

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, under the Start-up Loan Scheme for post-secondary education providers, a loan of \$135,274,000 from the Loan Fund to the Chinese University of Hong Kong.

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 an application from the Chinese University of Hong Kong (CUHK).

PROPOSAL

2. Pursuant to the loan scheme approved by this Committee on 6 July 2001, the Secretary for Education and Manpower (SEM) proposes to grant an interest-free loan of \$135,274,000 to the CUHK for launching programmes leading to the award of Associate Degrees in purchased premises.

JUSTIFICATION

3. At its meeting on 6 July 2001, this Committee approved, among other things, the introduction of a new loan scheme for post-secondary education providers to support their initial start-up costs, with a commitment of \$5,000 million under the Loan Fund. Two types of loans, namely, “short-term

Encl. 1 loans” and “medium-term loans” are available under the scheme (details at Enclosure 1). As noted by this Committee, SEM will consider the applications on the advice of a vetting committee comprising four non-officials (including the Chairman) and one official member. She will approve applications at or below \$15 million and recommend applications for loans exceeding \$15 million¹ to this Committee for approval.

4. We launched an application exercise between October and December 2001. Having regard to the advice of the Vetting Committee, SEM recommends for this Committee’s approval the granting of one medium-term loan to CUHK. Details are set out in paragraphs 6 to 8 below.

Encl. 2 5. In considering the applications, the Vetting Committee has followed the criteria set out in paragraphs 14 to 20 of FCR(2001-02)30, a summary of which is at Enclosure 1, and the per student loan ceiling approved by this Committee (see Enclosure 2). It has taken into account the projected student population, the proposed use of the loan, the quoted start-up costs and the financial viability of each application.

THE CHINESE UNIVERSITY OF HONG KONG (CUHK)

6. CUHK has applied for a medium-term loan of \$165,330,000, of which \$118,573,000 is for the purchase of premises at a commercial building in Central and \$46,757,000 to cover refurbishment and equipment costs of the new teaching centre. The centre will be used by the University’s School of Continuing Studies to accommodate a total of 900 students in self-financing programmes leading to the award of Associate Degrees starting from the 2002/03 academic year.

7. Having regard to the considerations in paragraph 5 above, the Vetting Committee advised and we recommend the approval of a medium-term loan of \$135,274,000 comprising -

- (a) \$118,573,000 for the purchase of commercial premises providing 3 154 square metres of accommodation; and
- (b) \$16,701,000 for the refurbishment and equipment costs for 900 student places.

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

8. We have recommended a loan amount which is less than that applied for by CUHK 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 CUHK's experience and track record in running self-financing programmes.

FINANCIAL IMPLICATIONS

9. 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 installments within ten years from the date of final drawdown. If Members approve the proposal, we will offer a medium-term loan of \$135,274,000 to CUHK 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 applicant, we intend to disburse the loan to the CUHK in one installment in 2002-03.

10. We estimate that the total interest foregone for granting the above proposed loan will be \$23,250,219, calculated on the basis of an interest rate at "no-gain-no-loss" to Government, currently at 3.125% 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

11. 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.

12. This Committee approved on 6 July 2001 a package of support measures to facilitate a progressive expansion in self-financing post-secondary programmes. In respect of the start-up loan scheme for course providers, this Committee approved on 7 December 2001 six loan applications submitted in the first application exercise (August to September 2001) from four institutions at a total loan amount of \$546,759,000. So far, there are 38 self-financing programmes at sub-degree level or above providing about 7 000 places for our senior secondary school leavers.

13. During the second round application exercise, we received a total of six applications, including four new applications and two resubmissions from applicants in the first application exercise. Apart from the application that is the subject of this submission, the Vetting Committee has also recommended approval of one application from the Hong Kong Institute of Education for a short-term loan of \$15 million. SEM has approved this application under authority delegated by this Committee. The Vetting Committee has deferred consideration of the remaining four applications, pending the successful accreditation of the concerned institutions/programmes, the provision of additional information and further revision of the development plans by the applicants. A summary of the second application exercise is at Enclosure 3.

Encl. 3

14. We provided an information note to the Legislative Council Panel on Education on 15 April 2002 on the results of the second application exercise.

Education and Manpower Bureau
April 2002

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

A. Eligibility Criteria

Eligible providers must -

- (a) be non-profit-making; and
- (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> - (a) Two-year rental cost of accommodation per student (b) Refurbishment and equipment costs per student</p>	<p>\$27,740 \$16,870 <hr/> \$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> - (a) Purchase cost of class "C" commercial offices per student (b) Refurbishment and equipment costs per student</p>	<p>\$150,090 \$16,870 <hr/> \$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 Second Application Exercise
Start-up Loan for Post-Secondary Education Providers**

Number of applications received	6
Total amount of short-term loans applied for	\$78,800,000
Total amount of medium-term loans applied for	\$165,330,000
Total amount of loans applied for	\$244,130,000
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Number of applications involving loan amount at or below \$15 million recommended by the Vetting Committee and approved by SEM	1
Amount of short-term loan approved by SEM	\$15,000,000
Amount of medium-term loan approved by SEM	-
Total amount of loans approved by SEM	\$15,000,000
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Number of applications involving loan amount above \$15 million recommended by the Vetting Committee and subject to the approval of the Finance Committee	1
Amount of short-term loan proposed for approval by the Finance Committee	-
Amount of medium-term loan proposed for approval by the Finance Committee	\$135,274,000
Total amount of loan proposed for approval by the Finance Committee	\$135,274,000