

ASSISTANCE SCHEMES FOR SELF-FINANCING POST-SECONDARY EDUCATION INSTITUTIONS

Executive Summary

1. The Government adopts a two-pronged strategy of promoting the development of self-financing post-secondary education sector as well as the publicly-funded sector. Since 2001, to promote the healthy and sustainable development, and to enhance the quality of the self-financing post-secondary education sector, the Government has implemented various assistance schemes (administered by the Education Bureau (EDB) or the University Grants Committee (UGC)) for self-financing post-secondary education institutions (SFIs). They comprise: (a) Land Grant Scheme (LGS); (b) Start-up Loan Scheme (SLS); (c) Self-financing Post-secondary Education Fund (SPEF); (d) Qualifications Framework Support Schemes; (e) Qualifications Framework Fund; (f) Matching Grant Scheme (MGS); (g) Research Endowment Fund; and (h) Reimbursement of rates and government rent.

2. As at 30 June 2016, there were 28 SFIs eligible for the government assistance schemes. Some of these 28 SFIs provide self-financing post-secondary programmes (i.e. sub-degree and undergraduate programmes) direct while others through their extension arms. If counting the extension arms separately apart from their mother institutions, altogether there were 40 institutions/extension arms (hereinafter referred to as self-financing programme providers (SFPPs)). For the academic year 2014/15 (all years mentioned hereinafter refer to academic years), there were 76,801 students enrolled in 627 full-time self-financing post-secondary programmes.

3. In April 2016, the Audit Commission (Audit) commenced a review of the provision of assistance schemes for SFIs, focusing on four schemes, namely the LGS, the SLS, the SPEF and the MGS.

Administration of LGS and SLS

4. ***Processing of LGS applications.*** The LGS provides land sites at nominal premium or vacant premises at nominal rent to SFPPs. Applications for LGS land sites/premises are assessed and recommended by a Vetting Committee (which comprises a non-official chairman, seven non-official members and one official member) and approved by the Secretary for Education. Up to 31 March 2016, 17 land sites/premises had been granted under the LGS. Audit examined the LGS applications and noted that there were inadequacies in the application approval processes: (a) in December 2008, SFPP A (operating under the aegis of a UGC-funded university) applied for the use of an LGS premises by SFPP B (a division of SFPP A). Contrary to the EDB's established approval practice, the application (together with two other applications in the same batch) was only approved by the Permanent Secretary for Education instead of the Secretary for Education; (b) in December 2011, SFPP C (controlled by the UGC-funded university) applied for the temporary use of the premises for three years until the end of 2014/15. The application was approved by the Permanent Secretary for Education; (c) subsequently, an application was made by SFPP C in January 2015 for the extension of the use of the premises for another three years up to August 2018 and was approved by a Deputy Secretary for Education. The change of the user of the premises from SFPP B operating sub-degree programmes to SFPP C operating undergraduate programmes, albeit temporary, was a fundamental and significant change. However, the temporary use of premises by SFPP C and the extension were approved without seeking advice from the Vetting Committee. In May 2016, owing to operational difficulties, the management of SFPP C was taken over by SFPP A; and (d) the EDB did not enter into legally binding agreements with SFPP C, hence SFPP C was not required to submit and had not submitted any Annual Progress Report for EDB's performance monitoring purpose (paras. 1.5(a) and 2.3 to 2.5).

5. ***Renewal of LGS grants.*** Under the LGS, a land site/premises is granted to the grantee for ten years. The grant may be renewed every ten years. As at 31 July 2016, the grants of five land sites had expired and the grantees had applied for renewal. Under the existing practice, renewal applications were only assessed and approved by a Principal Assistant Secretary of the EDB. Audit examined the five renewal applications and found that there were circumstances under which the advice of the Vetting Committee might need to be sought in assessing renewal applications to ensure that renewals were properly granted. For example: (a) in a

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renewal application, the SFPP's actual student enrolment of the locally-accredited sub-degree programmes showed a trend of falling short of the expected number in recent years; and (b) in another renewal application, the Lands Department identified breaches of the Conditions of Grant by the SFPP (paras. 2.3(a) and 2.9).

6. ***Unspent SLS loan balances.*** The SLS provides interest-free loans to SFPPs to finance campus development. Up to 31 March 2016, 39 loans amounting to \$7.3 billion had been granted. With effect from July 2006, borrowers are required to repay the Government on demand, in a lump sum, unspent loan balances two years after the final drawdown of the loans. The EDB mainly relies on the project costs reported by borrowers to identify unspent loan balances. Audit noted that the EDB did not require borrowers to submit certified accounts for their projects. It was therefore uncertain whether the project costs reported by the borrowers were accurate (paras. 1.5(b), 2.12 and 2.14).

Administration of SPEF and MGS

7. ***Administration of the SPEF.*** The SPEF supports worthwhile non-works projects to enhance the quality of education provided by SFPPs under the Quality Enhancement Support Scheme (QESS). The SPEF also aims to provide scholarships/awards to outstanding students nominated by SFPPs under the Self-financing Post-secondary Scholarship Scheme. As at 31 March 2016, \$136 million had been granted to 30 approved projects and \$308 million of scholarships/awards had been granted to some 16,100 students. Audit found that: (a) up to 2015/16, 11 (28%) of the 40 SFPPs had never submitted QESS applications; (b) the EDB did not provide the unsuccessful QESS applicants with feedback on ways to improve so as to facilitate their future applications; and (c) the unpaid amounts of scholarships/awards increased by 466%, from \$680,000 in 2012/13 to \$3,850,000 in 2014/15. Of the unpaid amounts of \$3,850,000, \$3,750,000 (97%) could not be paid to students under the Reaching Out Award because they had not participated in the required outreaching activities (paras. 1.5(c), 3.2, 3.7, 3.8 and 3.20).

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8. *Administration of the MGS.* The MGS matches private donations secured by the post-secondary education institutions to help them secure more funds for better quality education. Since the launch of the MGS in July 2003, a total of \$7.4 billion had been granted to 17 institutions through six rounds of MGS funding. Audit examined the sixth round of MGS funding and found that: (a) of the 17 institutions, the majority (82%) of the MGS grants were allocated to the eight UGC-funded universities; (b) one SFI had not submitted the auditor's report for 2014/15 certifying that the institution had complied with the conditions of the MGS grants; and (c) there was no mechanism in place to verify that MGS grants were spent by institutions in a cost-effective manner (paras. 1.5(f), 3.25, 3.27, 3.29 and 3.30).

Way forward

9. *Latest development of the self-financing post-secondary education sector.* In June 2015, the Code of Good Practices on Governance and Quality Assurance (Code of Good Practices) for self-financing post-secondary education sector was promulgated for voluntary implementation by SFIs. The Code of Good Practices contains 27 individual good practices aiming to enhance transparency in operation and accountability of SFIs to the public. The EDB encourages SFIs to follow the Code of Good Practices and monitors the progress of implementation. Audit examination of five good practices revealed that: (a) less than one-fourth of the 40 SFPPs (see para. 2) disclosed on their websites their strategic and operational plans, annual reports, financial information, and outcomes of quality assurance and programme reviews; and (b) the extent of information disclosure varied significantly among the SFPPs. Audit also noted that in February 2012, the EDB launched the Electronic Advance Application System for Post-secondary Programmes (E-APP) to facilitate applications for post-secondary programmes not covered by the Joint University Programmes Admissions System (JUPAS). E-APP, however, is only a system for SFIs to receive applications, and it is common that multiple places are offered by SFIs to students. SFIs, therefore, charge an enrolment deposit and require students to settle the first instalment of tuition fee before programme commencement to minimise the wastage of places. From 2012/13 to 2015/16, the enrolment deposits and tuition fees forfeited every year ranged from \$21 million to \$26 million (paras. 4.2 to 4.5, 4.7, 4.15 and 4.16).

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10. ***Way forward for the government assistance schemes.*** The number of students enrolled in full-time locally-accredited self-financing post-secondary programmes dropped by 9% from 84,157 in 2012/13 to 76,801 in 2014/15. According to a forecast made by the EDB in August 2015, the number of secondary school graduates would continue to decrease until 2022/23. The forecast also indicated that starting from 2017/18, the number of post-secondary education places would exceed the entire population of secondary school graduates. Due to insufficient student enrolment, an SFI was closed down in 2014 while the management of another SFI was taken over by a third SFI in 2016. Audit analysis of the rate of intake (i.e. the actual number of first year student intake divided by the number of places available) of 27 SFIs also indicated that from 2012/13 to 2014/15, the rate of intake of six of them was consistently lower than 50% (paras. 4.23 and 4.24).

Audit recommendations

11. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Secretary for Education should:**

Processing of LGS applications

- (a) **take measures to ensure that applications for LGS land sites/premises are duly approved by the Secretary for Education (para. 2.6(a));**
- (b) **in dealing with LGS matters of a significant nature (e.g. change of user of LGS land sites/premises), seek advice from the Vetting Committee and seek approval by the Secretary for Education where necessary (para. 2.6(b));**
- (c) **in LGS cases involving a change of user, enter into legally binding agreements with the new user (para. 2.6(c));**

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Renewal of LGS grants

- (d) issue guidelines promulgating circumstances under which the advice of the Vetting Committee should be sought in assessing LGS renewal applications to ensure that renewals are properly granted (para. 2.10(a));

Unspent SLS loan balances

- (e) take measures to ensure the accuracy of the project costs reported by SLS borrowers (para. 2.15(b));

Administration of the SPEF

- (f) ascertain why some SFPPs have not participated in the QESS and take measures to encourage SFPPs to apply for QESS funding (para. 3.23(a) and (b));
- (g) provide feedback to unsuccessful QESS applicants on ways to improve so as to facilitate their future applications (para. 3.23(c));
- (h) review why so many students had not participated in the required outreaching activities of the Reaching Out Award and instigate appropriate action to address the issue (para. 3.23(h) and (i));

Administration of the MGS

- (i) explore more effective ways to assist institutions other than the UGC-funded universities to secure MGS grants (para. 3.31);

Latest development of the self-financing post-secondary education sector

- (j) consider ways to encourage SFPPs to disclose on their websites the information stipulated in the Code of Good Practices as far as possible and to help SFPPs improve their disclosure of information (para. 4.19(a)(ii) and (iii));

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- (k) examine the feasibility of enhancing E-APP to become a unified platform for application and admission of post-secondary programmes (para. 4.19(d));
- (l) endeavour to facilitate the convergence of JUPAS and E-APP (para. 4.19(e)); and

Way forward for the government assistance schemes

- (m) consider conducting a review of the effectiveness of the government assistance schemes in promoting the healthy and sustainable development of the self-financing post-secondary education sector to determine the way forward for the schemes in aligning with the development of the sector (para. 4.27(a)).
12. Audit has *recommended* that the Secretary-General, University Grants Committee should:
- (a) follow up with the SFI that has not submitted the auditor's report (para. 3.32(a)); and
 - (b) in collaboration with the Secretary for Education, establish a mechanism to verify that MGS grants are spent by institutions in a cost-effective manner (para. 3.32(b)).

Response from the Government

13. The Government agrees with the audit recommendations.