

For Information

**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 from the Loan Fund a loan of \$599,500,000 to the City University of Hong Kong and a loan of \$254,000,000 to the Po Leung Kuk, to enable them to meet the costs of 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 at **Annex**, and there is no specific request for discussion at the Panel, we intend to submit it to the FC for approval on 10 June 2005.

**Education and Manpower Bureau
April 2005**

(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 the following medium-term loans totalling \$853,500,000, under the Start-up Loan Scheme for post-secondary education providers, from the Loan Fund –

- (a) \$599,500,000 to the City University of Hong Kong; and
- (b) \$254,000,000 to the Po Leung Kuk.

PROBLEM

We need to make a decision on applications from two institutions for start-up loans 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 interest-free medium-term loans totalling \$853,500,000 to two institutions for constructing new premises to provide self-financing post-secondary programmes as follows –

- (a) City University of Hong Kong: a medium-term loan of \$599,500,000; and
- (b) Po Leung Kuk: a medium-term loan of \$254,000,000.

JUSTIFICATION

Encl. 1 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 would consider the loan applications on the advice of an independent Vetting Committee (VC).
Encl. 2 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.

4. We launched the tenth Start-up Loan application exercise in September 2004. Having regard to the advice of the VC, SEM now recommends the granting of a medium-term loan of \$599,500,000 to City University of Hong Kong and a medium-term loan of \$254,000,000 to Po Leung Kuk. Details are set out in paragraphs 6 to 9 below.

Encl. 3 5. In considering the applications, the VC has followed the criteria set out in paragraphs 14 to 20 of FCR(2001-02)30 (i.e. that the institution concerned 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 loan ceilings (**Enclosure 3**). It has also taken into account the

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.

projected student population, the proposed use of the loan, the estimated start-up costs and the financial viability of the application.

THE CITY UNIVERSITY OF HONG KONG

6. With a short-term loan of \$44,756,000 approved by Members vide FCR(2002-03)26 on 21 June 2002, the Community College of the City University of Hong Kong (CityU) set up a temporary campus at Telford Gardens in Kowloon Bay in the 2002/03 academic year to provide 1 500 sub-degree student places. In June 2003, in view of Government's policy to phase out publicly-funded sub-degree programmes in general, the University Council set up a working group on Associate Degree (AD) programmes with a mandate to study the financial viability and related issues of offering self-financing AD programmes in the University. The University Council accepted the working group's recommendation that the University should continue to offer AD programmes in the self-financing mode. In the 2004/05 academic year, CityU has enrolled about 5 600 full-time sub-degree students, comprising about 3 500 University Grants Committee (UGC)-funded places and about 2 100 self-financing places. As the funds provided by the UGC will be gradually withdrawn over the coming years, CityU plans to provide the majority of the 6 000 student places in the self-financing mode from the 2007/08 academic year onwards. CityU therefore applied for a medium-term loan of \$599,500,000 for the construction, refurbishment and equipment costs of a purpose-built campus, with a total net floor area of about 24 000 square meters (or a Constructed Floor Area of about 42 000 square meters) on a site adjacent to the Nam Shan Chuen Road within CityU's campus, for up to 6 000 students.

7. We support the VC's recommendation that CityU's application for a medium-term interest-free loan of \$599,500,000 catering for a student population of 6 000 in the CityU's Community College, and invite Members to approve the loan. The loan comprises –

(a) \$532,700,000 for the construction costs; and

(b) \$66,800,000 for the refurbishment and equipment costs.

PO LEUNG KUK

8. The Po Leung Kuk (PLK) and the University of Hong Kong's School of Professional and Continuing Education (HKU SPACE) have decided to jointly establish a Community College to provide higher education opportunities for secondary school leavers. HKU SPACE will be responsible for the academic aspects of the programmes (including curriculum and pedagogical design, academic accreditation of the programmes to be offered, quality assurance, outcome assessment and articulation mechanism for students to continue their studies), while the PLK will be responsible for the establishment of college premises, and funding and operation of the Community College. Being the partner primarily responsible for the College's finance, PLK is also the borrower and sole guarantor of the loan from the Government. PLK has now applied for a medium-term loan of \$254,000,000 to construct a purpose-designed building with constructed floor area of about 17 000 square meters at PLK's Headquarters at 66 Leighton Road. The proposed Community College building is scheduled for commissioning in the 2008/09 academic year.

9. We concur with the VC's advice that having regard to HKU SPACE's involvement in the joint venture, its good track record in running post-secondary programmes and the established quality assurance mechanism, a medium-term loan can be extended to PLK. The VC further advised and we recommend the approval of a medium-term loan of \$254,000,000 catering for a student population of 2 000 in the Community College. The loan comprises -

- (a) \$223,000,000 for the construction costs; and
- (b) \$31,000,000 for the refurbishment and equipment costs.

FINANCIAL IMPLICATIONS

10. 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 the loans at a total amount of \$853,500,000 to CityU and PLK 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 applicants, we estimate that the loan disbursement schedules will be as follows –

Institution	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	Total
	\$	\$	\$	\$	\$
CityU	78,900,000	171,700,000	348,900,000	-	599,500,000
PLK	60,000,000	182,000,000	-	12,000,000	254,000,000

11. We estimate that the total interest foregone for granting the above proposed loans will be about \$171,264,000, calculated on the basis of an interest rate at “no-gain-no-loss” to Government, currently at 3.076% per annum. There are no recurrent implications.

BACKGROUND INFORMATION

12. 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.

13. 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.

Encl. 4 14. This proposal is pursuant to paragraph 13(c) above. Since the introduction of this support measure, Members have already approved 15 loans from nine institutions, amounting to \$3,048,509,000 in total. SEM approved under delegated authority a total of four loan applications amounting to \$41,148,000. Details of the approved loans are at **Enclosure 4**. As at the end of March 2005, a total of \$139,921,000 has been repaid. 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.

15. In April 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
May 2005

Enclosure 1 to FCR(2005-06)

**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(2005-06)**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(2005-06)

Loan Ceilings Per Student

Parameters	Loan Ceiling (10 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.

Enclosure 4 to FCR(2005-06)

**List of loans approved under the
“Start-up loan scheme for post-secondary education providers”**

Loan No.	Applicant	Premises	Loan Amount (Short Term)	Loan Amount (Medium Term)	Date of Approval
1	HKU	Commercial premises in Wanchai	\$35,402,000	-	7 Dec 2001 by FC
2	HKU	Commercial premises in North Point	-	\$176,124,000	7 Dec 2001 by FC
3	HKBU	Commercial premises in Kowloon Tong	-	\$86,201,000	7 Dec 2001 by FC
4	Poly U	Professional Complex at Hunghom Campus	\$32,700,000	-	7 Dec 2001 by FC
5	Lingnan U	Commercial premises in Tuen Mun and Causeway Bay	\$10,597,000	-	7 Dec 2001 by FC
6	Lingnan U	New buildings in Tuen Mun Main campus	-	\$205,735,000	7 Dec 2001 by FC
7	HKIED	Commercial premises in Tai Kok Tsui	\$15,000,000	-	26 Mar 2002 by SEM
8	CUHK	Commercial premises in Central	-	\$135,274,000	26 Apr 2002 by FC
9	Caritas-HK	Commercial premises at MTR Kowloon Station	\$15,000,000	-	21 Jun 2002 by SEM
10	City U	Commercial premises in Kowloon Bay	\$44,756,000	-	21 Jun 2002 by FC
11	VTC	New buildings in IVE Tsing Yi Campus	-	\$266,400,000	21 Jun 2002 by FC
12	IEAEF	Commercial premises in Cheung Sha Wan and TST	\$7,148,000	-	30 Dec 2002 by SEM
13	ELI	Commercial premises in Causeway Bay	\$4,000,000	-	4 Mar 2003 by SEM
14	HKU	New campus in Kowloon Bay	-	\$279,256,000	27 June 2003 by FC
15	HKBU	New campus in Shek Mun, Shatin	-	\$359,200,000	27 June 2003 by FC
16	Caritas-HK	New campus in TKO Area 73B	-	\$188,000,000	27 June 2003 by FC
17	Poly U	New campus in Hunghom	-	\$424,714,000	27 June 2003 by FC
18	CUHK-TW GH CC	New campuses in Mongkok	-	\$346,050,000	5 Dec 2003 by FC
19	Poly U	New campus in West Kowloon	-	\$458,100,000	4 Mar 2005 by FC
Total:			\$164,603,000	\$2,925,054,000	-
Total loan amount approved			\$3,089,657,000		-