

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 medium-term loans totalling \$1,251,170,000 from the Loan Fund –

- (a) \$279,256,000 to the University of Hong Kong;
- (b) \$359,200,000 to the Hong Kong Baptist University;
- (c) \$188,000,000 to the Caritas – Hong Kong; and
- (d) \$424,714,000 to the Hong Kong Polytechnic University.

PROBLEM

We need to make a decision on applications from four academic institutions for start-up loans from the Government to launch new or expanded accredited post-secondary programmes on a self-financing basis.

/PROPOSAL

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 medium-term loans at a total of \$1,251,170,000 to four institutions for launching new and expanded Associate Degree/Higher Diploma programmes in self-constructed premises, as follows –

- (a) University of Hong Kong: a loan of \$279,256,000;
- (b) Hong Kong Baptist University: a loan of \$359,200,000;
- (c) Caritas – Hong Kong: a loan of \$188,000,000; and
- (d) Hong Kong Polytechnic University: a loan of \$424,714,000.

JUSTIFICATION

Encl. 1

3. At its meeting on 6 July 2001, Members approved, among other things, the introduction of a new loan scheme for post-secondary education providers to support 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 SEM will consider the loan applications on the advice of a Vetting Committee (VC) comprising four non-officials (including the Chairman) and one official member. He will approve applications at or below \$15 million and recommend applications for loans exceeding \$15 million¹ to Members for approval.

4. We launched the fifth start-up loan application exercise in December 2002. For this exercise, we invited applications for medium-term loans from eligible post-secondary education providers who were also applying for the grant, by private treaty, of five sites for the construction of purpose-built premises in another concurrent exercise on site applications. At the close of applications on 28 February 2003, a total of 11 applications were received from nine post-secondary education providers. On the advice of a selection committee on site application, comprising six non-officials (including the Chairman) and one official member, SEM accepted the recommendations that a total of four applicants should be earmarked as the proposed grantees for four sites.

/5.

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.

Encl. 2

5. Applications from the four proposed grantees for medium-term loans to construct purpose-built campuses on the sites concerned were considered by the VC. In considering the applications, the VC has followed the criteria set out in paragraphs 14 to 20 of FCR(2001-02)30, a summary of which is at Enclosure 1, and the per student loan ceilings (see Enclosure 2). 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 each application. Having regard to the advice of the Vetting Committee, SEM recommends the granting of start-up loans to the four applicants.

THE UNIVERSITY OF HONG KONG (HKU)

6. With a short-term loan of \$35,402,000, the School of Professional and Continuing Education (SPACE) of the HKU set up a temporary Learning Centre for its Community College in Wanchai in the 2001/02 academic year to provide 1 200 self-financing sub-degree student places. HKU also obtained a medium-term loan of \$176,124,000 to purchase a commercial building in North Point for providing a further 1 300 sub-degree students places in the Community College. This campus commenced operation in the 2002/03 academic year. With the use of the above campuses and other campuses of SPACE, the Community College offers a wide range of Associate Degree and Higher Diploma programmes that meet the market demand, and enrolled more than 2 500 and 3 600 students in the 2001/02 and 2002/03 academic years respectively.

7. In view of the satisfactory market response to the programmes, HKU has applied for a separate medium-term loan of \$339,960,000 to construct a purpose-built campus, with a total gross floor area of 15 577 square meters, at the site of the proposed land grant at NKIL No.6429, J/O Lam Hing Street and Wang Hoi Road, Kowloon Bay to provide another permanent accommodation for its SPACE Community College from the 2006/07 academic year. This campus at Kowloon Bay to be funded by the proposed loan will accommodate all students pursuing Associate Degree programmes run by the Community College. After this new campus comes into operation, HKU plans to house students of the Community College's Pre-Associate Degree programmes at its Learning Centre in Wanchai, and the Higher Diploma programmes in North Point.

/8.

8. The VC advised and we recommend the approval of a medium-term loan of \$279,256,000 catering for a student population of 2 000 in the SPACE Community College Kowloon Bay Campus. The loan comprises –

- (a) \$242,780,000 for construction costs; and
- (b) \$36,476,000 for refurbishment and equipment costs (including margin for some of the programmes which are equipment-intensive or science subjects).

The VC recommended a lower amount than that applied for, in order to comply with the loan ceiling per student place approved for refurbishment and equipment costs applicable to equipment-intensive or science programmes.

THE HONG KONG BAPTIST UNIVERSITY (HKBU)

9. With the assistance of a medium-term loan of \$86,201,000, the College of International School of HKBU's School of Continuing Education is offering full-time Associate Degree programmes on a self-financing basis. More than 1 200 students are enrolled in the 2002/03 academic year. In view of the satisfactory market response to the programmes, HKBU has applied for a separate medium-term loan of \$359,200,000 to construct a purpose-built campus of a total gross floor area of 23 350 square meters at the site for the proposed land grant at STTL No.540, Area 11, Shek Mun, Sha Tin. The proposed campus is scheduled for commissioning from the 2006/07 academic year to accommodate up to 2 400 additional student places and to provide other teaching and sports facilities for the College.

10. The VC advised and we recommend the approval of a medium-term loan of \$359,200,000 catering for a student population of 2 400 in the College of International School. The loan comprises –

- (a) \$326,200,000 for construction costs; and
- (b) \$33,000,000 for refurbishment and equipment costs.

/CARITAS

CARITAS – HONG KONG (CARITAS)

11. With a short-term loan of \$15,000,000, Caritas set up a temporary campus at MTR Kowloon Station to accommodate up to 526 students of Associate Degree programmes run by Caritas Bianchi College of Careers (CBCC). CBCC has an enrolment of 495 Associate Degree students in the 2002/03 academic year and it is expected that the student population will exceed the accommodation capacity of its temporary campus from the 2003/04 academic year onwards. In view of the satisfactory market response to the programmes, Caritas has applied for a medium-term loan of \$188,000,000 to construct a purpose-built campus of a total gross floor area of 14 910 square meters for CBCC at the site for the proposed land grant at TKOTL No.92, Area 73B in Tseung Kwan O. The proposed campus is scheduled for commissioning in the 2006/07 academic year to provide permanent accommodation for up to 1 434 student places.

12. The VC advised and we recommend the approval of a medium-term loan of \$188,000,000 catering for a student population of 1 434 in the CBCC. The loan comprises –

- (a) \$163,000,000 for construction costs; and
- (b) \$25,000,000 for refurbishment and equipment costs (including margin for some of the programmes which are equipment-intensive or science subjects).

THE HONG KONG POLYTECHNIC UNIVERISTY (POLY U)

13. With a short-term loan of \$32,700,000, Poly U set up the Hong Kong Community College (HKCC) in 2001 in rented premises for 800 self-financing sub-degree student places. In the 2002/03 academic year, HKCC has an enrolment of about 900 Associate Degree students. In view of the satisfactory market response to the programmes, Poly U has applied for a medium-term loan of \$434,000,000 to construct a purpose-built campus, with a total gross floor area of 26 132 square meters at the site for the proposed land grant at KIL No.11163, J/O Hung Lai Road and Hung Lok Road, Hunghom Bay Reclamation. The campus will provide permanent accommodation for HKCC from the 2007/08 academic year onwards for up to 3 000 students.

/14.

14. The VC advised and we recommend the approval of a medium-term loan of \$424,714,000 catering for a student population of 3 000 in the HKCC. The loan comprises –

- (a) \$370,000,000 for construction costs; and
- (b) \$54,714,000 for refurbishment and equipment costs (including margin for some of the programmes which are equipment-intensive or science subjects).

The VC recommended a lower amount than that applied for, in order to comply with the loan ceiling per student place approved for refurbishment and equipment costs applicable to equipment-intensive or science programmes.

FINANCIAL IMPLICATIONS

15. As approved by this Committee 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 draw down. If Members approve the proposals, we will offer the loans at a total amount of \$1,251,170,000 to HKU, HKBU, Caritas and Poly U under Head 252 – Loans to Schools/Teachers Sub-head 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 applicants, we estimate that the loan disbursement schedule will be as follows –

Institutions	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	Total
HKU		\$99,283,000	\$138,177,000	\$41,796,000			\$279,256,000
HKBU	\$57,200,000	\$171,400,000	\$58,800,000	\$71,800,000			\$359,200,000
Caritas	\$36,402,000	\$73,088,000	\$61,524,000	\$16,986,000			\$188,000,000
Poly U			\$106,000,000	\$227,000,000	\$87,000,000	\$4,714,000	\$424,714,000
Total	\$93,602,000	\$343,771,000	\$364,501,000	\$357,582,000	\$87,000,000	\$4,714,000	\$1,251,170,000

16. We estimate that the total interest foregone for granting the above proposed loans will be about \$253,415,000, calculated on the basis of an interest rate at “no-gain-no-loss” to Government, currently at 2.826% per annum. With effect from 1 June 2003, the “no-gain-no-loss” interest rate is set at 2.174% below the average best lending rate of the note issuing banks. The proposal has no recurrent implications.

/BACKGROUND

BACKGROUND INFORMATION

17. 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 the next 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.
18. This Committee 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.

/19.

19. In respect of paragraph 18(c) above, Members approved a total of nine loan applications from seven institutions at a total loan amount of \$993,189,000. SEM approved under delegated authority a total of four loan applications from four institutions at a total loan amount of \$50,895,000. There are 84 self-financing programmes at sub-degree level or above in the 2002/03 academic year providing about 9 000 places for our senior secondary school leavers.

20. During the fifth application exercise, we received a total of 11 applications totaling \$3,187,182,000 for start-up loans in connection with applications for land grants.

21. We issued an information note to the Legislation Council Panel on Education on 11 June 2003 on the results of the fifth application exercise.

Education and Manpower Bureau
June 2003

**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.

Loan Ceilings Per Student

	Parameters	Loan Ceiling (5 th application exercise)
(1)	Short-term Loan –	
	(a) Two-year rental cost of accommodation per student (Note 1)	\$29,270
	(b) Refurbishment and equipment costs per student (Note 2)	\$16,580
		\$45,850
(2)	Plus a margin of 10% for equipment-intensive or science subjects	\$50,430
(3)	Medium-term Loan –	
	(a) Purchase cost of class “C” commercial office per student (Note 1)	\$137,950
	(b) Refurbishment and equipment costs per student (Note 2)	\$16,580
		\$154,530
(4)	Plus a margin of 10% for equipment-intensive or science subjects	\$169,980

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. For 2002-03, SEM has, in accordance with the annual adjustment mechanism set out in FCR(2001-02)30, revised the loan ceilings based on updated data provided by the Rating and Valuation Department.
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. For 2002-03, SEM has, in accordance with the annual adjustment mechanism set out in FCR(2001-02)30, revised these loan ceilings based on movement of the Consumer Price Index (A) in the past year.