

立法會
Legislative Council

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Panel on Education

Meeting on 10 November 2014

Updated background brief on issues related to the Start-up Loan Scheme

Purpose

This paper provides background information on the Start-up Loan Scheme ("SLS") for post-secondary education providers 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 is empowered to approve applications for start-up loans at or below \$15 million. Applications for loans exceeding \$15 million require the assessment of the Vetting Committee for the Allocation of Sites and Start-up Loans for Post-secondary Education Providers ("VC")¹ comprising official and non-official members. VC's terms of reference, membership and vetting criteria are at **Appendix I**. As at 31 December 2013, loans totalling \$7,002,519,000 have been approved under SLS, details of which are set out in **Appendix II**.

Members' deliberations on major issues

Regulatory issues

5. Members of the Panel on Education ("the Panel") had questioned 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. According to 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.

6. 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 heavily subsidized; on the other hand, students of self-financing post-secondary institutions were required to bear the construction cost and related expenses of these institutions. In response, the Administration advised that 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. Regarding some members' concern that government support appeared to be tilted in favour of those self-financing institutions under the aegis of UGC-funded institutions, the Administration informed the Panel that applications from these institutions under the Land Grant Scheme or SLS would also be subject to consideration by the independent VC.

7. When FC considered a proposal to grant a start-up loan to an institution at its meeting held on 7 February 2014², there was a suggestion that instead of providing favourable funding terms to encourage self-financing post-secondary educational institutions to offer programmes on their own, it might be more

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

² See LC Paper No. FCR(2013-14)58.

cost-effective for the Government to provide such programmes. As explained by the Administration, its policy was to encourage diversity in the provision of post-secondary education with parallel development of publicly-funded and self-financing degree and sub-degree programmes. The self-financing sector could address the changing market needs with greater flexibility.

Impact of start-up loans on tuition fees

8. One of the major concerns about SLS raised by some Panel members was that individual institutions might transfer the burden of repaying the start-up loans to their students through charging them high tuition fees. Some members however considered that as self-financing post-secondary institutions did not receive recurrent government subvention, it was understandable for them to recover part of their costs from tuition fee income. Question had also been raised on the mechanism, if any, to monitor the level of tuition fees charged by institutions in receipt of 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. The level of tuition fees were determined by individual institutions, taking into consideration a basket of factors including the costs for operating the programmes, their competitiveness in the market and the affordability of students. The Administration indicated that it would follow up members' concerns about tuition fees through the Committee on Self-financing Post-secondary Education ("the Committee").

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.

Repayment of start-up loans

11. When the Panel was consulted on a proposal to grant a start-up loan to an institution at the meeting on 30 May 2013, some members expressed the view that the Administration should consider providing grants, instead of loans, to self-financing post-secondary institutions so that they could focus on deploying their resources for educational development rather than on loan repayment.

12. At the FC meeting on 21 June 2013 to consider the relevant financial proposal, question was 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 advised that in administering SLS, it was necessary to ensure the prudent use of public money. The charging of an interest at the "no-gain-no-loss" rate after the initial 10-year period was considered appropriate. Upon FC's request, the Administration provided supplementary information on approved applications for extension of loan repayment period under SLS³. 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.

Student hostels funded by start-up loans

13. 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.

14. At the Panel meeting held 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.

Scrutiny of loan applications by VC

15. When considering a proposal to grant a start-up loan to an institution at

³ See LC Paper No. FC172/12-13 issued by EDB to FC members on 1 August 2013.

the FC meeting held on 7 February 2014, a Member noted that in vetting applications, VC would take into account, amongst others, the post-secondary education services proposed in each application. Question was raised as to how VC evaluated applicants' track records and what findings it had gathered. According to the Administration, in assessing an applicant's track record of delivering post-secondary education services, VC would take into account factors such as the number of post-secondary programmes organized previously, the number of students admitted, whether any problems or complaints relating to the programmes had been reported, etc. Track records were only one of the considerations and VC would examine each application on its merits.

Relevant papers

16. A list of the relevant papers on the Legislative Council Website is at **Appendix III**.

Council Business Division 4
Legislative Council Secretariat
4 November 2014

**Vetting Committee for the Allocation of Sites and Start-up Loan
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 31 December 2013)

Chairman: Mr Andrew LAM Siu-lo, JP

Member

Non-official: 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
Ms Jacqueline A. LEUNG
Professor TAM Kar-yan
Mr Alvin WONG Tak-wai

Official: Principal Assistant Secretary (Further Education), 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)284/13-14(01).

**List of Loans Approved under Start-up Loan Scheme
(as at 31 December 2013)**

Loan No.	Applicant (Operator)	Premises	Loan Amount	Date of Approval
1	The University of Hong Kong (for HKU School of Professional and Continuing Education)	Renting and renovating a commercial premises in Wan Chai	\$35,402,000	7 Dec 2001 by Finance Committee (FC)
2	The University of Hong Kong (for HKU School of Professional and Continuing Education)	Purchasing and renovating a commercial premises in North Point	\$176,124,000	7 Dec 2001 by FC
3	Hong Kong Baptist University (for School of Continuing Education)	Purchasing and renovating a commercial premises in Kowloon Tong	\$86,201,000	7 Dec 2001 by FC
4	The Hong Kong Polytechnic University (for Hong Kong Community College)	Renting and renovating the Professional Complex at the Hung Hom campus	\$32,700,000	7 Dec 2001 by FC
5	Lingnan University (for its Community College)	Renting and renovating commercial premises in Tuen Mun and Causeway Bay	\$10,597,000	7 Dec 2001 by FC
6	Lingnan University (for its Community College)	Constructing new buildings in the Tuen Mun campus	\$205,735,000	7 Dec 2001 by FC
7	The Hong Kong Institute of Education (for School of Continuing and Professional 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 (for School of Continuing and Professional Studies)	Purchasing and renovating a commercial premises in Central	\$135,274,000	26 Apr 2002 by FC
9	Caritas-Hong Kong (for Caritas Bianchi College of Careers)	Renting and renovating a commercial premises at MTR Kowloon Station	\$15,000,000	21 Jun 2002 by SEM
10	City University of Hong Kong (for its Community College)	Renting and renovating a commercial premises in Kowloon Bay	\$44,756,000	21 Jun 2002 by FC
11	Vocational Training Council (for School of Business and Information Systems)	Constructing new buildings in the 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 commercial premises in Cheung Sha Wan and Tsim Sha Tsui	\$7,148,000	30 Dec 2002 by SEM
13	Education and Learning Institute (Hong Kong) Limited (for Hong Kong Learning Community College)	Renting and renovating a commercial premises in Causeway Bay	\$4,000,000	4 Mar 2003 by SEM
14	The University of Hong Kong (for HKU School of Professional and Continuing Education)	Constructing a new campus in Kowloon Bay	\$279,256,000	27 Jun 2003 by FC

Loan No.	Applicant (Operator)	Premises	Loan Amount	Date of Approval
15	Hong Kong Baptist University (for School of Continuing Education)	Constructing a new campus in Shek Mun	\$359,200,000	27 Jun 2003 by FC
16	Caritas-Hong Kong (for Caritas Bianchi College of Careers)	Constructing a new campus in Tseung Kwan O	\$188,000,000	27 Jun 2003 by FC
17	The Hong Kong Polytechnic University (for Hong Kong Community College)	Constructing a new campus in Hung Hom	\$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 Mong Kok	\$346,050,000	5 Dec 2003 by FC
19	The Hong Kong Polytechnic University (for Hong Kong Community College)	Constructing a new campus in West Kowloon	\$458,100,000	4 Mar 2005 by FC
20	City University of Hong Kong (for its Community College)	Constructing new buildings in the Kowloon Tong campus	\$599,500,000	24 Jun 2005 by FC
21	Po Leung Kuk (for HKU SPACE Po Leung Kuk Community College)	Constructing new buildings in the Headquarters in Causeway Bay	\$254,000,000	24 Jun 2005 by FC
22	The Open University of Hong Kong	Constructing new buildings in the Ho Man Tin campus	\$120,000,000	24 Jun 2005 by FC
23	HKCT Group Limited (for Hong Kong College of Technology)	Renting and renovating a commercial premises in Hung Hom	\$10,875,000	3 Jan 2006 by SEM
24	Hang Seng School of Commerce	Constructing a new building in the Siu Lek Yuen campus	\$32,400,000	24 Mar 2006 by FC
25	The Chinese University of Hong Kong (for School of Continuing and Professional Studies)	Renting and renovating a commercial premises in Central	\$22,743,000	24 Mar 2006 by FC
26	Hong Kong Arts Centre (for Hong Kong Art School)	Renovating a vacant school premises in Shau Kei Wan	\$5,500,000	16 Feb 2009 by Secretary for Education (SED)
27	HKCT Group Limited (for Hong Kong College of Technology)	Renovating a vacant school premises in Ma On Shan	\$29,000,000	19 Jun 2009 by FC
28	The University of Hong Kong (for HKU School of Professional and Continuing Education)	Renovating a vacant school premises in Pok Fu Lam	\$40,344,000	19 Jun 2009 by FC
29	Chu Hai College of Higher Education	Constructing a new campus in Tuen Mun	\$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 (for Hang Seng Management College)	Constructing a new building in the Siu Lek Yuen campus	\$308,000,000	28 Jan 2011 by FC
32	International Education and Academic Exchanges Foundation Company Limited (for Hong Kong Institute of Technology)	Renovating a vacant school premises in Sham Shui Po	\$11,000,000	21 Feb 2011 by SED

Loan No.	Applicant (Operator)	Premises	Loan Amount	Date of Approval
33	The Chinese University of Hong Kong (for School of Continuing and Professional Studies)	Renovating a vacant school premises 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 Tseung Kwan O	\$300,000,000	13 July 2012 by FC
35	Vocational Training Council (for Technological and Higher Education Institute of Hong Kong)	Constructing a new campus in Chai Wan	\$670,000,000	13 July 2012 by FC
36	Hong Kong Arts Centre (for Hong Kong Art School)	Renovating campuses in Chai Wan and Shau Kei Wan	\$2,500,000	2 May 2013 by SED
37	Hang Seng School of Commerce (for Hang Seng Management College)	Constructing a teaching block and a student hostel in the Siu Lek Yuen campus	\$800,000,000	21 June 2013 by FC
Total Loan Amount approved:			\$7,002,519,000	

Source : Annex C of LC Paper No. CB(4)284/13-14(01).

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
Panel on Education	13.1.2014 (Item III)	Agenda CB(4)284/13-14(01) CB(4)284/13-14(02) Minutes

Committee	Date of meeting	Paper
Finance Committee	7.2.2014 (Item No. 2)	FCR(2013-14)58 Minutes

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