

## **ITEM FOR FINANCE COMMITTEE**

### **CAPITAL WORKS RESERVE FUND**

### **HEAD 708 – CAPITAL SUBVENTIONS AND MAJOR SYSTEMS AND EQUIPMENT**

#### **Education Subventions**

#### **61EC - Hostel Development Fund**

Members are invited to approve a one-off grant of \$10,303.7 million in money-of-the-day prices to the six University Grants Committee-funded universities as a new funding arrangement for expediting the development of student hostels for meeting their hostel shortfalls in full.

### **PROBLEM**

We need to expedite the development of student hostels of the University Grants Committee (UGC)-funded universities, so as to fully address within ten years the chronic shortfall in student hostel places calculated in accordance with the existing student hostel policy.

### **PROPOSAL**

2. The Secretary-General of UGC, with the support of the Secretary for Education, proposes to upgrade **61EC** to Category A to set up a Hostel Development Fund (HDF) at an estimated cost of \$10,303.7 million in money-of-the-day (MOD) prices to make a one-off grant to the six UGC-funded universities<sup>1</sup> with hostel shortfalls for expediting the development of student hostels of the UGC-funded universities.

**/JUSTIFICATION .....**

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<sup>1</sup> The six UGC-funded universities include City University of Hong Kong, Hong Kong Baptist University, The Chinese University of Hong Kong, The Hong Kong Polytechnic University, The Hong Kong University of Science and Technology and The University of Hong Kong.

## JUSTIFICATION

### Prevailing Hostel Policy

3. Student hostel life is an essential part of higher education. Besides, it is the Government's policy to promote internationalisation in the higher education sector by attracting non-local students to study in Hong Kong and, through this process, broaden the horizon of local students.

4. Under the prevailing policy, the Government will fund up to 75% of the capital cost of UGC-funded university publicly-funded student hostel places calculated in accordance with the following criteria<sup>2</sup>, subject to availability of land and resources –

- (a) all undergraduate students should be given the opportunity of staying in student hostels for at least one year of their programme;
- (b) all research postgraduate students and non-local students should be granted student hostel places; and
- (c) undergraduate students who travel to and from the campus daily for more than four hours should be provided with student hostel places.

The remaining 25% of the capital cost will be met by the universities concerned using their own sources of private funding. In addition to the above-mentioned standard hostel provision, arising from a review of the need for adjustment to hostel provision, the Government decided in 2006 to provide an additional 1 840 publicly-funded student hostel places to the UGC-funded sector to support universities' growing student exchange activities.

### Current Situation

5. Over the years, owing to land and resources constraints as well as competing priorities, the number of publicly-funded student hostel places has fallen short of the projected requirement calculated according to the prevailing

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<sup>2</sup> The criteria are not applicable to the Lingnan University (LU) and the Education University of Hong Kong (EdUHK). LU has been provided with hostel places for 50% of its full-time degree student population having regard to its remote location in Tuen Mun and its aspirations to develop itself into a relatively small, fully residential liberal arts institution. EdUHK was provided with hostel places for 50% of its full-time degree student population projected at the time of establishment of the Hong Kong Institute of Education (subsequently retitled as "EdUHK" in 2016) having regard to the potential benefits that hostel life would bring to the quality of pre-service teacher education.

student hostel policy. The total projected shortfall of student hostel places<sup>3</sup> in the UGC-funded sector will be 13 473 by 2018/19 academic year, which represents about 31% of the projected requirement according to the prevailing policy.

6. The chronic shortfall of publicly-funded student hostel places has been a matter of concern among stakeholders. In fact, the shortfall has limited the number of local students having an opportunity to benefit from hostel life. It has also seriously restrained universities' internationalisation efforts. Universities are not only unable to recruit more overseas students or accept more incoming exchange students because of the shortage of hostel places for these students, but also unable to send out more students for outbound exchange on a reciprocal basis.

7. Under the prevailing arrangement where each and every university hostel project has to compete for priority consideration to be accorded with the required resources, it takes considerable time for a hostel development project to materialise. In most of the cases, universities have to enlist donations for not less than 25% of the construction cost they have to bear. At present, they can only start such efforts after the funding to be met by the Government has been approved by the Finance Committee (FC) of the Legislative Council (LegCo). As in most capital works projects fully-funded by the Government, the site investigation work, the detailed design and other pre-construction work have to be completed before the funding proposal can be put to the FC of LegCo. In the majority of cases such work needs years to complete. The proposed new arrangement is an innovative approach which seeks to shorten the time taken for hostel development projects to materialise by bringing forward the approval process for government funding so that universities can enlist donations and proceed with pre-construction work simultaneously.

8. We see a strong case to expedite student hostel development to address the shortfall, as well as to put precious earmarked land resources into meaningful use as early as possible, without compromising the monitoring role of the Government. We therefore propose the establishment of HDF to provide government funding for the UGC-funded universities to construct student hostels to address their hostel shortfalls once and for all.

## THE PROPOSAL

9. The six UGC-funded universities with student hostel shortfalls submitted to the Government in February 2018 their Master Hostel Development Plans (MHD Plans) which proposed 15 hostel projects with 13 473 hostel places in total. The Architectural Services Department (ArchSD), the technical advisor of the UGC, has been consulted.

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<sup>3</sup> On the assumption of full use of the 20% non-local students quota for undergraduates and taught postgraduates.

/Amount .....

Amount of capital grants to the universities

10. The capital grants to be provided for each hostel project will be calculated by multiplying the number of publicly-funded student hostel places by a unit subsidy rate. In working out the unit subsidy rate, reference has been made to a hostel project that is under construction (i.e. “Student hostels on northern campus” of the Chinese University of Hong Kong) and several hostel projects currently under planning. As a general rule, a “standard unit subsidy rate” will apply to all projects. That said, having regard to the fact that some projects are located at difficult sites with development constraints (i.e. steep topography or complicated geological condition), universities could apply with justifications for an “enhanced unit subsidy rate” as an exceptional arrangement. Calculation of the unit subsidy rates is set out at Enclosure 1. In finalising both the standard and enhanced unit subsidy rates, we have taken into account the professional advice from ArchSD and the Project Cost Management Office of the Development Bureau.

Encl. 1

11. With the establishment of the proposed HDF, we expect that the projected shortfall of 13 473 student hostel places could be fully met within ten years. The HDF provides certainty on the availability of funding from the Government, and in turn facilitates the universities, which are required to bear at least 25% of the construction cost of student hostel projects, to enlist donations from the community early. In addition, HDF brings about the added advantage of allowing greater flexibility for our universities, which are highly experienced in delivering student hostel projects, to exercise creativity in architectural design of the buildings, so as to better suit their students’ needs.

12. We do not envisage any need to construct additional student hostels after meeting the total projected shortfall in full under the current student number target and the student hostel policy. The proposed HDF is a one-off arrangement to meet the outstanding hostel shortfall in full.

**FINANCIAL IMPLICATIONS**

13. A non-recurrent funding of \$10,303.7 million in MOD prices will be required for providing capital grants to UGC-funded universities. The one-off capital grants will be fully disbursed to the six UGC-funded universities concerned upon setting up of the HDF for undertaking 15 projects which will provide a total of 13 473 student hostel places. Breakdown of the calculation is as below –

/Unit .....

Unit subsidy rate (MOD) <sup>4</sup> (including pre-construction cost) (a)	No. of projects	No. of hostel places to be constructed (b)	Amount already spent under Block Allocation <sup>5</sup> (\$ million) (c)	Amount of capital grants (\$ million) (MOD) (d) = (a) x (b) – (c)
Standard rate: \$673,000	12	9 515	28.6	6,375.0
Enhanced rate: \$993,000	3	3 958	1.6	3,928.7
Total	15	13 473	30.2	10,303.7

14. Universities that need to apply for the “enhanced unit subsidy rate” for their proposed hostel projects have submitted justifications and site information, duly certified by an independent registered professional/Authorised Person, to the Government in their MHD Plans. In consultation with ArchSD, we accept that three of the proposed projects that will be built on project sites with steep slopes require extensive foundation and site formation works, and are therefore justified for applying the “enhanced unit subsidy rate” as mentioned in paragraph 10 above.

15. In calculating the unit subsidy rates under HDF, we have taken into account capital grants for pre-construction activities, currently funded by the relevant block allocation under the Capital Works Reserve Fund. The capital grants can be used for detailed design and site investigation costs at the pre-construction stage, including consultant’s design fees and charges, preparation of tender documents and site investigation costs and major in-house investigations. Pre-construction activities of some of the projects in paragraph 13 have commenced, incurring \$30.2 million as at 16 May 2018. The amount already incurred and paid to the universities from the relevant block allocation for a particular project would be deducted from the one-off capital grants to be disbursed to the university concerned following the establishment of the HDF. Detailed breakdown of capital grants to be provided to the universities is at Enclosure 2.

Encl. 2

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<sup>4</sup> Subject to funding approval for this item within the 2017-18 legislative session, the capital grant will be disbursed to universities concerned in late 2018. As such, the unit subsidy rates are calculated with respect to the September 2018 price level. As the Government will not provide for price adjustment beyond 2018 to the unit subsidy rates, figures calculated in September 2018 price level are in effect the MOD prices.

<sup>5</sup> Details are set out at paragraph 15 below.

16. The proposed HDF has no additional recurrent financial implications on the Government as student hostels are operated on a self-financing basis.

## GOVERNANCE

17. In line with the prevailing practice, universities would continue to assume full responsibility and accountability for their projects. They must ensure that their projects comply with all relevant legislation, and should seek approval from the relevant authorities where necessary. Universities will continue to consult stakeholders including the local community. To this end, we have invited the concerned universities to each set up a sub-committee or a task force under the Council to monitor the progress of each hostel project.

18. To ensure transparency and accountability on the use of the capital grants, the Education Bureau will submit an annual report on the progress of hostel development to the LegCo Panel on Education after the establishment of HDF.

Encl. 3 19. The universities concerned should deliver the pledged number of hostel places by the agreed completion date indicated in their MHD plans. A penalty system, as detailed at Enclosure 3, will be put in place in case there is any delay in delivering the hostel places. Moreover, in disbursing the capital grants to the universities, the Government will not provide for price adjustment beyond 2018. Therefore the universities would be motivated to complete the hostel projects as early as practicable. For any part of the grants which is not yet required for meeting the cashflow of the projects, universities are allowed to make appropriate investment, as they see fit, with a view to covering potential increase in the construction cost due to price adjustment. The university concerned will be fully responsible for their investment decisions which shall entail no consequences to the Government.

20. The universities are required to deposit the capital grants disbursed under HDF into a separate account. The capital grants and any investment returns generated from them can only be used to finance the capital cost of the approved publicly-funded hostel places. Universities concerned should submit a quarterly progress report to the UGC Secretariat until project completion. Upon completion of projects, universities should prepare and submit statements of the final account, checked and certified by qualified external auditors they engaged, to the UGC Secretariat. To ensure that universities will fully comply with the relevant requirements under HDF, service agreements will be signed between individual universities concerned and the UGC Secretariat.

21. In line with the prevailing student hostel policy, the Government's commitment will be capped at 75% of the total construction cost. Excess capital grants will be clawed back if the final accounts show that the Government's capital grants<sup>6</sup> provided to the universities concerned exceeded 75% of the total construction cost. The one-off capital grant provided under HDF would be the ceiling of Government's commitment. In any event, no additional top-up funding will be provided by the Government.

22. The arrangements set out from paragraphs 17 to 21 above provide sufficient safeguard for the proper use of public funds.

### **ALLOCATION OF HOSTEL PLACES**

23. Under the HDF, the actual allocation of hostel places among students will remain within the prerogative of the UGC-funded universities under our overall policy framework. UGC-funded universities would continue to be responsible for determining and implementing the allocation mechanism. We understand that a student applying for student hostel place would normally be assessed through an open assessment and scoring system which takes into account student's daily travelling hours, health condition, family status, participation in school activities and other special reasons (if any). We note that UGC-funded universities have been providing hostel places for needy students, such as those with special family circumstances. We believe the UGC-funded universities will continue to attach great importance to the needs of different students.

24. Upon completion of all hostel projects under HDF, all universities would be provided with sufficient hostel places in accordance with the hostel policy. The universities would be requested to ensure all local undergraduate students who travel to and from the campus daily for more than four hours would be allocated a hostel place, if they apply for one. Moreover, to allow all undergraduate students to have a chance to stay in a student hostel for at least one year of their study programme as per the hostel policy, universities will be requested to accord priority to students meeting this criterion under their allocation mechanism.

### **PROMOTION OF INTEGRATION AMONG STUDENTS THROUGH HOSTEL ACCOMMODATION**

25. The universities were requested to outline their student integration policy in the MHD Plans. With the provision of sufficient hostel places as calculated in accordance with the hostel policy, more hostel places will be

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<sup>6</sup> Any investment return, regardless of gain or loss, will not be taken into account.



available to both local and non-local students. The multi-cultural environment will help enhance cultural exchanges, broaden the horizon of the local students and help enhance their competitiveness. Upon completion of the proposed hostel projects funded by HDF, the UGC-funded universities will step up their efforts in organising more hostel-related programmes, including orientation and familiarisation programmes, social events and gatherings, inter-hall sports activities, non-local peer mentors and workshops, residential life education programmes, etc. with a view to engendering cultural exchange and interaction as well as nurturing multi-cultural student integration. Support and assistance will continue to be provided to non-local students in adapting to the local environment and student life.

## **PUBLIC CONSULTATION**

26. We consulted the LegCo Panel on Education on the general framework of the HDF on 1 December 2017. Members generally supported the expediting of student hostel development. Some members objected to the submission of the funding proposal to FC before the Government had provided a detailed account of how it would promote the integration among different groups of students on campus in their studies and exchange activities. The required supplementary information was submitted to the Panel on Education in January 2018.

27. The six UGC-funded universities with student hostel shortfall have been briefed on the operation of the proposed HDF and the capital grants involved as detailed above. They unanimously support the proposed arrangements and agree to comply with the requirements.

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Education Bureau  
University Grants Committee Secretariat  
June 2018

## Calculation of unit subsidy rates under Hostel Development Fund

### Standard Unit Subsidy Rate

Standard Unit Subsidy Rate = unit funding rate of construction cost +  
unit funding rate for pre-construction works  
= \$656,098 + \$16,055  
= \$673,000 (rounded up to the nearest thousand)

### Construction Cost

Reference Project	Unit subsidy rate <sup>*</sup> (MOD)
<b>8055EF</b> - Chinese University of Hong Kong (CHUK)'s student hostels on northern campus (Blocks A3 and A4)	\$656,098

### Pre-construction works

Reference Projects	Unit subsidy rate <sup>*</sup> (MOD)
<b>8055EF</b> - CUHK's student hostels on northern campus (Blocks A3 and A4)	\$11,580
<b>8058EG</b> - The University of Hong Kong (HKU)'s student residence at Mui Fong Street	\$21,080
<b>8061EG</b> - HKU's student residence at High West Site	\$21,936
<b>8060EG</b> - HKU's student residences at Wong Chuk Hang Site	\$17,157
<b>8058EF</b> - CUHK's 300-place student hostel at New Asia Campus	\$18,250
<b>8025EJ</b> - City University of Hong Kong's student hostel at Whitehead, Ma On Shan	\$9,686
<b>8016EL</b> - Hong Kong University of Science and Technology's 1200-place student residences	\$8,500
<b>8022EH</b> - Hong Kong Baptist University's development of hostel and academic building complex at 30 Renfrew Road, Kowloon Tong (hostel portion)	\$20,250
Average:	\$16,055

\* Refers to the Government-funded portion (75% of the total cost) only. Subject to funding approval for this item within the 2017-18 legislative session, the capital grant will be disbursed to universities concerned in late 2018. As such, the unit subsidy rates are calculated with respect to the September 2018 price level. As the Government will not provide for price adjustment beyond 2018 to the unit subsidy rates, figures calculated in September 2018 price level are in effect the MOD prices.

### **Enhanced Unit Subsidy Rate**

Enhanced Unit Subsidy Rate = unit funding rate of construction cost +  
unit funding rate for pre-construction works  
= \$968,071 + \$24,042  
= \$993,000 (rounded up to the nearest thousand)

#### Construction Cost

<b>Reference Project</b>	<b>Unit subsidy rate<sup>*</sup> (MOD)</b>
<b>8030EK</b> - The Hong Kong Polytechnic University (PolyU)'s campus expansion at Ho Man Tin Slope (hostel portion)	\$968,071

#### Pre-construction works

<b>Reference Project</b>	<b>Unit subsidy rate<sup>*</sup> (MOD)</b>
<b>8030EK</b> - PolyU's campus expansion at Ho Man Tin Slope (hostel portion)	\$24,042

\* Refers to the Government-funded portion (75% of the total cost) only. Subject to funding approval for this item within the 2017-18 legislative session, the capital grant will be disbursed to universities concerned in late 2018. As such, the unit subsidy rates are calculated with respect to the September 2018 price level. As the Government will not provide for price adjustment beyond 2018 to the unit subsidy rates, figures calculated in September 2018 price level are in effect the MOD prices.

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**List of Proposed Projects with Capital Grants to be provided to the Universities under the Hostel Development Fund (HDF)**

<b>University</b>	<b>Proposed project</b>	<b>No. of hostel places involved</b>	<b>Agreed completion date</b>	<b>Unit subsidy rate (\$)(MOD)</b>	<b>Amount spent under block vote allocation for pre-construction works (\$)</b>	<b>Capital grant to be provided under HDF (\$)(MOD)</b>
City University of Hong Kong	Student Hostel at Whitehead, Ma On Shan	2 168	30 June 2024	673,000	13,236,000	1,445,828,000
	Student Hostel at Tat Hong Avenue, Kowloon Tong*	999	31 October 2027	993,000	0	992,007,000
Hong Kong Baptist University	Hostel Complex at 30 Renfrew Road, Kowloon Tong	1 726	31 October 2023	673,000	0	1,161,598,000
Chinese University of Hong Kong	300-place Student Hostel at New Asia Campus	300	30 June 2023	673,000	5,475,000	196,425,000
	250-place Student Hostel at United Campus	250	31 December 2024	673,000	0	168,250,000
	300-place Student Hostel at Shaw Campus	300	31 December 2024	673,000	0	201,900,000
	300-place Student Hostel at Chung Chi Campus	300	31 December 2026	673,000	0	201,900,000
	250-place Student Hostel at Wu Yee Sun Campus	250	30 June 2027	673,000	0	168,250,000
	394-place Student Hostel in Area 39	394	30 June 2027	673,000	0	265,162,000

University	Proposed project	No. of hostel places involved	Agreed completion date	Unit subsidy rate (\$)(MOD)	Amount spent under block vote allocation for pre-construction works (\$)	Capital grant to be provided under HDF (\$)(MOD)
The Hong Kong Polytechnic University	Student Hostel at Ho Man Tin Slope <sup>*</sup>	1 279	31 May 2025	993,000	1,642,000	1,268,405,000
	Student Hostel at Tat Hong Avenue, Kowloon Tong <sup>*</sup>	1 680	31 October 2027	993,000	0	1,668,240,000
Hong Kong University of Science and Technology	1415-place Student Hostel	1 415	31 July 2023	673,000	0	952,295,000
The University of Hong Kong	Student Residence at Wong Chuk Hang Site	1 224	30 November 2023	673,000	6,200,000	817,552,000
	Student Residence at Mui Fong Street	250	30 April 2022	673,000	3,670,000	164,580,000
	Student Residence at High West Site	938	31 May 2024	673,000	0	631,274,000
Total		13 473			30,223,000	10,303,666,000

\* Enhanced unit subsidy rate is proposed to be granted for the projects.

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### Proposed Penalty System under Hostel Development Fund

Under the proposed Hostel Development Fund, University Grants Committee (UGC)-funded universities concerned have submitted their Master Hostel Development Plans (MHD Plans) indicating the details of their proposed hostel project(s) showing the number of hostel places to be delivered under each project and the estimated project completion date<sup>1</sup>. Upon approval of the MHD Plans, the agreed completion date of each hostel project will be confirmed subject to the funding approval from the Finance Committee of the Legislative Council. To ensure proper use of public money, a penalty system will be put in place in case there is any delay in delivering the hostel places by the UGC-funded universities concerned.

2. The amount of penalty will be calculated by multiplying the capital grants provided to the university concerned for the number of hostel places involved in the delay (which is less than four years) by a certain penalty percentage and the duration of delay. As regards the penalty percentage, we propose to adopt the Government's no-gain-no-loss interest rate<sup>2</sup> as applied to a number of government loans<sup>3</sup>. The current no-gain-no-loss interest rate is 1.132% per annum.

3. Nevertheless, to allow some flexibility to universities in view of the possible unforeseeable factors affecting the progress of the construction works, it is proposed to set a grace period of 180 days before the penalty kicks in. The amount of penalty will be calculated according to the following formula –

*“Unit subsidy rate (standard rate or enhanced rate, depending on the project involved) x no of hostel places involved in the delay x prevailing no-gain-no-loss interest rate x duration of delay beyond the grace period”*

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<sup>1</sup> Completion date refers to the date of granting the Occupation Permit by the Buildings Department in this context.

<sup>2</sup> The no-gain-no-loss interest rate is set at a fixed percentage (“X”) below the average of the best lending rates of the note-issuing banks. The value of “X” will be reviewed by the Financial Services and the Treasury Bureau every two years. The current “X” factor is 3.951%.

<sup>3</sup> The no-gain-no-loss interest rate is applied in a number of government loans, e.g. loans granted under the Home Financing Scheme, Home Purchase Scheme, Housing Loan Scheme, and loans secured against final leave salary, contract gratuity in respect of the leave and commuted pension gratuity under CSR 633, and Building Safety Loan Scheme under Buildings Department.

4. Any delay, to be counted in number of days having regard to the 180-day grace period, will be subject to the penalty unless there are strong and justifiable grounds showing that the delay was a result of uncontrollable factors. The university concerned will be required to pay the penalty calculated according to the above formula to the Government upon a request from the Government. Having said the above, universities should inform Education Bureau/UGC Secretariat as early as possible should they foresee any chance of failing to deliver any hostel places by the agreed completion date and carry out mitigation measures as far as practicable.

5. Under the penalty system, the Government may also claw back the total capital grants and any investment returns generated for the hostel places involved if the university concerned cannot complete the project within four years after the agreed completion date. Such exceptional and unlikely scenario will be considered on a case-by-case basis.

6. In case the capital grants are partially or fully returned to the Government, we expect that the university concerned will have to meet any consequential funding gap with non-government funds for completion of the construction of the hostels concerned.

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