

ITEM FOR FINANCE COMMITTEE

HEAD 190 - UNIVERSITY GRANTS COMMITTEE Subhead 529 Home Financing Scheme

Members are invited to approve supplementary provision of \$362 million in 1999-2000 under Head 190 University Grants Committee Subhead 529 Home Financing Scheme.

PROBLEM

The approved provision for the Home Financing Scheme for eligible staff of the University Grants Committee-funded institutions (UGC HFS) under Subhead 529 is not sufficient to meet the increased expenditure in 1999-2000.

PROPOSAL

2. The Secretary-General, University Grants Committee (SG, UGC) proposes supplementary provision of \$362 million under Subhead 529 Home Financing Scheme.

JUSTIFICATION

3. On the basis of actual expenditure for the nine months from 1 April 1999 to 31 December 1999, the SG, UGC estimates that expenditure for the UGC HFS in 1999-2000 will exceed the approved provision by \$362 million, calculated as follows -

/(a)

	\$ million
(a) Actual expenditure from 1 April to 31 December 1999 ¹	754
(b) Estimated expenditure from 1 January to 31 March 2000	253
(c) Estimated total expenditure for 1999-2000 [(a) + (b)]	1,007
Less	
(d) Approved provision for 1999-2000	645
(e) Shortfall [(c) - (d)]	362

4. The supplementary provision is required due to the higher than anticipated take-up rate of the UGC HFS. Expenditure for the UGC HFS is charged to Head 190 University Grants Committee Subhead 529 Home Financing Scheme with the approved provision of \$645 million in the 1999-2000 Estimates. This provision was estimated on the basis of the cost and benefit analysis (CBA) submitted to the Finance Committee on 18 September 1998 *vide* FCR(98-99)30 justifying the introduction of the HFS. As at the end of December 1999, a total of 2 785 eligible staff have opted for the UGC HFS, representing a take-up rate of 54%. The institutions estimate that the take-up rate will remain more or less the same in the remaining three months up to 31 March 2000. This take up rate far exceeds the level assumed in the CBA which projected that only slightly more than a third (around 1 900) of total eligible staff would have joined the UGC HFS by the end of 1999-2000. The take-up rate by institution as at the end of December 1999 is listed below -

Institution	Number of eligible staff opted for UGC HFS	Take-up rate
City University of Hong Kong	423	54%
Hong Kong Baptist University	203	53%
Lingnan University	107	73%
The Chinese University of Hong Kong	534	58%

/The

¹ UGC-funded institutions have so far coped with the additional expenditure on UGC HFS in excess of the provision under the 1999-2000 printed Estimates through their reserve.

Institution	Number of eligible staff opted for UGC HFS	Take-up rate
The Hong Kong Institute of Education	167	55%
The Hong Kong Polytechnic University	685	74%
The Hong Kong University of Science and Technology	284	44%
The University of Hong Kong	<u>382</u>	<u>38%</u>
Total	<u>2 785</u>	<u>54%</u>

5. In the original CBA, we estimate that a total of about 55% of eligible serving staff will take up HFS over a three-year period. The take-up rate has more or less stabilised towards the end of 1999-2000. It is likely that the overall take-up rate at the end of the option period will remain broadly the same. Thus, the additional expenditure in 1999-2000 represents only an increase in upfront cashflow requirements. It will not alter the overall cost benefits of the introduction of the HFS in terms of reducing over time the expenditure on other types of housing benefits (e.g. Private Tenancy Allowance (PTA)) and the value to be derived from the disposal of surplus staff quarters. According to the original CBA presented in FCR(98-99)30, over a 15-year period, the introduction of the HFS will cost \$5.6 billion less than the continued provision of the existing housing benefits (e.g. PTA). The higher than expected take-up rate of HFS will help advance the materialisation of such savings.

6. In approving the HFS, the Finance Committee noted the arrangements agreed between the Administration and the institutions to ensure that the expected benefits are delivered. Taking account of the higher than originally anticipated take-up rate, the benefits of the HFS to date include -

- (a) reduced expenditure of some \$300 million on non-HFS housing benefits in 1999-2000, the bulk of which has already been reflected in the approved provision for these requirements in the 1999-2000 Estimates. In accordance with the agreed financial controls, additional savings arising in the course of the year will be used to offset HFS requirements, as elaborated in paragraph 7 below;

/(b)

- (b) notional rental income of about \$21 million in 1999-2000 accrued to the Government in accordance with the agreement for the Government and the institutions to share rental proceeds of surplus quarters arising from UGC HFS²;
- (c) savings in capital works expenditure of about \$313 million arising from deletion of the City University of Hong Kong's staff quarter project; and
- (d) disposal or alternative uses of quarters, including returning the quarters to Government and converting them into student residence or academic support facilities. Details of these proposals as drawn up by the institutions and under consideration by the Administration are set out at the Enclosure.

Encl.

FINANCIAL IMPLICATIONS

7. As noted by Finance Committee when approving the UGC HFS, the scheme is not subject to any quota because it is a condition of service for eligible staff of the UGC-funded institutions. The Government has to provide supplementary provision to meet the additional expenditure if the approved provision is inadequate because of a higher than anticipated take-up rate. To allow Government to track the expenditure and savings arising from the implementation of the HFS over time, the Finance Committee has approved the creation of two subheads, i.e. Head 190 Subhead 529 Home Financing Scheme and Head 190 Subhead 530 Housing-related expenses other than Home Financing Scheme. Where the higher than expected take-up rate is due to staff switching from non-HFS housing benefits (e.g. PTA) to HFS, the supplementary provision in Subhead 529 will first be offset by reduced expenditure in Subhead 530. The remaining shortfall will need to be met from the centre.

8. In line with the above arrangements and subject to Members' approval of the proposal, we shall offset the supplementary provision of \$362 million by first deleting \$85 million from Head 190 Subhead 530 Housing-related expenses other than Home Financing Scheme. This represents the further reduction in expenditure on non-HFS housing benefits in 1999-2000 due to more eligible staff switching to HFS. We shall meet the remaining shortfall by deleting \$277 million from Head 106 Miscellaneous Services Subhead 251 Additional commitments.

/BACKGROUND

² This sharing arrangement will only come into effect 12 months after the quarters become surplus. It does not apply to quarters built with private funds and situated on private land or will be waived where the disposal plan of the surplus quarters is accepted by Government on the advice of the Task Force set up to consider such proposals and other matters related to implementation of HFS.

BACKGROUND INFORMATION

9. On 18 September 1998, Finance Committee accepted the financial implications of introducing an HFS for eligible staff of UGC-funded institutions with effect from 1 October 1998 to meet their home ownership aspirations and make the most effective use of the available financial resources. The UGC HFS closely resembles the civil service HFS under which participants are eligible for a monthly Home Financing Allowance for a maximum of 120 months, except that the UGC HFS does not include any downpayment loan, and that eligible staff under this scheme may use the allowance granted for rental purpose throughout the 120 months entitlement period.

10. On 17 January 2000, we briefed the Legislative Council Panel on Education on the implementation of the UGC HFS, including the need for supplementary provision in 1999-2000. Panel Members were generally supportive of our request for supplementary provision in the light of the higher than expected take-up rate. We have subsequently issued an information note to the Panel on measures to optimise the use of quarters. We will continue to report progress on the UGC HFS to the Panel.

Education and Manpower Bureau
February 2000

**Proposals on the Disposal or Alternative Uses of Surplus Quarters
Arising from UGC HFS**

As foreshadowed in FCR(98-99)30, we have set up a Task Force chaired by Secretary-General, University Grants Committee immediately after the introduction of UGC HFS to ensure that surplus quarters are disposed of or converted in ways that yield the greatest public benefits. The Task Force comprises representatives from the Administration and institutions, and is tasked to consider and advise on proposals from Government and institutions on disposal plans or alternative uses of surplus quarters and their consequential implications on Government's share of the rental proceeds from the surplus quarters.

2. As at 31 January 2000, there were a total of 788 surplus staff quarters in the UGC-funded institutions arising from the implementation of HFS. Of them, 81 (10%) were occupied by eligible staff, 362 (46%) were rented out to institutions' own staff (majority of whom were recipients of Home Financing Allowance and Private Tenancy Allowance), 93 (12%) were occupied by visiting scholars, etc., 75 (10%) were for other temporary uses and 177 (22%) were vacant.

3. The Task Force has been monitoring the situation to ensure optimal utilisation of the surplus quarters. It has met five times so far. The following disposal proposals have been discussed and/or agreed.

(a) **Hong Kong Baptist University (HKBU)**

Government has reached agreement with HKBU to take possession of Towers 4 and 5 of its Fotan Quarters at nil cost in early 2000. We plan to make use of these two blocks of 45 units to facilitate the decanting of Government quarters elsewhere.

(b) **The Chinese University of Hong Kong (CUHK)**

CUHK proposes to convert five blocks of its staff quarters into student hostels. If implemented, this will enable CUHK to meet part of the shortfall which Government has agreed in principle to provide, subject to funding availability, under the student hostel policy. This will save the cost for constructing two brand new

student hostel blocks. CUHK also proposes to convert one block into academic support facilities. CUHK has submitted a revised preliminary project feasibility study for this proposal which is being vetted by the Architectural Services Department. In addition, there has been discussion between CUHK and the Science Park about the possibility of renting some quarters to people working in the Science Park.

(c) **The Hong Kong Polytechnic University (PolyU)**

Government has reached agreement with PolyU on the return of the quarter site in Fotan, involving a total of 155 units, at nil cost to Lands Department in mid-2001. In the meantime, PolyU has obtained temporary waivers to turn these quarters into rentable premises for their staff members and where appropriate, outsiders.

(d) **The University of Hong Kong (HKU)**

HKU has plans to return a few blocks of quarters to Government in the overall context of HKU's Strategic Campus Development proposal. Discussion is presently underway between Government and HKU on the principles and technicalities.

(e) **The Hong Kong Institute of Education (HKIED)**

The staff quarter project in HKIED's new Tai Po campus, which was in the advance stage of construction at the time of the introduction of the UGC HFS, has recently been completed. In view of the lower than expected demand for quarters, the HKIED is considering the possibility of converting some of them into student hostels.