

ITEM FOR FINANCE COMMITTEE

LOAN FUND

NEW HEAD “PROPERTY MANAGEMENT SERVICES AUTHORITY”

New Subhead “Loan to the Property Management Services Authority”

Members are invited to approve a commitment of \$22 million for the provision of a loan from the Loan Fund to the Property Management Services Authority to meet its set-up costs and initial operating expenses.

PROBLEM

The Property Management Services Authority (PMSA) requires financial support from the Government in the form of a loan at the initial stage of its establishment to meet its set-up costs and initial operating expenses.

PROPOSAL

2. We propose that Members approve a commitment of \$22 million from the Loan Fund as a one-off loan to the PMSA to meet its set-up costs and initial operating expenses.

JUSTIFICATIONS

Financial Arrangement for the PMSA

3. The PMSA is a self-financing statutory body established in accordance with section 42 of the Property Management Services Ordinance (Cap. 626) (PMSO) in December 2016. According to the relevant provisions of the PMSO¹ (Enclosure 1), the PMSA is supported by income generated from

/licence

Encl. 1

¹ Section 42(3) of the PMSO stipulates that Schedule 3 (which contains constitutional, administrative and financial provisions) has effect with respect to the PMSA. Part 5 of Schedule 3 to the PMSO stipulates the financial provisions. The relevant provisions are at Enclosure 1.

licence fees from the industry and levies. As the relevant subsidiary legislation on levy and licence fees has not yet been enacted, the PMSA requires the Government to provide financial support in the form of a loan in order to meet its set-up costs and initial operating expenses.

Recurrent Expenditure and Recurrent Income

4. The PMSA estimates that its annual recurrent expenditure will increase from about \$33 million in 2019-20 financial year (same below) to about \$38 million in 2024-25 (based on an estimated annual inflation at about 3%).

5. According to section 15 of the PMSO, the PMSA may, by regulation, prescribe the licence fees. According to section 62 of the PMSO, the Secretary for Home Affairs may, by regulation, prescribe the amount of the levy. To meet the PMSA's recurrent expenditure in future, the current financial plan is that the licence fees would be set at a level that would generate an annual income of around \$12 million to \$14 million for the PMSA; and the levy would be set at a level that would generate an annual income of about \$28 million for the PMSA. The actual levels of licence fees and levy will be determined after the commencement of the relevant principal legislation, and the licence fees will take into account the detailed licensing requirements to be specified in the subsidiary legislation.

6. The Home Affairs Bureau (HAB) expects to introduce the relevant regulations on levy and licence fees into the Legislative Council (LegCo) for negative vetting in the fourth quarter of 2017 and mid-2018 respectively.

Loan

7. The PMSA requires financial and manpower resources to support its operation. As the relevant subsidiary legislation on levy and licence fees has not been enacted, the statutory funding sources of the PMSA are not yet available. Therefore, application to the Loan Fund for a loan is required to meet the set-up costs and initial operating expenses of the PMSA.

8. Taking into account the inflation rates over the past few years, the time required to formulate the subsidiary legislation on levy and licence fees, and the need for contingency, we propose to apply for a one-off loan of \$22 million from the Loan Fund. The arrangement is based on the cash flow projection of the PMSA from 2017-18 to 2024-25 (Enclosure 2).

9. We expect that the PMSA will draw down the Government loan in 2017-18 and 2018-19. The loan interest will be calculated at “no-gain-no-loss” rate² starting from the first drawdown in 2017-18 and be paid once each year. From 2020-21, the PMSA will repay the loan principal by five equal annual instalments³. In case the PMSA encounters unexpected cash flow situation in repaying the loan, it may amend the repayment schedule or extend the loan repayment period, subject to prior approval of the Financial Secretary. The proposed terms and conditions of the Government loan are at Enclosure 3.

Encl. 3

10. As the PMSO has already been passed for one year, various sectors of the community would expect early operation of the PMSA for effective regulation of property management services. In case the loan proposal could not be approved by the Finance Committee (FC) within the current legislative session, the HAB/Home Affairs Department would consider making transitional arrangement under its operating account to support the PMSA’s necessary operating expenses at the initial stage, and the PMSA would need to make full repayment after the relevant loan has been approved by the FC. In the event that the relevant loan is not approved by the FC, the PMSA would repay the fund obtained under the transitional arrangement by its income from levy and licence fees.

FINANACIAL IMPLICATIONS

11. Subject to Members’ approval of the funding, the Government will provide a loan of \$22 million to the PMSA. The proposal has no recurrent financial implications for the Government. The tentative drawdown schedule of the Government loan is as follows –

Year	2017-18	2018-19	Total
Drawdown Amount	\$14 million	\$8 million	\$22 million

/PUBLIC

² The “no-gain-no-loss” rate is set at a certain percentage below the average best lending rate of note-issuing banks. That percentage is the average differential between the average best lending rate for banks in the past ten years and the 12-month Hong Kong dollar interbank interest rate, to be reviewed every two years. The rate per annum as at June 2017 is 1.132%.

³ The drawdown and repayment schedules are set on the basis that the loan proposal would be approved within 2017-18.

PUBLIC CONSULTATION

12. When we submitted the Property Management Services Bill to the LegCo for scrutiny in 2014, we proposed that the future financial arrangement for the PMSA would include loan, licence fees and levy, and this was generally supported by the LegCo. We consulted the LegCo Panel on Home Affairs on the financial arrangement for the PMSA on 22 May 2017. Members generally supported the loan proposal.

BACKGROUND

13. Property management companies (PMCs) and property management practitioners (PMPs) have been playing an important role in assisting property owners in the proper management of their buildings. The PMSO was passed by the LegCo on 26 May 2016 to provide a legal framework for regulating the industry and to establish the PMSA. The principal functions of the PMSA are (i) to regulate and control the provision of property management services in Hong Kong by the licensing of PMCs and PMPs; (ii) to promote the integrity, competence and professionalism of the profession of property management services; and (iii) to maintain and enhance the status of the profession of property management services. The Chief Executive has appointed the Members of the PMSA in accordance with paragraph 2 of Schedule 3 to the PMSO for a period of three years with effect from 1 December 2016.

Home Affairs Bureau
Home Affairs Department
Property Management Services Authority
July 2017

**Relevant Provisions of the
Property Management Services Ordinance (Cap. 626)**

Part 7

The Property Management Services Authority

42. Establishment of Authority

- (1) A body corporate is established with the name “Property Management Services Authority” in English and “物業管理業監管局” in Chinese.
- (2) The Authority –
 - (a) has perpetual succession under its corporate name;
 - (b) must provide itself with a common seal; and
 - (c) may sue and be sued in its corporate name.
- (3) Schedule 3 (which contains constitutional, administrative and financial provisions) has effect with respect to the Authority.

**Part 5 of Schedule 3
Financial Provisions**

15. Financial year

The financial year of the Authority is –

- (a) the period beginning on the date on which this section comes into operation and ending on the next 31 March; or
- (b) the period of 12 months ending on 31 March in each subsequent year.

16. Funds

- (1) The funds of the Authority consist of –
 - (a) all the money received by the Authority by way of fees, levies and penalties; and
 - (b) all other money and property, including interest and accumulations of income, lawfully received by the Authority for its purposes.
- (2) Any funds of the Authority that are not immediately required by it for the performance of its functions may be –
 - (a) deposited on fixed term or call deposit or in a savings account in a bank nominated by the Financial Secretary, either generally or in a particular case, for that purpose; or
 - (b) invested in a manner approved by the Financial Secretary.

17. Authority is exempt from taxation

- (1) The Authority is exempt from taxation under the Inland Revenue Ordinance (Cap 112).
- (2) To avoid doubt, subsection (1) does not apply in relation to any remuneration, benefits or expenses paid out of the funds of the Authority to a member of the Authority.

**Cash Flow Projection of the Property Management Services Authority (PMSA)
from 2017-18 to 2024-25 Financial Years**

	Year 1 2017-18 '000	Year 2 2018-19 '000	Year 3 2019-20 '000	Year 4 2020-21 '000	Year 5 2021-22 '000	Year 6 2022-23 '000	Year 7 2023-24 '000	Year 8 2024-25 '000
<u>Income</u>								
Application/Licence Fees	0	2,305	6,708	13,215	12,984	13,349	13,716	13,495
Levy	2,800	28,000	28,000	28,000	28,000	28,000	28,000	28,000
Total Income (a)	2,800	30,305	34,708	41,215	40,984	41,349	41,716	41,495
<u>Expenditure</u>								
Recurrent Expenditure	7,213	25,450	33,079	34,072	35,094	36,146	37,231	38,348
Non-recurrent Expenditure (Note 1)	4,598	4,598	0	0	0	0	0	0
Total Expenditure (b)	11,811	30,048	33,079	34,072	35,094	36,146	37,231	38,348
Surplus/(Deficit) (a)-(b)	(9,011)	257	1,629	7,143	5,890	5,203	4,485	3,147
Loan Fund	14,000	8,000						
Repayment of Loan Principal (Note 2)				-4,400	-4,400	-4,400	-4,400	-4,400
Repayment of Loan Interest (31 March of Financial Year)	-153	-391	-407	-347	-280	-186	-93	0
Overall Balance (Note 3)	4,836	12,702	13,924	16,320	17,530	18,147	18,139	16,886

Note:

1. Non-recurrent expenditure covers set-up costs including office decoration, purchase of furniture and computers, development of computer system and website, logo design and recruitment of staff, etc.
2. Loan - Assuming a loan principal of \$22M. Loan principal will be repaid in five equal annual instalments (i.e. each instalment at \$4.4M) starting from 2020-21 financial year. The last (5th) instalment will be repaid on 1 April of 2024-25 financial year. After the day on which the loan is drawn for the first time, interest will be paid once on 31 March in each financial year, to be calculated at "no-gain-no-loss" rate on the outstanding loan amount.

Overall Balance

3. In view of the (i) time required to formulate the subsidiary legislation on the levy and licence fees; (ii) uncertainty about the number of PMCs and PMPs applying for licences during the transitional period and the number of conveyances on sale each year; (iii) time required to accumulate income from licence fees and levy, while the set-up costs have to be incurred at the initial stage upon the establishment of the PMSA, the PMSA has to maintain a certain level of overall balance so as to ensure a stable financial position.

**Government Loan to
the Property Management Services Authority (PMSA)
Proposed Terms and Conditions**

Loan Amount : \$22 Million

Lender : HKSAR Government

Purpose : To meet the set-up costs and initial operating expenses of the PMSA

Drawdown Schedule : Tentative drawdown schedule is as follows –

<u>Financial Year</u>	<u>Drawdown Amount</u>
2017-18	\$14 million
2018-19	\$8 million
Total	\$22 million

Loan Period : 2017-18 to 2024-25 financial year

Interest^{Note} : From the first drawdown of the loan in 2017-18 financial year, the interest is calculated at “no-gain-no-loss” rate (i.e. a certain percentage below the average best lending rate of note-issuing banks. That percentage is the average differential between the average best lending rate for banks in the past ten years and the 12-month Hong Kong dollar interbank interest rate). Interest will be paid on the outstanding loan amount once each financial year.

Repayment^{Note} Method : The loan principal will be repaid in five equal annual instalments (i.e. each instalment at \$4.4M) starting from 2020-21 financial year. The last instalment will be repaid in 2024-25 financial year.

Remark : In case the PMSA encounters unexpected cash flow situation in repaying the loan, it may amend the repayment schedule or extend the loan repayment period, subject to prior approval of the Financial Secretary.

^{Note} The drawdown and repayment schedules are set on the basis that the loan proposal would be approved within 2017-18.
