

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 Hong Kong Academy Educational Foundation 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 \$157.72 million; and
- (b) an allocation of \$157.72 million from the Loan Fund for providing an interest-free loan to the Hong Kong Academy Educational Foundation Limited towards meeting part of the construction cost of its new school premises at the juncture of Mei Yuen Street and Wai Man Road, Sai Kung, New Territories.

PROBLEM

The Hong Kong Academy Educational Foundation Limited (HKAEFL) requires financial support to meet part of the capital cost for constructing its new school premises at the greenfield site allocated to the HKAEFL in Sai Kung.

/PROPOSAL

PROPOSAL

2. The Secretary for Education (SED) proposes to –
 - (a) increase the commitment under the Loan Fund by \$157.72 million; and
 - (b) allocate \$157.72 million from the Loan Fund for providing an interest-free loan to the HKAEFL towards meeting part of the construction cost of its new school premises at the juncture of Mei Yuen Street and Wai Man Road, Sai Kung, New Territories.

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 local and 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 HKAEFL was allocated a site of about 7 850 square metres at the juncture of Mei Yuen Street and Wai Man Road, Sai Kung, New Territories, for expansion and relocation 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. 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 HKAEFL, which provides non-local curriculum for the international community in Hong Kong, will help in facilitating the provision of additional international school places to meet the demand.

6. Under the prevailing policy for international schools, non-profit-making international schools¹ applying for government assistance in the form of land grant or vacant school premises are required to serve mainly the target group(s) of students that they have publicly stated that they would serve and that this level should be set at no less than 50% of its overall student population. As such, “target students” refer to non-local children of families coming to Hong Kong for work or investment or non-local students holding student visas for entry into Hong Kong for studies. In order to ensure that the increase in international school places could address the growing demand from overseas families, we have imposed a new requirement for successful operators being allocated the three greenfield sites at Kowloon Bay, Lai Chi Kok and Sai Kung in 2009, including the HKAEFL being allocated with a site in Sai Kung, to admit non-local students at no less than 70% of their overall student population.

The new school premises

7. The HKAEFL established the Hong Kong Academy (HKA) in 2000 as a non-profit-making international school in Hong Kong. The HKA follows the International Baccalaureate (IB) Programme, offering the Primary Years Programme at primary level and the Middle Years Programme and IB Diploma Programme at secondary level. As at September 2011, it provides 216 primary and 216 secondary school places in its existing temporary campus at Kennedy Town, Hong Kong. In the long run, it plans to increase the enrolment to 284 primary and 350 secondary students. According to the plan of the HKAEFL, the new school premises will have 32 classrooms and 20 special rooms as well as other educational related facilities, including library, outdoor basketball court and a rooftop soccer pitch/playground to meet teaching and learning needs for the benefits of students. Upon completion of the school premises in Sai Kung, HKA will provide additional 200 school places in its primary and secondary sections. This will help meet the demand for international schools offering non-local curriculum. The site plan and artist’s impression of the new school premises are at Enclosure 1.

Encl.1

8. The HKAEFL estimated that the new school project would cost \$435 million in total. As a non-profit-making organization, the HKAEFL 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 HKAEFL has taken out to finance the construction of the new school premises.

/9.

¹ In this paper, non-profit-making international school operators refer to those that are exempted from tax under section 88 of the Inland Revenue Ordinance (Cap. 112).

9. The HKAEFL 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. HKAEFL 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 HKAEFL 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 HKAEFL will be \$157.72 million. Detailed calculation is at Enclosure 2. We estimate that the amount of interest forgone² as a result of such loan, with a repayment period of ten years, would be \$48.66 million. Subject to the approval by this Committee, we will offer the HKAEFL a loan of \$157.72 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 HKAEFL 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 HKAEFL 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 HKAEFL 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 HKAEFL. 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 a ten-year service agreement with the HKAEFL in June 2011. 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. The requirement of admitting non-local students at no less than 70% of the overall student population has also been stipulated in the service agreement. We may terminate the service agreement if HKAEFL commits any material breach of the provisions.

/PUBLIC

² 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 to 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 EMBCR 15/581/94 III) issued to Members in October 1995.

15. The LegCo FC has subsequently approved a number of loan applications from international schools for the construction of the school premises. For example, the 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. 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.

16. The LegCo FC approved an interest-free loan of \$203.83 million to the Kellett School Association Limited on 27 April 2012 for meeting part of the construction cost of its new school premises at the greenfield site in Kowloon Bay, Kowloon. The commitment of the Loan Fund will be increased by \$203.83 million in 2013-14.³

Education Bureau
May 2012

³ With the approval of the three loan proposals in the 90s and of the recent loan proposal from the Kellett School, the accumulative commitment of the Loan Fund as at today stands at \$392.22 million.

Artist's impression



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

(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)¹. The HKAEFL plans to accommodate 284 primary students (i.e. 12 primary classes, including 4 classes with 23 students and 8 classes with 24 students) in the new premises. On pro-rata basis, we have worked out the maximum amount of loan available to HKAEFL in accommodating 284 students as follows -

$$\begin{aligned} & \$152 \text{ million (reference cost for primary school)} / 486 \times 284 \\ & = \$88.82 \text{ million} \end{aligned}$$

(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)². The HKAEFL plans to accommodate 350 secondary students (i.e. 14 classes each with 25 students) in the new premises. On pro-rata basis, we have worked out the maximum amount of loan available to HKAEFL in accommodating 350 secondary students as follows -

$$\begin{aligned} & \$212.6 \text{ million (reference cost for secondary school)} / 1\,080 \times 350 \\ & = \$68.90 \text{ million} \end{aligned}$$

The maximum loan amount available to HKAEFL should therefore be –

For primary level	=	\$ 88.82 million
For secondary level	=	\$ 68.90 million
Total		\$ 157.72 million

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

² 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**

	Reference costs \$ million (in September 2011 prices)
(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
Total	152.0

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

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

	Reference costs \$ million (in September 2011 prices)
(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
Total	212.6

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
