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## INFORMATION NOTE

### Financial Position of the Housing Authority from 1997-98 to 2003-04

#### 1. Introduction

1.1 This information note provides information on the financial position of the Housing Authority (HA)<sup>1</sup> from 1997-98 to 2003-04 in the following four major aspects:

- (a) consolidated operating account;
- (b) net surplus/deficit after appropriations to the Government;
- (c) closing cash balance and capital expenditure; and
- (d) significance of the Retail and Car-parking (RC) facilities, which are intended to be divested by HA, to HA's overall financial situation.

#### 2. Consolidated operating account

2.1 The consolidated operating account of HA contains information on the operating income, operating expenditure and operating surplus/deficit of HA's three core businesses, namely Rental Housing, Commercial and Home Ownership Assistance.<sup>2</sup>

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<sup>1</sup> Established in April 1973 under the Housing Ordinance, HA is a statutory body responsible for providing public housing and other related services in Hong Kong. Under Section 4(4) of the Ordinance, HA is required to be "*directed to ensuring that the revenue accruing to it from its estates shall be sufficient to meet its recurrent expenditure on its estates.*" Although HA is financially autonomous, its budget must be approved by the Chief Executive of the Hong Kong Special Administrative Region.

<sup>2</sup> The Rental Housing operation covers the allocation, management and maintenance of the domestic rental properties of HA. The Commercial operation refers to the management and operation of HA's non-housing related properties, including retail premises and car parking spaces. The Home Ownership Assistance operation currently focuses on implementing the Home Assistance Loan Scheme. Before the Government's announcement of the Statement on Housing Policy in November 2002, it was mainly responsible for implementing the schemes for selling subsidized flats under HA's Home Ownership Scheme.

## Operating income

2.2 As shown in Table 1, after reaching a peak in 2000-01, the overall income of HA fell substantially.

**Table 1 - Income of the Housing Authority**

	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Rental Housing (% of total income)	9,583 (29%)	9,227 (25%)	9,391 (25%)	9,541 (22%)	8,909 (26%)	9,748 (47%)	10,671 (67%)
Commercial (% of total income)	5,267 (16%)	5,023 (14%)	4,912 (13%)	5,207 (12%)	5,135 (15%)	4,772 (23%)	4,411 (27%)
Home Ownership Assistance (% of total income)	18,271 (55%)	22,513 (61%)	22,883 (62%)	28,603 (66%)	20,136 (59%)	6,438 (31%)	888 (6%)
<b>Total</b>	<b>33,121</b> (100%)	<b>36,763</b> (100%)	<b>37,186</b> (100%)	<b>43,351</b> (100%)	<b>34,180</b> (100%)	<b>20,958</b> (100%)	<b>15,970</b> (100%)

Sources: (1) Financial statements of the Housing Authority issued between 1997-98 and 2003-04; and  
(2) Annual reports of the Housing Authority issued between 1997-98 and 2003-04.

2.3 The drop in the overall income was mainly the result of a series of housing policy shift by the Government, involving:

- (a) the moratorium on sale of Home Ownership Scheme (HOS) flats from September 2001 to June 2002;
- (b) the indefinite cessation of the production and sale of HOS flats from 2003 onwards;<sup>3</sup>
- (c) the suspension of the Tenant Purchase Scheme (TPS);<sup>4</sup> and
- (d) the suspension of sales of returned and unsold HOS flats until end-2006.<sup>5</sup>

2.4 Following the series of housing policy shift was a change in the sources of HA's income. Since 2002-03, the Rental Housing operation has replaced the Home Ownership Assistance operation as the most important source of income for HA.

<sup>3</sup> This measure was implemented under the Government's Statement on Housing Policy announced in November 2002.

<sup>4</sup> Ibid.

<sup>5</sup> This measure was stated in the Government's Statement on Implementation and Consolidation of Housing Policy in October 2003.

### Operating expenditure

2.5 As shown in Table 2, after reaching a peak in 2001-02, HA's overall expenditure dropped significantly. The drop was mainly attributable to the expenditure cut from the Home Ownership Assistance operation amid the Government's shift in housing policies beginning from late 2002.

**Table 2 - Expenditure of the Housing Authority**

	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Rental Housing (% of total expenditure)	11,273 (55%)	11,206 (54%)	10,750 (39%)	11,354 (37%)	11,355 (36%)	10,576 (54%)	10,756 (66%)
Commercial (% of total expenditure)	2,622 (13%)	2,781 (13%)	3,076 (11%)	3,276 (11%)	3,383 (11%)	3,345 (17%)	3,204 (20%)
Home Ownership Assistance (% of total expenditure)	6,669 (32%)	6,640 (32%)	13,747 (50%)	16,319 (53%)	16,910 (53%)	5,646 (29%)	2,290 (14%)
<b>Total</b>	<b>20,564</b> (100%)	<b>20,627</b> (100%)	<b>27,573</b> (100%)	<b>30,949</b> (100%)	<b>31,648</b> (100%)	<b>19,567</b> (100%)	<b>16,250</b> (100%)

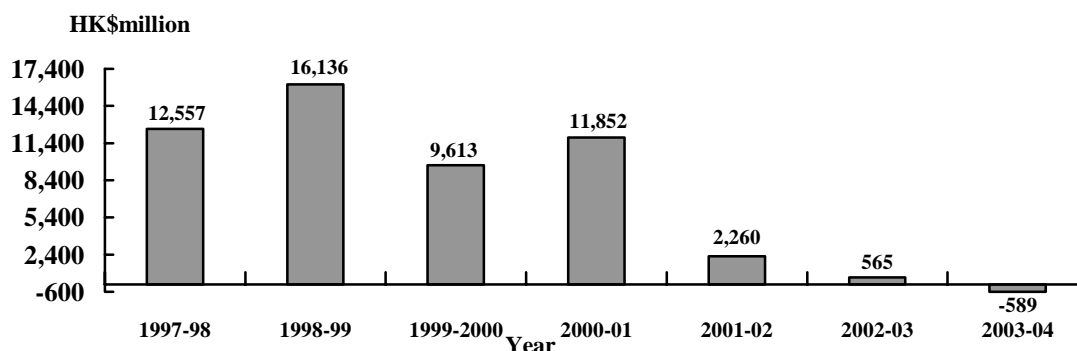
Sources: (1) Financial statements of the Housing Authority issued between 1997-98 and 2003-04; and  
(2) Annual reports of the Housing Authority issued between 1997-98 and 2003-04.

2.6 The share of HA's total expenditure among the three operations also changed significantly between 1997-98 and 2003-04. Since 2002-03, the Rental Housing operation has replaced the Home Ownership Assistance operation as the largest expenditure component, although the actual expenditure of the former operation has neither risen nor dropped significantly.

### Operating surplus/deficit

2.7 Chart 1 shows the consolidated operating surpluses/deficits of HA. For the first time in seven years, HA incurred an operating deficit in 2003-04. The deficit was mainly attributable to the reduction in revenue generation of the Home Ownership Assistance operation.

**Chart 1 – Operating surplus/deficit of the Housing Authority**



Sources: (1) Financial statements of the Housing Authority issued between 1997-98 and 2003-04; and  
(2) Annual reports of the Housing Authority issued between 1997-98 and 2003-04.

### **3. Net surplus/deficit of the Housing Authority after appropriations to the Government**

3.1 The net surplus/deficit of HA is the balance of the Consolidated Appropriation Account after appropriations to the Government for interest on loan capital and dividends on Commercial operating surplus.<sup>6</sup> The Consolidated Appropriation Account takes into account not only the net operating results of HA but also the surpluses/deficits of both the Funds Management Account<sup>7</sup> and the Agency Account<sup>8</sup>. The net surpluses/deficits of HA are presented in Table 3:

<sup>6</sup> Under the financial arrangements in 1988 and 1994 between HA and the Government, HA is required to repay the interest-bearing loan capital (its balance in 2003-04 was HK\$5.1 billion) to the Government in quarterly instalments over a period of 14 years, and share equally with the Government the overall profits arising from the Commercial operation in rental estates and HOS courts.

<sup>7</sup> The Fund Management Account records the performance of HA's cash and investments. A large part of HA's funds has been managed in-house by the Housing Department on a buy-and-hold-to-maturity basis to meet HA's cash flow requirements under the advice and direction of HA's Finance Committee.

<sup>8</sup> The Agency Account shows the operating results for agency functions undertaken on behalf of the Government, agency management services for completed HOS courts and TPS estates and for the supervision of Government reimbursable projects. In general, expenditure relating to these services is recoverable from the Government.

**Table 3 - Net surplus/deficit after appropriations to the Government**

	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Consolidated Operating Account surplus/(deficit)	12,557	16,136	9,613	11,852	2,260	565	(589)
Funds Management Account surplus	2,258	3,014	1,744	1,204	1,301	1,237	590
Agency Account surplus/(deficit)	(1)	0	0	0	0	17	(33)
Total surplus/(deficit) before appropriations	14,814	19,150	11,357	13,056	3,561	1,819	(32)
Appropriations: Interest on Government's loan capital	(542)	(504)	(466)	(423)	(381)	(335)	(287)
Dividend payable to Government	(1,322)	(1,121)	(918)	(965)	(876)	(714)	(603)
Subtotal	(1,864)	(1,625)	(1,384)	(1,388)	(1,257)	(1,049)	(890)
<b>Net surplus/(deficit) after appropriations</b>	<b>12,950</b>	<b>17,525</b>	<b>9,973</b>	<b>11,668</b>	<b>2,304</b>	<b>770</b>	<b>(922)</b>

Sources: (1) Financial statements of the Housing Authority issued between 1997-98 and 2003-04; and  
(2) Annual reports of the Housing Authority issued between 1997-98 and 2003-04.

3.2 In the past three years, the net surplus of HA dropped substantially, and in 2003-04, it turned into a deficit for the first time in seven years. Apart from the appropriations to the Government, the deficit was mainly attributable to the deficit for the Consolidated Operating Account and the drop in the overall returns for the Funds Management Account since 2000-01.<sup>9</sup>

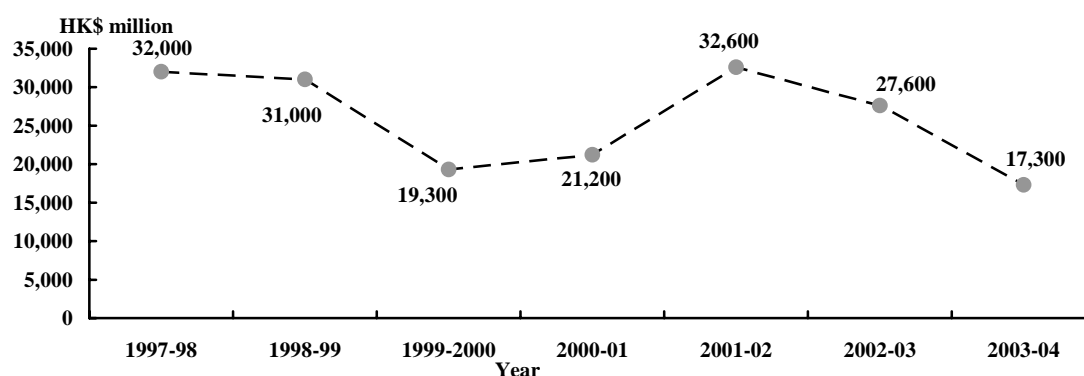
<sup>9</sup> The overall average returns for the Funds Management Account dropped in the past four years: 7.9% in 2000-01, 4.5% in 2001-02, 3.9% in 2002-03, and 2.8% in 2003-04. See HA's annual reports for 2000-01, 2001-02, 2002-03 and 2003-04.

#### 4. Closing cash balance and capital expenditure

4.1 According to HA, it uses its cash balance to help sustain its expenditure on recurrent operations and capital programmes such as the construction of rental estates, HOS flats and the related commercial facilities, and improvement works.

4.2 Chart 2 shows that HA's closing cash balance fell significantly in the past two years, and hit a record low in 2003-04.

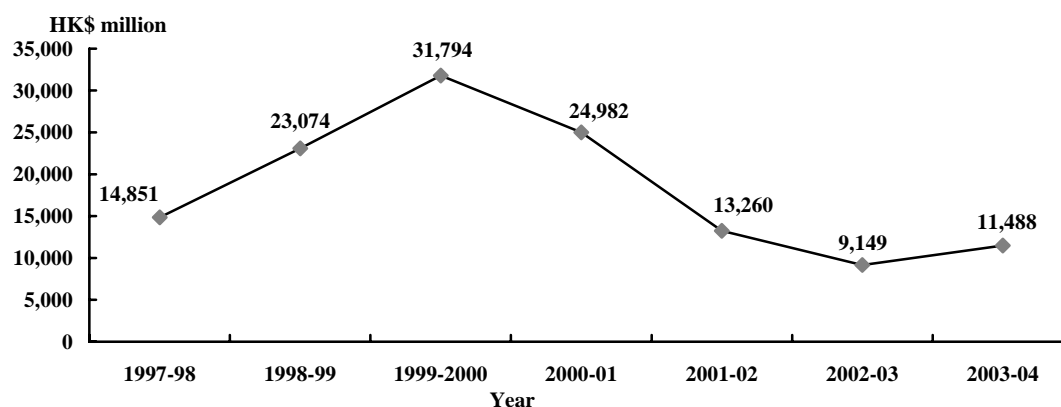
**Chart 2 – Closing cash balance of the Housing Authority**



Source: Information provided by the Housing Authority.

4.3 On the other hand, Chart 3 shows that the capital expenditure for HA had a mild rebound in 2003-04, although the figures during the past three years remained significantly lower than before.

**Chart 3 – Capital expenditure of the Housing Authority**



Source: Annual reports of the Housing Authority issued between 1997-98 and 2003-04.

## 5. Significance of the Retail and Car-parking facilities to the financial position of the Housing Authority

5.1 The RC operation is the mainstay of HA's Commercial operation. HA currently holds about one million sq m of retail facilities and some 100 000 car-parking spaces, amounting to some 11% and 16% of the market respectively. As shown in Table 4, between 2001-02 and 2003-04, the RC operation was the most important source of surplus for HA, although its actual surplus was on the decline.

**Table 4 - Overall operating surpluses/(deficits) of the Housing Authority and Retail and Car-parking facilities**

	Housing Authority	Retail and Car-parking facilities	
	(HK\$ million)	(HK\$ million)	(% of surplus of HA)
1997-98	12,557	2,396	(19%)
1998-99	16,136	1,952	(12%)
1999-2000	9,613	1,662	(17%)
2000-01	11,852	1,694	(14%)
2001-02	2,260	1,524	(67%)
2002-03	565	1,156	(200%)
2003-04	(589)	889	(250%)

Sources: (1) Financial statements of the Housing Authority issued between 1997-98 and 2003-04; and  
(2) Annual reports of the Housing Authority issued between 1997-98 and 2003-04.

5.2 With the significant drop in income from the Home Ownership Assistance operation, HA attempted to generate proceeds by divesting the RC operation (gross proceeds estimated at HK\$23 billion) in December 2004, but the listing attempt failed. According to HA, had the RC facilities been divested, proceeds from the divestment could have turned HA's consolidated operating results back to a surplus in 2004-05.

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