

**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 \$120,000,000 from the Loan Fund to the Open University of Hong Kong, to enable it 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 the **Annex** and there is no specific request for discussion at the Panel, we intend to submit it to the FC for approval.

**Education and Manpower Bureau
June 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, under the Start-up Loan Scheme for post-secondary education providers, a medium-term loan of \$120,000,000 from the Loan Fund to the Open University of Hong Kong.

PROBLEM

We need to make a decision on an application from the Open University of Hong Kong (OUHK) for a start-up loan 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 medium-term loan of \$120,000,000 to the OUHK 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 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 would consider the loan applications on the advice of an independent Vetting Committee (VC).
Encl. 1
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 eleventh Start-up Loan application exercise in February 2005. Having regard to the advice of the VC, SEM recommends for this Committee’s approval the granting of a medium-term loan of \$120,000,000 to the OUHK. Details are set out in paragraphs 6 to 9 below.

5. In considering the application, the VC 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 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

THE OPEN UNIVERSITY OF HONG KONG

6. The Open University of Hong Kong, formerly the Open Learning Institute of Hong Kong, was established in May 1989 primarily to provide sub-degree, degree and postgraduate study opportunities to working adults in Hong Kong. It is at present the only privately-funded, self-accrediting university in Hong Kong.

7. The OUHK started to offer a full-time Associate Degree programme in 2001, followed by a full-time Bachelor of Business Administration with Honour programme in 2003. The OUHK offered a total

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.

of seven full-time Bachelor's Honour programmes in the 2004/05 academic year, and will offer 16 full-time Bachelor's Honour degree programme in the 2005/06 academic year on the current campus at 30 Good Shepherd Road, Ho Man Tin, which has already reached its maximum capacity. OUHK currently has over 500 full-time face-to-face students in the 2004/05 academic year, and has projected to expand up to 1 200 full-time student places in steady state. In view of the satisfactory market response to the programmes, OUHK has applied for a medium-term loan of \$120,000,000, or about 70% of total costs, for the development of Campus Phase II (CPII), with the remaining \$50,000,000 to be made up by private donation. The CPII will be built on the OUHK's site in Ho Man Tin, and will be used to accommodate a total of 1 200 students in self-financing, face-to-face full-time programmes leading to the award of Associate Degree/Degree/Honours Degree starting from the 2009/10 academic year.

8. Having regard to the considerations in paragraph 5 above, we support the VC's recommendations that OUHK's application for a medium-term loan of \$120,000,000 should be accepted, and invite Members to approve the loan. The loan comprises –

- (i) \$100,000,000 for the construction costs; and
- (ii) \$20,000,000 for the refurbishment and equipment cost (including margin for the programmes which are equipment intensive or science subjects).

9. We concur with the VC's advice that the medium-term loan can be extended to OUHK having regard to the applicant's good track record in running post-secondary programmes.

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 a medium-term loan of \$120,000,000 to the OUHK 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 estimate that the loan disbursement schedule will be as follows –

FY 2006-07	FY 2007-08	FY 2008-09	Total
\$49,000,000	\$60,000,000	\$11,000,000	\$120,000,000

11. We estimate that the total interest foregone for granting the proposed loan will be about \$28,835,000, calculated on the basis of an interest rate at “no-gain-no-loss” to Government, currently at 3.525% 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 support their initial start-up costs.

14. This proposal is pursuant to paragraph 13(c) above. Since the introduction of this support measure, and as at the end of March 2005, Members have approved a total of 15 loans from nine institutions, amounting to \$3,048,509,000 in total. SEM approved under delegated authority a total of four loan applications at a total loan amount of \$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.

Encl. 4

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

Education and Manpower Bureau
June 2005

**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 (11 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)	\$144,725
	(b) Refurbishment and equipment costs per student (Note 2)	\$15,711
		\$160,436 say \$160,440
(4)	Plus a margin of 10% for equipment-intensive or science subjects	\$176,480

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 2005-06, 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 2005-06, 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-TWGH 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		-