

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 –

- (a) an increase of \$2,000 million in the commitment for the start-up loan for post-secondary education providers under Loan Fund Head 252 – Loans to Schools/Teachers from \$5,000 million to \$7,000 million; and
- (b) an extension of the loan repayment period from no more than ten years to no more than 20 years for institutions borrowing loans after May 2008 for constructing new college premises, subject to proven financial difficulties, payment of first five repayment instalments and interest at the no-gain-no-loss rate after the interest-free period in the first ten years.

PROBLEM

We need to enhance the Start-up Loan Scheme (SLS) to facilitate the development of the self-financing higher education sector.

/PROPOSAL

PROPOSAL

2. The Secretary for Education (SED) proposes to –
- (a) increase the total commitment of SLS by \$2,000 million so that loans can continue to be made to eligible institutions under SLS; and
 - (b) extend the loan repayment period from no more than ten years to no more than 20 years for institutions borrowing loans after May 2008 for constructing new college premises, subject to proven financial difficulties, payment of first five repayment instalments and interest at the no-gain-no-loss rate after the interest-free period in the first ten years.

JUSTIFICATION

3. As announced by the Chief Executive in his 2009-10 Policy Address, “education services” is one of the six priority industries that the Government aims to promote and develop. Our objective is to enhance Hong Kong’s status as a regional education hub and boost Hong Kong’s competitiveness. On the higher education front, diversification is one of our policy objectives. We consider that the self-financing higher education sector will play an important role in the provision of education services and has room for further expansion. Its development would enhance the opportunities for students to pursue higher education.

4. To facilitate the development of the sector, we have been actively identifying land sites suitable for the development of college premises. Apart from the two urban sites announced by the Chief Executive earlier, three sites in the New Territories have been earmarked. The list of potential sites for the development of self-financing degree-awarding institutions is at Enclosure 1. We would continue our effort in identifying suitable sites having regard to demand and development needs of the sector. We would also continue to identify suitable vacant school premises for use by post-secondary institutions in order to improve their existing learning and teaching environment and enhance the quality of education.

Encl. 1

/Increasing

Increasing the total commitment of SLS

5. The total developable Gross Floor Area (GFA) of the five potential sites listed at Enclosure 1 is about 100 000 square metres. Assuming that the unit development cost of a post-secondary college is about \$20,000 per square metre of GFA¹, the estimated total development costs of the five sites would be about \$2,000 million.

6. The current uncommitted balance of SLS is only around \$446 million. According to the above estimation, it will not be adequate to meet the prospective loan requirements from institutions for developing campus premises at the five potential sites. We therefore propose to increase the total commitment of SLS by \$2,000 million. We anticipate that the new loans would mainly be used for developing new college premises, while a small portion would be used on refurbishment of existing premises. Subject to Members' approval of this proposal, we plan to invite application for the next round of exercise under the Land Grant Scheme in the first quarter of 2010. We will monitor the situation and consider launching another round of exercise in the latter part of 2010.

Extension of loan repayment period for loans granted after May 2008

7. Start-up loans are interest-free over the ten-year repayment period from the date of the final drawdown and should be repaid by ten equal annual instalments over ten years. Institutions should carefully assess their repayment ability in accordance with the above repayment terms before applying for loans.

8. The Finance Committee (FC) approved vide FCR(2008-09)17 that borrowing institutions with proven financial difficulties could apply for extension of loan repayment period to up to 20 years, subject to interest payment at no-gain-no-loss rate² after the initial ten-year interest-free period. However, the extension was not applicable to loans granted after May 2008. At the meetings of the Legislative Council (LegCo) Panel on Education and FC in May 2009 and June 2009 respectively, Members requested that the extension arrangement should

/also

¹ Reference has been made to the development cost of a campus recently approved under SLS, i.e. the proposal from the Chu Hai College of Higher Education where the construction cost was around \$19,000 per square metre. For University Grants Committee-funded institutions, the building and building services part of the development cost was around \$20,000 to \$21,000 per square metre in a few recent cases.

² Pitched at 2.099% per annum as at December 2009, and subject to revision from time to time.

Encl. 2

also be made applicable to such new loans. Having carefully considered Members' views, we propose to set up a mechanism for extending the repayment period of future start-up loans in order to help reduce repayment pressure on institutions with proven financial difficulties so that they may set aside more resources for quality enhancement. We propose that institutions borrowing loans for constructing new college premises should be allowed to apply for extension of loan repayment period up to a maximum of 20 years in aggregate after making the first five repayment instalments, with loans outstanding after the initial ten-year interest-free period subject to interest payment at the no-gain-no-loss rate. Applications for loan extension should be considered by an independent Vetting Committee on a case-by-case basis having regard to the financial position of the institutions concerned. The terms of reference and membership of the Vetting Committee are at Enclosure 2. We propose that this new arrangement should also be made applicable to the start-up loan of the Chu Hai College of Higher Education approved by FC in June 2009 (vide FCR(2009-10)28).

FINANCIAL IMPLICATIONS

9. The payments under the proposed \$2,000 million additional commitment will very much depend on the pace of development of self-financing degree-awarding institutions, the development plans of individual college premises and the amount of capital costs involved.

10. As the loans are interest-free during the normal repayment period of up to ten years, the interest foregone for the proposed \$2,000 million additional commitment is estimated to be around \$273 million.³

PUBLIC CONSULTATION

11. The proposal was discussed in the LegCo Panel on Education on 14 December 2009.

/BACKGROUND

³ The interest foregone is calculated using the no-gain-no-loss interest rate of 2.099% p.a. as of December 2009.

BACKGROUND

12. In support of the 2000 policy objective of enabling 60% of our secondary school leavers to receive post-secondary education by 2010, the Administration has introduced a series of support measures to promote the development of a self-financing post-secondary sector in Hong Kong. One of the major support measures is the establishment of a \$5,000 million SLS to provide interest-free loans to non-profit-making institutions offering full-time locally accredited self-financing post-secondary programmes. The loans can be used for purchasing, renting or building campuses for the provision of such post-secondary programmes. Applications for start-up loans are assessed by the independent Vetting Committee which takes into consideration the proposed use of loan, the estimated start-up costs and the financial capability of the institution concerned when assessing its application.

13. To ensure the healthy and sustainable development of the post-secondary education sector, the Administration initiated a Review of the Post-secondary Education Sector in 2005. The Review was conducted in two phases and we sought FC's support on recommendations of the Phase Two Review in May 2008. Together with various other measures aiming at improving the quality of post secondary education, Members approved vide FCR(2008-09)17 the following modifications to SLS –

- (a) loans may be offered to institutions for enhancing teaching and other ancillary facilities without providing additional student places in support of quality enhancement and improvements in students' learning experience; and
- (b) loan repayment periods may be extended to no more than 20 years for borrowing institutions with outstanding loan(s) under SLS at that time and with proven financial difficulties, subject to the payment of interest at the no-gain-no-loss rate after the initial ten-year interest-free period.

14. As at the end of December 2009, eight out of 12 eligible institutions have applied for and successfully obtained loan extension under the concession in paragraph 13(b) above. However, the concession does not apply to loans granted after May 2008.

15. Since the introduction of SLS in 2001, FC has approved 23 loans to 14 institutions, amounting to about \$4,496 million in total. Furthermore, SED approved under delegated authority⁴ a total of six loan applications amounting to \$58 million in total. As at the end of December 2009, a total of \$931 million has been repaid and all repayments have been on time.

Education Bureau
January 2010

⁴ As approved by FC on 6 July 2001, SED can under delegated authority approve applications at or below \$15 million.

Enclosure 1 to FCR(2009-10)53

**Potential Sites Earmarked for the Development of
Self-financing Degree Awarding Institutions**

| | Location | Site Area | Potential Developable GFA |
|----|-----------------------------------|---------------------|--|
| 1. | Homantin Chung Hau Street | 4 300m ² | 21 500m ² |
| 2. | Wong Chuk Hang Police School Road | 4 600m ² | 23 000m ² |
| 3. | Siu Lek Yuen Kwong Sin Street | 5 650m ² | 11 200m ² |
| 4. | MTR Tai Wai Station | 6 200m ² | 15 000m ² |
| 5. | Tseung Kwan O Town Lot 97 | 7 500m ² | 30 000m ² |

**Vetting Committee for
Start-up Loan for Post-secondary Education Providers**

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 (SED) 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 SED 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 SED on any other matters that may be referred to Vetting Committee by the Education Bureau (EDB) concerning the policy and execution of the post-secondary loan scheme.

Membership

Chairman :

Professor TAM Man Kwan, BBS, J.P.

Members :

Non-officials

Mr. KUNG Lin Cheng, Leo, J.P.
Mr. LIAO Cheung Kong, Martin, J.P.
Mr. WONG Tak Wai, Alvin
Ms. CHEUNG Sau Yu, Stephanie

Official

Principal Assistant Secretary (Further Education), EDB
