

Doc Type	HA
Paper No	37/94
Title	Minutes of the Special Open Meeting of the HONG KONG HOUSING AUTHORITY held on Monday, 9 May 1994.
CONTENTS	<p>File Ref.: HA/COM/2/2 Paper No. HA 37/94</p> <p>Minutes of the Special Open Meeting of the HONG KONG HOUSING AUTHORITY held on Monday, 9 May 1994.</p> <p>---0---0---0---</p> <p>PRESENT:</p> <p>Hon Rosanna WONG Yick-ming, OBE, JP (Chairman) Mr FIJNG Tung, OBE, JP (Director of Housing) (Vice-Chairman) Ms LEUNG Wai-tung, MBE, JP Hon HUI Yin-fat, OBE, JP Rev Sean Patrick BURKE, JP Hon FUNG Kin-kee Prof YEUNG Yue-man Mr Stanford MILLER, JP Mr CHAN Kam-man Mr Nicholas BROOKE Hon LEE Wing-tat Mr Daniel LAM Chun Mr YEUNG Ka-sing Mr Anthony WONG Luen-kin Miss Audrey EU Yuet-mee, QC Mr Joseph CHOW Ming-kuen, JP Mr Donald TSANG, OBE, JP (Secretary for the Treasury) Mr Leo KWAN Wing-wah, JP (Deputy Secretary/Housing Policy)</p> <p>ABSENT WITH APOLOGIES:</p> <p>Mr PAO Ping-wing, JP Hon Edward S T HO, OBE, JP Mr Victor SO Hing-woh Mr HAU Shui-pui Mr LEUNG Chun-ying Ms HO On-nei Mr Michael M Y SUEN, JP (Secretary for Home Affairs)</p> <p>IN ATTENDANCE:</p> <p>Mr Paul D KOEHRSEN (EFC Member) Mr Stephen R SELBY (Deputy Secretary for the Treasury/2) Mr M J ARNOLD (Principal Assistant Secretary for the Treasury/Works) Mr Y G LIM (Deputy Director/Housing Management & Works) Mr LEE Kai-fat (Deputy Director/Administration & Policy) (Secretary of the Authority) Mr Simon P H LI, JP (Senior Assistant Director/Estate Management) Mr Marco M H WU, JP (Senior Assistant Director/Housing Administration) Mr M L YUEN (Senior Assistant Director/Maintenance & Construction Services)(Acting) Mr K L CHAN (Senior Assistant Director/New Development)(Acting) Mr HO Wing-him (Assistant Director/Policy) Mr R N CARPENTER (Assistant Director/Maintenance) Mr T C YUEN (Assistant Director/Development) Mr R J AVON (Assistant Director/Finance) Mr Y L CHAN (Assistant Director/Commercial Properties) Mrs Joy AU (Assistant Director/Regional Management (1) Mr Peter K W YIP (Assistant Director/Operations and Redevelopment) Mr Edward LAW (Principal Executive Officer) Mr J MARSHALL (Public Relations Officer) Mrs Isabella WONG (Committees' Secretary)(Meeting Secretary) Miss Fiona LAM (Senior Assistant Committees' Secretary) Miss Olivia TSANG (Assistant Committees' Secretary/2)</p> <p>---0---0---0---</p> <p>I N D E X</p> <p>PARAGRAPH</p> <p>2 - 20 BRIEFING ON GOVERNMENT'S PROPOSED NEW FINANCIAL ARRANGEMENTS WITH THE HOUSING AUTHORITY</p> <p>3 Findings of the Review</p>

4- 6 Proposals

7 - 16 Views of Members

17 - 18 Response from Mr Donald TSANG

19 Concluding Remarks of the Chairman

20 Concluding Remarks of Mr Donald TSANG

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

Action

The Chairman opened the meeting at 8:47 a.m. and welcomed Mr AuRyEU Yuet-e, QC and Mr Joseph GHOW ADngkuen, JP, new Members of the Housing Authority, to the meeting. She informed Members that the proceedings of the meeting were being broadcast to departmental officers in the Lecture Hall and the conference room on the second floor.

BRIEFING ON GOVERNMENT'S PROPOSED NEW FINANCIAL ARRANGEMENTS WITH THE HOUSING AUTHORITY

2. The Chairman welcomed Mr Donald TSANG, OBE, JP, Mr S R SELBY and Mr M J ARNOLD to the meeting. Mr Tsang then gave a slide presentation on the review findings and proposals relating to the financial arrangements. These were summarised in the ensuing paragraphs.

Findings of the Review

3. The review showed that -

- (a) the Authority was in a healthy financial situation. Even without Government's cash injection, there was a positive cash balance in March 1994;
- (b) the actual cash balance position was obscured by the reflection of notional full land values under the present accounting arrangements. The inclusion of full land values as an expenditure in the accounts resulted in an apparent accounting deficit while there was actually a cash surplus;
- (c) the 1996/95 budget forecast a net cash balance of \$9.5 billion surplus of the Authority's needs;
- (d) there would be a forecast net cash surplus of around \$17 billion by end 1997-98.

Proposals

4. The Government re-affirmed its 1988 commitment to the Authority, as follows -

- (a) need and affordability would remain the guiding principles in the provision of, and charging for, public housing;
- (b) Government would continue to support the public housing programme with finance to the Authority where necessary;
- (c) Government would continue to subsidize rental housing with the provision of land on concessionary terms.

5. The existing financial arrangements had been working successfully. However, some changes were necessary in view of changing circumstances as follows -

- (a) in respect of the Government's permanent capital of \$26.3 billion, the Authority would retain \$13.5 billion at nil interest. The Authority would repay the remaining \$12.8 billion in annual installments of \$1.3 billion, including interest, over 14 years;
- (b) the Authority's accounts should not show the notional full market value of land, but should show the actual cash payments for land;
- (c) the present Housing Capital Works Fund should be expanded and split into a Construction Account for the construction of new estates; and an Improvement Account for upgrading the standards of existing estates. The Construction Account would have a six-months cash reserve of \$4.5 billion. For the Improvement Account, \$2 billion would be allocated, to be topped up annually. The control of the two accounts would rest with the Authority;
- (d) a Development Fund would be set up to help expedite the Authority's housing programme. The Authority's cash surplus, instead of being taken back to the General Revenue, would be transferred to the Fund. Details of the proposal were -
 - (i) the Fund would finance housing and housing-related projects, especially those which would help accelerate or facilitate the Authority's housing programme;
 - (ii) the Fund would be managed by the Authority;
 - (iii) a Works Liaison Group would be set up to co-ordinate the Authority's programme with the Government's Public Works Programme;
 - (iv) programmes to be funded by the Development Fund would require the joint agreement of the Authority and Government;
 - (v) Government could inject further cash if necessary;
 - (vi) Government's commitment to provide former sites and infrastructure would remain unchanged.

6. It was hoped that with these new arrangements, the Authority's cash surplus could be put to more effective use so as to speed up the public housing programme and to improve the standards of existing estates.

Views of Members

7. The Chairman then invited Members to express their views.

8. Mr Nicholas BROOKE supported the proposals. However, he was concerned about the impact that the proposals might have on the Authority's housing policies. Moreover, he anticipated that the cash repayment to Government might arouse public concern and considered that the cash should be spent on public housing.

9. Mr FUNG Kin-kee made the following points -

(a) the proposal to convert part of the Government's permanent capital into a loan to be repaid by the Authority was supported. However, no interest should be charged so that the Authority could fully repay the loan earlier;

(b) the continuation of the current arrangement for Government to share half of the dividends arising from non-domestic operations was not supported;

(c) the land cost element of HOS flats at 35 % of development cost was unreasonable. Since the actual cost was around 12% to 18%, Government was making a profit. The actual cost of land formation should be charged;

(d) he was not sure why there was a need to maintain an annual operating balance of \$2 billion in the Improvement Account regardless of the financial situation of the Authority. It was not clear as to whether Government would top up the balance with additional cash injection, whenever necessary; and

(e) although the use of the Development Fund required the joint agreement of the Authority and Government, past experience showed that the Authority did not have much bargaining power.

10. Mr HUI Yin-fat pointed out that the repayment of Government's permanent capital could be shortened if interest was not levied. Moreover, the repayment should be used to speed up public housing production. This would in turn reduce the pressure on the private property market and thus help to curb property prices

11. Mr LEE Wing-tat was of the views that -

(a) the cash balance of \$18 billion was not real "surplus" as a large portion of which was tenants' deposits. The rest should be used to finance new housing initiatives to increase production and to improve housing standards;

(b) there would be no "surplus" if more land were allocated for public housing production;

(c) the proposal to repay \$12.8 billion within a period of 14 years was only an improvement in disguise since the amount of cash payable to Government annually would remain unchanged;

(d) people living in inadequate private accommodation deserved urgent assistance. There should be sufficient funds left with the Authority to meet the housing demand of these people;

(e) the Development Fund was just another means of the Government to take back the cash surplus as the Authority would also be made to bear the costs for site formation and infrastructure works. Government should reimburse the Authority for any expenditure the Authority had incurred in these public works projects.

12. Rev Sean Patrick BURKE commented that Members had not been given sufficient time to conduct a full scale evaluation of the implications of the proposals.

13. Ms LEUNG Wai-tung expressed support for the proposals and made the following points -

(a) as long as affordability remained the guiding principle in setting rents and HOS prices, the payment of interest to Government was considered reasonable as the money could be usefully spent in other areas and benefit the community as a whole;

(b) the Development Fund would enable the Authority to speed up its housing programmes whenever Government's resources were inadequate; but the scope of the fund would need to be considered more carefully. The use of the fund for rehousing people affected by urban renewal projects was not supported;

(c) the continued payment of dividends and HOS land cost was considered acceptable since it would not add extra financial pressure to PRH tenants. The fact that public housing was heavily subsidised should be made clear to the public;

(d) it should be noted that the Authority did not have to pay Government any land premium in the resale of HOS flats, it was therefore reasonable to reimburse the land cost element to Government; and

(e) the financial arrangements might have to be reviewed in the future.

14. Mr YEUNG Ka sing suggested that interest should not be levied on those funds which the Authority had spent on the provision of infrastructure.

15. Prof YEUNG Yue-man considered that the proposals had brought about some improvements over the current financial arrangements. It was encouraging that the Government would consider injecting additional funds into the Development Fund whenever necessary. The current arrangements regarding the payment of interest, dividends and land cost were considered appropriate. To reduce such payments might result in the accumulation of even more cash surplus which the Authority did not have any immediate use. However, the financial arrangements should be reviewed in the future to take into account changing circumstances.

16. Mr Stanford MILLER welcomed the proposals which had taken into account views that had previously been expressed by the Establishment and Finance Committee. In addition, the Government had re-confirmed its commitment to find public housing programmes and to use funds generated from public housing programmes in housing or housing-related projects. The new arrangements should have no direct relations with the Authority's rental and pricing policy. Furthermore, the Authority's financial viability and autonomy were also assured. He said that details of the proposals

should be Secy discussed by the Establishment and Finance Committees, and Members not on EFC would be welcomed to attend the discussion.

Response from Mr Donald TSANG

17. In response to Members' comments, Mr Donald TSANG replied as follows -

(a) Government remained firmly committed to supporting the Authority's housing-production programme. Government had injected over \$200 billion into the Authority since 1988. This was a substantial subsidy from public funds. The Government had to balance the different needs of the community to ensure that public money was put to effective use to benefit the entire community. Therefore, under the current arrangements, the Authority had to pay interest, dividends and land cost to Government since the money obtained could pay for such programmes as education, welfare, environment, etc. which were also of importance to the community;

(b) the Authority had a very healthy financial situation and had been accumulating a large positive cash balance. If the money could not be put into immediate use a responsible Government should identify the best means to make the most effective use of the funds. On the other hand, additional funds would be made available to the Authority should this become necessary;

(c) the proposed arrangements would not affect the Authority's housing policies, but were aimed at ensuring that the available surplus was used to meet all aspects of housing needs in the most effective manner. There would be regular reviews in light of changing circumstances as public housing was a long term commitment;

(d) the current financial arrangement required the payment of an annual interest on the entire permanent capital of \$26.3 billion. Under the new proposals, \$13.5 billion would become non-interest bearing permanent capital. The remaining \$12.8 billion would be converted into an interest bearing loan repayable over 14 years. This was a significant improvement over the current arrangements. Consideration had been given for the Authority to repay Government's permanent capital without any interest, but this would require a longer repayment period and would not be to the benefit of the Authority;

(e) as Government had injected funds towards non-domestic operations, it was not unreasonable for the Authority to pay dividends generated from such operations;

(f) the land cost element for HOS flats should not be a financial burden for the Authority;

(g) the Improvement Account would help to upgrade the standards of existing estates. An annual operating balance of \$2 billion would be maintained but this would be subject to periodic review. The reserve would be topped up from the Authority's cash surplus annually; and

(h) Government would continue to provide formed land and associated infrastructure for public housing. The Development Fund could supplement Government's resources so as to expedite housing production to meet the needs of the community. The agreement of both the Government and the Authority would be needed before expenditure could be charged to the Fund. Moreover, this arrangement would enable the Authority to use its cash surplus more flexibly than the current arrangements. Should there be a need, the Government was prepared to inject more money into the Fund.

18. Mr Donald TSANG apologised for the short notice for the meeting. The arrangements were worked out after detailed deliberations. He stressed that Members should be informed of the outcome of the review at the earliest possible opportunity. He pointed out that there would be ample time for Members to consider and deliberate on the proposals. Finance Branch would be prepared to explain more about the proposals. However, he hoped that the Authority would come to a view soon.

Concluding Remarks by the Chairman

19. The Chairman pointed out that the Authority's improved level of cash surplus was due mainly to lower construction costs and better yield from HOS operations in recent years. Any variation would adversely affect our cash flow. Thus, the Authority's ability to sustain a large cash surplus consistently should not be over-stated. Furthermore, Members had repeatedly expressed grave concern that sufficient land supply was crucial to the Authority's housing programmes. It was reassuring that the Government would continue to contribute to public housing by providing formed sites and associated infrastructure. Members would be given the opportunity to discuss the proposals at subsequent meetings of the Establishment and Finance Committee and the Housing Authority. She thanked Mr Donald TSANG and his colleagues for the briefing.

Concluding Remarks by Mr Donald TSANG

20. Mr Donald TSANG thanked Members for attending the briefing. He said that the proposals were developed with a view to representing the best interests of the community, and he hoped that the proposals had adequately addressed the worries and concerns that Members had about the current financial arrangements.

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

21. There being no other business, the meeting was adjourned at 10:27 am.

CONFIRMED on

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

Mrs Isabella WONG
(Meeting Secretary)