

For Information

Legislative Council Panel on Education

Start-up Loan for Post-secondary Education Providers

This paper informs Members of our proposal to seek the approval of the Finance Committee (FC) to provide, under the Start-up Loan Scheme for post-secondary education providers –

- (a) a loan of \$32,400,000 to the Hang Seng School of Commerce; and
- (b) a loan of \$22,743,000 to the Chinese University of Hong Kong

from the Loan Fund, to enable them to meet the costs of accommodation, and of equipment and refurbishment, for operating self-financing post-secondary programmes.

PROPOSAL

2. We propose to grant interest-free loans totalling \$55,143,000 to two institutions, as follows –

- (a) Hang Seng School of Commerce:
A medium-term loan of \$32,400,000 for launching Associate Degree programmes on self-constructed premises; and
- (b) Chinese University of Hong Kong:
A short-term loan of \$22,743,000 for launching additional Higher Diploma programmes on rented premises.

JUSTIFICATION

3. The FC approved, at its meeting on 6 July 2001, 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 the Secretary for Education and Manpower (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 million^{Note} to FC for approval.

4. We launched the twelfth Start-up Loan application exercise in August 2005. Having regard to the advice of the VC, we recommend granting a medium-term loan of \$32,400,000 to Hang Seng School of Commerce and a short-term loan of \$22,743,000 to the Chinese University of Hong Kong. Details are set out in paragraphs 6 to 12 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 application.

Hang Seng School of Commerce (HSSC)

6. The 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, and plans to provide over 2 000 full-time student places by the academic year 2014/15. Given that the projected student population will exceed the accommodation capacity of its campus in Siu Lek Yuen, Sha Tin from the 2006/07 academic year onwards, HSSC has applied for a medium-term loan of \$32,400,000 to construct a purpose-built building within its existing campus. The proposed campus extension will provide a total gross floor area of 2 295 square meters to accommodate about 280 full-time students. Works for the proposed campus extension is scheduled to commence in 2006 for completion by 2009.

7. We support the VC's recommendation that HSSC's application for a medium-term loan of \$32,400,000 catering for the accommodation needs of the HSSC's future student population should be accepted, and will invite FC to approve the loan. The loan comprises –

- (i) \$28,700,000 for the construction costs; and
- (ii) \$3,700,000 for the refurbishment and equipment costs.

The Chinese University of Hong Kong (CUHK)

8. With FC's approval, CUHK has obtained a medium-term loan of

^{Note} 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.

\$135,274,000 in 2002, for the purchase of premises at a commercial building for its School of Continuing Studies to provide 900 student places at AD level starting from the 2002/03 academic year (FCR(2002-03)9).

9. At its meeting on 5 December 2003, FC approved vide FCR(2003-04)46 a loan of \$346,050,000 to the Chinese University of Hong Kong – Tung Wah Group of Hospitals Community College (“the College”) for launching accredited post-secondary programmes on self-constructed premises. We informed this Panel and FC 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 Studies to the College, so that its School could concentrate on Higher Diploma (HD) programmes. After the transfer, CUHK’s School of Continuing 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 Studies to the College from the 2005/06 academic year onwards. Upon the transfer, the CUHK’s School of Continuing 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 \$135,274,000 mentioned in paragraph 8 above.

11. In view of the satisfactory market response to the HD programmes offered by its School of Continuing Studies, CUHK has applied for another short-term loan of \$22,743,000 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. The loan comprises –

- (a) \$13,317,000 for rental costs of about 2 300 square meters of accommodation for a period of two years; and
- (b) \$9,426,000 for refurbishment and equipment costs.

12. We concur with the VC’s recommendation that the CUHK’s application for a short-term loan of \$22,743,000 should be accepted having regard to the applicant’s good track record in running post-secondary programmes, and will invite FC to approve the loan.

FINANCIAL IMPLICATIONS

13. As approved by FC 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. We propose to offer the

loans at a total amount of \$55,143,000 to HSSC and CUHK. 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
	\$	\$	\$	\$
HSSC	6,300,000	12,000,000	14,100,000	32,400,000
CUHK	11,372,000	11,371,000	-	22,743,000

14. We estimate that the total interest foregone for granting the above loans will be about \$17,896,000, calculated on the basis of an interest rate at “no-gain-no-loss” to Government, currently at 5.275% per annum. There are no recurrent implications.

15. If Members have no objection to the proposal, and there is no specific request for discussion at the Panel, we intend to submit it to the FC for approval on 17 February 2006.

BACKGROUND INFORMATION

16. 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.

17. FC 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.

18. This proposal is pursuant to paragraph 17(c) above. Since the introduction of this support measure, FC has already approved 18 loans from eleven institutions, amounting to \$4,022,009,000 in total. SEM approved under delegated authority a total of four loan applications amounting to \$41,148,000 in total. Details of the approved loans are at Enclosure 4. As at the end of November 2005, a total of \$207,654,000 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.

Education and Manpower Bureau
December 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.

**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 (12 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 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

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
Total:			\$164,603,000	\$3,898,554,000	-
Total loan amount approved			\$4,063,157,000		-