

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 loans totalling \$55.15 million under the Start-up Loan Scheme for post-secondary education providers, from the Loan Fund –

- (a) \$32.4 million to the Hang Seng School of Commerce; and
- (b) \$22.75 million to the Chinese University of Hong Kong.

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 loans totalling \$55.15 million to two institutions, as follows –

- (a) Hang Seng School of Commerce
A medium-term loan of \$32.4 million for launching Associate Degree programmes on self-constructed premises; and
- (b) Chinese University of Hong Kong
A short-term loan of \$22.75 million for launching additional Higher Diploma programmes on rented premises.

/JUSTIFICATION

JUSTIFICATION

3. At the Finance Committee meeting on 6 July 2001, Members approved vide FCR(2001-02)30 on 6 July 2001, among other things, the introduction of a new loan scheme to help post-secondary education providers meet their initial start-up costs, with a commitment of \$5,000 million under the Loan Fund. 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). 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 twelfth Start-up Loan application exercise in August 2005. Having regard to the advice of the VC, SEM now recommends granting a medium-term loan of \$32.4 million to Hang Seng School of Commerce and a short-term loan of \$22.75 million to the Chinese University of Hong Kong. Details are set out in paragraphs 6 to 11 below.

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

Hang Seng School of Commerce

6. The Hang Seng School of Commerce (HSSC) started to offer a full-time Associate Degree (AD) programme in Business Administration in the 2003/04 academic year, followed by a full-time Pre-AD programme in the 2005/06 academic year. It currently has 268 full-time Pre-AD/AD students. The HSSC has applied for a medium-term loan of \$32.4 million to construct a purpose-built building within its existing campus, which will provide a total gross floor area of 2 295 square metres to accommodate about 280 full-time students. Works for the proposed campus extension is scheduled to commence in 2006 for completion by 2009.

/7.

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.

7. We support the VC's recommendation that HSSC's application for a medium-term loan of \$32.4 million catering for the accommodation needs of the HSSC's future student population should be accepted, and invite Members to approve the loan. The loan comprises –

- (a) \$28.7 million for the construction costs; and
- (b) \$3.7 million for the refurbishment and equipment costs.

The Chinese University of Hong Kong

8. With Members' approval vide FCR(2002-03)9 on 26 April 2002, the Chinese University of Hong Kong (CUHK) obtained a medium-term loan of \$135.27 million in 2002 for the purchase of premises at a commercial building for its School of Continuing and Professional Studies² to provide 900 student places at AD level starting from the 2002/03 academic year.

9. With Member's approval vide FCR(2003-04)46 on 5 December 2003, the Chinese University of Hong Kong – Tung Wah Group of Hospitals Community College ("the College") obtained a loan of \$346.05 million for launching accredited post-secondary programmes on self-constructed premises. We informed Members and the Legislative Council (LegCo) Panel on Education that once the College comes into operation in the 2005/06 academic year, CUHK might transfer some of the AD programmes from its School of Continuing and Professional Studies to the College, so that its School could concentrate on Higher Diploma (HD) programmes. After the transfer, CUHK's School of Continuing and Professional Studies would continue to provide 900 student places at post-secondary level with the support of the loan previously approved.

10. Members may wish to note that the CUHK has transferred all AD programmes from its School of Continuing and Professional Studies to the College from the 2005/06 academic year onwards. Upon the transfer, the CUHK's School of Continuing and Professional Studies started to offer 17 HD programmes in the 2005/06 academic year, providing over 1 300 student places, thus it is deemed to have satisfied the condition of providing not less than 900 student places at post-secondary level under the previous Loan Agreement for the loan of \$135.27 million mentioned in paragraph 8 above.

/11.

² The school was formerly known as "School of Continuing Studies The Chinese University of Hong Kong". With effect from 1 January 2006, it has changed its name to "School of Continuing and Professional Studies The Chinese University of Hong Kong".

11. In view of the satisfactory market response to the HD programmes offered by its School of Continuing and Professional Studies, CUHK has applied for another short-term loan of \$22.75 million to provide accommodation on rented premises for 600 additional full-time student places for the provision of 8 additional HD programmes by the 2008/09 academic year. Having regard to the applicant's good track record in running post-secondary programmes, we concur with the VC's recommendation that the CUHK's application for a short-term loan of \$22.75 million should be accepted, and invite Members to approve the loan. The loan comprises –

- (a) \$13.32 million for rental costs of about 2 300 square metres of accommodation for a period of two years; and
- (b) \$9.43 million for refurbishment and equipment costs.

FINANCIAL IMPLICATIONS

12. As approved by Members 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 \$55.15 million to HSSC and 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 estimate that the loan disbursement schedule will be as follows –

Institution	FY 2006-07	FY 2007-08	FY 2008-09	Total
	\$'000	\$'000	\$'000	\$'000
HSSC	6,300	12,000	14,100	32,400
CUHK	11,372	11,371	-	22,743
				Say, 22,750

13. We estimate that the total interest foregone for granting the above loans will be about \$19.03 million, calculated on the basis of an interest rate at “no-gain-no-loss” to Government, currently at 5.609% per annum. There are no recurrent implications.

/PUBLIC

PUBLIC CONSULTATION

14. In January 2006, we informed the LegCo Panel on Education of our intention to seek Members' approval of the loan proposals for HSSC and CUHK. In response to a Member's enquiry on certain background information of the sector and the scheme, we provided a written reply to the LegCo Panel on Education on 12 January 2006. We have not received any specific request for discussion from the LegCo Panel on Education.

BACKGROUND

15. 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 organisations 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.
16. Members approved vide FCR(2000-01)30 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

17. This proposal is pursuant to paragraph 16(c) above. Since the introduction of this support measure, Members have already approved 18 loans from eleven institutions, amounting to about \$4,022.01 million in total. SEM approved under delegated authority a total of five loan applications amounting to \$52.02 million in total. Details of the approved loans are at Enclosure 4. As at the end of February 2006, a total of \$208.37 million has been repaid. In the 2005/06 academic year, there are about 260 self-financing programmes at sub-degree level or above, providing about 25 000 intake places for our senior secondary school leavers.

REVIEW OF THE POST-SECONDARY EDUCATION SECTOR

18. The Administration undertook to review the Start-up Loan Scheme for post-secondary education providers by the end of the fourth year of operation and report the findings to the Finance Committee (ref. FCR(2001-02)30). To this end, we are conducting a review of the post-secondary education sector to take stock of the developments of the sector since the announcement of the 2000 policy objective in paragraph 15 above and to map out future plans. We will present our findings of the post-secondary education sector review to the LegCo Panel on Education for discussion shortly. Taking into account the recommendations of the review, we will report the relevant findings of Start-up Loan Scheme to the Finance Committee in due course, before launching the next Start-up Loan application exercise.

19. The loan applications from HSSC and CUHK arose from the Twelfth Start-up Loan application exercise launched on 15 August 2005, before the start of the review of the post-secondary education sector. Since the review began, we have not launched any new exercise. As HSSC and CUHK submitted their applications based on the eligibility criteria as set out in the Guidance Notes of the Twelfth Start-up Loan application exercise, we would like to invite Members to consider these two loan applications on their individual merits in line with previous practices.

Education and Manpower Bureau
March 2006

**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.

**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.

Loan Ceilings Per Student

Parameters	Loan Ceiling (12th 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 and are subject to annual adjustment by SEM based on updated data provided by the Rating and Valuation Department. The annual adjustment mechanism is set out in FCR(2001-02)30.
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 and are subject to annual adjustment by SEM based on movement of the Consumer Price Index (A). The annual adjustment mechanism is set out in FCR(2001-02)30.

Enclosure 4 to FCR(2005-06)48

**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
20	City U	New building in Kowloon Tong Main Campus	-	\$599,500,000	24 Jun 2005 by FC
21	PLK	New building at PLK's HQ in Causeway Bay	-	\$254,000,000	24 Jun 2005 by FC
22	OCHK	New building in Ho Man Tin Main Campus	-	\$120,000,000	24 Jun 2005 by FC
23	HKCT	Commercial premises in Hunghom	\$10,875,000	-	3 Jan 2006 by SEM
Total:			\$175,478,000	\$3,898,554,000	-
Total loan amount approved			\$4,074,032,000		-
