

THE HONG KONG HOUSING AUTHORITY

Memorandum for the Home Ownership Committee

**Mid-term Review of Business Performance
in 1998/99 - Home Ownership**

PURPOSE

This paper presents the mid-year review of Home Ownership Business Plan for 1998/99 covering Home Ownership Scheme (HOS), Private Sector Participation Scheme (PSPS), Home Purchase Loan Scheme (HPLS) and Tenants Purchase Scheme (TPS).

BACKGROUND

2. As part of the corporate planning process, Business Directors will draw up business plans of their core business for endorsement by the relevant business committees. This is to ensure that a coherent and effective set of policies and programmes can be put in place to achieve the Housing Authority's strategic objectives. The first business plan on Home Ownership Business was approved by Members in November 1997 vide Paper No. HOC 74/97. This mid-year review aims to brief Members on the progress in implementing the key initiatives outlined in the 1998/99 Business Plan.

PERFORMANCE REVIEW

3. So far, we have made good progress in implementing the new initiatives for the home ownership business. Of the 27 new initiatives -

- **nine** are completed;
- **nine** are on schedule;
- **six** are on-going programmes moving towards the targets; and
- **three** are behind schedule.

4. A brief review of the past year's performance is as follows -

HOS/PSPS

5. The target of offering 30,000 HOS/PSPS flats for sale in the year of 1998/99 may not be achieved as a result of deferring the sale of Phase 19C from May 1998 to mid-August 1998 to allow time to agree on the slope maintenance responsibility. Given the good response to flats put up for sale in Phase 19C, we are confident that all flats in Phase 20A will also be taken up.

6. As recommended in Paper No. HOC 15/98, quota allocation between Green Form (GF) and White Form (WF) purchasers will be set for each HOS sales exercise. In order to encourage more GF applicants to opt for HOS/PSPS, the relative priority in flat selection between GF and WF applicants was revised from the ratio of 3:1 to 5:1 effective from HOS Phase 19C. To enhance the affordability of prospective purchasers, flexible discount rates varying from 10% above to 10% below the base discount of 50% were adopted in Phase 19C.

7. As a result of the slow down in the economy and the decline in property prices since early 1998, a large number of purchasers who had bought flats in Phases 19A & B last year rescinded their purchases. However, although 4,945 rescission cases had been recorded as at 31 October 1998, almost all of these flats were resold satisfactorily in Phase 19C.

8. A 'residual settlement' clause was incorporated into the Master Tender Document for PSPS which will be applicable to all new sites with possible ground settlement problems. The clause requires the developers to make appropriate provision in their design to avoid and cope with these problems.

9. Legislative amendment was completed in July 1998 and HOC's approval on the selection criteria for the private surveying firms for premium assessments was obtained vide Paper No. HOC 55/98 in September 1998. Tenders to contract out the work will be arranged in November 1998.

HPLS

10. To widen the choice and enhance the attractiveness of the Scheme, we proposed in the 1998/99 Business Plan to explore a new option of low interest bearing loan under the HPLS. However, following reconsideration we finally opted for greater flexibility and introduced two interest free loan options in July 1998 instead of the low interest option. The new options allow successful GF applicants to choose a loan of \$600,000 repayable over 20 years or \$800,000 repayable over 13 years, and successful WF applicants to opt for a loan of \$400,000 repayable over 20 years or \$500,000 repayable over 14 years. The annual quota has been reviewed and increased from 4,500 to 10,000 for the next 12 months up to July 1999.

TPS

11. Phase 1 of the Tenants Purchase Scheme, comprising a total of 26,859 flats, was launched successfully in January 1998. By October 1998, 65% of owners offered to buy and over 55% of flats assigned. Phase 2 is planned to be implemented in March 1999.

12. A brief report on the progress/achievements on our initiatives is at **Annex**.

FINANCIAL PERFORMANCE

13. As at 30 September 1998, the actual operating surplus for the Home Ownership business was \$8,292.3 million, achieving 43% of the yearly Approved Budget of \$19,409.9 million. The year-to-date income was \$11,418.3 million, representing 50% of the full year's Approved Budget of \$22,691.5 million. The on-target performance in income was mainly to the non-budgeted sales of TPS flats amounting to \$2,850.2 million offset by the delay in completion of Tung Yan Court of HOS Phase 18C, the lower alienation premium income from HOS/PSPS flats and the recissions for PSPS flats. On the total expenditure, they were already 95% of the full year's budget of \$3,281.6 million. The increase was mainly due to the non-budgeted costs of sale for TPS flats amounting to \$1,894.9 million which was offset partly by the delay in completion of Tung Yan Court. Following the approval of increase in the HPLS quota from 4,500 to 10,000 vide Paper No. HOC 49/98 in July 1998, an estimated additional funding in term of cash outflow of \$1,700 million is required in 1998/99.

14. The 1998/99 Revised Budget indicates that the total home ownership income is projected to be \$22,587.5 million, and is roughly the same as the 1998/99 Approved Budget. For similar reasons as paragraph 13 a lower operating surplus is projected at \$15,290.6 million, comparing with the Approved Budget of \$19,409.9 million. A comparison with last year's performance and year-to-date actual to 30 September 1998 is summarised as follows -

Home Ownership Operating Account Budgets (\$million)

	1997/98 Yearly Actual	1998/99 6 months Actual	1998/99 Revised Budget	1998/99 Approved Budget
Income	18,271.1	11,418.3	22,587.5	22,691.5
Expenditure	6,669.0	3,126.0	7,296.9	3,281.6
Operating Surplus	11,602.1	8,292.3	15,290.6	19,409.9

INFORMATION

15. This paper is issued for Members' information. If Members so wish, it can be discussed at the next meeting of the Home Ownership Committee on 12 November 1998.

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