

Financial Review

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Supporting the vision and mission of the Housing Authority (HA), the delivery of quality financial management through a “best practice” approach remained our key focus in 2012/13. We continued to explore opportunities to improve and strengthen our financial and risk-management processes to provide maximum financial and business value in all our activities.

The HA is financially autonomous. Our massive public housing programmes are sustained through internally generated funds. These must be prudently managed to ensure that the necessary financial resources are available for the smooth operation of our capital programmes, operational services and business initiatives.

The 2012/13 Financial Statements

The HA’s Financial Statements have been prepared in accordance with accounting policies approved by the HA and the 1988 Financial Arrangements with the government, as amended by the 1994 Supplemental Agreement. A full set of the Financial Statements for 2012/13 is enclosed together with this Annual Report in a shared jacket. Additionally, summaries of the HA’s operating results and capital expenditure for the past five years are depicted in Appendices 9 and 10 of this Annual Report respectively.

Financial Highlights

The consolidated result for the year is summarised as follows:

	\$M
1. Consolidated Operating Account Surplus	1,505
2. Funds Management Account Surplus	4,277
3. Agency Account Surplus	40
Surplus for the year	5,822

1. Consolidated Operating Account

The Consolidated Operating Account summarises the operating results for Rental Housing, Commercial and Home Ownership Assistance activities. It shows an overall operating surplus of \$1,505 million for 2012/13 after taking into account a net special expenditure of \$98 million.

Rental Housing Operations incurred a deficit of \$1,234 million during 2012/13, analysed over the following types of housing:

Operating Deficit	\$M
Rental Housing (excluding Interim Housing)	1,189
Interim Housing	40
Rent Allowance for the Elderly	5
	1,234

Commercial Operations generated a surplus of \$771 million before charging exceptional items of \$33 million, analysed over the following types of facilities:

Operating Surplus	\$M
Commercial Complexes	379
Car Parks	130
Factories	40
Welfare Premises	222
	771

The exceptional items of \$33 million mainly represent demolition and clearance costs, and expenditure incurred on Government Infrastructure and Community facilities funded by the HA.

Home Ownership Assistance Operations generated a surplus of \$2,076 million before including an exceptional item of \$23 million, analysed over the following ownership schemes:

Operating Surplus/(Deficit)	\$M
Home Ownership Scheme (HOS)	747
Private Sector Participation Scheme (PSPS)	385
Tenants Purchase Scheme (TPS)	976
Home Purchase Loan Scheme (HPLS) and Home Assistance Loan Scheme (HALS)	(32)
	2,076

The exceptional item of \$23 million represents adjustments of future interest liability on the outstanding balance of the HPLS loan portfolio sold to the Hong Kong Mortgage Corporation Limited after related interest payment of \$28 million made in the year.

2. Funds Management Account

Income and expenditure relating to the management of HA’s funds available for investment are included in the Funds Management Account, which shows a surplus of \$4,277 million for 2012/13. As at 31 March 2013, HA’s funds available for investment stood at \$68,989 million.

HA’s investment strategy is determined by HA’s Finance Committee with reference to the independent professional investment consultant’s findings and recommendations. The aims of HA’s investment strategy are to ensure that there is sufficient liquidity to meet the operational needs of the HA, and to put the rest of HA’s funds into longer term investments in a prudent and diversified manner to enhance long term returns.

The Finance Committee, with the assistance of its Funds Management Sub-Committee, will review HA’s investment strategy and position from time to time. The Funds Management Sub-Committee also advises on the selection of fund managers and monitors their performance, while ongoing monitoring of day-to-day operations is conducted by the Housing Department. An overall review on Strategic Asset Allocation was completed in 2012/13 by HA’s investment consultant. Taking into account the investment consultant’s recommendations, and the latest financial markets situation and risks, the Finance Committee approved to make appropriate adjustments to Strategic Asset Allocation by reducing the allocations to global equities by 3% and global bonds by 2%, and a corresponding increase in the allocation to principal protection placements with the Exchange Fund by 5% through the accumulation of accrued interest over time. The revised Strategic Asset Allocation was to allocate around 55% of HA’s funds to principal protection placements with the Exchange Fund, 17.5% to equities, 17.5% to global bonds, and 10% to liquid investments (mainly bank deposits) to cater for the liquidity requirements to meet the operational needs of HA.

For 2012/13, the overall return (gross) on HA’s funds was 6.5%, as compared to 4.7% for 2011/12. The higher return for 2012/13 was mainly due to the higher return from equities and global bonds.

3. Agency Account

The Agency Account shows the operating results for agency functions undertaken on behalf of the government, for agency management services for completed HOS domestic courts and the common areas of the estates with properties divested, and for the supervision of government reimbursable projects.