

Cost and Benefit Analysis of the introduction of HFS to UGC-funded Institutions over a period of 15 years
(All figures in \$million at MOD prices)

Annex C (page 1)

Financial year	Cost of providing housing benefits to eligible staff without HFS	Cost of providing housing benefits to eligible staff with HFS						Net benefit (cost)	Net decrease (increase) in Govt expenditure
		HFS cost	Cost on PTA, quarters, HPA and HA	Full notional rental income from vacated quarters	Savings from vacated quarters accrued to Govt	Net cost on housing benefits with HFS	Net Govt expenditure on housing benefits with HFS		
	(a)	(b)	(c)	(d1)	(d2)	(e)=(b)+(c)-(d1)	(f)=(b)+(c)-(d2)	(a)-(e)	(a)-(f)
1998-99 (6 mths)	340	223	243	0	0	466	466	(126)	(126)
1999-2000	705	645	417	65	38	997	1,024	(292)	(319)
2000-01	740	926	313	204	119	1,035	1,121	(295)	(380)
2001-02	777	998	297	356	207	939	1,087	(161)	(310)
2002-03	816	998	312	449	261	860	1,048	(44)	(232)
2003-04	857	998	327	472	274	853	1,050	3	(194)
2004-05	900	998	344	495	288	846	1,053	54	(153)
2005-06	945	998	361	520	303	839	1,056	106	(111)
2006-07	992	998	379	546	318	831	1,059	161	(67)
2007-08	1,042	998	398	573	334	822	1,062	219	(20)
2008-09	1,094	664	418	602	350	479	731	614	363
2009-10	1,148	353	438	632	368	159	423	989	725
2010-11	1,206	72	460	663	386	-132	146	1,337	1,060
2011-12	1,266	0	483	697	405	-213	78	1,479	1,188
2012-13	1,329	0	508	731	426	-224	82	1,553	1,247
Total	14,156	9,866	5,697	7,004	4,077	8,558	11,486	5,597	2,670

* Due to rounding, the "total" may not be equal to the sum of its components.

Major assumptions adopted in a 15-year Cost and Benefit Analysis for the introduction of a Home Financing Scheme for eligible staff in the UGC-funded institutions

Assumptions relating to Staff

- (1) The staff profile as at December 1997 as supplied by institutions will remain unchanged throughout the 15-year period.
- (2) There will be no wastage of staff over the 15-year period. This is a crucial contributing factor to long term savings as the bulk of savings are realised due to the fact that PTA and quarters are provided to eligible staff until they leave the service, whereas the HFA would be payable for a maximum period of 10 years only. Under this assumption, the estimated savings will be on the conservative side if eligible staff on average stay with the institutions (on this occasion, all the eight institutions will be regarded as one entity since an employee's receipt of HFS in one institution will be taken into account in determining his remaining entitlement period when he joins another institution under the prevention of double housing benefits rule) for more than 15 years. Vice versa, we would expect lesser savings if eligible staff on average leave the service soon after they have fully enjoyed the HFS.
- (3) Take-up rates of HFS by eligible staff over the 3-year option period are as supplied by institutions on a guess-estimate basis. We have spread those rates evenly over the three years for the purpose of the cost estimate. For example, where one institution estimates that 60% of eligible staff currently receiving PTA will opt to join HFS by the end of the 3-year option period, we have assumed that the cumulative participation rates will be 20% for Year 1, 40% for Year 2 and 60% for Year 3. It is further assumed that after the 3-year option period, those who have not opted for HFS will continue to receive existing forms of housing benefits throughout the period.
- (4) Taking account of (1) to (3) above, the assumption is there will be no new entrants to HFS after the 3-year option period.

Assumptions relating to Cost

- (5) HFA rates will increase by the rate of inflation assumed at 5% per annum in the first three years (the Option Period) for new HFS participants in the respective years, but will remain unchanged for existing HFS participants throughout their entitlement period.

- (6) Annually recurrent expenditure incurred by institutions in providing the existing housing benefits without an HFS is based on \$679 million for 1998-99 as reported by institutions and will increase by the rate of inflation assumed at 5% per annum.
- (7) Annually recurrent expenditure on existing types of housing benefits for those who have not opted for HFS and the salary contribution will increase by the rate of inflation, assumed also at 5% per annum.
- (8) The full notional rental income arisen from quarters vacated by those opting for HFS is based on information provided by institutions ranging from \$310,635 to \$636,119 per annum. It is assumed that these rental values will increase by the rate of inflation assumed also at 5% per annum and the benefit of these will start to accrue 12 months after the quarters have been vacated.
- (9) The savings from vacated quarters to be accrued to Government are based on the proposed formula of nil income for 12 months after the quarters are vacated and 70% of the notional rental income.