

**Legislative Council Panel on Education
Start-up Loan for Post-secondary Education Providers**

This paper informs Members of the Administration's proposal to seek the approval of the Finance Committee (FC) to provide a loan of \$458,100,000 from the Loan Fund to the Hong Kong Polytechnic University, to enable it to meet the costs of constructing purpose-built accommodation, and of equipment and refurbishment, for operating self-financing post-secondary programmes.

2. If Members have no objection to the proposal as set out in the **Annex**, we intend to submit it to the FC for approval on 25 February 2005.

Education and Manpower Bureau
31 January 2005

**For discussion
on 25 February 2005**

FCR(2004-05)xx

(DRAFT)

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 \$458,100,000 from the Loan Fund to the Hong Kong Polytechnic University.

PROBLEM

The Hong Kong Polytechnic University requires financial assistance from the Government to provide 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 an interest-free loan of \$458,100,000 to the Hong Kong Polytechnic University (PolyU) for constructing new premises to provide self-financing post-secondary programmes.

JUSTIFICATION

3. At its meeting on 6 July 2001, Members approved, among other things, the introduction of a new loan scheme to help post-secondary education providers to meet 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 the loan applications on the advice of an independent Vetting Committee (VC). The terms of reference and current membership of the VC are at **Enclosure 2**. SEM may approve applications at or below \$15 million, and will recommend applications for loans exceeding \$15 million¹ to Members for approval.

THE HONG KONG POLYTECHNIC UNIVERSITY’S LOAN APPLICATION

4. We launched the ninth Start-up Loan application exercise in May 2004. For this exercise, we invited applications for medium-term interest-free loans from eligible post-secondary education providers who were also applying for the grant, by private treaty, of sites for the construction of purpose-built premises. As PolyU is the prospective grantee for the site at West Kowloon Reclamation, its loan application was referred to the VC for consideration.

5. The application is in respect of a medium-term loan of \$458,100,000 for PolyU’s Hong Kong Community College (HKCC) to construct a second purpose-built campus, with a total gross floor area of 31,600 square meters at the site for the proposed land grant at KIL No. 11176, at J/O Hoi Ting Road and Hoi Wang Road, West Kowloon Reclamation. The HKCC was first established with a short-term loan of \$32,700,000 to PolyU in 2001 in rented premises for 800 self-financing sub-degree student places. On 27 June 2003, the Finance Committee approved a medium-term loan of \$424,714,000 to PolyU for

¹ Including applications 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.

the HKCC to construct a purpose-built campus in Hunghom Bay Reclamation, as HKCC's permanent accommodation for up to 3,000 students. In the 2004/05 academic year, HKCC has already enrolled about 3,600 Associate Degree students. In view of the satisfactory market response, and its experience and confidence in offering post-secondary programmes, HKCC plans to set up a second campus in West Kowloon Reclamation which is to offer business-related programmes for up to 3,600 students. The Hunghom Bay campus, which is closer to the PolyU campus, will then be used to offer non-business programmes for up to 3,000 students. Subject to the execution of the Private Treaty Grant, the West Kowloon campus is scheduled for commissioning in the 2008/09 academic year.

6. In considering PolyU's application, the VC has followed the criteria set out in paragraphs 14 to 20 of FCR(2001-02)30 (i.e. that the provider must be non-profit making and provides self-financing, full-time accredited post-secondary programmes leading to a qualification at or above the level of higher diploma, associate degree or professional diploma) and the per student place loan ceilings (**Enclosure 3**). It has also taken into account the projected student population, the proposed use of the loan, the estimated start-up costs and the financial viability of the application.

Encl. 3

7. We endorse the VC's recommendation that PolyU's application for a medium-term interest-free loan of \$458,100,000 should be approved. The loan comprises -

- (i) \$401,600,000 for the construction costs; and
- (ii) \$56,500,000 for the refurbishment and equipment costs.

FINANCIAL IMPLICATIONS

8. 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 proposal, we will offer a medium-term loan of \$458,100,000 to the PolyU under Head 252 -

Loans to Schools/ Teachers Sub-head 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 estimate that the loan disbursement schedule will be as follows –

FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	Total
\$120,000,000	\$243,000,000	\$86,100,000	\$9,000,000	\$458,100,000

9. We estimate that the total interest foregone for granting the above proposed loan will be about \$97,544,000, calculated on the basis of an interest rate at “no-gain-no-loss” to Government, currently at 2.826% per annum. There are no recurrent implications.

BACKGROUND INFORMATION

10. 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.

11. This Committee approved on 6 July 2001 a package of support measures to facilitate a progressive expansion in self-financing post-secondary programmes, namely -

- (a) a new means-tested financial assistance scheme providing eligible students with either a grant or a loan to meet the tuition fees of accredited, self-financing post-secondary education programmes;
- (b) a new non-means-tested loan for eligible students pursuing accredited, self-financing post-secondary education programmes to meet basic living expenses (on top of the non-means-tested loan currently available for meeting tuition fees); and
- (c) a new loan scheme for post-secondary education providers to support their initial start-up costs.

12. This proposal is pursuant to paragraph 11(c) above. Since the introduction of this support measure, Members have already approved 14 loans for nine institutions, amounting to \$2,590,409,000 in total. SEM has approved under delegated authority a total of four loan applications amounting to \$41,148,000. In the 2004/05 academic year, there are about 200 self-financing programmes at sub-degree level or above, providing about 14 200 intake places for our senior secondary school leavers.

13. In January 2005, we informed the Legislative Council Panel on Education of our intention to seek Members' approval of this proposal. [*comments from Panel, if any.*]

Education and Manpower Bureau
January 2005

Enclosure 1 to FCR(2004-05)xx

**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.

Providers 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.

Enclosure 2 to FCR(2004-05)xx

**Start-up Loans for post-secondary education providers
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
Ms CHEUNG Sau Yu, Stephanie
Official
Principal Assistant Secretary (Higher Education)

Secretary : Project Co-ordinator (Higher Education)

Quorum

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

Enclosure 3 to FCR(2004-05)xx

Loan Ceilings Per Student

	Parameters	Loan Ceiling (9 th application exercise)
(1)	Short-term Loan –	
	(a) Two-year rental cost of accommodation per student (Note 1)	\$22,195
	(b) Refurbishment and equipment costs per student (Note 2)	\$15,711
		\$37,906 say \$37,910
(2)	Plus a margin of 10% for equipment-intensive or science subjects	\$41,700
(3)	Medium-term Loan –	
	(a) Purchase cost of class “C” commercial office per student (Note 1)	\$111,577
	(b) Refurbishment and equipment costs per student (Note 2)	\$15,711
		\$127,288 say \$127,290
(4)	Plus a margin of 10% for equipment-intensive or science subjects	\$140,020

Notes –

1. The loan ceilings for the rental and purchase costs of accommodation are based on the average rental and purchase costs of class “C” commercial office. For 2004-05, 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 2004-05, 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.