

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 Harrow International School (Hong Kong) 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 \$272.74 million; and
- (b) an allocation of \$272.74 million from the Loan Fund for providing an interest-free loan to the Harrow International School (Hong Kong) Limited towards meeting part of the construction cost of its new school premises at Area 48, Castle Peak Road, So Kwun Wat, Tuen Mun, New Territories.

PROBLEM

The Harrow International School (Hong Kong) Limited (HISHKL) requires financial support to meet part of the capital cost for constructing its new school premises at the greenfield site allocated to the HISHKL in Tuen Mun.

PROPOSAL

2. The Secretary for Education (SED) proposes to –

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- (a) increase the commitment under the Loan Fund by \$272.74 million; and
- (b) allocate \$272.74 million from the Loan Fund for providing an interest-free loan to the HISHKL towards meeting part of the construction cost of its new school premises at Area 48, Castle Peak Road, So Kwun Wat, Tuen Mun, 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 HISHKL was allocated a site of about 37 980 square metres at Area 48, Castle Peak Road, So Kwun Wat, Tuen Mun, New Territories, for setting up the first international school with boarding facilities in Hong Kong. The land grant formalities were completed in August 2010 and the new school premises is being constructed for completion by the end of 2012.

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 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.

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. This requirement applies to the HISHKL which has been allocated a greenfield site in Tuen Mun.² The HISHKL is also required to reserve at least 50% of its boarding places at the secondary school section for non-local students holding student visas for entry into Hong Kong for studies.

7. The provision of interest-free loan to the HISHKL, 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.

The new school premises

8. The HISHKL will set up the Harrow International School Hong Kong (Harrow) as a non-profit-making international school in Hong Kong. Harrow offers the British national curriculum at its primary and secondary levels. Upon completion of the first phase construction of the school premises at Tuen Mun, Harrow is expected to accommodate 400 primary and 750 secondary students. It will ultimately accommodate 450 primary and 1 050 secondary students. Around half of the places in the secondary school section are for boarders. In the first school year, the School will provide around 390 places at the primary school section and 310 places at the secondary school section. By April 2012, it has offered over 600 places to students in all year groups, with the remaining places for years 11 and 13 to be offered in the next school year. The new places will help meet the demand for international school places offering British national curriculum.

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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).

² The new requirement for the three existing operators being allocated the greenfield sites at Kowloon Bay, Lai Chi Kok and Sai Kung in 2009 to admit non-local students at no less than 70% of their overall student population is not applicable to the HISHKL, which will establish a brand new school in Hong Kong and undertake the pilot project of provision of boarding facilities. That said, we have imposed a new requirement on HISHKL to reserve at least 50% of its boarding facilities for non-local students holding student visas for entry into Hong Kong.

9. According to the plan of HISHKL, the first phase of the new school premises will comprise about 59 classrooms, 40 special rooms for art, drama, music, information and communications technology and small group teaching, a boarding house with a capacity for up to 400 students, as well as other educational related facilities, including a learning lounge, an indoor swimming pool, sports hall and fitness room, and an outdoor sports field to meet teaching and learning needs for the benefits of students. The site plan and artist's impression of the new school premises are at Enclosure 1.

Encl.1

10. The HISHKL has estimated that the first phase of the new school project would cost \$878 million in total including the construction of boarding facilities. As a non-profit-making organization, the HISHKL 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 HISHKL has taken out to finance the construction of the new school premises.

11. The HISHKL has, in accordance with the requirement of the land grant, carried out assessment on sewerage, 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. HISHKL will abide by the requirements and implement the approved recommendations in constructing the new premises.

FINANCIAL IMPLICATIONS

12. In accordance with prevailing Government policy, the interest-free loan to the HISHKL will be capped at 100% of the cost for constructing a standard-design public sector school accommodating the same number of students. The loan will not cover the construction cost of the boarding facilities, which are regarded as "non-standard" facilities under the prevailing schedule of accommodation for a standard-design public sector school. On this basis, the maximum loan amount available to the HISHKL will be \$272.74 million. Detailed calculation is at Enclosure 2. We estimate that the amount of interest forgone³ as a result of such loan, with a repayment period of ten years, would be \$84.01 million. Subject to the approval by this Committee, we will offer the HISHKL a loan of \$272.74 million.

Encl.2

/CONTROL

³ 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..

CONTROL MECHANISM

13. In line with prevailing Government policy, a loan agreement will be signed between the Administration and the successful applicant. The HISHKL will draw down the loan on the completion of the new school premises scheduled in August 2012 and the loan is repayable in ten years. The first instalment of the loan repayment will become due one year after the HISHKL 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 HISHKL 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 HISHKL. We will specify these terms and conditions in the loan agreement.

14. In line with the existing policy to enhance school accountability, we have entered a ten-year service agreement with the HISHKL in August 2010. 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 excluding the boarding facilities on the school site. The requirement of admitting non-local students at no less than 50% of the overall student population and reserving no less than 50% of the boarding places to non-local students holding student visas for entry into Hong Kong for studies have also been stipulated in the service agreement. We may terminate the service agreement if HISHKL commits any material breach of the provisions.

PUBLIC CONSULTATION

15. 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

16. 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.

17. 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.

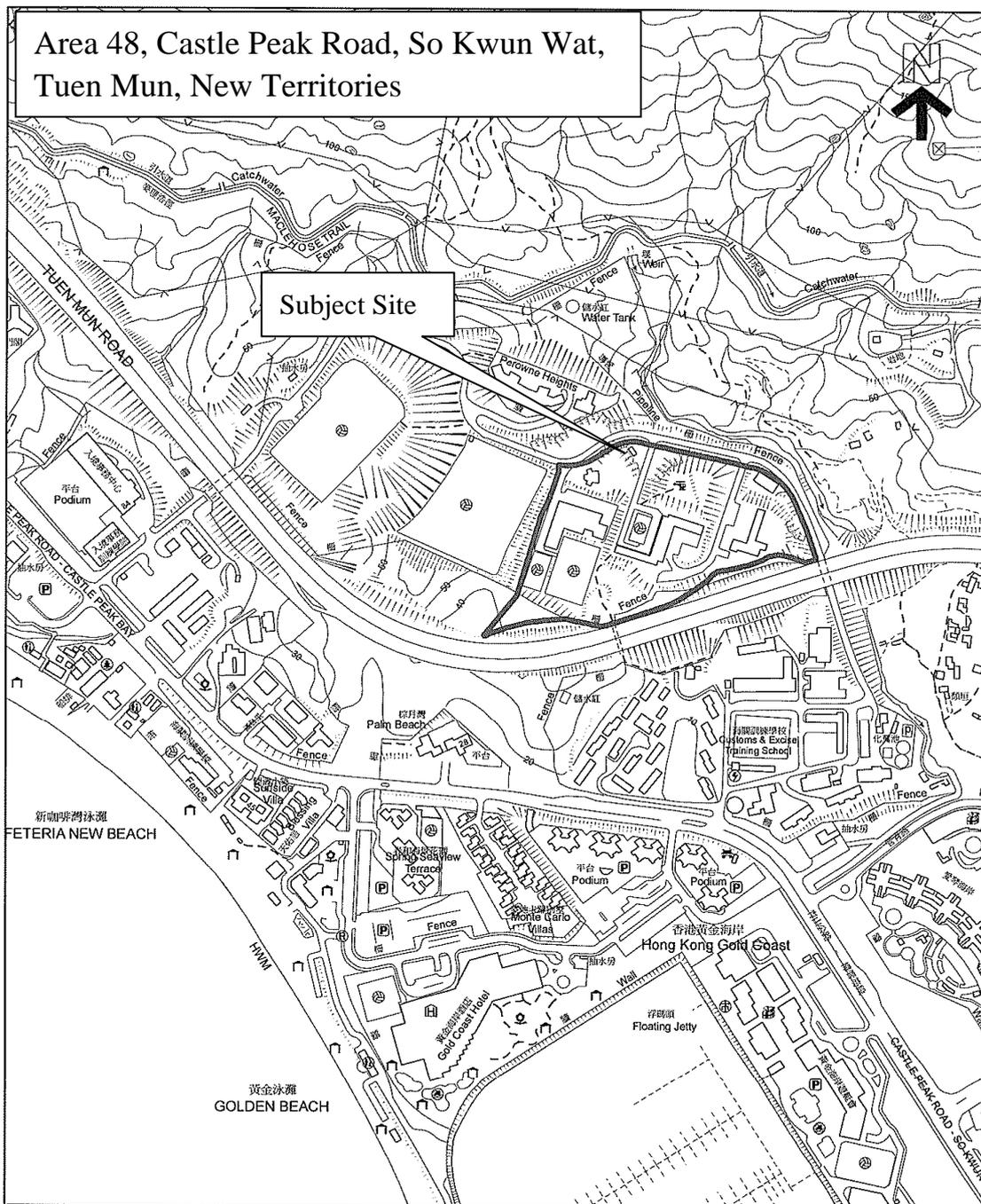
18. The LegCo FC has approved an interest-free loan of \$203.83 million to the Kellett School Association Limited on 27 April 2012 and of \$157.72 million to the Hong Kong Academy Educational Foundation Limited on 25 May 2012 for meeting part of the construction cost of their new school premises at the greenfield sites respectively in Kowloon Bay, Kowloon, and Sai Kung, New Territories. The commitment of the Loan Fund will be increased by \$361.55 million in 2013-14.⁴

Education Bureau
May 2012

⁴ With the approval of the three loan proposals in the 90s and of the recent loan proposals from the Kellett School and the Hong Kong Academy, the accumulative commitment of the Loan Fund as at today stands at \$549.94 million.

Site plan and artist's impression of the new school premises
of the Harrow International School Hong Kong

Site plan



Artist's impression



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

(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 HISHKL plans to accommodate 400 primary students (i.e. 15 primary classes each with 26 to 27 students) in the new premises. On pro-rata basis, we have worked out the maximum amount of loan available to HISHKL in accommodating 400 students as follows -

$$\begin{aligned} & \$152 \text{ million (reference cost for primary school)} / 486 \times 400 \\ & = \$125.10 \text{ million} \end{aligned}$$

(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 HISHKL plans to accommodate 750 secondary students (i.e. 26 classes at Preparatory School and Senior School each with 23 to 24 students; and 10 classes at Sixth Form, each with 15 students) in the new premises. On pro-rata basis, we have worked out the maximum amount of loan available to HISHKL in accommodating 750 secondary students as follows -

$$\begin{aligned} & \$212.6 \text{ million (reference cost for secondary school)} / 1\,080 \times 750 \\ & = \$147.64 \text{ million} \end{aligned}$$

The maximum loan amount available to HISHKL³ should therefore be –

For primary level	=	\$125.10 million
For secondary level	=	\$147.64 million
Total		\$272.74 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.

³ The maximum loan amount will be capped at the present level with reference to the number of primary and secondary students to be accommodated in the new premises (excluding the boarding facilities) upon completion of the first phase construction.

**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
