

CABINET-IN-CONFIDENCE

ACT GOVERNMENT

Paper Type **Assistance to University of Canberra to purchase and refurbish Cameron Offices for the purpose of student accommodation**

Decision No. 11/163/CAB

21 March 2011

- 1) The Cabinet agreed in-principle to support the University of Canberra to purchase and develop Wing 5 Cameron Offices for the purpose of student accommodation, subject to further work clarifying:
 - a) loan details;
 - b) the possibility of using unallocated funds from the 'Tune-up Program';
and
 - c) whether the Change of Use Charge is applicable.
- 2) The Cabinet agreed the support to the University of Canberra (UC) to purchase and develop Cameron Offices will be provided in the form of:
 - a) a \$23.35 million loan facility to the UC at an interest rate of 6.5 per cent per annum; and
 - b) a contribution of \$6 million in total, to be paid as a grant over nine years.
- 3) The Cabinet noted:
 - a) the UC has advised that construction must commence in April 2011 to ensure that the facility operational in time for the 2012 academic year;
 - b) the UC has advised that it would be unable to undertake this project without assistance from the ACT Government;
 - c) the new student facility will enable the UC to attract an additional 212 students per annum to the ACT and enable them to compete more effectively with other jurisdictions for international students in the future;
 - d) the value of the low interest loan is equivalent to \$2.8 million and the total assistance package equates to \$8.8 million; and

CABINET-IN-CONFIDENCE

CABINET DECISION
NOT TO BE COPIED

CABINET-IN-CONFIDENCE

- e) the UC is a significant contributor to the ACT economy and international education is the second largest export industry in the ACT.

A handwritten signature in black ink, consisting of several overlapping loops and lines, positioned above the title 'Secretary to Cabinet'.

Secretary to Cabinet

**CABINET DECISION
NOT TO BE COPIED**

CABINET-IN-CONFIDENCE

Chief Minister's Cabinet Brief

Cabinet Meeting Date: 21 March 2011
Title of Submission: 11-163 Assistance to University of Canberra to purchase and refurbish Cameron Offices for the purpose of student accommodation
Minister: Land and Property Services

Context and Consultation

This Submission proposes

- a \$23.35 million loan to the University of Canberra to purchase and refurbish Wing 5 of the Cameron Offices for student accommodation from 2012
- a grant of \$9 million over nine years to support loan repayments over 12 years.

Issues/Comment

Given the pressing immediate need, the proposal is supported by all agencies. However, this initiative would have been better developed in the context of a wider student accommodation strategy. Both CMD and Treasury are concerned with the \$9million grant.

Treasury supports a loan to the University of Canberra at 6.5%, which is cost-neutral to the ACT and represents a \$2.8 million benefit to UC (as the interest rate would be below the 8% commercial rate).

Treasury does not support the \$9 million assistance through a payroll tax waiver or the grant, which effectively would be the ACT Government funding the repayment of its own loan back to itself.

The reason for the grant is the short life of the refurbishment (only twelve years) which, if correct, means the University would carry a non-productive loan for the final thirteen years. The \$9 million grant would release University funds for other works. However, a grant of this amount considerably reduces the University's incentive to manage closely the financial aspects of the project and the facility over its lifetime. A grant is also difficult to manage.

The Submission also recommends that CMD (BID) administers the financial assistance agreement.

Submission Recommendations

It is recommended that:

- you SUPPORT the Submission in relation to the loan to the University of Canberra;
- Cabinet reconsiders the \$9m grant arrangement; and
- the Department of Land and Property Services work with the Department of Education and Training to develop for Cabinet's consideration a broader student accommodation strategy, including an analysis of current and future need and options for addressing this. This would be part of the affordable housing strategy.

For Cabinet

11/163

Assistance to University of Canberra to purchase and refurbish Cameron Offices for the purpose of student accommodation

Minister for Land and Property Services, Jon Stanhope MLA

CABINET SUBMISSION

Purpose	This paper seeks Cabinet agreement to provide assistance to the University of Canberra (UC) to enable them to purchase Wing 5 of Cameron Offices in Belconnen and refurbish it for 212 student accommodation places in 2012.																		
Timing	Agreement is required by 21 March 2011 in order for the UC to commence construction in April so that the units can be completed for the 2012 academic year.																		
Impact: <ul style="list-style-type: none"> • Social • Environment • Economic 	<p>International education is the second highest export earner in the ACT and the UC is one of the largest payroll tax contributors in the ACT.</p> <p>This initiative will assist the UC to grow its non-local student numbers by 212 places. It is estimated that each non-local student contributes \$270 per week into the ACT economy through household consumption spending on food, clothes and other discretionary items. This equates to an increase in state final demand of around \$2.6m p.a. based on students being in the ACT for 45 weeks per annum.</p> <p>It will also help the UC to maintain its share of the international student market which will become more competitive with Sydney and Melbourne in 2012 as a result of changes to the Commonwealth's tertiary funding model.</p>																		
<ul style="list-style-type: none"> • Intergovernmental • Regulatory Impact 	<p>No</p> <p>No</p>																		
Consultation	Treasury has been consulted regarding the level of financial assistance required and how this can best be provided.																		
Legislation Change	An Appropriation Bill is required to facilitate the provision of the loan and other financial assistance.																		
Implementation Reporting	Yes – Grant programs require reporting against performance criteria.																		
Budget Impact: <i>(A minus sign indicates a cost to the Budget)</i> Treasury Agreement: Yes/No	<table border="1"> <thead> <tr> <th><i>Net impact (\$000)</i></th> <th><i>2010-11</i></th> <th><i>2011-12</i></th> <th><i>2012-13</i></th> <th><i>2013-14</i></th> <th><i>2014-15</i></th> </tr> </thead> <tbody> <tr> <td>Operating</td> <td></td> <td>-500</td> <td>-1,000</td> <td>-1,000</td> <td>-1,000</td> </tr> <tr> <td>Capital</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	<i>Net impact (\$000)</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>	<i>2014-15</i>	Operating		-500	-1,000	-1,000	-1,000	Capital					
<i>Net impact (\$000)</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>	<i>2014-15</i>														
Operating		-500	-1,000	-1,000	-1,000														
Capital																			

**Assistance to University of Canberra to purchase and refurbish
Cameron Offices for the purpose of student accommodation**

Minister for Land and Property Services, Jon Stanhope MLA

- 1) I recommend Cabinet agree to assist the University of Canberra to purchase and develop Wing 5 Cameron Offices for the purpose of student accommodation. The assistance will be provided in the form of:
 - a) a \$23.35 million loan facility to the UC at an interest rate of 6.5 per cent per annum; and
 - b) a contribution of \$9 million in total to be paid as a grant of \$1 million per annum over nine years.

- 2) I recommend Cabinet note:
 - a) the UC has advised that construction must commence in April 2011 to ensure that the facility operational in time for the 2012 academic year;
 - b) the UC has advised that it would be unable to undertake this project without assistance from the ACT Government;
 - c) the new student facility will enable the UC to attract an additional 212 students per annum to the ACT and enable them to compete more effectively with other jurisdictions for international students in the future;
 - d) the value of the low interest loan is equivalent to \$2.8 million and the total assistance package equates to \$11.8 million; and
 - e) the UC is a significant contributor to the ACT economy and international education is the second largest export industry in the ACT.

Final Agency Comments

The following agencies commented on the final paper.

CMD	Supported, given the immediate and pressing need, although there are concerns in relation to the proposed \$9 million grant to assist loan repayments. Treasury's concerns around the grant and duration of the loan facility have not been sufficiently addressed in the Submission. It is recommended that the funding options be further considered. Cabinet should also agree to a further recommendation to develop a broader student accommodation strategy including an analysis of current and future need and options for addressing this. This would be part of the affordable housing strategy.
TSY	Supported. Treasury supports assisting the UC to develop Wing 5 of Cameron Offices for student accommodation. Treasury, however, does not support the proposed \$9 million grant (Recommendation 1b). With a loan at Government borrowing rate with favourable repayment period, the project is viable for the UC, while there will be no impact on the Territory's operating budget. Any further support (in the form of grant or tax waiver) is therefore unnecessary.
DET	Supported
DHCS	Supported
HEALTH	Supported
JACS	Supported
TAMS	Supported
ACTPLA	Supported. Currently, as the site is National Land, ACTPLA does not have a role in any development assessment. Should the National Land status be revoked, then the CZ2 Business Zone will apply and it is likely that a development application would be required.
CIT	Supported. further information on operation and non-operation costs (GST, insurance, building and furniture, fittings and equipment reserve, etc.) would better inform the loan term considerations.

SUPPORTING ARGUMENT

BACKGROUND

- 1) The University of Canberra (UC) is seeking to expand its enrolment numbers from 2012 onward when the Commonwealth funding model will change so that funding is no longer capped. From 2012, universities will be funded based on actual student numbers, and this will provide incentives to maximise their enrolment numbers. This will mean that universities across Australia will compete more directly with each other for international students.
- 2) However, a growth in international student numbers will place considerable stress on the existing accommodation infrastructure within the education sector, leading to increased pressure on affordable housing more broadly. This problem has been compounded by the tight housing market, especially within the low cost housing sector, which is the rental price segment that international students typically target.
- 3) The current shortage of student accommodation may also pose a capacity constraint that could limit future growth within the education industry.
- 4) To address this issue, a number of tertiary institutions have attempted to deliver infrastructure projects by leveraging private capital to provide student accommodation facilities, albeit with mixed success. Typically these projects have capital costs between \$25 and \$50 million.
- 5) Tertiary institutions generally do not have the capacity to use their own capital resources to fund these projects, which are limited and by necessity prioritised to fund educational assets that have no direct revenue producing potential.
- 6) In addition, borrowing funds is often unattractive and at times untenable due to its cost and balance sheet constraints.
- 7) Primarily, educational institutions require the facilities to be provided for exclusive use by students within close proximity to campus, and may also require a range of services including facilities management and pastoral care. The institutions also seek to impose a level of control over pricing, quality of the facility

CABINET-IN-CONFIDENCE

and services provided throughout the life of the project, based on the target student market of the institution concerned.

8) A preliminary analysis of the current situation demonstrates that an affordability gap now exists between the price that students are able to afford for accommodation and the price for the supply of this type of accommodation. Further, the service capacity provided by student accommodation limits tertiary institutions' capacity to generate future capital gains from the sale of properties.

9) Student accommodation in Canberra currently ranges in price between \$160 and \$340 per week for accommodation, depending on the quality of accommodation and services included (e.g. meals). These prices are well below market rents, even taking into consideration that commercial weekly rental charges reflect reductions associated with the potential to earn future capital gains by investors.

10)As a result of the above factors, the UC is seeking assistance from the ACT Government to purchase and redevelop Wing 5 of the Cameron Offices in Belconnen for student accommodation as of February 2012. They argue that this will help them to compete with Sydney and Melbourne for international students as they will be able to offer enrolments with accommodation.

11)Although the UC has a number of other accommodation projects in the pipeline, this project is significant because it is a refurbishment and can be undertaken quickly, in time for the 2012 student intake.

12)The UC is unable to finance the project without assistance because most of its assets are on campus, and as such are unable to be realised, and therefore cannot be used as security to seek finance.

13)This submission provides options for the provision of assistance to the UC.

ISSUES & OPTIONS

Required level of assistance

14) The UC has requested that the ACT Government fund the purchase of the building at a cost of \$11.25 million and gift it to them. The UC would be liable for the cost of the refurbishment. They argue that this level of assistance is required to make the project viable. It was envisaged that the grant would be funded through a payroll tax waiver over 10 years.

15) This request was based on financial analysis that assumed that the UC would borrow funds from a private source and pay interest at a rate of 8 per cent per annum.

16) Since then the UC has undertaken an alternative financial analysis which assumes that the ACT Government provides a loan for the entire cost of the project (\$23.35 million) at a lower interest rate of 6.5 per cent. This would be a fixed rate of interest over 10 years. It would also mean that the Government as the investor would hold a mortgage over the property until the loan had been repaid.

17) Information provided by the UC shows that without the Government loan the UC would be subject to pay interest at a rate of 8 per cent. The loan at the lower interest rate of 6.5 per cent reduces the cost of the project by \$2.8 million.

18) Assessment has also been undertaken on the level of assistance that would be required from the Government under this scenario. Treasury suggests that the low interest loan could be paid back over a longer time period in such a way that it would be cash neutral to the UC. In other words the UC would always maintain a positive cash balance throughout the payback period. Under this scenario the UC could undertake the project with no further financial assistance. This approach is Budget neutral.

CABINET-IN-CONFIDENCE

19) LAPS assessment of the project is that whilst the UC could undertake the project under the above conditions, with a longer payback period, it would impose a significant burden on their balance sheet, and restrict its ability to undertake other development projects that will be required over the next five years. The UC has a preference to pay back the debt over 12 years as they see this as the life of the refurbishment and the building is already 35 years old.

20) Analysis of the projected financial statements shows that assistance of \$1 million per annum over the first nine years of the project would enable the UC to pay back the principal and the interest on the loan in 12 years and should be able to remain cash positive for most of the period of the loan. By the end of year nine the balance sheet should be in a strong position and the UC should be able to service the remaining debt within the 12 year period without putting other projects at risk.

21) This approach is predicated on a desire by the Government to provide borrowings beyond that required by the UC to construct the student accommodation at the Cameron Building. No commitment has been provided by the Government in this respect. Treasury advise that this assistance would reduce the Territory's operating outcome by \$1 million per annum over the 9 year period.

22) Treasury's advice is that should the Territory provide the UC with this additional support, the UC would not have any stake in the project other than making interest payments on the capital provided by the Territory. Effectively the Territory would be funding principal payments to itself. The Treasury proposal (i.e. to provide loan funds only) would give an incentive to UC to maximise returns from the Cameron project to payback principal, thereby reducing interest costs.

Funding Mechanism

23) This assistance could be provided in a number of ways as outlined below.

Payroll tax waiver

24) The advantage of a payroll tax waiver would be that it has little impact on the cash flow for the UC. However Treasury advises that it would require considerable administrative resources to implement and have in place over nine years. Payroll tax waivers are subject to performance criteria and it is envisaged that this assistance would be linked to the finalisation and operation of the new student facility.

25) A payroll tax waiver has minimal budget impact in the short term as it is spread over nine years. It is likely that payroll tax receipts from the UC will increase beyond the current forecast revenue over the next nine years as a result of growth in staff numbers. This envisaged growth is linked directly to UC activities aimed at increasing enrolments.

Grant of revenue

26) This option has the advantage of linking the financial assistance directly to the project which makes it easier to administer and is a more transparent option. It could be provided in the same timeframe as a payroll tax waiver (i.e. \$1 million per calendar year for nine years) and still be subject to achievement of specific performance criteria. It is envisaged that the grant would be managed by the Business and Industry Development Branch of Chief Minister's Department, who already administer a number of grant programs with the UC.

Preferred Approach

27) Therefore on balance a grant is the preferred funding mechanism because it has the same budget impact, is easier to administer and more transparent.

CABINET-IN-CONFIDENCE

CONSULTATION

28) Treasury has been consulted throughout the development of this Submission and its views are reflected in it.

MEDIA/PUBLIC RELEASE

29) This initiative could be publicised as part of the 2011-12 Budget.

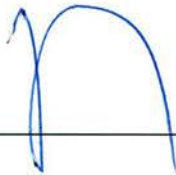
FINANCIAL IMPACT

Table 1 – Financial Impact of Recommendations *(delete table if not required)*

	2010-11 \$'000	2011-12 \$'000	2012-13 \$'000	2013-14 \$'000	2014-15 \$'000
Revenue					
Savings					
Expenditure		-500	-1,000	-1,000	-1,000
Net Operating Impact *		-500	-1,000	-1,000	-1,000
Capital Impact					

* a minus sign indicates a cost to the Budget

Minister's signature



Date

15 / 3 / 11