

For Information
On 2 May 2000

Legislative Council Panel on Financial Affairs

DISPOSAL OF SURPLUS QUARTERS ARISING FROM THE IMPLEMENTATION OF HOME FINANCING SCHEME FOR ELIGIBLE STAFF IN UNIVERSITY GRANTS COMMITTEE-FUNDED INSTITUTIONS

Introduction

On 17 January 2000, the Administration briefed the Legislative Council Panel on Education (Education Panel) on the progress on the implementation of the Home Financing Scheme (HFS) for eligible staff in the University Grants Committee (UGC)-funded institutions. On 11 February 2000, the Administration also provided further details to the Education Panel on the estimated costs and benefits, particularly on the utilisation of surplus quarters arising from the introduction in the UGC HFS. Members of the Education Panel suggested that the issue of disposal of surplus quarters arising from the implementation of the UGC HFS be followed up by the Panel on Financial Affairs. This paper provides an update on the disposal of such surplus quarters.

Background

2. With the endorsement of the Executive Council and approval by Finance Committee of the Legislative Council (FC) *vide* FCR(1998-99)30, the UGC HFS was introduced with effect from 1 October 1998 as the only form of housing benefit available to newly appointed eligible staff of the UGC-funded institutions, and an irrevocable option for serving staff. The UGC HFS has been well received by eligible staff in the UGC-funded institutions. As at 31 March 2000, a total of 3 152 eligible staff in UGC-funded institutions have opted for HFS, representing a take-up rate of 62%.

Cost and Benefit

3. According to the original Cost and Benefit Analysis (CBA) presented in FCR(98-99)30, over a 15-year period, the introduction of the UGC HFS will cost \$5.6 billion less than the continued provision of the existing housing benefits (e.g. Private Tenancy Allowance (PTA)). In 1999-2000, the expenditure on the original non-HFS housing benefits in the UGC-funded sector was reduced by some \$300 million. We intend to update the CBA towards the end of the three-year option period for the UGC HFS when the take-up rate of the HFS is stabilised, and will report the findings to Members in due course.

Disposal of Surplus Staff Quarters

4. Apart from the reduced expenditure on non-HFS housing benefits, another major source of benefits brought by the UGC HFS will come from the disposal or alternative usage of the surplus staff quarters. These benefits will mainly take the following two forms -

- (a) Pursuant to an agreement between Government and the UGC-funded institutions and as endorsed by FC, Government is entitled to a share of the notional rental proceeds of surplus staff quarters one year after the quarters become surplus arising from UGC HFS¹. In 1999-2000, notional rental income of about \$21 million was accrued to the Government. We estimate that the notional rental income accrued to Government will amount to around \$135 million in 2000-01; and
- (b) The Government or the institutions will derive benefits through the disposal of quarters. These include revenue accrued to Government through the sale of quarter sites where these are proposed for return to Government or additional student hostels and other academic support facilities where the quarters are converted to these alternative uses by the institutions with the agreement of Government.

5. As at 31 March 2000, there were a total of 826 surplus staff quarters in the UGC-funded institutions arising from the implementation of HFS. Of them, 93 (11%) were occupied by eligible staff, 397 (48%) were rented out to institutions' own staff (majority of whom were recipients of Home Financing Allowance and PTA), 79 (10%) were occupied by visiting scholars, etc, 86 (10%) were allocated for other temporary use and 171 (21%) were vacant.

6. To ensure that surplus quarters are disposed of or converted in ways that yield the greatest public benefits, we have, as foreshadowed in FCR(98-99)30, set up a Task Force chaired by Secretary-General, UGC immediately after the introduction of UGC HFS. The Task Force comprises representatives from the Administration and institutions, and is tasked to consider and advise on proposals from 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.

¹ This sharing arrangement 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.

7. Since its establishment in December 1998, the Task Force has met five times. In addition, ad hoc meetings have been held with relevant institutions and departments (e.g. the Government Property Agency and Lands Department) to discuss specific disposal proposals. When considering proposals on disposal of surplus quarters, the Task Force has adhered to the following principles:

- (a) We should safeguard Government's interest as envisaged in the cost and benefit analysis which formed the basis of Finance Committee's approval of the Scheme, and at the same time not undercut institutions' resources for educational services; and
- (b) We accept that the UGC HFS is a new scheme that may give rise to unforeseen implementation problems, in particular in the initial period. We are therefore prepared to consider more flexible arrangements provided that the overall and long-term objectives of the HFS are achieved.

8. In view of the decreasing demand for staff quarters as a result of the implementation of the UGC HFS, the Administration and the institutions have taken the following immediate measures:

- (a) In anticipation of the introduction of the UGC HFS, the Administration has stopped the staff quarter project of the City University of Hong Kong with an estimated project cost of about \$313 million.
- (b) A total of 72 leased quarters have been deleased since the implementation of the UGC HFS in October 1998.
- (c) Some institutions have obtained temporary waivers from the Director of Lands to turn some 400 quarters into rental premises for their staff members (particularly those receiving Home Financing Allowance for rental) and, where appropriate, outsiders.

9. Institutions have also formulated medium to long term proposals on the disposal or alternative uses of quarters for consideration by the Task Force. The breakdown and details of these proposals and the respective number of quarters involved are as follows:

Breakdown

		Hong Kong Baptist University	Chinese University of Hong Kong	Hong Kong Institute of Education	Hong Kong Polytechnic University	University of Hong Kong	Total
(a)	To return the quarters to the Government	45	-	-	118	170	333
(b)	To convert the quarters into student hostels	-	94	66	-	-	160
(c)	To convert the quarters into academic or support facilities	-	14	5	-	-	19
	Total	45	108	71	118	170	512

Details of Proposals

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

The Government has reached an agreement with HKBU to take possession of Towers 4 and 5 of its Fotan Quarters at nil cost. The Government Property Administrator aims at taking possession of these quarters by June/July 2000. We plan to make use of these two blocks of 45 units to facilitate the decanting of Government quarters elsewhere. Pending the return of the quarters to Government, the notional rental sharing arrangement has not been applied.

(b) **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 in student hostels which Government has agreed in principle to provide, subject to funding availability, under the student hostel policy. We plan to submit these conversion proposals to the Public Works Subcommittee (PWSC) for consideration in June 2000. Pending the conversion, the notional rental sharing arrangement has not been applied. 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)**

The Government has reached an agreement with PolyU on the returning of the whole Pak Tak Yuen site in Fotan at nil cost to Lands Department for disposal on 1 July 2001. PolyU is drawing up proposals to put the quarters into best use in the interim period before their return to Government, and has obtained temporary waivers to facilitate turning these quarters into rentable premises for their staff members and where appropriate, outsiders. In the light of the agreed return of site to Government for disposal and the relatively short period for the surplus quarters to be put to alternative usage in the interim, Government is prepared to consider relaxing the notional rental arrangement when PolyU is ready to submit a utilisation proposal.

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

HKU has plans to return a few blocks of quarters to Government in the overall context of the University's Strategic Campus Development proposal. Discussion is presently under way between Government and HKU on the principles and technicalities. Consideration is being given to asking HKU to surrender a few quarter sites to the Government by September 2002 or such later date as may be approved by the Director of Lands. Meanwhile, HKU intends to rent out the surplus quarter units to staff, students (as mini-hall flats) and outsiders as appropriate. Acknowledging the practical constraints in leasing out these quarters in the interim, we are prepared to be flexible with the arrangements for sharing notional rental proceeds. One possibility is to set aside the actual rental proceeds in a separate account for future use to be agreed between the Government and HKU. We will report the detailed arrangement to FC in due course.

(e) **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 and was ready for occupation from February 2000 onwards. In view of the lower than expected demand for quarters, the HKIEd has proposed to convert most of these staff quarters into student hostels and a few of them into an early childhood learning centre with private funds. As these conversion projects involve a change to the original scope of HKIEd's campus project as approved by FC in 1994, we plan to submit the proposal to the PWSC for consideration in June 2000.

Further Reporting

10. Most of the above information has been included in our previous submissions to the Education Panel and our paper to FC in February 2000 to seek its approval for a supplementary provision for the UGC HFS. We will provide further updates to Members on the implementation of the UGC HFS and the disposal of surplus staff quarters in due course.

Education and Manpower Bureau
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