

Doc Type	HA
Paper No	32/95
Title	Development Fund Projects
CONTENTS	<p>HA 32/95</p> <p>THE HONG KONG HOUSING AUTHORITY</p> <p>Memorandum for the Housing Authority</p> <p>Development Fund Projects</p> <p>PURPOSE</p> <p>To seek Members' endorsement of the Development Committee's (DC) recommendation on the use of the Development Fund (DF).</p> <p>THE SUPPLEMENTAL AGREEMENT</p> <p>2. The Annex to the Supplemental Agreement (SA) between the Government and the Housing Authority(Annex A) sets out the purpose of the DF which is to finance -</p> <p>(a) the development of housing and housing-related projects in accordance with or in support of the Long Term Housing Strategy (LTHS); and</p> <p>(b) any other programme of housing development to be undertaken by the Housing Authority (HA) that may from time to time be approved by the Governor.</p> <p>The main purpose of the Fund is to facilitate and expedite the production of public housing in time to meet LTHS requirements and to facilitate the rehousing of those in need.</p> <p>3. Possible projects, as identified in the same Annex to the SA include -</p> <p>(a) works and expenditure that would facilitate the resumption and clearance of land to be allocated to the Authority for public housing;</p> <p>(b) projects to clear and rehouse squatters in areas not covered by any government development programmes;</p> <p>(c) projects which assist the process of rehousing eligible people affected by urban renewal projects;</p> <p>(d) the provision of infrastructure and community facilities which need to be brought forward in line with public housing completion dates or which would benefit the Authority's tenants; and</p> <p>(e) other housing and housing-related projects.</p> <p>THE WORKS LIAISON GROUP</p> <p>4. The Works Liaison Group (WLG) held its first meeting on 18 May 1995 at which the two sides -- the HA and Government -- exchanged ideas on possible DF projects. These include measures to increase short-term supply of flats, resumption and clearance to provide land for public housing, provision of infrastructure to support public housing development and possible improvements to the quality of temporary housing. Many of the ideas will require further development and discussion.</p> <p>5. In considering infrastructure projects, the WLG agreed that only projects necessary to bring forward or prevent delay in public housing production should be funded from the DF. Large scale regional infrastructure projects required not only for public housing development were generally ruled out because they were considered to be the responsibility of the Government to provide. As regards local infrastructure projects required to support public housing development, they would be considered on individual merits. Members will be consulted when more details on the individual projects and their justifications are available.</p> <p>6. In view of the problem of a low level of production of public housing in the next two years against a strong demand for housing resources, the WLG agreed that priority should be given to using the DF to augment the supply of rental flats by enhancing the Home Purchase Loan Scheme (HPLS) for sitting tenants.</p> <p>DEVELOPMENT COMMITTEE</p> <p>7. Members have approved, vide paper HA 10/95, that DC should be tasked to examine and endorse DF proposals before their submission to the WLG for consideration. HA's proposals submitted to the WLG on 18 May 1995 (Paras 4-6 above) were endorsed by DC on 4 May 1995. The proposal to enhance the HPLS in 1995/96 and 1996/97 to attract more sitting tenants to vacate from public rental housing (PRH) was recommended by both the WLG and the DC for HA's approval. Details of the proposals are set out below.</p> <p>ENHANCED HPLS</p> <p>(a) The proposal</p> <p>8. The Home Ownership Committee(HOC) conducted its annual review of the HPLS on 11 May 1995. To encourage utilization, the amount of loan and the monthly subsidy (MS) were increased from \$300,000 to \$400,000 and from \$2,600 to \$3,400 respectively with immediate effect.</p> <p>9. In addition, HOC decided to recommend to the WLG a further increase in the amount of loan and the monthly subsidy for green form applicants to \$600,000 and \$5,100 respectively for two years, namely, 1995/96 and 1996/97. The intention is to provide sitting tenants with an additional incentive to encourage them to give up their rental flats for reallocation. For financial control purposes, an annual quota of 2,000 each year is proposed.</p>

10. Since the enhanced loan will have the effect of increasing the supply of public housing, albeit in an indirect way, it is a legitimate charge to the DF. Furthermore, to underline the one-off nature of the offer, it is desirable to have a separate source of funding for the enhanced loan, to distinguish it from the main HPLS.

(b) Underlying consideration

11. As property prices escalated over the years, the incentive for sitting tenants to give up their rental flats and take up private sector housing decreased correspondingly. Notwithstanding progressive increases in the amount of loan over the years, the number of PRH flats recovered through the HPLS has remained low, as shown in the table below -

Year	Loan amount	Flats recovered
1991/92	\$130,000	508
1992/93	\$150,000	129
1993/94	\$200,000	229
1994/95	\$300,000	321

12. Sitting tenants have the options of staying put, buying an Home Ownership Scheme (HOS) flat, or drawing on the HPLS. Among the three options, the HPLS is, by comparison, the least attractive. The subsidy value to the recipient of an interest-free loan of \$400,000 over a 20-year period is about \$320,000 at present value. The subsidy value of both rental and HOS flats is much higher. PRH rents represent less than 25% of market rents and the subsidy is available throughout the period of occupancy. HOS flats are currently sold at 45% discount from market prices.

13. It is not unreasonable that the subsidy value of the HPLS should be less than that of an HOS flat, as the recipient has greater flexibility over the selection of flats and the full benefit of the subsidy value can be realised as money in the pocket. Whereas, applicants for HOS flats have to go through the ballot. There are also resale restrictions on HOS flats and, upon resale in the open market after 10 years, a premium will have to be paid. Nevertheless, unless the perceived difference between the subsidy value of HPLS and HOS is reduced, the HPLS is likely to remain unpopular particularly among green form applicants who have a better chance to buy an HOS flat than white form applicants.

14. To make the HPLS more attractive to sitting tenants, we propose to increase the amount of loan to \$600,000. Over 20 years, the subsidy value of the enhanced loan is estimated to be \$480,000 at present value, whereas the cost to HA, in terms of interest foregone, is about \$265,000. This compares favourably with the average cost of building a PRH flat, which is \$265,000 to \$285,000, excluding land value, staff cost and consultancy fee.

15. Given that many borrowers actually repaid the loan over a period shorter than 20 years, and the upfront benefit of a MS, the amount of MS is proposed to be \$5,100 over a period of 48 months. At this rate, the subsidy cost is equivalent to that of an interest-free loan of \$600,000 over 15 years.

FINANCIAL IMPLICATIONS

16. The maximum expenditure implications of the enhanced loan is \$1.2 billion per annum (2,000 x \$600,000) for the next two years. However, past experience is that about 80% of the applicants opt for the loan and 20% for the monthly subsidy. For administrative convenience, we propose to charge the monthly subsidy to the recurrent account. The net cash implications of the enhanced loan are estimated below -

Year	No. of MS cases	No. of loans	Amount (\$M)
1995/96	400	1,600	708.4
1996/97	400	1,600	<u>912.1</u>
		Total	1,620.5

17. The DF had an opening balance of some \$7 billion as at 1 April 1995. It was forecast to reach \$11 billion by the end of March 1996. There will be sufficient funds in the DF to finance the enhanced home purchase loan for sitting tenants.

PUBLIC REACTIONS AND PUBLICITY

18. The public is expected to welcome the proposal to improve the HPLS for green form applicants to enable recovery of more rental units. However, there might be some criticisms against more favourable treatment for green form applicants. We would explain in the press release that the special enhanced scheme is considered desirable in the next two years to encourage a higher turnover of PRH flats for reallocation to households who are in need of housing assistance.

ADVICE SOUGHT

19. At the next meeting of the Housing Authority on 29 June 1995, Members will be asked to approve the proposal in paragraph 9 and to note the financial implications in paragraph 16.

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