

## **ITEM FOR FINANCE COMMITTEE**

### **LOAN FUND**

#### **HEAD 252 – LOANS TO SCHOOLS/TEACHERS**

##### **Subhead 104 Loans to non-profit-making international schools**

##### **Capital assistance loan to the Kellett School Association Limited**

Members are invited to approve –

- (a) an increase in commitment under Head 252 Loans to Schools/Teachers Subhead 104 Loans to non-profit-making international schools of the Loan Fund by \$203.83 million; and
- (b) an allocation of \$203.83 million from the Loan Fund for providing an interest-free loan to the Kellett School Association Limited towards meeting part of the construction cost of its new school premises at the juncture of Kai Cheung Road and Wang Kwong Road, Kowloon Bay, Kowloon.

### **PROBLEM**

The Kellett School Association Limited (KSAL) requires financial support to meet part of the capital cost for constructing its new school premises at the greenfield site allocated to the KSAL in Kowloon Bay.

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**PROPOSAL**

2. The Secretary for Education (SED) proposes to –
  - (a) increase the commitment under the Loan Fund by \$203.83 million; and
  - (b) allocate \$203.83 million from the Loan Fund for providing an interest-free loan to the KSAL towards meeting part of the construction cost of its new school premises at the juncture of Kai Cheung Road and Wang Kwong Road, Kowloon Bay, Kowloon.

**JUSTIFICATION*****Provision of international school places***

3. The Government is committed to developing a vibrant international school sector in meeting the demand for school places from overseas families living in Hong Kong and families coming to Hong Kong for work or investment. To this end, we have implemented a number of facilitation measures including providing capital assistance in the form of interest-free loan for the construction of school premises for international schools allocated with greenfield sites.

4. In the 2007-08 Policy Address, the Chief Executive announced that the Administration would make available a number of greenfield sites for development of new international schools or the expansion of existing schools with interest-free loans for construction of the school premises. In 2009, we allocated four greenfield sites in Kowloon and the New Territories to four quality operators for international school development. The KSAL was allocated a site of about 9 520 square metres at the juncture of Kai Cheung Road and Wang Kwong Road, Kowloon Bay, for expansion of its existing school. The land grant formalities were completed in October 2011 and the new school premises is being constructed for completion by mid 2013.

5. There has been an increasing demand for international school places in recent years. According to the results of the 2011 Population Census, the number of English-speaking school-aged children (aged 19 or below) in the territory has grown by 37% from 18 300 in 2006 to 24 980 in 2011. In particular, it is foreseen that there will be increasing demand for British curriculum school places as driven

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by the 35% growth in the British population in Hong Kong over the past five years from 24 990 in 2006 to 33 730 in 2011. The trend on growing demand for international school places is also affirmed through the exchange of views at forums including the Legislative Council (LegCo) Panel on Education, the International Business Committee and the Business Facilitation Advisory Committee. The provision of interest-free loan to the KSAL, which provides non-local curriculum for largely English-speaking population, will help in facilitating the provision of additional international school places to meet the demand.

### *The new school premises*

6. The Kellett School (Kellett) was set up in 1979 as a non-profit-making international school in Hong Kong and KSAL is its school sponsoring body. The Kellett follows the British national curriculum for its primary and secondary school. As at September 2011, it provides around 670 places in its existing campus at Pok Fu Lam for its primary school and its temporary campus at Shau Kei Wan for its secondary school. Upon completion of the new campus at Kowloon Bay, Kellett will maintain part of its primary school at the Pok Fu Lam campus and the other part at the Kowloon Bay campus. Kellett will relocate its secondary school from the temporary campus at Shau Kei Wan to its new campus at Kowloon Bay.

7. The Kowloon Bay campus is expected to accommodate around 880 primary and secondary students including around 280 students from the Pok Fu Lam and Shau Kei Wan campuses. According to the plan of the KSAL, the new school premises will have 50 classrooms and over 10 special rooms as well as other educational related facilities, including library, a six-lane swimming pool and an artificial turf multi-sport area with running track to meet teaching and learning needs for the benefits of students. Upon the completion of the school premises in Kowloon Bay, Kellett will provide additional 600 international school places in its primary and secondary sections. This will help meet the demand for international schools offering British national curriculum. The site plan and artist's impression of the new school premises are at Enclosure 1.

Encl.1

8. The KSAL has estimated that the new school project would cost \$735 million in total. As a non-profit-making organization which is exempt from tax under section 88 of the Inland Revenue Ordinance (Cap. 112), the KSAL can only obtain bridging loan for the construction of school premises from private or commercial sources with the backing of Government's interest-free loan. The loan, if approved, will contribute towards repayment of the bridging loans which the KSAL has taken out to finance the construction of the new school premises.

9. KSAL has, in accordance with the requirement of the land grant, carried out assessment on environmental, noise, air quality and traffic impact in connection with building the new premises and made recommendations for mitigation measures to the satisfaction of the Director of Environmental Protection. KSAL will abide by the requirements and implement the approved recommendations in constructing the new premises.

## FINANCIAL IMPLICATIONS

10. In accordance with prevailing Government policy, the interest-free loan to the KSAL will be capped at 100% of the cost for constructing a standard-design public sector school accommodating the same number of students. On this basis, the maximum loan amount available to the KSAL will be \$203.83 million. Detailed calculation is at Enclosure 2. We estimate that the amount of interest forgone<sup>1</sup> as a result of such loan, with a repayment period of ten years, would be \$62.78 million. Subject to the approval by this Committee, we will offer the KSAL a loan of \$203.83 million.

Encl.2

## CONTROL MECHANISM

11. In line with prevailing Government policy, a loan agreement will be signed between the Administration and the successful applicant. The KSAL will draw down the loan on the completion of the new school premises scheduled in August 2013 and the loan is repayable in ten years. The first instalment of the loan repayment will become due one year after the KSAL draws down the loan. The loan shall be secured by a legal charge on the property in favour of the Government. We will make repayment of the loan a first call upon the liquidated assets of the KSAL in the event it closes down, and in case of default of repayment of the loan, the SED may take possession of the premises and assets of the KSAL. We will specify these terms and conditions in the loan agreement.

12. In line with the existing policy to enhance school accountability, we have entered into a ten-year service agreement with the KSAL. Apart from terms and conditions for school operation and mechanism for periodic quality assurance, the service agreement stipulates that the loan can only be drawn down upon completion of the school premises evidenced by the issue of the relevant occupation permit by the Building Authority. In addition, the loan must only be used solely to cover the construction cost of the school premises. We may terminate the service agreement if KSAL commits any material breach of the provisions.

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<sup>1</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..

**PUBLIC CONSULTATION**

13. We consulted the LegCo Panel on Education on the proposal on 13 February 2012. Members generally supported the proposal and raised no objection in submitting it to the Finance Committee (FC) for funding approval.

**BACKGROUND**

14. To facilitate the development of the international school sector, it is an established policy of the Government to provide capital assistance in the form of interest-free loan for the construction of school premises to non-profit-making international school operators allocated with greenfield sites on an application basis. Details of the policy have been set out in the LegCo Brief (Ref EMBCR15/581/94 III) issued to Members in October 1995.

15. The LegCo FC has subsequently approved a number of loan applications of international schools for the construction of the school premises. For example, FC approved an interest-free loan of \$66.59 million to the Canadian International School in January 1997 for building a new non-profit-making primary and secondary school at Nam Long Shan Road, Hong Kong, an interest-free loan of \$44.80 million to the Hong Kong Japanese School Limited in June 1997 for building a non-profit-making primary school at Tai Po Kau, New Territories, and an interest-free-loan of \$77 million to the Australian International School Foundation Limited in November 1999 for building a non-profit-making primary and secondary school at Norfolk Road, Kowloon.<sup>2</sup> The loans for the Canadian International School and Hong Kong Japanese School Limited were fully repaid on 1 February 2010 and 1 June 2009 respectively. The Australian International School Foundation Limited is expected to repay the final repayment in 2012-13 as scheduled.

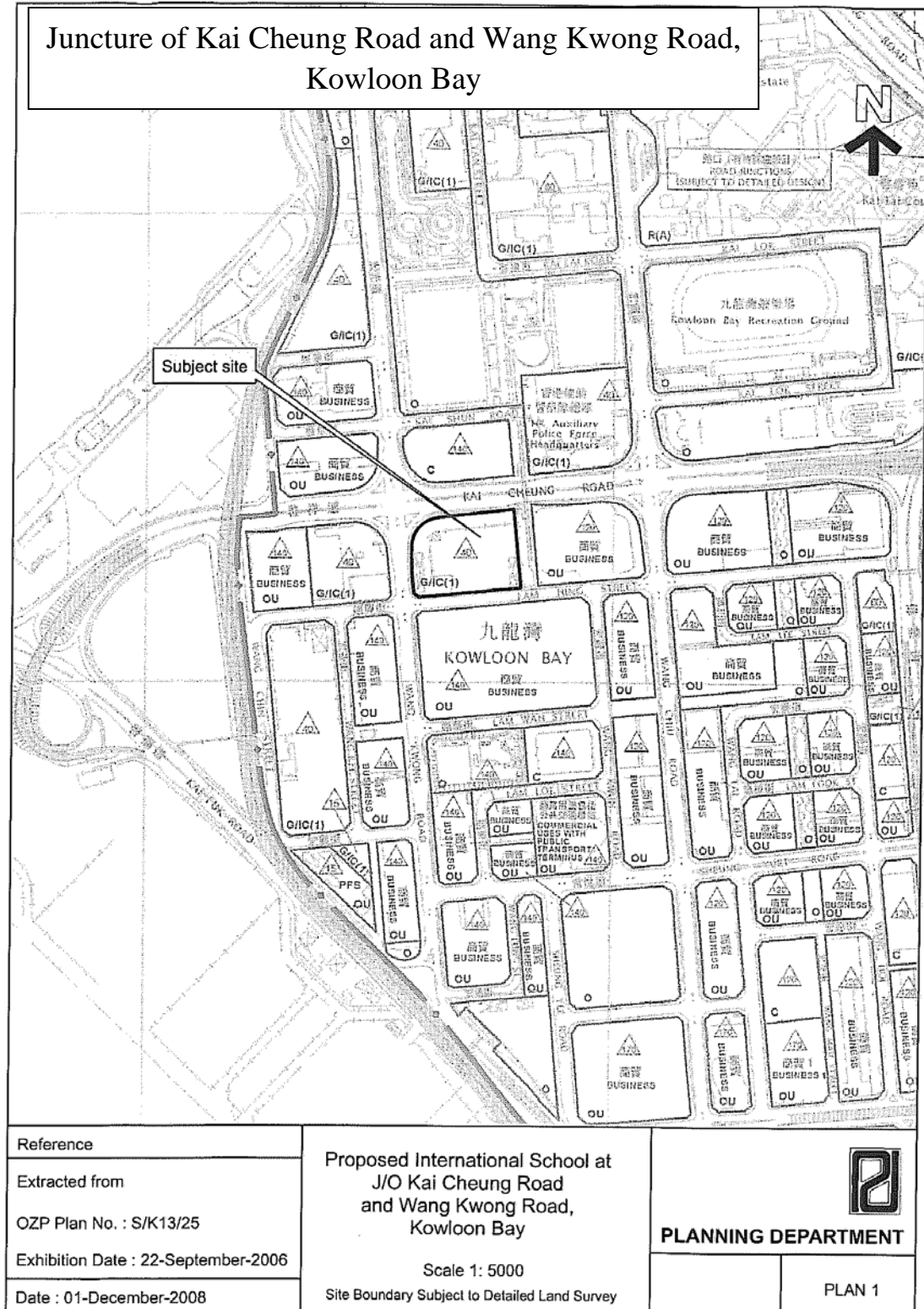
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Education Bureau  
April 2012

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<sup>2</sup> With the approval of the three loan proposals in the 90s, the accumulative commitment of the Loan Fund as at today stands at \$188.39 million.

Site plan and artist's impression of the new school premises  
of the Kellett School

Site plan



Artist's impression



**Calculation of the Maximum Loan Amount  
Available to the KSAL**

**(a) Primary level**

The reference cost of building a standard public sector primary school with 18 classrooms accommodating 486 students is \$152 million at September 2011 prices (reference cost for primary school)<sup>1</sup>. The KSAL plans to accommodate 264 primary students (i.e. 12 primary classes each with 22 students) in the new premises. On pro-rata basis, we have worked out the maximum amount of loan available to KSAL in accommodating 264 students as follows -

$$\begin{aligned} & \$152 \text{ million (reference cost for primary school)/}486 \times 264 \\ & = \$82.57 \text{ million} \end{aligned}$$

**(b) Secondary level**

The reference cost of building a standard public sector secondary school with 30 classrooms accommodating 1 080 students is \$212.60 million at September 2011 prices (reference cost for secondary school)<sup>2</sup>. The KSAL plans to accommodate 616 secondary students (i.e. 28 classes each with 22 students) in the new premises. On pro-rata basis, we have worked out the maximum amount of loan available to KSAL in accommodating 616 secondary students as follows -

$$\begin{aligned} & \$212.6 \text{ million (reference cost for secondary school)/}1\ 080 \times 616 \\ & = \$121.26 \text{ million} \end{aligned}$$

The maximum loan amount available to KSAL should therefore be –

For primary level	=	\$ 82.57 million
For secondary level	=	\$121.26 million
<b>Total</b>		<b>\$203.83 million</b>

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<sup>1</sup> A breakdown of the reference cost for building a standard public sector primary school is at Annex 1 to Enclosure 2.

<sup>2</sup> A breakdown of the reference cost for building a standard public sector secondary school is at Annex 2 to Enclosure 2.



**Breakdown of the reference cost  
for building a standard public sector primary school**

	<b>Reference costs \$ million (in September 2011 prices)</b>
(a) Piling	16.2
(b) Building	83.1
(c) Building services	21.7
(d) Drainage	3.9
(e) External works	13.3
(f) Contingencies	13.8
<b>Total</b>	<b>152.0</b>

**Background for the Reference Cost**

1. Piling cost based on percussion steel H-pile 95 no. average 30m deep.
2. Exclusions:
  - (i) Demolition, site formation and geotechnical works
  - (ii) Noise mitigation measures
  - (iii) Diversion to existing utilities
  - (iv) Consultant fees
  - (v) Furniture and equipment cost

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**Breakdown of the reference cost  
for building a standard public sector secondary school**

	<b>Reference costs \$ million (in September 2011 prices)</b>
(a) Piling	22.7
(b) Building	112.8
(c) Building services	30.6
(d) Drainage	6.0
(e) External works	21.2
(f) Contingencies	19.3
<b>Total</b>	<b>212.6</b>

**Background for the Reference Cost**

1. Piling cost based on percussion steel H-pile 138 no. average 30m deep.
2. Exclusions:
  - (i) Demolition, site formation and geotechnical works
  - (ii) Noise mitigation measures
  - (iii) Diversion to existing utilities
  - (iv) Consultant fees
  - (v) Furniture and equipment cost

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