

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, the following loans totalling \$311,156,000 from the Loan Fund for providing –

- (a) a short-term loan of \$44,756,000 to the City University of Hong Kong; and
- (b) a medium-term loan of \$266,400,000 to the Vocational Training Council.

PROBLEM

We need to decide on applications from two academic institutions for start-up loans from the Government to launch new or expanded accredited post-secondary programmes on a self-financing basis.

PROPOSAL

2. Pursuant to the loan scheme approved by Members on 6 July 2001, the Secretary for Education and Manpower (SEM) proposes to grant interest-free loans at a total of \$311,156,000 to two institutions, as follows -

- (a) City University of Hong Kong: a short-term loan of \$44,756,000 for launching Associate Degree programmes in rented premises; and

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- (b) Vocational Training Council: a medium-term loan of \$266,400,000 for launching Higher Diploma programmes in self-constructed premises.

JUSTIFICATION

Encl. 1 3. At its meeting on 6 July 2001, Members 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 (ref. FCR(2001-02)30). Two types of loans, namely, “short-term loans” and “medium-term loans”, are available under the scheme (details at Enclosure 1). Members noted that SEM will consider loan 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 Members for approval.

4. We launched the third application exercise between March and April 2002. Having regard to the advice of the Vetting Committee, SEM recommends the granting of two loans to two institutions. Details are set out in paragraphs 6 to 10 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 ceilings (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.

CITY UNIVERSITY OF HONG KONG (CityU)

6. CityU has applied for a short-term loan of \$44,756,000 to set up a campus in Telford Gardens for the purpose of offering self-financing Associate Degree programmes. The loan covers the rental cost of premises and refurbishment and equipment costs. The new campus will be used by CityU’s College of Higher Vocational Studies starting from the 2002/03 academic year. It can accommodate 1 500 students pursuing the Associate Degree programmes.

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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.

7. Having regard to the considerations in paragraph 5 above, the Vetting Committee advised and we recommend the approval of a short-term loan of \$44,756,000 catering to a student population of 1 500 (including 700 to be enrolled in equipment-intensive or science programmes). The loan comprises -

- (a) \$18,727,500 for the rental costs of 8,300 square metres of accommodation at the campus in Telford Gardens for a period of two years; and
- (b) \$26,028,500 for the refurbishment and equipment costs.

VOCATIONAL TRAINING COUNCIL (VTC)

8. VTC set up a new School of Business and Information System (SBI) in rented premises in September 2001 to offer Higher Diploma courses on a self-financing basis. More than 700 students are enrolled in the SBI programmes in the 2001/02 academic year. VTC has applied for a medium-term loan of \$266.4 million to build additional premises totalling 19 800 square metres within its Hong Kong Institute of Vocational Education (Tsing Yi) campus to provide permanent accommodation for the SBI from the 2004/05 academic year. The additional premises include a new building and extensions of the existing library and canteen to service the needs of the SBI programmes. In accordance with paragraph 12.1 of the Memorandum of Administrative Arrangements between the Government and the VTC, the Council "shall keep a separate set of accounts for the full costs of its self-financing activities, and ensure that there is no cross-subsidisation in money or in kind between its subvented programmes and self-financing activities".

9. The Vetting Committee advised and we recommend the approval of a medium-term loan of \$266.4 million catering to a student population of 2 438 in the SBI. The loan comprises -

- (a) \$230 million for the building costs of additional premises providing 19 800 square metres of accommodation at the Hong Kong Institute of Vocational Education (Tsing Yi) campus; and
- (b) \$36.4 million for the refurbishment and equipment costs.

10. We concur with the Vetting Committee's advice that the medium-term loan can be extended to VTC from the outset, having regard to the applicant's good track record in running post-secondary programmes.

FINANCIAL IMPLICATIONS

11. 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 draw down. If Members approve the proposals, we will offer the loans at a total amount of \$311,156,000 to CityU and VTC 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	FY2002 - 03	FY2003 – 04	FY2004 -05	Total
CityU	\$35,392,300	\$9,363,700		\$44,756,000
VTC	\$103,500,000	\$103,500,000	\$59,400,000	\$266,400,000
Total :	\$138,892,300	\$112,863,700	\$59,400,000	\$311,156,000

12. We estimate that the total interest foregone for granting the above proposed loans will be about \$64,289,000, 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

13. 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.

14. 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, Members 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. On 26 April 2002, Members further approved a loan of \$135,274,000 submitted in the second application exercise (October to December 2001) from the Chinese University of Hong Kong. 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.

15. During the third round application exercise, we received a total of five applications, including three new applications and two re-submissions from applicants in the first or second application exercises. Apart from the applications that are the subject of this submission, the Vetting Committee has deferred consideration of the remaining three 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 third application exercise is at Enclosure 3.

Encl. 3

15. We provided an information note to the Legislative Council Panel on Education on 12 June 2002 on the results of the third application exercise.

Education and Manpower Bureau
June 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 Ceilings Per Student

	Parameters	Loan Ceiling for 2002-03
(1)	Short-term Loan –	
	(a) Two-year rental cost of accommodation per student (Note 1)	\$29,270
	(b) Refurbishment and equipment costs per student (Note 2)	\$16,580
		\$45,850
(2)	Plus a margin of 10% for equipment-intensive or science subjects	\$50,430
(3)	Medium-term Loan –	
	(a) Purchase cost of class “C” commercial office per student (Note 1)	\$137,950
	(b) Refurbishment and equipment costs per student (Note 2)	\$16,580
		\$154,530
(4)	Plus a margin of 10% for equipment-intensive or science subjects	\$169,980

Notes:

1. The loan ceilings for rental and purchase costs of accommodation are based on the average rental and purchase costs of class “C” commercial office. For 2002-03, SEM has, in accordance with the annual adjustment mechanism set out in FCR(2001-02)30, revised the loan ceilings based on updated data provided by the Rating and Valuation Department.
2. The loan ceilings for refurbishment and equipment costs were first set in 2001-02 with reference to the average costs borne by continuing and professional education providers. For 2002-03, SEM has, in accordance with the annual adjustment mechanism set out in FCR(2001-02)30, revised these loan ceilings based on movement of the Consumer Price Index (A) in the past year.

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

Number of applications received	5
Total amount of short-term loans applied for	\$122,296,500
Total amount of medium-term loans applied for	\$266,400,000
Total amount of loans applied for	\$388,696,500
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Number of applications involving loan amount at or below \$15 million considered and approved by SEM	Nil
Amount of short-term loan approved by SEM	Nil
Amount of medium-term loan approved by SEM	Nil
Total amount of loans approved by SEM	Nil
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Number of applications involving loan amount above \$15 million subject to the approval of the Finance Committee	2
Amount of short-term loan proposed for approval by the Finance Committee	\$44,756,000
Amount of medium-term loan proposed for approval by the Finance Committee	\$266,400,000
Total amount of loan proposed for approval by the Finance Committee	\$311,156,000