

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, under the Start-up Loan Scheme for post-secondary education providers, a loan of \$346,050,000 from the Loan Fund to the Chinese University of Hong Kong – Tung Wah Group of Hospitals Community College.

PROBLEM

We need to make a decision on an application from the Chinese University of Hong Kong – Tung Wah Group of Hospitals Community College (“the College”) for a start-up loan from the Government to launch accredited post-secondary programmes on a self-financing basis.

PROPOSAL

2. Pursuant to the loan scheme Members approved on 6 July 2001, the Secretary for Education and Manpower (SEM) proposes to grant an interest-free loan of \$346,050,000 to the College for launching programmes leading to post-secondary qualifications in self-constructed premises.

/JUSTIFICATION

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 (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 sixth application exercise between February and March 2003. Having regard to the advice of the VC, SEM recommends the granting of one medium-term loan to the College. Details are set out in paragraphs 6 to 9 below.

Encl. 2

5. In considering the application, 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 the application.

**THE CHINESE UNIVERSITY OF HONG KONG –
TUNG WAH GROUP OF HOSPITALS COMMUNITY COLLEGE**

6. The Chinese University of Hong Kong (“CUHK”) – Tung Wah Group of Hospitals (“TWGHs”) Community College Limited is a company registered under the Companies Ordinance. It is a joint venture by CUHK and TWGHs. In accordance with the Agreement between CUHK and TWGHs, CUHK will be responsible for academic accreditation of the courses to be offered, curriculum and pedagogical design, quality assurance, outcome assessment, and articulation mechanism for students to continue their studies, while the TWGHs will be responsible for the operation of the College and the courses, start-up and recurrent funding and the development of college campuses. Being the partner primarily responsible for the College’s finance, TWGHs is also the sole guarantor of the loan from the Government. The sub-degree programmes of the College would undergo the accreditation and quality assurance mechanism as applied to programmes leading to the same or similar awards by CUHK’s School of Continuing Studies.

/7.

¹ Including applications at or below \$15 million where the outstanding loan balance for the same provider, together with the loan under application, exceed \$15 million.

7. The College has applied for a medium-term loan of \$346,050,000 to construct three new buildings with gross floor areas totalling 19 386 square meters, at TWGHs' sites in Hak Po Street and Wylie Road for the development of a non-profit making post-secondary college. The sites were granted to TWGHs a long time ago for operation of two primary schools which have already ceased operation. The Lands Department has already approved the application of TWGHs for lease modification/land exchange. The proposed College is scheduled for commissioning in the 2005/06 academic year.

8. We concur with the VC's advice that having regard to CUHK's close involvement in the joint venture, its good track record in running post-secondary programmes and the established quality assurance mechanism, a medium-term loan can be extended to the College. The VC further advised and we recommend the approval of a medium-term loan of \$346,050,000 catering for a student population of 2 565 in the College. The loan comprises –

- (a) \$311,050,000 for the construction costs; and
- (b) \$35,000,000 for the refurbishment and equipment costs.

9. Members may wish to note that with the approval of this Committee, CUHK has earlier obtained a medium-term loan of \$135,274,000 for the purchase of premises at a commercial building for its School of Continuing Studies to provide 900 student places at post-secondary level (FCR(2002-03)9). Once the College comes into operation in the 2005/06 academic year, CUHK may transfer some of the Associate Degree programmes from its School of Continuing Studies to the College, so that its School of Continuing Studies could concentrate on Higher Diploma 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. EMB, in consultation with the VC, will consider such proposal for transfer of programmes among the institutions as and when necessary.

/FINANCIAL

FINANCIAL IMPLICATIONS

10. 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 drawdown. If Members approve the proposal, we will offer a medium-term loan of \$346,050,000 to the College under Head 252 – Loans to Schools/Teachers Subhead 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 applicant, we estimate that the loan disbursement schedule will be as follows –

Institution	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	Total
CUHK-TWGHs CC	\$59,591,400	\$171,934,600	\$99,857,700	\$14,666,300	\$346,050,000

11. We estimate that the total interest foregone for granting the above proposed loan will be about \$71,378,000, 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 INFORMATION

12. 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.

/13.

13. 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 support their initial start-up costs.

14. In respect of paragraph 13(c) above, Members approved a total of 13 loans from eight institutions at a total loan amount of \$2,244,359,000. SEM approved under delegated authority a total of four loan applications at a total loan amount of \$50,895,000. There are about 120 self-financing programmes at sub-degree level or above in the 2003/04 academic year providing about 12 000 intake places for our senior secondary school leavers.

15. During the sixth round application exercise, we received two applications, including one new application and one re-submission from an applicant in the third application exercise. The VC has deferred consideration of the latter pending the successful accreditation of the concerned institution/programmes and the provision of additional information by the applicant.

16. We issued an information note to the Legislative Council Panel on Education on 22 November 2003 on this proposal.

**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 (6 th application exercise)
(1)	Short-term Loan –	
	(a) Two-year rental cost of accommodation per student (Note 1)	\$25,108
	(b) Refurbishment and equipment costs per student (Note 2)	\$16,048
		\$41,156 say \$41,160
(2)	Plus a margin of 10% for equipment-intensive or science subjects	\$45,270
(3)	Medium-term Loan –	
	(a) Purchase cost of class “C” commercial office per student (Note 1)	\$122,212
	(b) Refurbishment and equipment costs per student (Note 2)	\$16,048
		\$138,260
(4)	Plus a margin of 10% for equipment-intensive or science subjects	\$152,090

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 2003-04, 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 2003-04, 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.