

## **Press Release**

### **LCQ22: Establishment of Housing Reserve**

Wednesday, January 28, 2015

Following is a question by the Hon Ng Leung-sing and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (January 28):

Question:

On December 18 last year, the Financial Secretary announced the establishment of a Housing Reserve (the Reserve) to meet the 10-year public housing supply target on the financial front, and the transfer of all the investment return on the Government's fiscal reserves in the current fiscal year (about \$27 billion) to the Reserve. In this connection, will the Government inform this Council:

- (1) given that the cash and investment balance of the Hong Kong Housing Authority (HA) is projected to decrease significantly and continuously over the coming few years, whether the authorities have estimated the amount needed to be transferred each year from the Reserve to HA in support of its public housing construction projects;
- (2) of the specific measures put in place to urge HA to enhance the cost-effectiveness of its public housing construction projects; and
- (3) whether it has assessed if the establishment of the Reserve will affect the levels of expenditure of other public services?

Reply:

President,

Regarding the establishment of a Housing Reserve and the financial position of the Hong Kong Housing Authority (HA), our consolidated reply is as follows:

In accordance with the Long Term Housing Strategy, the public housing

supply target will be 290 000 units in the next decade, comprising 200 000 public rental housing units and 90 000 subsidised sale flats. This is an important step in improving the living environment of the community. However, building over 200 000 public housing units will cost hundreds of billions of dollars. The projected funding gap will be over \$100 billion even after taking into account HA's tens of billions reserves and the potential surplus from the future sale of Home Ownership Scheme flats.

In its proposed budgets and forecasts for the period from 2014-15 to 2018-19, the HA estimates that it will have sufficient funding to meet its recurrent expenditure and implement its current public housing construction programmes for the coming five years. Nevertheless, the HA also estimates that its cash and investment balance will decrease significantly over the next few years due to projected increase in construction costs and operating costs.

As the HA is the major supplier of public housing, the Government will ensure that the HA has adequate funding to meet the public housing supply target. Given the huge financial commitment, the Government has to plan forward through setting aside funding by phases for meeting the 10-year public housing supply target, when our fiscal conditions permit it. The arrangement can also avoid adding pressure on future government finances and causing fiscal volatility.

In view of the above considerations, the Government has decided to set aside the 2014 investment return on the Government's fiscal reserves and retain the sum within the Exchange Fund for the Housing Reserve. The Housing Reserve and its cumulative investment return will be used to fund public housing development programmes and related infrastructure construction projects. The HA has to assess its medium- to long-term financial requirements based on its five-year rolling budgeting process and adopt every possible measure to ensure the cost-effectiveness of public housing development programmes. When agreement on the amount and timetable of funding injection from the Government has been reached, the Government will seek funding approval from the Finance Committee of the Legislative Council, in accordance with established procedures, for the establishment of the Housing Reserve to support public housing development.

The Government has requested the HA to continue reviewing its revenue

raising and cost saving measures. Construction costs are the largest capital expenditure of the HA which have been increasing in recent years. The HA will continue to enhance the cost-effectiveness of its development programmes by closely monitoring the cost trend in the market and project construction costs, as well as comparing them with the approved budget in the course of detailed project design, tendering and construction. The HA will also continue reviewing various cost saving measures, including implementing cost saving initiatives similar to those launched by the Government recently.

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