

ITEM FOR FINANCE COMMITTEE

LOAN FUND

HEAD 252 - LOANS TO SCHOOLS/TEACHERS

Subhead 106 Start-up loan for post-secondary education providers

Members are invited to approve the following loans totalling \$546,759,000 from the Loan Fund for providing –

- (a) a short-term loan of \$35,402,000 and a medium-term loan of \$176,124,000 to the University of Hong Kong;
- (b) a medium-term loan of \$86,201,000 to the Hong Kong Baptist University;
- (c) a short-term loan of \$32,700,000 to the Hong Kong Polytechnic University; and
- (b) a short-term loan of \$10,597,000 and a medium-term loan of \$205,735,000 to the Lingnan University.

PROBLEM

Individual academic institutions have applied for start-up loans from the Government to launch new or expanded accredited post-secondary programmes on a self-financing basis. We need to make a decision on these applications.

/PROPOSAL

PROPOSAL

2. Pursuant to the loan scheme approved by this Committee in July 2001, the Secretary for Education and Manpower (SEM) proposes to grant interest-free loans at a total of \$546,759,000 to four institutions, as follows –

- (a) The University of Hong Kong: a short-term loan of \$35,402,000 and a medium-term loan of \$176,124,000 for launching Associate Degree, Higher Diploma and Professional Diploma programmes in rented and purchased premises respectively;
- (b) Hong Kong Baptist University: a medium-term loan of \$86,201,000 for launching Associate Degree programmes on campus through reprovisioning its administrative offices in purchased premises off-campus;
- (c) Hong Kong Polytechnic University: a short-term loan of \$32,700,000 for its Associate Degree programmes in rented premises on campus; and
- (d) Lingnan University: a short-term loan of \$10,597,000 and a medium-term loan of \$205,735,000 for launching Associate Degree programmes in rented and self-constructed premises respectively.

JUSTIFICATION

3. At its meeting on 6 July 2001, this Committee approved, among other things –

- (a) the introduction of a new loan scheme for post-secondary education providers to support their initial start-up costs; and
- (b) the creation of a new subhead “Start-up loans for post-secondary education providers” under Loan Fund Head 252 - Loans to Schools/Teachers with a commitment of \$5,000 million.

As noted by this Committee on 6 July 2001, SEM will consider the applications on the advice of a vetting committee. She will approve applications at or below \$15 million and recommend applications for loans exceeding \$15 million¹ to this Committee for approval.

/4.

¹ Including application at or below \$15 million but the outstanding loan balance for the same provider exceeds \$15 million when the loan application under processing is factored in.

Encl.1 4. We have set up a Vetting Committee in September 2001 to assess all loan applications and to advise on the loan amount for each case. Its terms of reference and membership are set out at Enclosure 1. The first round of the application exercise started in August 2001 and closed in September 2001. Having regard to the advice of the Vetting Committee, SEM recommends for this Committee's approval the granting of six loans to four institutions. Details are set out in paragraphs 6 to 15 below.

Encl. 2 5. In considering the applications, the Vetting Committee has followed
Encl. 3 the criteria set out in paragraphs 14 to 20 of FCR(2001-02)30, a summary of which is at Enclosure 2, and the per student loan ceiling approved by this Committee (see Enclosure 3). In examining each application, the Vetting Committee has taken into account the projected student population, the proposed use of the loan, the quoted start-up costs and the financial viability of the case.

The University of Hong Kong (HKU)

6. HKU has applied for a short-term loan of \$36,464,630 to cover the rental cost of premises and refurbishment and equipment costs for the setting up of a Learning Centre in Wanchai for its School of Professional and Continuing Education. The Centre has started to operate in the 2001/02 academic year² and can accommodate 1 200 students in self-financing sub-degree programmes. In parallel, HKU has applied for a medium-term loan of \$200 million for the purchase, refurbishment and equipment costs of a commercial building in North Point, which will operate in the 2002/03 academic year and can accommodate a further 1 300 sub-degree students. The commercial building in North Point will also be used to accommodate the administrative office and other supporting facilities such as a library and a student counselling services centre for sub-degree programme students.

7. Having regard to the considerations in paragraph 5 above, the Vetting Committee advised and we recommend –

(a)

² As the loan scheme for course providers was only approved in July 2001, applicant institutions wishing to launch the self-financing programmes in the 2001/02 academic year will have to start the programmes with their own means, pending the outcome of the applications. The understanding is that the institutions will have to take full responsibility for their decisions; commencement of the programmes does not oblige Government to grant the loan.

- (a) approval of a short-term loan of \$35,402,000 comprising –
 - (i) \$15,158,000 for the rental cost, management fee and air-conditioning charge of 3 211 square metres of accommodation at the Learning Centre in Wanchai for a period of two years; and
 - (ii) \$20,244,000 for the refurbishment and equipment costs for 1 200 student places;
- (b) approval of a medium-term loan of \$176,124,000, comprising –
 - (i) \$152 million for the purchase of a commercial building providing 6 958 square metres of premises; and
 - (ii) \$24,124,000 for the refurbishment and equipment costs in the purchased premises for 1 300 student places.

8. For both the short-term and medium-term loans, we have recommended loan amounts which are less than those applied by HKU to comply with the relevant loan ceiling per student approved for refurbishment and equipment cost. Due to the lower rental and purchase price quoted by the University, the overall loan amount per student which we now recommend for each of the two loans will fall below the corresponding overall loan ceiling per student at Enclosure 3. We also concur with the Vetting Committee's advice that the medium-term loan can be extended from the outset in view of the applicant's good track record in offering self-financing post-secondary programmes.

The Hong Kong Baptist University (HKBU)

9. HKBU has applied for a medium-term loan of \$100 million for the purchase of 3 995 square metres premises in Kowloon Tong. The premises is used for reprovisioning the administrative offices of the University's School of Continuing Education (SCE) previously accommodated in the SCE Tower and David C. Lam Building which were built on the University campus using private funds. The vacated premises of approximately 3 902 square metres is used to accommodate students (currently 900) enrolled in self-financing Associate Degree programmes starting from the 2001/02 academic year. The loan amount includes \$69.5 million for the purchase cost of premises, and \$30.5 million for the refurbishment and equipment costs of the purchased premises, the SCE Tower and the David C. Lam Building.

10. The Vetting Committee believes that the decanting arrangement has good educational merits because it would allow Associate Degree students easy access to teaching staff and the facilities within the main University campus. The alternative is for HKBU to run the self-financing programmes in the newly purchased premises. Nevertheless, this is less desirable because the benefits of integration into the main campus will be lost. It is also less cost-effective because some of the student facilities that would otherwise be readily available on the main campus would have to be separately provided for in the new premises. Furthermore, the floor area of the newly purchased premises being used by the administrative offices is comparable to that of the vacated premises being used by the self-financing programmes. The loan applied for is not more than what would be required if HKBU were to pursue the alternative of running the self-financing programmes directly in the newly purchased premises. Taking all these factors into account, the Vetting Committee considers that, although HKBU will be using the loan to purchase premises that are not directly used for the delivery of the self-financing programmes, the proposed use of the loan is justifiable on educational ground. The Vetting Committee advises and we recommend the approval of a medium-term loan of \$86,201,000, comprising –

- (a) \$69.5 million for the purchase cost of 3 995 square metres of premises in Kowloon Tong and associated stamp duty and legal fee; and
- (b) \$16,701,000 for the refurbishment and equipment costs of 900 student places.

11. We have recommended a loan amount which is less than that applied by HKBU so as to comply with the loan ceiling per student approved for refurbishment and equipment cost applicable to equipment intensive or science programmes. We also concur with the Vetting Committee's advice that the medium-term loan can be offered from the outset in view of HKBU's proven track record in running self-financing programmes.

The Hong Kong Polytechnic University (PolyU)

12. Based on the projected student population of 690 for academic year 2002/03 and 800 for academic year 2003/04 for its self-financing Associate Degree programmes, PolyU has applied for a short-term loan of \$32.7 million to run a Community College inside a Professional Complex being constructed on the main campus with private funds. The loan will cover the cost of renting accommodation in the Professional Complex and the refurbishment and equipment costs. The Complex will operate as a separate cost centre and will recover its construction and maintenance cost from all the Complex's users, including the proposed Community College, the University's spin-off private companies and other user departments.

/Short-term

Short-term tenants like the proposed Community College and the University's spin-off companies will need to pay rent at commercial rate. We have considered asking the PolyU to waive the rent for the Community College so that the latter could run self-financing sub-degree programmes that are viable from the outset even without Government's assistance. PolyU has, however, confirmed that it is the University's policy to treat all users of the Professional Complex on an equal footing. The alternative is to accommodate the Community College elsewhere (probably outside the main campus) and, where necessary, apply for a start-up loan from the Government. On balance, having regard to PolyU's established policy on the use of its privately-funded building and the benefits of having the Community College on campus, the Vetting Committee advised and we recommend the approval of a short-term loan of \$32.7 million, comprising –

- (a) \$20.7 million for the rental cost of 3 000 square metres and 3 400 square metres of accommodation at PolyU's Professional Complex for the 2002-03 and 2003-04 academic years respectively; and
- (b) \$12 million for the refurbishment and equipment costs for 800 student places.

Lingnan University (LU)

13. LU has applied for a short-term loan of \$10,597,000 to cover the cost of renting commercial premises in Tuen Mun and the refurbishment and equipment costs to cope with an expanded student population of 450 for its self-financing Associate Degree programmes starting from the 2002/03 academic year.

14. It has also applied for a medium-term loan of \$219,500,000 to build additional premises totalling 12 000 square metres to accommodate a total of 1 200 sub-degree students (including the 450 places initially run in rented commercial premises) within its Tuen Mun campus, tentatively from the 2004/05 academic year. The Vetting Committee advises and we recommend the –

- (a) approval of a short-term loan of \$10,597,000, comprising –
 - (i) \$4,107,000 for the rental cost of 1 618 square metres of commercial premises in Tuen Mun for a period of two years; and
 - (ii) \$6,490,000 for the refurbishment and equipment costs for 450 student places.

(b)

- (b) approval of a medium-term loan of \$205,735,000 comprising –
 - (i) \$183,467,000 for the building costs of additional premises at LU's Tuen Mun campus; and
 - (ii) \$22,268,000 for the refurbishment and equipment costs.

15. For the medium-term loan, we have recommended a lower amount than that applied for, in order to comply with the loan ceiling per student approved by this Committee for building, refurbishment and equipment costs applicable to equipment intensive or science programmes. We also concur with the Vetting Committee's advice that the medium-term loan can be extended to LU from the outset, having regard to the applicant's good track record in running post-secondary programmes.

Execution of Legal Documentation

16. Successful applicants for the start-up loan will be required to provide security and enter into a loan agreement with the Government. The applicant may offer landed property as security. Where there is no landed property or if the property is of insufficient security, the borrower will be required to execute an "Assignment of Receivables" incorporating a first floating charge over its undertaking, property and assets and, where applicable, the parent organization of the borrower will be required to give an irrevocable and unconditional guarantee for the repayment of the loan.

FINANCIAL IMPLICATIONS

17. As approved by this Committee in July 2001, loans to be granted under the scheme will be interest-free and must be repaid by equal annual instalments within ten years from the date of final drawdown. If Members approve the proposals, we will offer the loans at a total amount of \$546,759,000, including \$78,699,000 of short-term loans and \$468,060,000 of medium-term to the institutions mentioned above under Head 252 - Loans to Schools/Teachers Subhead 106 Start-up loan for post-secondary education providers. Having regard to the proposed use of the loan and the expenditure pattern submitted by the applicants, we estimate that the loan disbursement schedule is as follows –

/Institutions

Institutions	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	Total
HKU	\$203,169,400	\$8,356,600			\$211,526,000
HKBU	\$86,201,000				\$86,201,000
PolyU		\$21,700,000	\$11,000,000		\$32,700,000
LU		\$49,519,500	\$164,095,500	\$2,717,000	\$216,332,000
Total	\$289,370,400	\$79,576,100	\$175,095,500	\$2,717,000	\$546,759,000

18. The total interest forgone for granting the above proposed loans is estimated to be \$107,525,000, calculated on the basis of an interest rate at “no-gain-no-loss” to Government, currently at 3.25% per annum. The “no-gain-no-loss” rate is set at 2% below the average best lending rate of the note-issuing banks. There are no recurrent implications.

BACKGROUND INFORMATION

19. In the 2000 Policy Address, the Chief Executive announced that –
- (a) 60% of our senior secondary school leavers should have access to tertiary education within ten years;
 - (b) the Government will facilitate tertiary institutions, private enterprises and other organizations to provide option(s) other than the traditional sixth form education, such as professional diploma courses, and allocate more resources by providing land and one-off loan to those institutions interested in offering such courses; and
 - (c) the Government will extend the scope of assistance offered to students under the Non-means-tested Loan Scheme and low interest loan scheme, and will offer fee remission to the most needy students.

20. This Committee approved on 6 July 2001 a package of support measures to facilitate a progressive expansion in self-financing post-secondary programmes, including a start-up loan scheme for course providers with a commitment of \$5,000 million. So far, there are 39 self-financing programmes at sub-degree level or above providing about 7 000 places for our senior secondary school leavers.

21. During the first round application exercise, we received a total of eight applications. Apart from the four applications that are the subject of this submission, the Vetting Committee has also recommended approval of one application from the Hong Kong College of Technology for a short-term loan of \$4,555,000. The case will be approved by SEM under authority delegated by this Committee. The Vetting Committee has deferred consideration of the remaining three applications, pending the successful accreditation of the concerned institutions/programmes and further revision of the development plans by the applicants. A summary of the first application exercise is at Enclosure 4.

Encl. 4

22. We provided an information note to the Legislative Council Panel on Education on 19 November 2001 on the results of the first application exercise.

Education and Manpower Bureau
November 2001

**Start-up Loan for Post-secondary Education Providers Vetting Committee
(Vetting Committee)**

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

Membership

Chairman : Professor TAM Man Kwan

Members : Non-officials
Mr. KUNG Lin Cheng, Leo
Mr. LIAO Cheung Kong, Martin
Mr. WONG Tak Wai, Alvin

Official

Principal Assistant Secretary (Education and Manpower)1

Secretary : Project Co-ordinator(1) (Education and Manpower Bureau)

Quorum

At any meeting of the Vetting Committee, three members (including the chairman) shall form a quorum.

**Parameters of Start-up Loan Scheme for
Post-secondary Education Providers**

A. Eligibility Criteria

Eligible providers must –

- (a) be non-profit-making;
- (b) provide self-financing full-time accredited post-secondary programmes leading to a qualification at or above the level of higher diploma, associate degree and professional diploma.

B. Scope

Short-term loan to –

- (a) rent premises for two years; and
- (b) cover basic refurbishment and equipment.

Medium-term loan to –

- (a) purchase or build permanent college premises; and
- (b) cover refurbishment and equipment. For providers who have obtained the short-term loan, the medium-term loan will only cover requirements additional to those already financed by the short-term loan.

Provider with good track record in higher education can apply for a medium-term loan from the outset and the application will be considered on a case-by-case basis.

Loan Ceiling per Student

<p>(1) <u>Short-term loan</u> –</p> <p>(a) Two-year rental cost of accommodation per student</p> <p>(b) Refurbishment and equipment costs per student</p>	<p>\$27,740</p> <p>\$16,870</p> <hr/> <p>\$44,610</p>
<p>(2) Plus a margin of 10% for equipment-intensive or Science subjects (2) = (1) x (1+10%), rounded to the nearest hundred dollars</p>	<p>\$49,100</p>
<p>(3) <u>Medium-term loan</u> –</p> <p>(a) Purchase cost of class “C” commercial office per student</p> <p>(b) Refurbishment and equipment costs per student</p>	<p>\$150,090</p> <p>\$16,870</p> <hr/> <p>\$166,960</p>
<p>(4) Plus a margin of 10% for equipment-intensive or Science subjects (4) = (3) x (1 + 10%), rounded to the nearest hundred dollars</p>	<p>\$183,700</p>

**Summary of First Application Exercise
Start-up Loan for Post-Secondary Education Providers**

Number of applications received	8
Total amount of short-term loans applied	\$127,956,000
Total amount of medium-term loans applied	\$1,400,178,000
Total amount of loans applied	\$1,528,134,000
Number of applications involving loan amount at or below \$15 million to be considered and approved by SEM	1
Amount of short-term loan to be approved by SEM	\$4,555,000
Total amount of loans to be approved by SEM	\$4,555,000
Number of applications involving loan amount above \$15 million subject to the approval of the Finance Committee	4
Amount of short-term loan proposed for approval by the Finance Committee	\$78,699,000
Amount of medium-term loan proposed for approval by the Finance Committee	\$468,060,000
Total amount of loan proposed for approval by the Finance Committee	\$546,759,000