

## **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 start-up loan of \$250 million to Chu Hai College of Higher Education Limited for the operation of Chu Hai College of Higher Education, under the Start-up Loan Scheme for post-secondary education providers, from the Loan Fund.

### **PROBLEM**

The Chu Hai College of Higher Education Limited has applied for a start-up loan from the Government for the operation of full-time locally-accredited post-secondary programmes on a self-financing basis.

### **PROPOSAL**

2. The Secretary for Education (SED) proposes to grant a start-up loan of \$250 million to the Chu Hai College of Higher Education Limited for operation of full-time locally-accredited post-secondary programmes by the Chu Hai College of Higher Education (Chu Hai College).

### **JUSTIFICATION**

3. To support the healthy and sustainable development of the self-financing post-secondary education sector in Hong Kong, the Administration has launched a number of support measures. At the Finance Committee (FC) meeting on 6 July 2001, Members approved the introduction of the Start-up Loan Scheme (SLS) (vide FCR(2001-02)30) to provide interest-free loans to post-secondary

/education .....

Encl. 1 education providers which are non-profit-making and self-financing in meeting their start-up costs. SED considers 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. SED may approve start-up loan applications at or below \$15 million under delegated authority<sup>1</sup> and would recommend applications for loans exceeding \$15 million to the FC for approval.

4. In June 2009, the FC approved vide FCR(2009-10)28 a start-up loan of \$350 million<sup>2</sup> to Chu Hai College of Higher Education Limited under the SLS to finance part of the project cost of a new purpose-built campus. The premises, which comprises Gross Floor Area (GFA) of about 22 500 square metres, will be built on a site in Tuen Mun East granted for the operation of Chu Hai College. The estimated project cost at that time was \$421 million. The proposed campus is originally planned for operation in 2013 at the earliest.

5. Due to the identification of site constraints which were unforeseen before the land grant in 2009, Chu Hai College has to modify the design of the proposed campus. In addition, the College has proposed incorporating new teaching and learning facilities as well as a student hostel<sup>3</sup> in the new campus to further enhance students' learning experience. To finance part of the increased costs arising from the new campus design, Chu Hai College of Higher Education Limited applied for an additional start-up loan in September 2013. Having regard to the advice of the independent VC, SED recommends for the FC's approval the granting of the additional loan of \$250 million to the Chu Hai College of Higher Education Limited for the said uses.

Encl. 2 6. The proposed campus and student hostel would have a total GFA of about 26 500 square metres and the project cost is estimated to be \$998<sup>4</sup> million taking into account the site complications referred to in paragraphs 18 and 19 below. Details of the increase in estimated costs arising from the new campus design and provision of additional facilities are at Enclosure 2. Apart from seeking Government support in the form of an additional start-up loan, Chu Hai College has secured a donation of \$200 million from the Hong Kong Jockey Club

/and .....

---

<sup>1</sup> As approved by the FC in July 2001 (vide FCR(2001-02)30), SED can approve applications at or below \$15 million under delegated authority.

<sup>2</sup> The first loan instalment of \$47 million was disbursed to Chu Hai College of Higher Education Limited in July 2014. Subject to its actual construction schedule, the second (i.e. \$260 million) and the third/final (i.e. \$43 million) loan instalments will be disbursed in the 2014-15 and 2016-17 financial years respectively.

<sup>3</sup> The SLS has extended its ambit to support the development of student hostels since 2012.

<sup>4</sup> The cost estimate was prepared in the third quarter of 2014 in money-of-the-day price.

and is prepared to deploy another \$200 million from its own funding and other donations to complete the whole development project<sup>5</sup>.

7. Under the current schedule, the related construction works will be completed by early 2016. The location map of the proposed campus is at Encl. 3 Enclosure 3. The conceptual design of the campus and student hostel and the list of proposed facilities to be provided are at Encl. 4 and Encl. 5 respectively.

8. With the campus and student hostel development, Chu Hai College will continue to offer 11 existing locally-accredited degree programmes with about 2 400 students by the 2019/20 academic year. Some new degree programmes are also under planning. The list of existing programmes to be provided by Chu Hai College at the proposed campus is at Encl. 6.

9. We are of the view that the proposed campus, with additional teaching and learning facilities together with provision of a student hostel, will not only enable Chu Hai College to enhance the quality of teaching and learning and promote all-round student development, but also facilitate the diversification of the higher education sector in Hong Kong and widen the choice and opportunities for students. Supporting such development is in line with the Government's policy of promoting the healthy development of the self-financing post-secondary sector.

## FINANCIAL IMPLICATIONS

10. As approved by the FC in July 2001, loans to be granted under the SLS will be interest-free, to be repaid by equal installments over ten years from the date of the final drawdown. As at 30 November 2014, the uncommitted loan balance of the SLS is about \$1,968 million and is sufficient to meet the requirements of the current applications of \$250 million. Subject to the actual construction schedule of the Chu Hai College of Higher Education Limited, the tentative loan disbursement schedules are as follows –

<b>Institution</b>	<b>FY 2014-15 \$ million</b>	<b>FY 2015-16 \$ million</b>	<b>FY 2016-17 \$ million</b>	<b>Total \$ million</b>
Chu Hai College	150	95	5	250

/11. ....

<sup>5</sup> The project cost increased by around \$215 million due to inflation in construction costs in general over the past few years.

11. The total interest foregone<sup>6</sup> for granting the above loan, with a repayment period of ten years, will be around \$63.7 million based on the assumption that loan will be drawn down in accordance with the above schedule. There are no recurrent financial implications.

## **PUBLIC CONSULTATION**

12. We consulted the Legislative Council Panel on Education on 10 November 2014 regarding the loan application. Members supported the proposal.

## **BACKGROUND**

13. The FC approved a commitment of \$5,000 million for the introduction of the SLS in July 2001. Subsequently, the FC approved vide FCR(2008-09)17 on 23 May 2008 the modification of the Scheme in support of enhancing the quality of post-secondary education. Under the modified Scheme, institutions may, without the need to provide additional student places, apply for interest-free loans for –

- (a) providing or enhancing teaching and other ancillary facilities (e.g. library, laboratories, student guidance/career counselling centres, etc) which serve to enhance the learning experience of and support for students;
- (b) reprovisioning existing college campuses operating in sub-optimal environment; and
- (c) refurbishing the vacant school premises allocated to them to enhance students' learning environment.

On the same occasion, the FC also approved that loans granted in or before May 2008 might be eligible for extension of repayment period from ten years to no more than 20 years subject to proven financial difficulty of the borrowing institutions. The outstanding loans would however be subject to interest payment at the no-gain-no-loss rate after the interest-free period in the first ten years.

/14. ....

---

<sup>6</sup> The interest forgone is calculated based on the investment return for placing fiscal reserves with Hong Kong Monetary Authority, currently at 3.6% per annum.

14. At the FC meeting on 5 February 2010, Members approved an increase of \$2,000 million in the commitment for the SLS from \$5,000 million to \$7,000 million to meet the prospective loan requirements from institutions for the development of degree programmes; and 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. At the FC meeting on 11 May 2012, Members approved an increase of \$2,000 million in the commitment for the SLS from \$7,000 million to \$9,000 million and an extension of the ambit of SLS to support the development of student hostels for the self-financing tertiary education sector.

15. In considering the loan applications, the VC follows 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, associate degree or professional diploma). It would also take into account the applicant's organisation and management structure, its track record in delivering post-secondary education services, the proposed use of the loan, the estimated development/refurbishment costs and the financial viability of the applicant.

Encl. 7 16. As at the end of November 2014, the FC has approved 30 loans to 14 institutions, amounting to about \$6,961 million in total, since the introduction of the SLS. In addition, SED has approved under delegated authority a total of eight loan applications amounting to about \$72 million in total. The list of start-up loans approved is at Enclosure 7. A loan amount of about \$5,986 million has been drawn and a total of about \$2,486 million has been repaid with an outstanding loan balance of about \$3,500 million. All repayments have been made in accordance with the approved repayment schedule.

17. As regards the current loan application, Chu Hai College of Higher Education Limited is a non-profit-making company formed for the operation of Chu Hai College. In 2004, Chu Hai College was registered under the Post Secondary Colleges Ordinance (Cap. 320) to offer degree programmes. In the 2014/15 academic year, it offers 11 locally-accredited degree programmes with an

/enrolment .....

enrolment of about 1 700 full-time students. Chu Hai College has obtained in 2014 the Programme Area Accreditation (PAA) status<sup>7</sup> from the Hong Kong Council for Accreditation of Academic and Vocational Qualifications (HKCAAVQ) in the areas of Journalism, Mass Communication, Chinese Literature and Chinese Language. Upon gaining PAA, an institution may develop and operate learning programmes within the approved scope of programme area(s) at specified QF Level(s) for an approved period of time, and have the qualifications of those learning programmes entered into the Qualifications Register for recognition under the Qualifications Framework without going through Programme Validation by HKCAAVQ<sup>8</sup>.

18. In the process of obtaining the land grant in 2009, a number of site limitations and technical issues were identified by Chu Hai College. For instance, part of an archaeological investigation area falls within the site where no building works should be carried out without detailed archaeological investigation; a drainage reserve area within the site above which no building should be erected; as well as site setback requirements for road widening purpose, causing the proposed development to sit on part of the slope which also heightened the development cost and difficulty. As a result, Chu Hai College had to modify the design of the proposed campus. In the new design, the College proposed an addition of around 1 500 square metres of GFA of teaching and learning facilities and 2 500 square metres of GFA of a student hostel with about 170 places for further enhancement of students' learning experience (i.e. an addition of 4 000 square meters in total). Chu Hai College intended to cover any additional cost involved out of its own fund at that time. The Education Bureau thus endorsed the additional 4 000 square metres of GFA in the project scope when Chu Hai College submitted the revised School Development Plan (SDP) in relation to the land grant back in 2010.

19. To facilitate the implementation of the revised SDP, Chu Hai College successfully applied for a lease modification in 2012. After that, in light of the tree compensation requirement<sup>9</sup> and the other architectural considerations, Chu Hai College had to further modify the campus design. The latest campus design was confirmed in early 2013.

/20. ....

---

<sup>7</sup> PAA is conferred on operators with sufficient quality assurance competency and maturity at the organisational level and a good track record in their validated programme(s).

<sup>8</sup> Since Chu Hai College is registered under the Post Secondary Colleges Ordinance (Cap. 320), it has to nonetheless obtain the prior approval of the Chief Executive-in-Council for awarding degree for each proposed programme at degree level.

<sup>9</sup> The tree felling proposal was first approved in 2011 when Chu Hai College was allowed under lease to develop the site with GFA of not more than 22 515 square metres.

20. It is noteworthy that the site formation and foundation works of the project were completed in June 2014. To get the whole project going without further delay and escalation of cost, Chu Hai College of Higher Education Limited invited tender for the superstructure works in March 2014 when the foundation works were still in progress. With the superstructure works commenced upon the award of the main contract in July 2014, the possibility of substantial deviation from the estimated project cost and delay from the latest project schedule is considered slim.

-----

Education Bureau  
January 2015

**Vetting Committee for the Allocation of Sites and Start-up Loan  
for Post-secondary Education Providers**

**Terms of Reference**

1. To examine and assess applications under the Land Grant Scheme (LGS) for the allocation of sites, including vacant government premises and land for purpose-built premises, for the provision of self-financing post-secondary education programmes; and advise and make recommendations to the Secretary for Education (SED) on the allocation of sites to providers of these programmes.
2. To examine and assess applications under the Start-up Loan Scheme (SLS) for post-secondary education providers, and advise SED on whether to accept, modify or reject the applications; and
3. To advise SED on any other matters that may be referred to the Vetting Committee (VC) by the Education Bureau concerning the criteria for selection, the selection process, as well as the policy and execution of the LGS and SLS.

In discharging its functions, VC may set up sub-committees, conduct studies, engage professional services and co-opt members as and when necessary.



**Membership (as at 30 November 2014)**

<b>Name</b>	<b>Professional Background</b>
<u>Chairman</u>	
Mr LAM Siu Lo, Andrew, JP	Chairman, AN Group (Holdings) Ltd
<u>Members</u>	
<i>Non-official</i>	
Mr CHING Tak Keung, Wilbert	Director & Partner, Chung Wah Nam Architects Ltd
Mr HUI Chin Yim, Stephen, MH	Ex-Director of Education Services, The Hong Kong Council of the Church of Christ in China
Mr LAI Ting Hong, Alex	Partner and Solicitor, Deacons
Sr LAI Yuk Fai, Stephen	Managing Director, Rider Levett Bucknall Ltd
Ms Jacqueline A. LEUNG	President & Managing Director, Leighton Investments Limited
Professor TAM Kar-yan	Associate Provost & Dean of Students, Hong Kong University of Science and Technology
Mr WONG Tak Wai, Alvin	Partner, Pricewaterhouse Coopers
<i>Official</i>	
Principal Assistant Secretary (Further Education), Education Bureau	

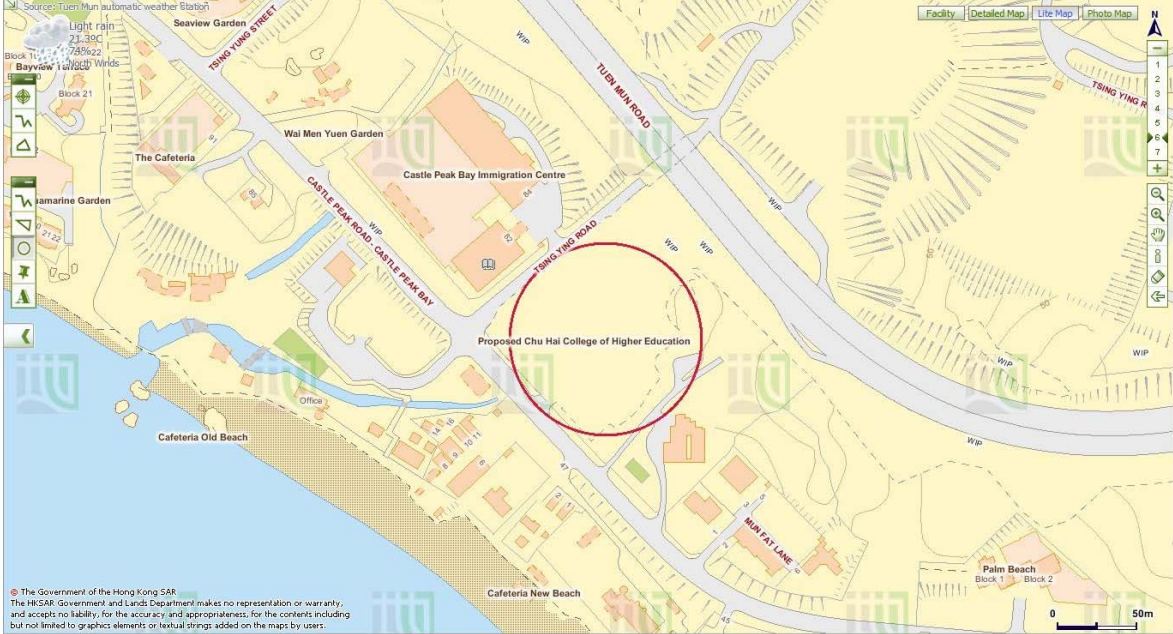
---

**Details on Increase in Estimated Project Cost  
with New Campus Design and Provision of Additional Facilities**

<b>Items</b>	<b>Amount (\$m)</b>
1. New design arising from the site constraints	133
2. Additional Gross Floor Area of around 4 000 m <sup>2</sup>	100
3. Furniture and equipment costs not included in the 2009 estimate	60
4. Increase in consultants' fees	49
5. Contingencies	20
<b>Total</b>	<b>362</b>

-----

**Location Map of the Chu Hai College of Higher Education's  
Proposed Campus in Tuen Mun East**



*For identification purpose only*

-----

Conceptual Design of the Proposed Campus and Student Hostel



-----

**Enclosure 5 to FCR(2014-15)52**

**List of Proposed Facilities**

<b>Facilities</b>		<b>Estimated floor area in GFA (m<sup>2</sup>)</b>
(a)	<b>Teaching</b> (Including classrooms, auditorium, language/computer/engineering laboratories, journalism/architecture studios and other related areas)	13 000
(b)	<b>Learning Support</b> (Including library, library lounge, library exhibition area, deck lounge and other related areas)	2 200
(c)	<b>Student Services</b> (Including gymnasium/multi-purpose sports centre, student and staff cafeteria, mini-café, gallery & exhibition area, student co-operative/bookstore and other related areas)	4 900
(d)	<b>Administrative/Teaching support</b> (Including administration/staff offices, meeting rooms, security office/building management room and other related areas)	2 100
(e)	<b>Service Area</b> (Including car park, loading/unloading bays, refuse collection and other related area)	200
(f)	<b>Hostel/Quarters</b> (Including student hostel and staff quarters)	4 000
<b>Total<sup>#</sup></b>		<b>26 500</b>

<sup>#</sup> Figures may not add up due to rounding

-----

**Existing Programmes to be Operated by  
Chu Hai College of Higher Education at the Proposed Campus**

1. Bachelor of Architecture (Hons)
2. Bachelor of Arts (Hons) in Chinese Literature
3. Bachelor of Arts (Hons) in English for Professional Communication
4. Bachelor of Arts (Hons) in Journalism and Communication
5. Bachelor of Business Administration (Hons)
6. Bachelor of Business Administration (Hons) in Finance
7. Bachelor of Business Administration (Hons) in Business Information Systems
8. Bachelor of Commerce (Hons) in Accounting and Banking
9. Bachelor of Engineering (Hons) in Civil Engineering
10. Bachelor of Science (Hons) in Computer Science
11. Bachelor of Science (Hons) in Architecture

-----

**Enclosure 7 to FCR(2014-15)52**

**List of Loans Approved under Start-up Loan Scheme  
(as at 30 November 2014)**

<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 (for HKU School of Professional and Continuing Education)	Renting and renovating a commercial premises in Wan Chai	\$35,402,000	7 Dec 2001 by Finance Committee (FC)
2	The University of Hong Kong (for HKU School of Professional and Continuing Education)	Purchasing and renovating a commercial premises in North Point	\$176,124,000	7 Dec 2001 by FC
3	Hong Kong Baptist University (for School of Continuing Education)	Purchasing and renovating a commercial premises in Kowloon Tong	\$86,201,000	7 Dec 2001 by FC
4	The Hong Kong Polytechnic University (for Hong Kong Community College)	Renting and renovating the Professional Complex at the Hung Hom campus	\$32,700,000	7 Dec 2001 by FC
5	Lingnan University (for its Community College)	Renting and renovating commercial premises in Tuen Mun and Causeway Bay	\$10,597,000	7 Dec 2001 by FC
6	Lingnan University (for its Community College)	Constructing new buildings in the Tuen Mun campus	\$205,735,000	7 Dec 2001 by FC
7	The Hong Kong Institute of Education (for School of Continuing and Professional 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 (for School of Continuing and Professional Studies)	Purchasing and renovating a commercial premises in Central	\$135,274,000	26 Apr 2002 by FC
9	Caritas-Hong Kong (for Caritas Bianchi College of Careers)	Renting and renovating a commercial premises at MTR Kowloon Station	\$15,000,000	21 Jun 2002 by SEM
10	City University of Hong Kong (for its Community College)	Renting and renovating a commercial premises in Kowloon Bay	\$44,756,000	21 Jun 2002 by FC
11	Vocational Training Council (for School of Business and Information Systems)	Constructing new buildings in the 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 commercial premises in Cheung Sha Wan and Tsim Sha Tsui	\$7,148,000	30 Dec 2002 by SEM
13	Education and Learning Institute (Hong Kong) Limited (for Hong Kong Learning Community College)	Renting and renovating a commercial premises in Causeway Bay	\$4,000,000	4 Mar 2003 by SEM
14	The University of Hong Kong (for HKU School of Professional and Continuing Education)	Constructing a new campus in Kowloon Bay	\$279,256,000	27 Jun 2003 by FC

<b>Loan No.</b>	<b>Applicant</b>	<b>Premises</b>	<b>Loan Amount</b>	<b>Date of Approval</b>
15	Hong Kong Baptist University (for School of Continuing Education)	Constructing a new campus in Shek Mun	\$359,200,000	27 Jun 2003 by FC
16	Caritas-Hong Kong (for Caritas Bianchi College of Careers)	Constructing a new campus in Tseung Kwan O	\$188,000,000	27 Jun 2003 by FC
17	The Hong Kong Polytechnic University (for Hong Kong Community College)	Constructing a new campus in Hung Hom	\$424,714,000	27 Jun 2003 by FC
18	The Chinese University of Hong Kong-Tung Wah Group of Hospitals Community College	Constructing a new campus in Mong Kok	\$346,050,000	5 Dec 2003 by FC
19	The Hong Kong Polytechnic University (for Hong Kong Community College)	Constructing a new campus in West Kowloon	\$458,100,000	4 Mar 2005 by FC
20	City University of Hong Kong (for its Community College)	Constructing new buildings in the Kowloon Tong campus	\$599,500,000	24 Jun 2005 by FC
21	Po Leung Kuk (for HKU SPACE Po Leung Kuk Community College)	Constructing new buildings in the Headquarters in Causeway Bay	\$254,000,000	24 Jun 2005 by FC
22	The Open University of Hong Kong	Constructing new buildings in the Ho Man Tin campus	\$120,000,000	24 Jun 2005 by FC
23	HKCT Group Limited (for Hong Kong College of Technology)	Renting and renovating a commercial premises in Hung Hom	\$10,875,000	3 Jan 2006 by SEM
24	Hang Seng School of Commerce (for Hang Seng Management College)	Constructing a new building in the Siu Lek Yuen campus	\$32,400,000	24 Mar 2006 by FC
25	The Chinese University of Hong Kong (for School of Continuing and Professional Studies)	Renting and renovating a commercial premises in Central	\$22,743,000	24 Mar 2006 by FC
26	Hong Kong Arts Centre (for Hong Kong Art School)	Renovating a vacant school premises in Shau Kei Wan	\$5,500,000	16 Feb 2009 by Secretary for Education (SED)
27	HKCT Group Limited (for Hong Kong College of Technology)	Renovating a vacant school premises in Ma On Shan	\$29,000,000	19 Jun 2009 by FC
28	The University of Hong Kong (for HKU School of Professional and Continuing Education)	Renovating a vacant school premises in Pok Fu Lam	\$40,344,000	19 Jun 2009 by FC
29	Chu Hai College of Higher Education	Constructing a new campus in Tuen Mun	\$350,000,000	19 Jun 2009 by FC
30	The Open University of Hong Kong	Constructing a new 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 building in the Siu Lek Yuen campus	\$308,000,000	28 Jan 2011 by FC
32	International Education and Academic Exchanges Foundation Company Limited (for Hong Kong Institute of Technology)	Renovating a vacant school premises in Sham Shui Po	\$11,000,000	21 Feb 2011 by SED
33	The Chinese University of Hong Kong (for School of Continuing and Professional Studies)	Renovating a vacant school premises in Tseung Kwan O	\$40,000,000	11 May 2012 by FC



<b>Loan No.</b>	<b>Applicant</b>	<b>Premises</b>	<b>Loan Amount</b>	<b>Date of Approval</b>
34	Caritas-Hong Kong (for Caritas Institute of Higher Education)	Constructing a new campus in Tseung Kwan O	\$300,000,000	13 July 2012 by FC
35	Vocational Training Council (for Technological and Higher Education Institute of Hong Kong)	Constructing a new campus in Chai Wan	\$670,000,000	13 July 2012 by FC
36	Hong Kong Arts Centre (for Hong Kong Art School)	Renovating campuses in Chai Wan and Shau Kei Wan	\$2,500,000	2 May 2013 by SED
37	Hang Seng School of Commerce (for Hang Seng Management College)	Constructing a teaching block and a student hostel in the Siu Lek Yuen campus	\$800,000,000	21 June 2013 by FC
38	HKCT Group Limited (for Hong Kong College of Technology and HKCT Institute of Higher Education)	Renovating a vacant school premises in Ma On Shan	\$30,000,000	7 Feb 2014 by FC
<b>Total Loan Amount approved:</b>			<b>\$7,032,519,000</b>	

-----