

The Hong Kong Housing Authority and its Financial Arrangement over the Past 50 Years

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Abstract

Hong Kong is renowned for its extensive public housing programme. Since 1973, the restructured Hong Kong Housing Authority (HA) has had the overall responsibility for building, allocation and managing public housing. In the past decades it has performed its tasks with great success. However, in recent years it has met with serious challenges due to economic downturn and changes of aspirations to housing among the people of Hong Kong. Therefore, it will be of value to review the financial arrangement of HA and its predecessors over the past 50 years to provide insights to the future of HA. This paper will analyse three aspects of HA's financial arrangements. Firstly, the change in financial tools and financial terms between the government and the HA in the past decades will be examined. Secondly, the trends and patterns in the HA's income and expenditure are scrutinized. Lastly, the financial sustainability of the HA is evaluated.

1. Introduction

Since 1953, the Hong Kong government has supported public housing development through the direct injection of capital and indirect subsidies of land. It has financed the construction of over 1.3 million domestic units under public rental housing (PRH) and various subsidised-ownership programmes, which now accommodate about half of the population in Hong Kong. The dimension of such development is no doubt very impressive by international standards and these subsidised housing units have benefited many households in the last fifty years.

Since 1973, the new Hong Kong Housing Authority (HA) has been overall responsible for the provision, allocation and management of public housing in order to meet society's need. Behind this long established mission, the HA has gone through major changes in its

financial arrangements and relationships with other government departments. It promoted its efficiency and quality by drawing private sector's participation. After 1987, it had successfully moved from a government-subsidised department to a self-financed institution.

In this paper, the HA's financial position and its financial arrangement will be highlighted. Section 2 will examine the changes over time in financial tools and financial terms between the government and the HA over the years. In Section 3, the trends and patterns of the HA's income and expenditure, in particular the subsidy level and rent level will be covered. Lastly, Section 4 will evaluate the financial sustainability of the HA.

2. Financial arrangements

Over the year, our government has applied different policies to the public housing. Table 1 is a typical classification of the government's housing policy, it is found that the accent in financial terms between the government and the HA varies with five different stages.

Table 1 Government's housing policy over the years

<i>Stages</i>	<i>Government's housing policy</i>	<i>Financial terms</i>
1. Before 1953	Without housing policy	Minimal government financial support
2. 1954-1972	Ad hoc public housing programmes	Financial injection for safer homes
3. 1973-1986	Comprehensive public housing programme	Continuation of financial support for housing need
4. 1987-1996	Public housing under the first Long Term Housing Strategy	Co-operation with the private sector
5. 1997-2002	Public housing policy of the HKSAR government	Seeking sources of new funding

2.1. Stage 1. Minimal government financial support (Before 1953)

In the early 1950s, Hong Kong's relative political and economic stability drew in a large immigrant population. This rapid population growth led to over congestion in urban areas. The great majority was living in overcrowded conditions. The housing need was not given much attention in the government's policy until the Shek Kip Mei fire in 1953, which made more than 50,000 people homeless overnight (Leung 1999, p.16). The government then realised the importance of a safe shelter for everyone in Hong Kong and was determined to step in and help with the situation. It started the history of the HA in providing housing units on massive scale and kicked off continuous public housing programmes.

2.2 Stage 2. Financial injection for safer homes (1954-1972)

With the increased concern with the poor living environment of the general public, the government became more determined to help people in need to reside in safer living environment. A White Paper was prepared in 1964 to review the policies for Squatter Control, Resettlement & Government Low-cost Housing. It revealed the urgent need of housing, therefore the HA was given more resources to promote its residential housing programme. Later on, resettlement housing was given with better facilities and PRH were built in the new town with self-contained facilities and relieved from congested urban areas.

Since 1968, the government had tried to make the HA self-financing and not to extend loan facilities to the HA (Drakakis-Smith 1979, p.96). Hence, the HA had to pay full land

premium and development costs. This intention was not accompanied with other financial arrangement; therefore the production of public housing thereafter was largely reduced (Table 2).

Table 2 Public housing completion (1954/55-1973/74)

<i>Period (Five years interval)</i>	<i>Public housing completed (units) ¹</i>	<i>% change as compared with the previous period</i>
1954/55 – 1958/59	35,611	N.A.
1959/60 – 1963/64	83,992	136%
1964/65 – 1968/69	24,050	-71%
1969/70 - 1973/74	8,170	-66%

Sources: Data from Castells (1990, p.10-11) Table 2.2

Notes 1. Included housing completed under various schemes: Resettlement Estate, Former Government Low-cost Housing, Former Housing Authority, New Housing Authority, Home Ownership Scheme, Private Sector Participation Scheme and Middle-income Housing.

2.3 Stage 3. Continuation of financial support for housing need (1973-1986)

In 1972, the then governor of Hong Kong, Sir Murray MacLehose announced a ten-year housing policy to provide “permanent self-contained accommodation, in a reasonable environment, for virtually everyone in Hong Kong” (Government of Hong Kong, 1972). This was a response to the social unrest in 1966 and 1967. The governor believed that by providing low-cost housing for needy citizens, society would not only gain stability; the construction of housing estates would increase employment opportunities and stimulate consumption, and so bring further economic growth (Leung 1999, p.143). However, the HA’s financial mechanism was not able to realise such extensive housing supply and the completion was kept at a low level of 9,434 units in 1973/74 and 5,462 in 1974/75.

In 1973, the Resettlement Department, Housing Division of the Public Works Department and the old Housing Authority were unified and the new HA was established. Being the only public institution to be responsible for the public housing provision in Hong Kong, the HA gained financial support from the government through free land and continuous loans. It took control of the squatter areas, construction of new public housing and the redevelopment of the older resettlement estates.

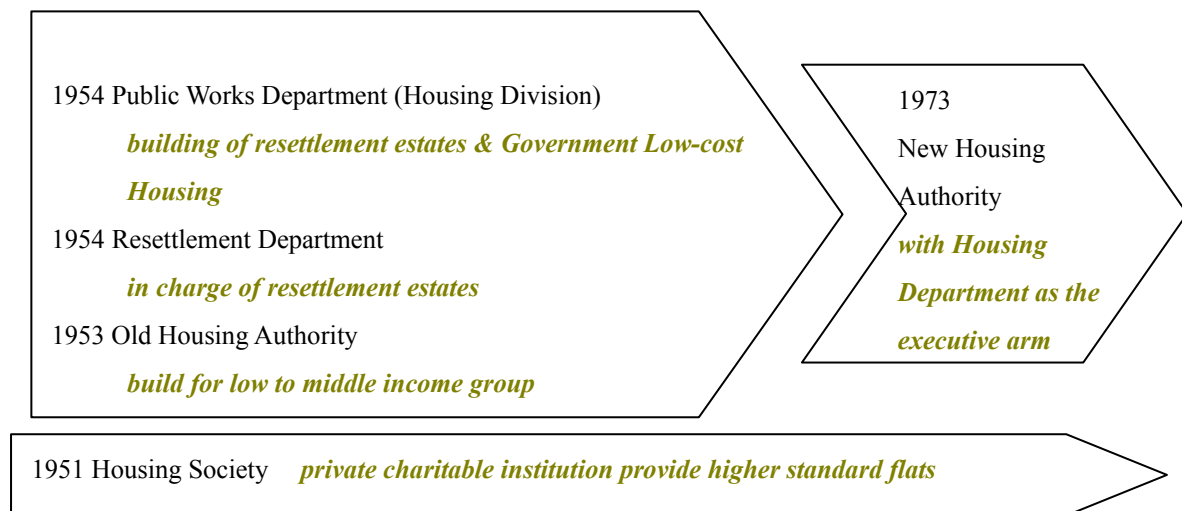


Figure 1 Public housing providers

2.4 Stage 4. Co-operation with the private sector (1987-1996)

Such arrangement continued until the announcement of the Long Term Housing Strategy in 1987. In which, the housing policy was planned beyond the end of British sovereignty and the Private Sector Priority Strategy was selected as the long-term strategy for housing provision. In the financial year 1988/89, the HA became a self-financed institution.

Under this new financial system, subsidies and cost arrangement underwent a significant change. Instead of subsidy in kind, monetary subsidy in the form of a Home Purchase Loan

Scheme (HPLS) was introduced in 1987. It offered low-interest down payment loans to eligible applicants to encourage them to purchase private-sector flats. In addition, the HA had implemented various measures to ensure a more efficient control over subsidies, construction and estate management.

2.5 Stage 5. Seeking sources of new funding (1997-2002)

Since 1997, the HA has been working to respond to the government's ambitions to increase home ownership rate and speed up the allocation of PRH by building more HOS, PSPS, PRH and increase the quotas of HPLS. It is believed that the HOS will continue and more public housing will be sold to its existing tenants through the Tenants Purchase Scheme (TPS).

Although there is no new funding from the government, the HA started a new way of financing by selling its HPLS loans to the Hong Kong Mortgage Corporation, so that more funds would be available for the HPLS. On the other hand, a greater private sector involvement is evident in estate management and even in the development of public housing. With limited budget, the HA tried to make use of the private sector to take over the development and construction works and change its role from a developer to a facilitator for housing provision.

3 Financial trends and patterns

Given a brief review of the changes over time in financial arrangements between the

government and the HA, the following section aims to examine the financial trends and patterns of the HA.

3.2 Sources of income

The HA gained a lump sum of capital from the government as its major source of funding. Besides, it receives recurrent income through selling and leasing its properties, which include residential, commercial and industrial premises.

3.2.1 Subsidies from the government

The government largely supports the finance of public housing: it offered land, loans and capital to the HA who is responsible for the planning and implementation of the development of public housing.

All land in Hong Kong is owned by the government and land is granted to the HA without any premium. Although it does not incur any real public expenditure, it could be regarded as a loss of potential public revenue. For years, the HA not only gained co-operation from the other government departments but also provided with infrastructures (site formation, transportation network) and social services (schools, hospital) at the cost of other departments.

3.2.2 Selling and leasing of properties

The HA is the biggest landlord with the largest housing stock in Hong Kong. It received incomes from over 660,000 rental flats in 2000/01 (HKHA annual report, 2000/01), which amounts to \$9,528 million. However, public housing rents are set at a subsidised level.

Since 1988, the HA became a self-financing institution, it started to raise funds by investing in the HOS and other commercial/industrial properties. Leasing spaces on its estates for commercial use, at near-to-market price, has been another effective measure to help financing the budget and affect the deficit from its rented sector. HA has also announced the Tenants Purchase Scheme (TPS) in 1997 where tenants can buy their own flats. This is to get rid of the maintenance cost for over 660,000 units of public housing which is a long-term burden to the HA. However, the recent announcement of the indefinite suspension of the production and sale of HOS is the major factor affecting the future financial sustainability of HA.

3.2. Expenditure

With its extensive portfolio of properties and construction projects, the HA incurs a significant expenditure in its daily operation. Besides, since the HA and the government are operating in a separate account, the HA has to repay the loan capital to the government.

3.2.1. Operating expenditure

In the HA's account, the major expenditure includes the construction, management and maintenance of PRH and the HOS estates, the redevelopment of resettlement housing and squatter clearance. The items of expenditure are set out in Table 5.

Table 3 Items of expenditure

<i>Expenditure</i>	<i>Amount HK\$ million</i>	<i>% of total expenditure</i>
General Expenditure		
Personal emoluments	3,666	12%
Government rent and rates	1,641	5%
Maintenance and improvements	3,218	11%
Other expenditure	2,513	8%
Depreciation	3,079	10%
Share of corporate supervision and support services expenses	117	0%
Home Ownership (HO) Expenditure		
Construction and overheads	10,275	34%
Land formation cost	3,703	12%
Other HO expenditure (incl. expenditure on Repurchased flats sold and Interest on HPLS loans sold)	1,627	5%
Total	29,839	

Sources: Hong Kong Housing Authority Annual Report 2000/01

Notes: According to the 2000/01 consolidated operating account

3.2.2. Debt repayment

The HA has obtained capital and loans from the government over the years and the HA has to repay part of it to the government. For the permanent capital, it is taken as the government investment and the HA pays back the government with dividend. For the loans, the HA has to pay interest on the declining balance of the outstanding principal.

4. Financial sustainability

After looking into the sources of income and expenditure in public housing provision, it is found that the HA's financial sustainability will very much depends on:

- whether the government will further inject capital to the HA,
- the sustainability of rental income,
- the future sales of properties,
- social expectation of housing and
- the need for large scale redevelopment and rehousing.

In this section, the details of each of these aspects will be examined, followed by an analysis of the overall financial sustainability of the HA.

4.1. Government subsidies

In the past, the government had subsidised the development of resettlement housing and Government Low-cost Housing through different government departments. Since the new HA was established, government has directly subsidised the HA to build PRH and HOS units. All the funds needed could be obtained from the government. In 1988 when the HA became self-financed, it started to raise fund for its own operation. Although the HA is still getting financial support from government through free land and capital loans, the current

unfavourable economy has limited the room for future funding available from the government.

4.2. Rental income

A low rent policy was employed in setting rent for PRH, it aimed at keeping down the cost of living and in turns reduced production cost. Before the 1980s, the rent for resettlement housing has long been lower than the realistic level, with less than 10% of the household budget. For the newly developed estate, the rent level is higher but it seldom rises over 10% of the household expenditure.

With the long-established low rent policy, it is difficult for the HA to substantially raise the rent level to offset its deficit. Besides, a rent cap was implemented in 1997, thus whenever there is a rent review, the Median Rent to Income Ratio (MRIR) of the PRH cannot be more than 10%. The Housing Ordinance requires the HA to ensure that revenue meets expenditure on estates. However, the rent cap was in conflict with this provision and may force the HA to operate its PRH under a deficit (Ng 2002).

4.3. Sales of properties

The sale of HOS has been an important source of income. Its contribution increased from 46% in the early 1990s to 55% in the mid-1990s and further rise to 66% in recent years. However, the government has decided to indefinitely suspended the building and selling of

HOS flats, the HA may have to look for other sources of income or ask for more funding from the government in order to keep sufficient cash flow.

4.4. Social expectation of housing

With limited budget, it is hard for the HA to meet the ever growing aspiration on improved quality of living (Lau & Yip, 1996). Therefore, the HA may have to look for other means to provide cost effective and efficient services. In future, more estate management and maintenance will be outsourced from the private sector. Besides, the improvement projects for shopping centres and the valuation work of premium assessments for HOS/PSPS flats could be contracted out to the private sector. These arrangements are expected to reduce the HA's expenditure and at the same time improve the quality of services.

4.5. Redevelopment and rehousing

The redevelopment of resettlement housing and squatter clearance involves a huge amount of money. However, there are only 36,000 units of former resettlement housing left and the last squatter area in Diamond Hill was cleared in 2001, the expenditure on the redevelopment of PRH will be lowered in the coming years. Thus, it reduces the pressure on the HA's financial burden.

4.6. Overall financial sustainability

The current finance of the HA is remaining positive, with over \$63,000 million reserves and \$50,000 million funds, and an operating surplus of over \$11,000 million in 2000/01. But its future financial sustainability is dependent upon the government housing strategy, which determined the role of the HA, and balance between the HA's income and expenditure.

Recently, the Housing Bureau has been transformed to the Housing, Planning and Lands Bureau and the Housing Department is undergoing an evaluation and a restructuring will be carried out in the near future. These reorganisations are believed to help the HA to retrieve its role and set out its long-term vision. With a clear position, the HA can better plan its future finance so as to maintain its financial sustainability.

5. Conclusion

This paper has reviewed the financial arrangement for public housing provision in the past fifty years. Through the financial trends and patterns, the financial sustainability of the HA is examined.

It is found that in these fifty years, the Hong Kong government has a significant contribution to the public housing development. It sets out different housing policies to meet society needs and enhance economic prosperity. The HA is the major institution to help with the implementation of housing policy, it turns government's funding into housing subsidies in kind or in monetary subsidies, providing rental housing, various subsidised flat for sale and loans for home purchase.

In the long-term, the financial sustainability of the HA will depends on the availability of government's extra funding or new means of income. The HA has been working in a cost efficient and effective way of estate management and maintenance, and exploring new sources of funding such as the sale of HPLS loans to the Hong Kong Mortgage Corporation and the privatisation of its retail and car parking businesses. The HA has been acting as a manager of public housing, with more outsourcing and privatisation of its function, the HA is becoming more like a facilitator for housing provision. Although the HA's scope of work may be reduced, it will probably continue to have a major role to play in terms of public housing provision in Hong Kong.

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