

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 Australian International School 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 from \$111.391 million by \$77 million to \$188.391 million; and
- (b) an allocation of \$77 million from the Loan Fund for providing an interest-free loan to the Australian International School Foundation Limited towards meeting part of the construction cost of its new school building at Norfolk Road, Kowloon.

PROBLEM

The Australian International School Foundation Limited (AISFL) requires financial support to meet part of the capital cost of its new school.

PROPOSAL

2. The Director of Education (D of E) proposes to grant the AISFL an interest-free loan of \$77 million to meet part of the construction cost of its new school building at Norfolk Road, Kowloon.

/JUSTIFICATION

JUSTIFICATION

3. The AISFL established the Australian International School Hong Kong (AIS) as a non-profit-making international school in Hong Kong in 1995. The school currently operates primary and secondary classes from Preparatory level (equivalent to Primary 1 in Hong Kong) to Grade 10 (equivalent to Secondary 4 in Hong Kong) with an enrolment of about 300 students in leased premises in Kowloon. In the long run, it plans to increase the enrolment to about 800 students from Preparatory to Grade 12 (equivalent to Secondary 6 in Hong Kong) and provide a class for children with special education needs to meet the projected demand for international school places of the Australian curriculum.

4. In 1995, AISFL identified a site of about 5 780 square metres at Norfolk Road, Kowloon for building a new school to meet the increasing demand. The Administration has approved in principle a Private Treaty Grant to the AISFL to build a non-profit-making primary and secondary school of not less than 25 teaching rooms. The land grant formalities are expected to be completed by the end of November 1999. The AISFL estimated that the new school project would cost \$200 million, and has applied for an interest-free loan to meet part of the cost. According to the plan of AISFL, the new school building will have 27 classrooms for 14 classes in the primary section, 12 classes in the secondary section, and one class for children with special education needs. The new school building will accommodate up to 800 students from Preparatory to Grade 12.

5. As the AIS is a non-profit-making international school and there is an established demand for Australian curriculum school places¹, the AISFL is eligible, under established Government policy for international schools, for capital assistance in the form of an interest-free loan up to 100% of the building cost of a standard design public sector primary or secondary school.

FINANCIAL IMPLICATIONS

6. The AISFL will operate primary and secondary classes and a class of special education needs. In accordance with existing Government policy, the interest-free loan to the school will be calculated on a pro-rata basis having regard to the number and level of classes planned for the proposed school and the

/equivalent

¹ We estimate that by 2003, without the new AIS, there will be 2 295 Australian nationals in need of school places in Hong Kong while the supply of Australian curriculum places will be about 500 (about 300 by the existing AIS, about 200 by another existing school offering the Australian curriculum). In other words, there will be a shortfall of about 1 800 places. The new AIS, providing an additional 500 school places, will help meet this shortfall.

Encl.

equivalent provision for standard design public sector primary, secondary and special schools. On this basis, the maximum loan amount available to the AISFL will be \$77 million. Detailed calculation is at the Enclosure. If Members approve the proposal, we will offer the AISFL a loan of \$77 million. We estimate that the amount of interest that Government might have earned otherwise, based on the “no-gain-no-loss rate”² and a repayment period of ten years, would be about \$22 million in net present value.

CONTROL MECHANISM

7. In line with existing policy, the loan to the AISFL will be at nil interest. The AISFL will draw down the loan on completion of the new school building scheduled for March 2001. It will repay the loan over a period of ten years. The first instalment of the loan repayment will become due one year after the school draws down the loan. We will make repayment of the loan a first call upon the liquidated assets of the school in the event it closes down, and in case of default of repayment of the loan, D of E may take possession of the premises and assets of the school. We will specify these terms and conditions in the loan agreement and secure the loan by a legal charge.

BACKGROUND INFORMATION

8. We recognise the importance of international schools to the continued development of Hong Kong as a major international financial and trading centre. International schools cater mainly for the needs of the children in the expatriate community. In the past few years, international schools have also been providing education for children of emigrants who have returned to Hong Kong. To ensure an adequate supply of international school places to meet demand, Government policy is to offer support to non-profit-making international schools. The support includes the grant of land by private treaty to schools which meet our assessment criteria and which help meet an identified demand of school places.

9. In October 1995, following recommendations of a Working Group on the Provision of International School Places, the Government approved, among other things, the provision of an interest-free loan, up to 100% of the cost of building a standard design primary or secondary public sector school as

/appropriate

² The “no-gain-no-loss” interest rate is set at 2% below the average best lending rate of the note-issuing banks. This formula ensures that the interest rate will move in tandem with the market lending rate and that there will be no resultant gain or loss to Government. The Director of Accounting Services will review the interest rate at the end of each month and adjust it when the difference between the updated rate and the prevailing rate is one percentage point or more, or when the prevailing rate has remained stationary for over six months.

appropriate, to non-profit-making international schools not in the English Schools Foundation, to help them meet the cost of building a new international school or extension. We have set out details of the revised scheme for international schools in the Legislative Council Brief (Ref. EMBCR 15/581/94 III) issued to Members on 11 October 1995.

10. On 17 January 1997, Finance Committee approved an interest-free loan of \$66.591 million to the Canadian International School for building a new non-profit-making primary and secondary school at Nam Long Shan Road. On 20 June 1997, Finance Committee approved an interest-free loan of \$44.8 million to the Hong Kong Japanese School Limited for building a new non-profit-making primary school at Tai Po Kau. The terms and conditions of the loan we now propose to offer to the AISFL are the same as those applied to the Canadian International School and the Hong Kong Japanese School Limited.

Education and Manpower Bureau
November 1999

**Calculation of the Maximum Loan Amount Available to
the Australian International School Foundation Limited (AISFL)**

(a) Primary classes

The average cost of building a standard public sector primary school with 30 operating classes is \$90.8 million at December 1998 prices. The AISFL plans to operate 14 primary classes each with 30 students. Using a standard class size of 32 students per class for Primary 1 to 6 in the public sector primary schools adopting the activity approach, we have worked out the number of operating classes in the proposed school as equivalent to 13.1 (14 x 30/32) primary classes in a standard design public sector school.

(b) Secondary classes

The average cost of building a standard public sector secondary school within 30 operating classes is \$107.6 million at December 1998 prices. The AISFL plans to operate 12 secondary classes each with 30 students. Using a standard class size of 40 students per class for Secondary 1 to 5 and 30 students per class for Secondary 6 in public sector secondary schools, we have worked out the number of operating classes in the proposed school as equivalent to 9.5 (10 x 30/40 + 2 x 30/30) secondary classes in a standard design public sector school.

(c) Special classes

The proposed school will also have a class with a capacity of 15 for mildly mentally/physically handicapped students with special education needs. As there is no standard design and thus no standard building cost for special schools, we take as reference the construction cost of a special school, the Buddhist Po Kwong School at Tin Sum Village, Fanling which was endorsed by the Public Works Subcommittee at an estimated cost of \$78.2 million at December 1998 prices. The Buddhist Po Kwong School has 20 classes with a class size of 15 students and will accommodate up to 300 mildly and moderately mentally handicapped children upon completion.

The maximum loan amount available to AISFL should therefore be -

For primary section	= \$90.8 million x 13.1/30	= \$39.65 million
For secondary section	= \$107.6 million x 9.5/30	= \$34.07 million
For the special class	= \$78.2 million x 1/20	= \$3.91 million
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	Total	\$77.63 million
	Say	<hr/> \$77 million