

**Memorandum for the Finance Committee of
the Hong Kong Housing Authority**

**Revisions of Housing Authority's
Accounting Policies**

PURPOSE

This paper seeks Members' approval on the proposed revisions to the Housing Authority (HA)'s Accounting Policies (APs¹).

RECOMMENDATION

2. Members are recommended to approve the proposed revisions as summarised in **Annex A** and highlighted in the relevant sections of the APs in **Annex B**.

BACKGROUND

3. The HA's accounts are prepared in accordance with the Housing Ordinance, the 1988 Financial Arrangements and the 1994 Supplemental Agreement with the Hong Kong Government, and the accounting policies approved by the Authority. HA's accounting policies meet the requirements set out in the Hong Kong Financial Reporting Standards where applicable and appropriate.

4. The APs, Financial and Accounting Regulations (F&ARs^{Note 1}) and Costing Policies (CPs^{Note 1}) are reviewed annually to follow the best practice in the presentation of the financial statements, to align with changes in the Authority's services/activities, organisational structure and delegated authority,

Note 1 The APs set out the bases and rules for the preparation and presentation of HA's accounts. The F&ARs set out the regulations relating to the handling of HA moneys, and financial matters including handling of non-HA funds. The CPs set out the policies in compiling costing information and analyses.

and changes in the Government's F&ARs where applicable and appropriate with a view to enhancing financial control, efficiency and transparency.

PROPOSED REVISIONS

5. The annual review for APs, F&ARs and CPs has been completed. While the F&ARs and CPs will remain unchanged, we propose a few minor revisions to the APs. The proposed revisions are summarised and elaborated in **Annex A** and highlighted in the relevant sections of the APs in **Annex B**. The relatively prominent one is related to the updating of the expected useful life for the latest categories of motor vehicles in AP No. 16 Property, Plant and Equipment as detailed in paragraph 6 below.

6. It is proposed to update the expected useful life of car, van and coach to 6, 8 and 9 years respectively, with reference to the latest estimate provided by Electrical and Mechanical Services Department which is responsible for providing maintenance services to the HA's vehicles.

FINANCIAL AND STAFFING IMPLICATIONS

7. For the proposed revision to the expected useful life of motor vehicle, there will be minimal financial implication ^{Note 2} to be reflected in 2015/16 accounts. There is no financial implication arising from the other proposed revisions.

8. There is no staffing implication.

CONSULTATION

9. The Audit Commission and the Financial Services and the Treasury Bureau (FSTB) have been consulted and they have no objection to the proposed revisions.

Note 2 There is only one motor vehicle at a cost subject to \$500,000 capitalisation threshold in the fixed assets record as at 31 March 2015.

IMPLEMENTATION

10. The revisions are proposed to be implemented with immediate effect upon Member's approval.

PUBLICITY

11. No publicity will be given on the content of this paper.

DECLASSIFICATION OF PAPER

12. It is proposed that this paper be declassified upon Members' approval of the proposed revisions as recommended at paragraph 2 above. The paper will be made available to the public at the Authority homepage, the Department's library and through the Departmental Access to Information Officer if it is declassified.

PRESUMPTION

13. It is not thought that Members will object to the recommendations at paragraphs 2, 10 and 12 above. If no objection or request for discussion is received by the Committees' Secretary **by noon on 23 July 2015**, Members' approval will be presumed and appropriate actions will be taken.

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(Corporate Services Division)

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**Summary of Proposed Revisions -
Accounting Policies (APs)**

AP No.
(see Annex B)

Proposed Revisions

Part II : Financial Arrangements with the Government

Para 4.1(a) To insert a note to reflect the prevailing practice that the provision for
– New note 6 Head 62 is paid by the Government by quarterly instalments in
advance.

Part III : Statements of Accounting Policy

AP No. 16 To reflect the prevailing practice that the cost of new assets acquired
New para 5 through trade-in should only count the gross value of the new assets.

Para 28 To update the expected useful life from the range of 5 to 10 years to the
– Item (vii) range of 6 to 9 years for the latest categories of motor vehicles, based
on the latest estimate.

II. - FINANCIAL ARRANGEMENTS WITH THE GOVERNMENT

4. AGENCY FUNCTIONS

4.1 The following Subheads of Expenditure are undertaken by the Authority on an agency basis for the Government and are funded by Government⁵ :-

- | | | |
|-----|--|---|
| (a) | Activities for building control, private housing, Appeal Panel (Housing), rehousing of occupants upon clearance and support services for housing-related matters and infrastructure projects | Head 62 ⁶ |
| (b) | Secondment to other government bureaux/departments | Relevant government bureaux/departments |

4.2 Payments to be made by the Government^{7,6} for the above Subheads of Expenditure to be undertaken by the Authority shall be paid within one month after a demand note is issued by the Authority. The Government shall pay the Authority interest, at 3% above the best lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time, on the outstanding amount not paid within one month of the Authority's issue of the relevant demand note. This interest shall accrue from day to day from the expiry of such one month period to the date of payment (the Supplemental Agreement, Clause 2.1(d)).

⁵ Expenditure (full cost including share of supporting & administration overhead if applicable) relating to the provision of these services and the amount receivable from the Government (recovery of the full cost) is shown separately under Agency Functions undertaken on behalf of the Government in the Agency Account. Provision for employee benefits is however absorbed by the Authority with the net surplus/deficit transferred to the Consolidated Appropriation Account. Over or under recovery of expenditure incurred by the Authority will be shown in the Statement of Financial Position as current liabilities (or assets) and settled with the Government in the following financial year.

⁶ The provision is paid by the Government to the Authority by quarterly installments in advance.

^{7,6} The Authority is also required to handle the residual allowance payments in relation to the previous clearance of Temporary Housing Area and Cottage Area.

III - STATEMENTS OF ACCOUNTING POLICY

PROPERTY, PLANT AND EQUIPMENT

1. The Authority adopts the prevailing HKAS 16 Property, Plant and Equipment issued by HKICPA where applicable and appropriate.
2. This accounting policy shall be applied to all significant outlays for properties, plant and equipment
 - (i) which are owned by the Authority;
 - (ii) which will be used with an enduring value and benefit of at least 5 years; and
 - (iii) costing/valuing \$500,000 or more
(enhancement of capitalised computer asset is not subject to \$500,000 capitalisation threshold, see para. ~~222~~ for details)

Details of classification of assets, date of capitalisation and accounting treatment

3. Upon acceptance of hand-over of the completed capital projects (other than developments for sale) by the receiving division, the total capital costs excluding Government Non-reimbursable (see para. 4) should be classified as property, plant and equipment in the Statement of Financial Position.
4. The Government/Institution/Community (GIC) facilities or infrastructure costs agreed to be funded by the Authority but not owned or used by it are Government Non-reimbursable and should not be treated as the assets of the Authority. Their costs (including the direct capital costs, directly attributable services costs and related overheads) will be treated as Exceptional Items under the Commercial Operating Account ^{Note 1} in the year of expenditure as incurred, unless the Finance Committee directs otherwise when the funds for the facilities or infrastructure are approved.
5. For fixed assets acquired through trade-in, the cost should only count the value of the new assets instead of the net value after deducting the value of the trade-in items.

Buildings and Improvement Works

- ~~65.~~ Buildings and improvement works are classified into the following seven categories -

Group A

- (i) Estates of the present as well as the former Hong Kong Housing Authority plus additions thereto since 1 April 1973 ("HKHA Estates"), including those estates taken over from the Hong Kong Model Housing Society, and the rental flats of TPS estates and BRO/MSS blocks (e.g. Yung Shing Court).
- (ii) Estates of the former Government Low Cost Housing Scheme plus additions thereto since 1 April 1973 ("GLCH").
- (iii) Non-domestic premises of Home Ownership Scheme excluding offices in HOS courts which are grouped as "Others - HO" ("HOS(ND)").

Group B

- (iv) Estates of the former Resettlement Department including flatted factories plus additions thereto since 1 April 1973 ("RD").

Interim Housing

- (v) Interim Housing ("IH"). In Paper No. HA 15/96 approval was given for the development of Interim Housing which will provide the accommodation of transitional nature to the residents, even though the structures may be permanent.

^{Note 1} Pursuant to the 1988 Financial Arrangements with the Hong Kong Government (as amended by the 1994 Supplemental Agreement), for the purpose of assessing the amount payable as dividends to Government on its non-domestic equity, all expenditure and provisions which are solely, necessarily and wholly incurred (or provided) for the Authority's non-domestic operations will be deducted from the non-domestic revenue.

III - STATEMENTS OF ACCOUNTING POLICY

PROPERTY, PLANT AND EQUIPMENT

	<u>Main categories of property, plant and equipment</u>	<u>Expected Useful Life</u>
(i)	Buildings (including site formation, integral mechanical plant & equipment, electrical equipment, electronic equipment, tele-communication equipment and lighting & ventilation funded by the approved project budget)	
	(a) Estates and other buildings (excluding those under (b))	50 years
	(b) Low-rise prefabricated Interim Housing (IH) blocks	10 years
(ii)	All building improvements and other improvement works (examples of building improvement works include, addition of lift towers for low rise domestic blocks, lift modernisation project and rewiring inside domestic flats; and examples of other improvement works include standalone lift towers, escalators, foot bridges, covered walkway, civil engineering improvement works at open areas)	The remaining life of the building upon completion of the improvement works.
(iii)	Other civil engineering works (infrastructure costs, roads owned or used by the Authority, etc.)	50 years
(iv)	Mechanical plant & equipment, electrical equipment, electronic equipment, tele-communication equipment	5 years
(v)	Computer assets (including hardware, software and system development cost)	5 years
(vi)	Enhancement of computer assets	The remaining life of the related computer asset after enhancement assessed by the Project Team of IT Sub-division or 5 years, whichever is the shorter.
(vii)	Motor vehicles -	
	Motor cycles & scooters	5 years
	Cars & small/medium vans	67 years
	Van	8 years
	Coach/Lorries & large vans	910 years