

**Minutes of the Meeting of the Hong Kong Housing Authority held on  
Thursday, 22 January 1998**

---0---0---0---

**PRESENT**

Hon Rosanna WONG Yick-ming, JP (**Chairman**)

Mr J A MILLER, JP (Director of Housing) (**Vice-chairman**)

Mr HAU Shui-pui

Hon FUNG Kin-kee

Prof YEUNG Yue-man, JP

Ms HO On-nei, JP

Mr CHAN Kam-man, JP

Mr Nicholas BROOKE, JP

Mr LEE Wing-tat

Mr Daniel LAM Chun, JP

Mr YEUNG Ka-sing, JP

Mr Anthony WONG Luen-kin, JP

Mr Joseph CHOW Ming-kuen, JP

Mr Eddy FONG Ching, JP

Mr Raymond CHOW Wai-kam, JP

Ms SIU Yuen-sheung

Mr Walter CHAN Kar-lok, JP

Dr Anthony CHEUNG Bing-leung

Mr WAN Man-yee

Mr CHAN Bing-woon, JP

Mr LAU Kwok-yu

Hon CHENG Kai-nam

Hon NG Leung-sing

Mr NG Shui-lai, JP

Ms Iris TAM Siu-ying

Mr LEUNG Chin-man (Deputy Secretary for Housing (1))

Miss Jennifer MAK (Director Corporate Services) (**Secretary of the Authority**)

## **ABSENT WITH APOLOGIES**

Mr Victor SO Hing-woh, JP (Out of Hong Kong)  
Hon LEUNG Chun-ying, JP  
Dr Joseph LIAN Yi-zheng  
Mr Peter WONG Hong-yuen, JP  
Secretary for the Treasury  
Director of Lands

## **IN ATTENDANCE**

Mr Marco M H WU, JP	(Deputy Director/Management)
Mr Stephen S C POON, JP	(Deputy Director/Works)
Mr R A BATES, JP	(Business Director/Commercial and Services)
Mr Y L CHAN	(Business Director/Allocation and Marketing)
Mr R J AVON	(Finance Director)
Mr Vincent W S TONG	(Business Director/Management) (Acting)
Mr C C HUI	(Assistant Director/Operations and Redevelopment)
Mr H T FUNG	(Assistant Director/Central Services and Management Policy)
Mr K H LAU	(Assistant Director/Management (1))
Mr Joseph K C LEE	(Assistant Director/Management (2))
Mr Joseph KONG	(Project Director/Project Management)
Mr C H LEE	(Assistant Director/Commercial Properties)
Mr Simon P S LEE	(Assistant Director/Legal Advice)
Mr K T POON	(Assistant Director/Information and Community Relations)
Mr Y K CHENG	(Assistant Director/Applications and Home Ownership)
Mr I C LAI	(Chief Housing Manager/Commercial Properties)
Mr Deryk YIM	(Chief Estate Surveyor/Commercial Properties (Acting))
Mr Andrew C W LAI	(Senior Administrative Officer/Policy)
Mr P M CHENG	(Senior Maintenance Surveyor/Sale of Rental Fats) (Acting))
Mr Samson HO	(Treasury Accountant/Financial Budgeting and Forecasting)
Mr Lawrence CHOW	(Committees' Secretary) ( <b>Meeting Secretary</b> )
Miss Kathy NG	(Assistant Committees' Secretary (3))

## **OPENING ADDRESS**

The **Chairman** opened the meeting at 8:45 a.m. and welcomed Members in particular Mr LEUNG Chin-man, who attended the meeting for the first time. On behalf of Members, she congratulated Miss Jennifer MAK on her promotion to Administrative Officer Staff Grade B with effect from 1 January 1998.

### **Freeze on Rents for Domestic and Commercial Premises of Housing Authority**

2. The **Chairman** said that the public and Members had expressed grave concern about the recent economic downturn. She believed that Members, being in touch with the pulse of the grassroots, understood and cared about the problems they were facing. As there had been requests for discussion of the rent issue, she suggested that Members first discuss the issue and lay down a direction, and let the respective Business Committees work out the implementation details. Members agreed.

3. The **Director of Housing** said that the Department suggested the following four proposals to lessen the burden of the Authority tenants -

- (a) The rents for the domestic premises due for review last year had remained frozen pending deliberations on the Housing (Amendment) Bill 1998 in the Provisional Legislative Council. As the rent review cycle would be lengthened from two to three years, the Department proposed to defer reviewing the rents for the first batch of the estates which needed to be reviewed to September 1998;
- (b) In fixing rents for six new estates and another five new estates in February and July 1998 respectively, the Department proposed to freeze the best rents at current levels;
- (c) The Department proposed rents for shops, market stalls and

factory units with tenancies due for renewals between 1 ebruary 1998 and 31 December 1998 be frozen for one year or adjusted down if the market assessment showed that a downward adjustment was merited; and

- (d) The Department proposed to apply the measure in (c) above to flatted factories.

4. **Mr HAU Shui-pui** and **Ms HO On-nei** considered that the Department move was a caring and sensible approach and supported it.

5. **Mr FUNG Kin-kee** commented that the Department proposals were appropriate and in line with the Government other similar actions. He therefore supported the Department proposals. He also opined that based on the Authority budgets and financial forecasts, the Authority could afford to freeze or reduce the rents. He, however, wondered whether the rents for commercial premises with tenancy not yet due for renewal would also be reduced.

6. **Mr LEE Wing-tat** considered that the Department move was good. But he pointed out that to review rents every three years was different from freezing rents. He supported the proposal to freeze or reduce the rents for the commercial premises and the flatted factories. He also agreed with the principle of freezing the best rents for new estates at current levels. However, he considered that the Department should not recoup the resultant shortfall in fixing rents for the new estates in the following year.

7. **Mr LEE** also pointed out that some commercial premises and flatted factory tenants had signed their tenancy agreements in 1997 when the rents were very high. He suggested that their rents be reduced in accordance with the assessment of market rents made by the Rating and Valuation Department to relieve their financial burden.

8. **Mr LEE** further suggested that the management fees for Home Ownership Scheme (HOS) flats should also be frozen for one year. He said that the Department was charging a professional management cost of \$70 - \$80 per flat for HOS courts managed by the Department and

a supervision cost of \$30 per flat for HOS courts managed by private management agents (PMAs). The loss incurred arising from the freeze on the management fees could be made up by reducing the above costs. He said that as the Authority's strong financial position was attributed to the sale of HOS flats, it should help the flat owners during the economic downturn.

9. **Mr Walter CHAN Kar-lok** said that he was also sympathetic with HOS owners facing tough times. He, however, remarked that the services of quite a number of HOS courts were provided by PMAs. The owners and their owners corporations had participated in setting the management fees. Freezing of management fees might adversely affect the quality of estate management. Nevertheless, as the Department worked out the professional management cost and the supervision cost on a cost recovery basis, it should try to contain the growth of these costs to avoid drastic increase in management fees. **Mr Marco M H WU** confirmed that when assessing the management fees, PMAs had to take into account the cost of the services provided. He assured Members that the Department would keep the professional management cost and the supervision cost at a reasonable level.

10. **Mr Walter CHAN Kar-lok** also supported the Department proposals. He believed that the public would welcome them. He suggested that the Department also freeze the rents for shops, market stalls and factory units the tenants of which had entered into tenancy agreements before February 1998 pending the decision on the rent levels to be made by the Commercial Properties Committee (CPC).

11. In response to Mr LEE Wing-tat's suggestion of reducing rents for commercial premises with tenancy renewed, **Mr Marco M H WU** pointed out that the rents paid by the tenants might not necessarily be higher than the current market rents. As the issue was quite complicated, he suggested to discuss the issue at a CPC meeting. **Mr FUNG Kin-kee** agreed to the suggestion. But he said that the Authority should consider reducing the rents for tenancies renewed before 1 February 1998, say for one year, if the market rents were substantially lower than those currently paid by the tenants so as to enhance their

competitiveness.

12. **Mr WU** further said that the main consideration for domestic rent assessment was tenants' affordability which hinged on the median rent-income ratio (MRIR). The Housing (Amendment) Ordinance 1997 limited rent increases for all public rental housing residents to such a level that the MRIR could not exceed 10%. It also provided that rent increase for public rental estates could only take effect every three years. In fixing the rents for these estates, the Department had to take into account the tenants' affordability and the provisions of the Ordinance.

13. **Mr LAU Kwok-yu** commented that the Authority, being the biggest landlord and employer in Hong Kong, deserved support in taking the lead in combating economic downturn. He suggested that the Department consider allowing Home Purchase Loan recipients to defer repayment if they encountered temporary financial difficulties. He also considered that the Rent Assistance Scheme (RAS) might have to be reviewed to provide further relief for the tenants. He further opined that the Authority's strong financial position justified consideration of lowering the prices of HOS flats. He was of the view that price adjustment was in line with the market trend and could encourage more people to own property. The **Chairman** said that the Home Ownership Committee would consider the issue.

14. **Mr WAN Man-ye** shared Mr LAU's view on the RAS review. He suggested that the Department review the rents for the new estates fixed in 1997 because the income of the tenants concerned might be less in 1998 due to the economic recession.

15. **Mr Nicholas BROOKE** considered that the Department proposals were a welcome and necessary initiative. But he felt that the proposals were arbitrary in a sense that anything beyond a dividing line would be frozen. He thus considered that the Authority should re-examine the issue in particular the rents for commercial properties which were fixed six months before February 1998.

16. **Mr NG Shui-lai** supported the Department proposals. But

he cautioned that the respective Business Committees should be careful in examining the implementation details in the light of the prevailing economic condition and the financial management strategy of the Authority.

17. **Mr CHAN Kam-man** pointed out that he supported the Department proposal to freeze the domestic rents because this was in line with the principle of fixing rents for domestic premises having regard to tenants' affordability. However, a shop tenant should have calculated the risk involved before he signed a tenancy agreement. Therefore, it might be difficult to reduce rents for commercial premises before tenancies expired.

18. **Mr Anthony CHEUNG Bing-leung**, however, opined that while what Mr CHAN said was correct in normal circumstances, the present sharply fluctuating market justified flexible treatment. He also supported Mr EE Wing-tat suggestion of waiving the professional management cost and the supervision cost given the Authority strong financial position.

19. **Mr CHAN Kam-man** said that to cut the rents for commercial premises might not be fair to those tenderers who had failed in letting bids because of the lower tenders they had submitted. He agreed that the CPC should adopt a flexible but fair approach towards the commercial tenancies renewed before 1 February 1998. However, he considered that the normal commercial practice should not be ignored when considering requests for rent reduction.

20. **Mr LEUNG Chin-man** shared Mr CHAN Kam-man views. He considered that established policies should not be easily changed because of short term fluctuation of market condition. The Government had to be prudent and equitable in allocating public resources with a long term strategy of financial management and having regard to the public concern. He also pointed out that the Housing (Amendment) Ordinance 1997 already offered double subsidies to public rental housing tenants in that the overall MRIR could not exceed 10% in any rent review and the Authority could not carry out such exercise more than once every three years. The domestic rents had indeed been capped

by the Ordinance. This helped to lessen tenants' burdens. He further remarked that the rationale behind the proposals put up by the Department was understandable. The Government would support and respect the Authority decision on the proposals.

21. **Ms SIU Yuen-sheung** supported the Department proposals. She believed that the public would also support them. She added that the Department should speed up the processing of RAS applications to help tenants in financial hardship.

22. The **Chairman** concluded that Members generally supported the Department recommendation. This showed that the Authority stayed with the tenants during economic difficulties. She suggested that the CPC further consider some Members' proposal to reduce the rents for commercial tenancies renewed before 1 February 1998 taking into consideration Mr CHAN Kam-man concern about fairness and prevailing commercial practice.

**(AGENDA Item 1) Confirmation of the Minutes of the Special Meeting held on 8 December 1997**

23. The minutes (Paper No. HA 1/98) were confirmed subject to the amendments at **Annex A**.

**(AGENDA Item 2) Matters Arising from the Minutes of the Previous Meeting**

24. Members **noted** Paper No. HA 2/98.

**(AGENDA Item 3) Housing Authority Revised Operating Account, Capital and Cash Budgets (1997/98), Proposed Budgets (1998/99) and Financial Forecasts 1999/2000 to 2001/02 (Paper No. HA 4/98)**

25. **Mr R J AVON** presented the paper.

26. **Mr Eddy FONG** mentioned that the budgets and the forecasts were prepared based on approved policies as at 30 June 1997.



New policies or changes in policies such as the Tenants Purchase Scheme (TPS) and the effect of the Housing (Amendment) Ordinance 1997 had not been taken into account. The Department would adjust the proposed budgets and the financial forecasts as appropriate. Such information would be submitted to the Finance Committee (FC) and publicized. He noted that there had been much response from the public to the proposed budgets and the financial forecasts, especially the projected five-year consolidated operating surplus of about \$130 billion and the closing cash balance of about \$94 billion as at 31 March 2002. The public views on how to make use of such resources were diversified. He pointed out that the forecasts were only a projection and were prepared based on a number of assumptions. Whether the Authority could achieve the projected surplus or cash balance would depend on whether the actual outcome was similar to the assumptions made. Therefore, the forecasts should only act as a reference. On the use of the surpluses, he commented that on the one hand, it was necessary to understand the feeling and the interests of the public. On the other hand, the usual prudent financial policies had to be followed. It was also important that the use of the Authority resources was in line with the long term housing policies of the Government.

27.           The **Chairman** added that the budgets and the forecasts were prepared in line with the new business planning process in which the Department had taken into account the views of the Business Committees. She thanked FC Members and staff of the Department for their efforts in the examination and preparation of the budgets and the forecasts.

28.           **Mr YEUNG Ka-sing** was appreciative of the use of clear and simple tables to present the complicated budgets and forecasts to help Members to understand the financial position of the Authority.

29.           **Mr Nicholas BROOKE** was concerned that the figures for 1998/99 had been overtaken by events. For instance, the decision made on the freeze on rents would affect the deficit on the Domestic Operating Account and the surplus on the Commercial Operating Account. He wondered how realistic the 1998/99 figures were in the light of what had happened since June 1997. While accepting that the figures for 1999/2000 - 2001/02 were subject to change, he said that efforts should

be made to ensure that the 1998/99 figures were as accurate as possible.

30. In response, **Mr R J AVON** said that the financial position was changing all the time in any financial year. The Authority budgets for 1998/99 were still fairly reasonable and accurate although the freeze and the adjustment of rents would result in some changes. It was necessary to look at the decisions of the relevant Business Committees to determine the financial implications which would then be factored into the revised budgets. He further pointed out that as a three to five month cycle was required to compile the annual budgets and forecasts, it was not feasible to keep up with changing events over the previous few months. Otherwise, the budget preparation work would be affected. He also stressed that given the huge budgets, a 5% variance would give rise to a difference of some \$2 billion.

31. **Mr FUNG Kin-kee** suggested that in view of the large five-year operating surplus of about \$126 billion for home ownership operations, apart from the existing 50% discount of market prices, higher discount rates, such as 60% or 70% should be provided to assist more people to become home owners. The **Director of Housing** agreed that the best use of the surplus of the Authority was to help families buy their homes. He hoped that in the medium and longer term it would be possible to expand the Home Purchase Loan Scheme quota as such loans were the most efficient form of housing assistance.

32. **Mr FUNG Kin-kee, Dr CHEUNG Bing-leung and Prof YEUNG Yue-man** were of the view that as the Department had not taken into account recent policy changes including the freeze on and adjustment of rents in the preparation of the budgets and the forecasts, it should make relevant adjustments as soon as possible.

33. Referring to the sensitivity analyses in Annex H to the paper, **Dr CHEUNG Bing-leung** opined that the assumptions made in the analyses such as inflation rate, construction expenditure and changes in flat selling price might be quite different from the current situation. He hoped that the Department would also conduct analyses on any extreme changes in the assumptions.

34. **Mr NG Leung-sing** agreed with what Dr Cheung said. He

also noted that the values of land subsidized by the Government over the five-year period from 1997/98 to 2001/02 amounted to \$244.6 billion. In view of such a large subsidy to the Authority, he considered that the Department should inform the public of the work and the financial position of the Authority so that they would not have a misunderstanding that the Authority was making a huge profit. He further recommended that given the current economic climate, the cash surplus should be placed as far as possible in the local banking system and to increase the cash supply in Hong Kong.

35. **Mr R J AVON** said that the sensitivity analyses were not meant to be a guess or estimate of what the changes would be, but only to illustrate the likely movement in the financial position if there were significant changes in relation to various income and expenditure items. It was difficult to cover all possibilities in the paper.

36. **Mr WAN Man-ye** noted from paragraph 10(a) of the paper that the revenue accruing from the Authority estates should be sufficient to meet the recurrent expenditure on its estates as stipulated in section 4 of the Housing Ordinance. He also noted that the financial objective of public rental housing (PRH) operation as stated in paragraph 29 of the paper was to develop and manage each domestic rental estate i.e. excluding all commercial operations, at a return to generate sufficient funds to meet the operating expenses. He asked whether one should refer to the deficit of \$1,835 million on PRH together with the surplus of \$3,339 million from commercial properties in 1998/99 to see if the Authority met such requirement. Moreover, as the rents of commercial properties would be frozen or adjusted and there was already a deficit on PRH, he wanted to know the measures to be taken to ensure that the income would be sufficient to meet the expenditure.

37. On funds management, **Mr Wan** enquired whether the fund managers appointed by the Authority would jeopardise the interests of other investors for the sake of safeguarding the interests of the Authority if there were fluctuations in the currency and the stock market. As far as construction expenditure was concerned, **Mr Wan** said that the construction costs for Concord Blocks were higher than expected and the Department had converted some of the Concord Blocks into New Cruciform Blocks. He asked whether there was a saving target on

construction expenditure and whether such conversion had achieved the target. He commented that if Harmony Blocks, the construction costs of which were much lower, were used for new HOS courts, the development costs would be reduced.

38. **Mr R J AVON** said that Mr Wan's understanding of section 4 of the Housing Ordinance was correct. When the financial objective of PRH operation was set, it was considered that over a period, PRH should be able to generate sufficient funds to meet the recurrent operating expenditure. However, he accepted that it might not be possible to meet that objective in specific years. With regard to the funds management policy, **Mr Avon** informed members that the Authority adopted a conservative approach in investing funds. The funds were placed on Hong Kong dollar fixed income. Therefore, there was no exposure to equity and foreign currencies, but the Authority was exposed to interest rate risk. High interest rates over the previous few months had been to the advantage of the Authority's in-house managed funds, as the Department maintained a short maturity of 11 to 12 months on the funds managed in-house. Therefore as the funds matured they were reinvested in the higher yields.

39. **Mr WAN Man-ye** was of the view that as it was impossible for PRH to generate sufficient funds to meet the operating expenses, the financial objective of the PRH operations as set out in paragraph 29 of the paper should be deleted. Moreover, the deficit on PRH should be offset by the surplus from commercial properties instead of home ownership operation.

40. **Mr Joseph KONG** told Members that despite the higher construction costs, the advantage of Concord Blocks was that smaller building sites could be used. Furthermore, Harmony, New Cruciform and Concord Blocks provided different choices for the public. The **Chairman** added that the matter could be further discussed by the Building Committee.

41. **Prof YEUNG Yue-man** shared Mr NG Leung-sing's view that the Department should inform the public that despite the large surplus generated, the value of land subsidized by the Government over

the five-year period from 1997/98 to 2001/02 was a huge amount. He also said that if there were projections on the best and the worst scenarios for the financial forecast period, they should be given to Members for information, but not publicized. Noting from the comparison between the finances of the Authority and the Government that the 1997/98 capital budget and the five-year capital expenditure of the Authority was 50% over those of the Government, he asked whether the five-year capital expenditure of the Government included projects such as the West Rail, highways and container terminals.

42. In response, **Mr Eddy FONG** said that although no comprehensive projections on the best and the worst scenarios for the forecast period had been prepared, the sensitivity analyses at Annex H to the paper showed the effects of different factors on the financial position of the Authority. Such analyses were, however, indicative only.

43. **Mr R J AVON** supplemented that with the new business planning process and the revised terms of reference for the Business Committees, the various best and worst cases had to be made by the Committees from the assessment of their individual business areas. It was difficult for the FC to make an assessment on their behalf. He hoped that different scenarios could be provided from the assumptions made by the Committees in the following year. He also said that the five-year capital budget for the Government only referred to the proposed expenditure of \$210 billion under the Capital Works Reserve Fund (CWRP). The West Rail and other projects which did not fall within the ambit of the CWRP were not included. The comparison was only intended to demonstrate the financial responsibility and the size of the Authority construction programmes.

44. **Mr LEE Wing-tat** commented that the budgets and the forecasts were rather conservative and the actual surplus was higher than the projected amount every year. Although it was prudent to make a conservative projection, it was necessary to strike a balance. The budgets and the forecasts had to be accurate. The Authority should not be too optimistic or pessimistic.

45. **Mr LEE** further said that according to the existing policy of setting selling prices of HOS flats, it was assumed that the monthly

income of white form applicants was \$30,000 and they would use 40% of their income to repay mortgage loan. However, the actual monthly income of most white form applicants was only about \$20,000. Therefore, they might spend 50% of their income on mortgage loan repayment. As the majority of the surplus was generated from HOS sales and even if the selling prices of HOS flats were reduced by 20%, the five-year operating surplus was still over \$99 billion as shown in the sensitivity analyses. He hope that for the 1998/99 Home Ownership Business Plan, the Home Ownership Committee would review the affordability level of white form applicants.

46. In response, **Mr R J AVON** said that although a conservative approach had been used in the preparation of budgets and forecasts, such prudent financial policies were even more important and had to be firmly in place during difficult times. With regard to the accuracy of the budgets, he said that in the past, the figures were consolidated for the FC, based on approved changes in policies. He opined that the accuracy of the budgets should be improved with the new business planning process as the Business Committees would be responsible for reviewing and monitoring their respective business activities. He said that the FC role in considering the budgets should be from a strategic and financial policy point of view, as the overall budgets were a consolidation of the financial contents of the Business Plans. He added that regarding the actual 1996/97 figures, the completion dates of several HOS projects had been changed by only a week or two from March to April 1997, but resulted in a shift of an income of \$8 - \$9 billion to 1997/98. The revised surplus for 1997/98 had therefore been increased to \$14.5 billion from the original amount of \$5 billion. Mr AVON stressed that it was therefore essential to understand the reasons that had given rise to the variances on the budgets.

47. On Mr Lee question on the deficit in cash and construction expenditure, **Mr AVON** confirmed that after deducting the construction and non-recurrent payments of about \$27 billion, the closing cash balance would be about \$27 billion as at 31 March 1999. Moreover, despite a projected net cash deficit of \$3.9 billion for 1998/99, after taking into account the accumulative surplus brought forward from earlier years, the Authority would still have a positive cash balance at the end of the

financial year.

48. **Mr Walter CHAN Kar-lok** noted that the media and many people had placed too much emphasis on the five-year operating surplus of \$126 billion for home ownership operations. However, the five-year land value subsidized by the Government for home ownership amounted to some \$121 billion. Therefore one had to take the two figures into account to obtain an overall financial picture. Referring to Annex C(ii) to the paper, which showed an uneven distribution of HOS and Private Sector Participation Scheme income for 1997/98 - 1999/2000, he opined that their proportion should be similar so that if there were problems in either area, the income and the production targets would not be greatly affected.

49. Noting that there was a significant increase in the expenditure on maintenance and improvements for the five-year period shown in the paper, **Mr CHENG Kai-nam** enquired whether it was due to the increase in the number of PRH units or the increase in maintenance and improvements expenditure. Given the concern of PRH tenants about maintenance, he asked whether the 2% and 4% of the indexed building costs used for Groups A and B domestic rental estates could be adjusted so that more resources would be devoted to maintenance and improvements.

50. **Mr Vincent W S TONG** replied that with the introduction of the Maintenance Fund in April 1997, a 2% and 4% of the indexed building costs for new and old estates were set as the annual maintenance expenditure. Therefore the amount shown in the budgets and the forecasts displayed an increase. However, the figure was purely indicative and was used only for the purpose of budgets and forecasts preparation. He remarked that the actual maintenance and improvements expenditure would decrease when more new PRH estates were built. In future, 2% would be used for the preparation of budgets and forecasts.

51. **Ms Iris TAM Siu-ying** said that many of the flatted factories were situated at good locations but the buildings were old. Noting from paragraph 41 of the paper that a surplus was generated from flatted factories, she asked whether the budgets and the forecasts had

taken into account the redevelopment potential of these buildings.

52. **Mr R A BATES** replied that with the exception of Shun Kei Factory, which would be affected by the West Rail, the other factories had been included in the budget projections. Part of the 1998/99 Commercial Business Plan included a major review of the flatted factories and the Commercial Properties Committee would look at the long term planning for the flatted factories.

53. **Mr Daniel LAM** remarked that the contractors of some of the construction projects of the Authority had encountered financial difficulties and were not able to complete the projects. He expected that more similar problems would occur. He enquired whether the resultant increase in the construction costs had been included in the budgets and the forecasts. Moreover, with the increase in land supply in the coming years, the Authority might need to pay for the infrastructure projects first before obtaining reimbursement from the Government. He asked whether such expenditure had also been included.

54. **Mr R J AVON** replied that according to previous practice, an increase of 7.5% in cost level had been included for construction expenditure. There were no assumptions on defaults, re-entry, etc. With prudent and professional financial vetting, such occurrences should be kept to a minimum.

55. With the above comments, Members **endorsed** the Authority Revised Budget for 1997/98 and Proposed Budget for 1998/99 and **noted** the Financial Forecasts for 1999/2000 to 2001/02.

**(AGENDA Progress Report on Tenants Purchase Scheme  
Item 4)**

56. **Mr Stephen S C POON** informed Members that the sale programme of the Tenants Purchase Scheme (TPS) phase 1 commenced on 9 January 1998. On that day, the Department sent a letter enclosing an information kit on the TPS to each household of the six estates included in phase 1 of the TPS. In each estate, the Department set up an enquiry counter for answering residents' enquiries. Upon request, members of the home visit teams would meet the residents at a time convenient to them to



explain the details of the TPS. Some public utilities companies supported the TPS by offering special credits to the purchasers. As at 9 p.m. on 21 January 1998, the Department had received some 16 000 reply slips from residents expressing interest in buying their flats. Mr POON expected that 65% of the tenants of the 26 854 flats under phase 1 would express interest in buying flats by the following week. On 26 January 1998, the Department would send another letter to those who had expressed interest. The letter would contain the following information -

- (a) selling price;
- (b) amount of stamp duty payable;
- (c) amount of rates;
- (d) amount of government rent;
- (e) main clauses of the Deed of Mutual Covenant (DMC) and the Government lease;
- (f) maintenance and management responsibilities of flat owners; and
- (g) major maintenance works carried out in the previous two years and those outstanding.

57. **Mr POON** said that a formal application form would also be attached to the letter. When a tenant submitted the form, he had to pay an intention money of \$2,500. The Department would then instruct its solicitors to start preparation work for the agreement for sale and purchase (ASP). The tenant could contact his bank for mortgage finance. 48 banks had expressed interest in offering mortgage finance to the TPS participants. They had also promised that the interest rate would not be higher than that for HOS flat buyers.

58. **Mr POON** further said the Department was actively working out the details of the future phases of the TPS. It would review the TPS in the light of the experience gained in phase 1 and submit a report to the relevant Business Committees in May and then to the

Authority.

59. The **Chairman** commended Mr POON and his colleagues on their good efforts expended on the TPS. As the response from the tenants was very good, the Department would inform Members of the progress of the TPS.

60. **Mr LEE Wing-tat** asked -

- (a) when the market prices of the flats were estimated;
- (b) whether the full set of the DMC and a drawing showing the boundaries of the estate concerned would be attached to the second letter sent to the prospective purchasers or the documents would just be deposited in the estate offices for public inspection; and
- (c) whether the intention money would form part of the deposit for the purchase of a flat.

61. **Mr POON** replied that the estimated market prices of the flats were listed in a paper which was endorsed by the Home Ownership Committee on 20 December 1997. The second letter to the residents would include all the main clauses of the DMC. The final full version of the DMC would be available for residents' reference by late March. The intention money was to cover the administrative costs for the preparation of the ASP. No deposit was required.

62. **Mr CHENG Kai-nam** said that the Department should enhance liaison with other departments such as Inland Revenue Department and Rating and Valuation Department in connection with the assessment of stamp duty so that prospective purchasers would have a more accurate assessment of their financial commitment early.

63. In response to Mr FUNG Kin-kee questions concerning "discount" and "special credit" in relation to the estimated market prices of the flats, the **Chairman** suggested and **Mr POON** agreed that the Department issue a note to Members explaining the issue in detail. **Mr FUNG** requested that the HOC also discuss the issue at its meeting to

be held on 12 February 1998.

64. **Mr FUNG Kin-kee** then asked whether the residents could comment on the clauses of the DMC e.g. those governing maintenance responsibility of slopes and the power of owners corporation. **Mr OON** replied that the DMC had to be approved by the Lands Department. The Department was discussing with the Lands Department with a view to getting a set of fair conditions for the flat owners. Similar to the practice of the HOS, the Housing Department would not conduct consultation on the drafting of the DMC.

65. **Mr WAN Man-ye** suggested that to enable the purchasers of phase 1 to enjoy the same benefits of the improved DMC of subsequent phases, there should be a mechanism in phase 1 to amend the DMC. **Mr POON** said the DMC for phase 1, once finalised and executed, could not be easily amended. However, the Department would improve on the DMCs for subsequent phases, if necessary, in the light of experience gained.

66. **Mr Walter CHAN Kar-lok** opined that the information on the DMC given to the residents should be written in simple language as the DMC was too technical and difficult for the residents. He informed Members that the Lands Department would take care of the benefits of both the developer and the purchasers of the flats in considering a DMC. He suggested and **Mr POON** agreed that the Department send the DMC for the TPS to the Consumer Council for comment.

67. **Mr CHAN Bing-woon** commented that a summary of the DMC could not take the place of the full version to be released in March. The full version was the authority for dealing with the rights and the obligations of the flat owners. He suggested and the **Chairman** agreed that the Department, as an exceptional arrangement, send the draft DMC to members in particular those with legal background for comment.

68. **Ms HO On-nei** suggested that as the legal work involved in the TPS was relatively simple and straightforward, the Department should discuss with the Law Society with a view to obtaining a favourable conveyancing fee scale for the purchasers.

69. **Mr LAU Kwok-yu** suggested that as the market values of the flats might fluctuate, the Department should review the estimated prices quarterly. **Mr Stephen S C POON**, however, pointed out that the prices would be reviewed every two years.

**(AGENDA                      Avian Flu - Action Plan of Housing Department  
Item 5)**

70.            **The Chairman** informed Members that the Department had done a lot of work to tie in with the action of the Government in combating the Avian Flu as shown in the action plan of the Department tabled (**Annex B**).

71.            **Mr WAN Man-ye**e remarked that as advised by the Department of Health, the spreading of several epidemic diseases would reach its peak. It was necessary to focus on the cleanliness condition of estates. He suggested that -

- (i)    the Department monitor the work of the cleaning contractors closely to ensure that they complied with their contractual requirements;
- (ii)   people who littered should be prosecuted;
- (iii)   the Department should conduct major cleaning up exercises; and
- (iv)   outreaching social workers should persuade elderly tenants not to keep a lot of unused materials at their homes which would cause nuisance to other people.

72.            The **Chairman** agreed that it was important to have clean markets and housing estates. She hoped that all parties concerned would join hands to further improve the hygiene condition.

73.            **Ms HO On nei** asked whether the vacated premises of some poultry stall operators in the Authority markets who had terminated their tenancy could be let to the operators affected by the closure of the Cheung Shan Wan Wholesale Food Market. **Mr R A BATES** replied that it would depend on whether the poultry stall operators would want to resume business. The Department would consider Ms O point. **Mr Marco M H WU** added that the Government had not yet allowed poultry stalls to resume business.

74. **Mr LEE Wing-tat** suggested that the Director of Housing and Members conduct surprise checks instead of planned visits to the estates. The **Chairman** welcomed his suggestion.

75. In response to the question raised by Mr LEE Wing-tat, **Mr Vincent W S TONG** said that the "yellow-line Scheme" was intended to discourage stall operators in markets of the Authority from extending their goods and paraphernalia into unauthorised areas i.e. the yellow-line zone. **Mr CHENG Kai-nam** said that the Scheme, if found practicable, should be enforced.

## **ANY OTHER BUSINESS**

### **Employment of Local Workers**

76. **Mr LEE Wing-tat** said that after the previous Building Committee (BC) meeting, the media had widely publicized that the Authority had endorsed the Labour Importation Scheme, but in fact the Authority had not discussed the issue. He added that the day before the Secretary for Education and Manpower had asked the Authority to actively consider incorporating into construction contracts a requirement for contractors to employ more local and monthly-paid workers. Although he supported the proposed requirement, he considered that instead of being asked by other bureaux/departments to do so, the Housing Department should take the initiative itself. Moreover, the Authority as a major developer should take a leading role. He hoped that the proposal would soon be considered by the Department and be discussed by Members.

77. **Mr R A BATES** said that the BC had been concerned about the peak in flat production over the following three years. Over 200 000 flats instead of the present 100 000 flats would be under construction resulting in an increase in demand for labour. Thereafter the number would level off to 150 000 flats under construction at any one time. Labour shortage would thus only be a short-term problem. However, should it not be possible to meet the exceptional peak demand through the employment of local labour, importation of labour would be considered

only when and if necessary.

78. **Mr BATES** further said that the BC had considered the longer term stability in housing production as an opportunity to change the culture of the industry. It had decided to look strategically at the construction industry. The main areas to be dealt with included adequacy of supply of skilled labour, quality of flats and efficiency of construction. The BC had targeted at a number of specific study areas which would be further pursued by the Department.

79. The **Director of Housing** told Members that Mr BATES had stated clearly the stand of the Department and the BC. To save Members' time he would let Members have his views on the matter after the meeting.

(The Director distributed **Annex C** to Members immediately after the meeting.)

### **Motions on Home Ownership Scheme Passed by the Provisional Legislative Council**

80. **Mr CHENG Kai-nam** believed that Home Ownership Scheme (HOS) owners would like to have the opportunity to improve their living environment by buying a larger HOS flat in the secondary market. He therefore requested the Authority to consider his two motions on the HOS passed by the Provisional Legislative Council, as detailed below -

- (i) When HOS flat owners sold their flats in the secondary market, they should be allowed to buy other HOS flats for self-occupation from the secondary market without having to pay a premium; and
- (ii) the quota for white form applicants should be increased.

81. The **Chairman** said that the Home Ownership Committee would discuss the two issues at its meeting to be held on 12 February 1998. She suggested Mr Walter CHAN Kar-lok invite Mr Cheng to attend the meeting. Mr CHAN agreed.

**Date of Next Meeting**

82. The next meeting would be held at 8:45 a.m. on Thursday 5 March 1998.

83. There being no other business, the meeting closed at 11:44 .m.

**CONFIRMED** on

Hon Rosanna WONG Yick-ming JP  
(Chairman)

Lawrence CHOW  
(Meeting Secretary)