

## **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 extension of the ambit of the Start-up Loan Scheme to support the development of student hostels for the self-financing tertiary education sector;
- (b) 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 \$7,000 million to \$9,000 million; and
- (c) a start-up loan of \$40 million to The Chinese University of Hong Kong for the operation of its School of Continuing and Professional Studies, under the Start-up Loan Scheme for Post-secondary Education Providers, from the Loan Fund.

### **PROBLEM**

We need to enhance the Start-up Loan Scheme (SLS) to facilitate the development of the self-financing higher education sector; and make a decision on the application from The Chinese University of Hong Kong (CUHK) for a start-up loan from the Government to provide full-time accredited post-secondary programmes on a self-financing basis.

**/PROPOSAL .....**

**PROPOSAL**

2. The Secretary for Education (SED) proposes to –
  - (a) extend the ambit of the SLS to support the development of student hostels for the self-financing tertiary education sector;
  - (b) increase the total commitment of SLS by \$2,000 million; and
  - (c) grant a start-up loan of \$40 million to CUHK for its School of Continuing and Professional Studies (CUSCS) to operate full-time locally-accredited post-secondary programmes.

**JUSTIFICATION*****Extension of ambit of SLS to cover student hostels***

3. At present, SLS provides financial support to self-financing post-secondary institutions to develop college premises but not student hostels. Institutions have to make their own financial arrangements if they wish to develop student hostels.

4. The University Grants Committee (UGC)'s long-held view is that hostel life is an essential part of university education. It provides students with an environment conducive to learning, and allowing greater social interaction which enriches personal development as well as the learning experience generally. Provision of student hostel would also be conducive to attracting non-local students and, in turn, broaden the horizon of local students and foster Hong Kong's international links. These benefits would likewise apply to the self-financing degree sector.

5. In addition, education services is one of the six priority areas which have been identified as having good potential for further development. Our objective is to enhance Hong Kong's status as a regional education hub through internationalisation and diversification of our education sector. In respect of internationalisation, we endeavour to attract more quality non-local students and promote student exchange. As a result, the demand for student hostels to accommodate incoming students would increase. As regards diversification, we encourage the development of self-financing post-secondary education institutions particularly at the degree level.

6. In view of our two-pronged strategy of promoting the parallel development of the publicly-funded sector and the self-financing sector, and in support of Hong Kong's development as a regional education hub, we see merits in providing loan support to self-financing degree-awarding institutions in developing student hostels for students pursuing full-time self-financing accredited undergraduate and research postgraduate programmes. To achieve the above policy objective, we propose to extend the ambit of SLS to support the self-financing degree sector in developing student hostels. The level of loan support should allow for flexibility and having regard to the diverse nature of the self-financing institutions/programmes. Loan applications will be considered subject to a set of broad policy parameters as follows —

- (a) the provision level of hostels would depend on a number of considerations including but not limited to the number of students taking full-time undergraduate<sup>1</sup> and research postgraduate programmes, the education development plan, location of the college campus and the number of non-local students, etc. As an indicative reference, the level of provision of student hostels would be capped at the range of 25% to 50% of the total number of the full-time undergraduate and research postgraduate students;
- (b) as with the existing practice, the availability of land for hostel development would continue to be subject to competition with other land uses such as Government/Institution/Community and residential uses, including development of student hostels of the UGC-funded sector, and development of academic facilities of the UGC-funded or self-financing sector, and each case needs to be considered on its own merit. Loans will only be provided if the sites which are suitable and ready for development of student hostels are identified, and such sites may take the form of land granted through the Land Grant Scheme or other land grant arrangements or acquired by the institutions from other sources;
- (c) in-situ development of student hostels should not be at the expense of existing or planned academic developments; and
- (d) student hostels are expected to operate on a self-financing basis, through charges levied on hostel places and determined by the institutions themselves.

*/Increase .....*

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<sup>1</sup> Referring to a full 4-year bachelor's degree programmes.

***Increase of SLS commitment by 2,000 million***

7. To facilitate the development of the sector, we have been actively identifying land sites suitable for the development of college premises. We have reserved three sites for development of self-financing tertiary education, namely at Tseung Kwan O, Chai Wan and Tai Wai. We are processing applications for the first two sites and will invite applications for the third one having regard to the demand of the sector. These three sites are expected to have a developable Gross Floor Area (GFA) of around 87 800 square meters, and estimated loan requirements of around \$2,600 million<sup>2</sup>. Furthermore, the proposed extended ambit of SLS to cover development of student hostels is likely to increase demand for additional start-up loans by around \$1,000 million<sup>3</sup>.

8. The current uncommitted balance of SLS is around \$1,810 million, and subject to Members' approval of the start-up loan application by CUHK (see below) of \$40 million, will be around \$1,770 million. To meet the anticipated increase in loan requirements arising the development of college premises in the three prospective sites and the extended ambit to cover the development of student hostels, we propose to increase the commitment of SLS by \$2,000 million.

***Start-up Loan application by CUHK***

9. The SED would consider the start-up loan applications on the advice of an independent Vetting Committee (VC). The terms of reference and membership of VC are at Enclosure 1. Under delegated authority vide FCR(2001-02)30, the SED may approve start-up loan applications at or below \$15 million and would recommend applications for loans exceeding \$15 million to the Finance Committee (FC) for approval.

10. In considering the applications, the VC has followed the eligibility criteria set out in paragraph 14(a) of FCR(2001-02)30 (i.e. that the institution concerned must be non-profit making and must provide self-financing full-time accredited post-secondary programmes leading to a qualification at or above the level of higher diploma (HD), associate degree or professional diploma). It has also taken into account the proposed use of the loan, the estimated costs and the financial viability of the application.

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<sup>2</sup> Based on the recent approved loans under SLS, it is assumed that the construction costs for development of college premises is \$30,000 per square meter of GFA.

<sup>3</sup> Based on past precedents of provision level of the Hong Kong Shue Yan University and UGC-funded institutions, each hostel place is assumed to have a space provision at 14 square meters of GFA and at a construction cost of \$17,000 per square meter.

11. We launched a round of Start-up Loan application exercise in June 2011. Having regard to the advice of the VC, the SED recommends granting a loan of \$40 million to CUHK for funding the refurbishment costs for converting a vacant school premises in Tseung Kwan O into a campus suitable for post-secondary education.

12. CUSCS is a self-financing unit under the CUHK. It currently offers, among others, 26 HD programmes. CUHK was granted two start-up loans totaling \$158 million in 2002 and 2006 respectively for purchasing and renting commercial premises operated by CUSCS. All repayments have been made on time.

13. CUHK applies for a Start-up Loan to fund the estimated refurbishment costs of \$40 million for converting the vacant school premises into a campus suitable for post-secondary education programmes. The location map of the campus is at Enclosure 2. CUSCS proposes to accommodate students of some of its HD programmes (Enclosure 3) at the new campus, which is planned to serve up to about 1 700 students at any one time<sup>4</sup>. Subject to FC's approval of the start-up loan and the actual refurbishment schedule, CUSCS targets to put the new campus into operation in the 2012/13 academic year.

Encl.2  
Encl.3

14. We are of the view that CUSCS's proposed operation at the new campus will improve the learning environment of its students currently accommodated in rented premises and will be conducive to the sustainable development of CUSCS in the long term. Supporting its development is in line with the Government's policy of promoting the healthy development of the self-financing post-secondary sector, thereby providing our students with more choices and opportunities and facilitating the diversification of the tertiary education sector.

## FINANCIAL IMPLICATIONS

15. The financial implications of increasing the commitment of SLS would very much depend on the pace of development of self-financing institutions, the development plans of individual premises and the amount of capital costs involved.

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<sup>4</sup> The latest projection of student number is 2 100 but only a maximum of 1 700 will be on campus at any one time.

16. As approved by the FC in July 2001 vide FCR(2001-02)30, loans to be granted under SLS will be interest-free, to be repaid by installments over ten years from the date of the final drawdown. The interest foregone for the proposed \$2,000 million additional commitment will be around \$728 million based on the assumption that loans will be drawn down by three equal annual instalments, interests calculated at the cost of capital of the Government<sup>5</sup>, currently at 5.6% per annum, and no application for extension of repayment period. There are no recurrent financial implications.

17. Subject to the actual refurbishment schedule of CUSCS, it tentatively plans to drawdown the start-up loan in one instalment in the 2012-13 financial year. We estimate that the total interest foregone for granting the loan to CUHK will be around \$12.3 million calculated on the cost of capital of the Government. There are no recurrent financial implications.

## **PUBLIC CONSULTATION**

18. We consulted the Legislative Council Panel on Education on the above proposal on 12 December 2011 and presented further information on the operation of the self-financing post-secondary education to the Panel on 20 April 2012. While Members had no objection to the proposals per se, some were concerned about the surpluses generated from the self-financing operation of individual UGC-funded institutions and the use of such surpluses. Members suggested that we should enhance the transparency of the sector and explore means to ensure that surpluses, if any, should be used for the benefit of students. The Administration undertook to bring the concerns for discussion by the newly established Committee on Self-financing Post-secondary Education and invite the Committee to discuss possible measures to promote transparency and good practices.

## **BACKGROUND**

19. As part of a basket of measures to support the development of the self-financing post-secondary sector in Hong Kong, the Government secured the approval of FC in July 2001 for launching SLS with a commitment of \$5,000 million. SLS provides interest-free loans to non-profit-making post-secondary education providers for purchasing, renting or building campuses to operate full-time accredited post-secondary programmes.

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<sup>5</sup> The interest forgone is calculated based on the investment return for placing fiscal reserves with Hong Kong Monetary Authority, currently at 5.6% p.a..

20. In May 2008, FC approved a modification of SLS to permit offering loans for enhancing teaching and other ancillary facilities to improve students' learning experience. FC also approved the extension of the loan repayment period under the SLS from no more than 10 years to no more than 20 years for existing borrowing institutions with proven financial difficulties, subject to the payment of interest at the no-gain-no-loss rate after the first 10 years.

21. In February 2010, FC approved an increase of commitment by \$2,000 million to \$7,000 million for SLS to meet the prospective loan requirements from institutions for the construction of campuses to operate self-financing degree programmes. FC also approved the extension of 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.

22. Since the introduction of SLS in 2001, FC has approved 25 loans to 14 institutions, amounting to about \$5,121 million in total. The SED approved under delegated authority a total of 7 loan applications amounting to \$69 million in total. The list of Start-up Loans approved is at Enclosure 4. As at the end of March 2012, a total of \$1,577 million has been repaid and all repayments have been on time.

Encl.4

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Education Bureau  
May 2012

**Enclosure 1 to FCR(2012-13)24**

**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 (as at 1 May 2012)**

**Name**

**Professional Background**

Chairman

Professor TAM Man Kwan, BBS, MH,  
J.P.

Supervisor, Pak Kau College

Members

*Non-official*

Mr KUNG Lin Cheng, Leo, BBS, J.P.

Executive Vice President, Bangkok Bank  
Public Company Limited

Mr WONG Tak Wai, Alvin

Partner, PricewaterhouseCoopers

Ms CHEUNG Sau Yu, Stephanie

Solicitor and Notary Public, F. Zimmern &  
Co Solicitors & Notaries

Dr LAI Yuk Fai, Stephen

Managing Director, Rider Levett Bucknall  
Limited

Dr HUI Ho Ming, Herbert, J.P.

Executive Director, Hong Kong Resources  
Holdings Company Limited

Ms Jacqueline A. LEUNG

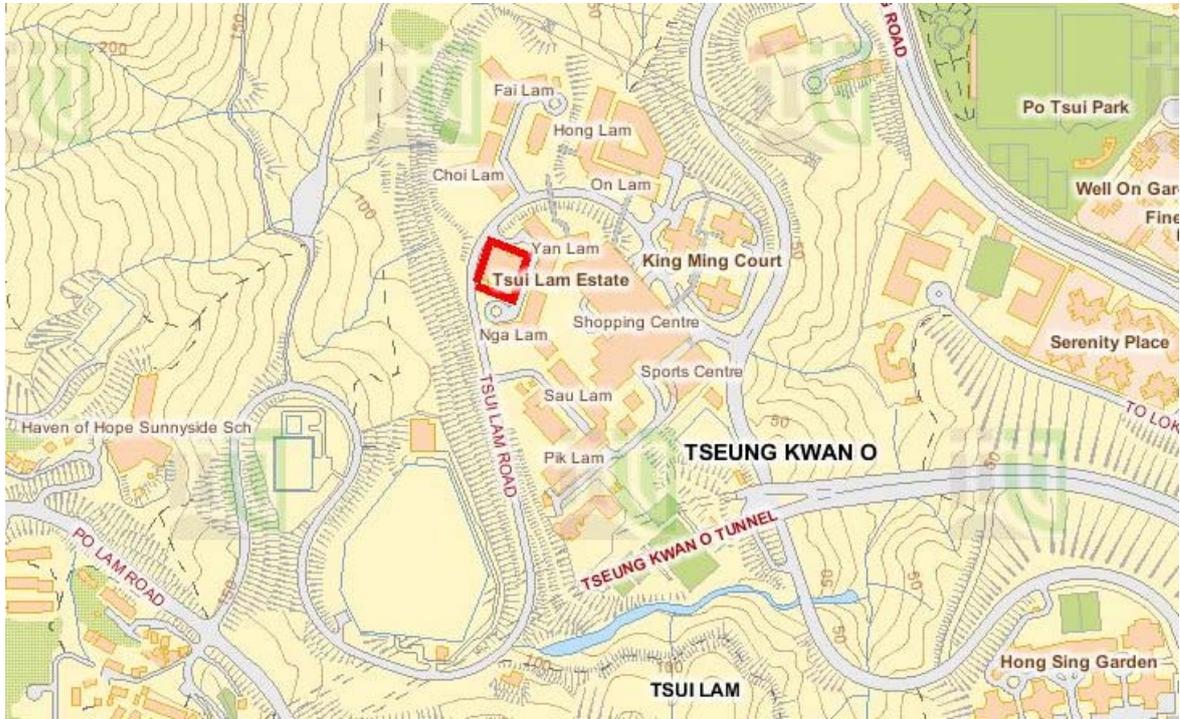
Managing Director, Leighton Textiles  
Company Limited

*Official*

Principal Assistant Secretary (Further Education), EDB

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Location Map of Vacant School Premises in Tseung Kwan O



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**Programmes to be operated by School of Continuing and Professional Studies, The Chinese University of Hong Kong at the new campus**

1. HD in Applied/Contemporary Japanese
2. HD in Applied Translation Studies
3. HD in Business and Corporate Administration
4. HD in Business and Human Resource Management
5. HD in Business and Service Management
6. HD in Business Studies
7. HD in Chinese
8. HD in Fashion Design and Business
9. HD in Financial Services
10. HD in Professional Accounting
11. HD in Spanish and Business Studies
12. HD in Tourism and Hospitality Management

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**Enclosure 4 to FCR(2012-13)24**

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

<b>Loan No.</b>	<b>Applicant</b>	<b>Premises</b>	<b>Loan Amount</b>	<b>Date of Approval</b>
1	The University of Hong Kong	Renting and renovating a commercial premises in Wanchai	\$35,402,000	7 Dec 2001 by Finance Committee (FC)
2	The University of Hong Kong	Purchasing and renovating a commercial premises in North Point	\$176,124,000	7 Dec 2001 by FC
3	Hong Kong Baptist University	Purchasing and renovating a commercial premises in Kowloon Tong	\$86,201,000	7 Dec 2001 by FC
4	The Hong Kong Polytechnic University	Renting and renovating Professional Complex at Hunghom Campus	\$32,700,000	7 Dec 2001 by FC
5	Lingnan University	Renting and renovating a commercial premises in Tuen Mun and Causeway Bay	\$10,597,000	7 Dec 2001 by FC
6	Lingnan University	Constructing new buildings in Tuen Mun Main campus	\$205,735,000	7 Dec 2001 by FC
7	The Hong Kong Institute of Education	Renting and renovating a commercial premises in Tai Kok Tsui	\$15,000,000	26 Mar 2002 by Secretary for Education & Manpower (SEM)
8	The Chinese University of Hong Kong	Purchasing and renovating a commercial premises in Central	\$135,274,000	26 Apr 2002 by FC
9	Caritas-Hong Kong	Renting and renovating a commercial premises at MTR Kowloon Station	\$15,000,000	21 Jun 2002 by SEM
10	City University of Hong Kong	Renting and renovating a commercial premises in Kowloon Bay	\$44,756,000	21 Jun 2002 by FC
11	Vocational Training Council	Constructing new buildings in IVE Tsing Yi Campus	\$266,400,000	21 Jun 2002 by FC
12	International Education and Academic Exchange Foundation Company Limited (for Hong Kong Institute of Technology)	Renting and renovating a commercial premises in Cheung Sha Wan and TST	\$7,148,000	30 Dec 2002 by SEM
13	Education and Learning Institute (Hong Kong) Limited	Renting and renovating a commercial premises in Causeway Bay	\$4,000,000	4 Mar 2003 by SEM
14	The University of Hong Kong	Constructing a new campus in Kowloon Bay	\$279,256,000	27 June 2003 by FC
15	Hong Kong Baptist University	Constructing a new campus in Shek Mun, Shatin	\$359,200,000	27 June 2003 by FC
16	Caritas - Hong Kong	Constructing a new campus in TKO Area 73B	\$188,000,000	27 June 2003 by FC

<b>Loan No.</b>	<b>Applicant</b>	<b>Premises</b>	<b>Loan Amount</b>	<b>Date of Approval</b>
17	The Hong Kong Polytechnic University	Constructing a new campus in Hunghom	\$424,714,000	27 June 2003 by FC
18	The Chinese University of Hong Kong-Tung Wah Group of Hospitals Community College	Constructing a new campus in Mongkok	\$346,050,000	5 Dec 2003 by FC
19	The Hong Kong Polytechnic University	Constructing a new campus in West Kowloon	\$458,100,000	4 Mar 2005 by FC
20	City University of Hong Kong	Constructing new buildings in its Kowloon Tong main campus	\$599,500,000	24 Jun 2005 by FC
21	Po Leung Kuk (for The HKUSPACE – Po Leung Kuk Community College)	Constructing new buildings in its HQ in Causeway Bay	\$254,000,000	24 Jun 2005 by FC
22	The Open University of Hong Kong	Constructing new buildings in its Ho Man Tin campus	\$120,000,000	24 Jun 2005 by FC
23	HKCT Group Ltd. (for Hong Kong College of Technology)	Renting and renovating a commercial premises in Hunghom	\$10,875,000	3 Jan 2006 by SEM
24	Hang Seng School of Commerce	Constructing a new building in its Siu Lek Yuen campus	\$32,400,000	24 Mar 2006 by FC
25	The Chinese University of Hong Kong	Renting and renovating a commercial premises in Central	\$22,743,000	24 Mar 2006 by FC
26	Hong Kong Arts Centre	Renovating the ex-premises of PLK Ho To Shui Hing Primary School in Shaukeiwan	\$5,500,000	16 Feb 2009 by Secretary for Education (SED)
27	Hong Kong College of Technology	Renovating the ex-premises of Ho Fai Primary (sponsored by Sik Sik Yuen) in Ma On Shan	\$29,000,000	19 Jun 2009 by FC
28	The University of Hong Kong	Renovating the ex-premises of Kwong Yuet Tong Excel Foundation Primary School in Pokfulam	\$40,344,000	19 Jun 2009 by FC
29	Chu Hai College of Higher Education	Constructing a new campus in Tuen Mun East	\$350,000,000	19 Jun 2009 by FC
30	The Open University of Hong Kong	Constructing a new purpose-built campus in Ho Man Tin	\$317,000,000	28 Jan 2011 by FC
31	Hang Seng School of Commerce (for Hang Seng Management College)	Constructing a new purpose-built campus in Siu Lek Yuen	\$308,000,000	28 Jan 2011 by FC
32	International Education and Academic Exchanges Foundation Company Limited (for Hong Kong Institute of Technology)	Renovating the ex-premises of St. Thomas Primary School	\$11,000,000	21 Feb 2011 by SED
<b><u>Total Loan Amount approved:</u></b>			<b>\$5,190,019, 000</b>	

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