

財 經 事 務 及 庫 務 局

FINANCIAL SERVICES AND
THE TREASURY BUREAU

香港金鐘添美道二號
政府總部二十四樓



傳真號碼 Fax No. : 2530 5921
電話號碼 Tel. No. : 2810 2283
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來函檔號 Your Ref. :

25 March 2015

Ms Anita SIT
Clerk to Finance Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear *Anita*,

Housing Reserve

In his letter of 26 February to the Chairman of the Finance Committee, the Hon Lee Cheuk-yan enquired about the legal basis for the establishment of the Housing Reserve. The considerations of Government are set out below.

As announced on 18 December 2014, Government established a Housing Reserve to meet the 10-year public housing supply target. In accordance with the Long Term Housing Strategy announced on 16 December 2014, the public housing supply target is to deliver 290 000 units (comprising 200 000 public rental housing units and 90 000 subsidised sale flats) in the next 10 years. This is an important step that we are taking to address the housing demand of the lower income group. As the major supplier of public housing, the Housing Authority (HA) will not be able to cover the expenditure that will be incurred in accordance with our housing target.

Government is seeking to ensure that HA has adequate funding to meet the 10-year public housing supply target. Given the huge financial commitment, Government sees the need for advance planning in order to reduce fiscal volatility. The Financial Secretary (FS) intends to make provision for funding by instalments as and when appropriate.

FS has instructed the Chief Executive of the Hong Kong Monetary Authority (HKMA) in December 2014 to set aside a sum being the investment return on Government's fiscal reserves for the Housing Reserve through a one-off variation to the payment terms of the annual fee payable in 2014 in respect of the fiscal reserves placed with the Exchange Fund. The HKMA is responsible for the investment of such sum. The Housing Reserve and the cumulative investment return will be used to support the public housing development programme and related infrastructure.

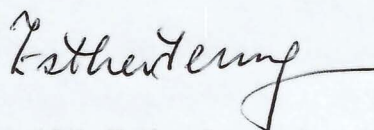
The investment income which has been set aside and retained within the Exchange Fund for the Housing Reserve amounts to \$27.5 billion.

According to section 26 of the Public Finance Ordinance (PFO) (Cap. 2) and the respective resolutions made under section 29 of the PFO, FS may authorize the investment of relevant funds in such manner as he may determine.

The setting up of the Housing Reserve is an investment and planning tool to reduce fiscal volatility. Government and HA will continue discussions on the long-term financial planning of HA. 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 the public housing development programme. When the two sides have reached agreement on the quantum and timing of funding injection, Government will seek the approval of the Finance Committee of the Legislative Council for funding to be drawn from the Housing Reserve to support public housing development through an appropriation from the General Revenue Account in accordance with the PFO.

I should be grateful if you could arrange for the above to be disseminated to the Chairman and Members for reference.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Esther Leung', with a long horizontal flourish extending to the right.

(Ms Esther Leung)

for Secretary for Financial Services and the Treasury