was also a view that the post-secondary education sector in Hong Kong was highly polarized in terms of government funding because on one hand, students of University Grants Committee ("UGC)-funded institutions were fully subsidized; while on the other hand, students of self-financing post-secondary institutions were required to bear the construction cost and related expenses of these institutions. According to the Administration, the self-financing sector served to broaden the choice and opportunities for higher education. The proportion of publicly-funded versus self-financed programmes to be provided was an issue which would require careful study.

18. In response to some members' comments that government support appeared to be tilted in favour of those self-financing institutions under the aegis of UGC-funded institutions, the Administration had advised that applications from these institutions under the Land Grant Scheme or SLS would also be subject to consideration by the independent VC. On their accrediting status, the self-financing programmes of UGC-funded institutions were self-accredited while those offered by other self-financing post-secondary institutions such as those registered under the Post-secondary Colleges Ordinance (Cap. 320) were subject to accreditation by the Hong Kong Council for Accreditation of Academic and Vocational Qualifications.

Relevant papers

19. A list of the relevant papers on the Legislative Council website is at **Appendix III**.

**Vetting Committee for the Allocation of Sites and Start-up Loans
for Post-secondary Education Providers**

Terms of Reference

1. To examine and assess applications under the Land Grant Scheme ("LGS") for the allocation of sites, including vacant premises and land for purpose-built premises, for the provision of self-financing post-secondary education programmes; and advise and make recommendations to the Secretary for Education ("SED") on the allocation of sites to providers of these programmes.
2. To examine and assess applications under the Start-up Loan Scheme ("SLS") for post-secondary education providers, and advise the SED on whether to accept, modify or reject the applications; and
3. To advise the SED on any other matters that may be referred to the Vetting Committee by the Education Bureau concerning the criteria for selection, the selection process, as well as the policy and execution of the LGS and SLS.

In discharging its functions, the Vetting Committee may set up sub-committees, conduct studies, engage professional services and co-opt members as and when necessary.

Membership (as at 1 May 2013)

Chairman: Professor WONG Yuk-shan, BBS, JP

Non-official
Members: Mr Wilbert CHING Tak-keung
Mr Stephen HUI Chin-yim, MH
Dr Herbert HUI Ho-ming, JP
Mr Alex LAI Ting-hong
Sr Stephen LAI Yuk-fai
Mr Andrew LAM Siu-lo, JP
Ms Jacqueline A. LEUNG
Mr Alvin WONG Tak-wai

Official Member: Principal Assistant Secretary (Further Education), EDB

Secretary: Assistant Secretary (Further Education)², EDB

Vetting Criteria for Start-up Loan Scheme

- (a) The applicant's organization and management structure, and track record in delivering post-secondary education services;
- (b) Proposed use of the loan;
- (c) The estimated development/refurbishment costs; and
- (d) Financial viability of the applicant.

Source : Annexes A and B of LC Paper No. CB(4)685/12-13(04).

**List of Loans Approved under Start-up loan Scheme
(As at 30 April 2013)**

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 and 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	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 Jun 2003 by FC
15	Hong Kong Baptist University	Constructing a new campus in Shek Mun, Shatin	\$359,200,000	27 Jun 2003 by FC
16	Caritas - Hong Kong (for Caritas Bianchi College of Careers)	Constructing a new campus in TKOTL No.92, Area 73B	\$188,000,000	27 Jun 2003 by FC
17	The Hong Kong Polytechnic University	Constructing a new campus in Hunghom	\$424,714,000	27 Jun 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

Loan No.	Applicant	Premises	Loan Amount	Date of Approval
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 HKU SPACE – 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	Open University of Hong Kong	Constructing a new campus in Ho Man Tin	\$317,000,000	28 Jan 2011 by FC
31	Hang Seng School of Commerce	Constructing a new campus in Shatin	\$308,000,000	28 Jan 2011 by FC
32	International Education and Academic Exchange Foundation Company Limited (for Hong Kong Institute of Technology)	Renovating the ex-premises of St. Thomas Primary School in Sham Shui Po	\$11,000,000	21 Feb 11 by SED
33	The Chinese University of Hong Kong	Renovating the ex-premises of HKTA Tong Tang Sook Fong Memorial School in Tseung Kwan O	\$40,000,000	11 May 2012 by FC
34	Caritas – Hong Kong (for Caritas Institute of Higher Education)	Constructing a new campus in TKOTL No. 97, Area 73B	\$300,000,000	13 July 2012 by FC
35	Vocational Training Council	Constructing a new campus in Chai wan East	\$670,000,000	13 July 2012 by FC
Total Loan Amount approved:			\$6,200,019,000	

Appendix III

List of relevant papers

Committee	Date of meeting	Paper
Finance Committee	23.5.2008 (Item No. 4)	FCR(2008-09)17 Minutes
Finance Committee	5.2.2010 (Item No. 4)	FCR(2009-10)53 Minutes
Panel on Education	12.12.2011 (Item IV)	Agenda CB(2)486/11-12(02) CB(2)486/11-12(03) Minutes
Finance Committee	11.5.2012 (Item No. 5)	FCR(2012-13)24 Minutes
Legislative Council	16.5.2012	Official Record of Proceedings Pages 91-103 (Question 11)
Panel on Education	11.6.2012 (Item IV)	Agenda CB(2)2265/11-12(01) CB(2)2265/11-12(02) Minutes
Finance Committee	13.7.2012 (Item No. 7)	FCR(2012-13)51 Minutes
Panel on Education	30.5.2013 (Item V)	Agenda CB(4)685/12-13(04) CB(4)685/12-13(05) Minutes
Finance Committee	21.6.2013 (Item No. 7)	FCR(2013-14)24 Minutes FC172/12-13