

THE HONG KONG HOUSING AUTHORITY

Memorandum for the Finance Committee

Risk Management

PURPOSE

The purpose of this paper is to inform Members of the progress in the implementation of a comprehensive Risk Management Framework and to seek Members' approval to the draft Risk Management Objective, Policies & Strategies.

BACKGROUND

2. Members were informed vide Paper No. EFC 45/96 of the major recommendations by PA consultants and the Risk Management Programmes proposed by the Department covering the Risk Management Framework and the Financial and Operational Risks. Members also approved vide Paper No. FC 8/96 the Comprehensive Insurance Programme (CIP) for managing the insurable risks of the Authority, including the establishment of an Insurance Fund. The first six monthly progress report on Risk Management was submitted for Members' information vide Paper No. FC 25/96 at the meeting held on 31 October 1996.

PROGRESS-TO-DATE

Risk Management Framework

Integration with other MEP initiatives

3. One of the major recommendations by PA Consultants in their report was that “The Authority needs to have stated financial objectives as the basis for evaluation of all projects, policies and plans. Clarity of mission, vision and business objectives is a pre-requisite to establishing financial objectives”.

4. Indeed these directives are essential to establishing the Risk Management Framework, all of which together will form the foundations for best practice Corporate Governance. Up to now, Vision, Mission, Core Values, Strategic Objectives and draft Financial Objectives (Paper No. FC 12/97) have been developed **Annex A** refers. The Risk Management Framework is now put forward at this stage to form an integral part of Corporate Governance for the Authority, as outlined at **Annex B**.

5. In developing the Authority’s Risk Management Framework, the Department has researched into benchmarks and best practices and these are described in more detail in paragraphs 12 to 14.

Risk Management Objectives

6. As recommended by PA Consultants, effective risk management objectives should take into account the following overall policy objectives of the Authority -

- to plan and manage its finances effectively in order to implement the Long Term Housing Strategy, given the financial autonomy of the Authority subject to Government’s commitment under the financial arrangements to support the Authority
- to ensure that adequate housing at an affordable price or rent is available to all households
- to achieve efficient and equitable use of resources, and

- to ensure that revenues accruing from the estates are sufficient to meet the recurrent expenditure on the estates (S.4 Housing Ordinance)

7. Given the endorsed financial objectives, relevant policy objectives and the Vision and Mission, a draft Risk Management Objective for the Authority is proposed as follows -

“To identify and effectively manage all risks and exposures of the Authority’s finances and operations, to assist the Authority in achieving its strategic & financial objectives.”

Risk Management Policies and Strategies

8. The proposed Risk Management Policies and Strategies, as shown at **Annex C**, are in line with the above draft objective, PA’s recommendations, and best practice benchmarks. Subject to Members’ advice, these will be incorporated as appropriate into the Authority’s Financial & Accounting Regulations, Strategies /Business/Development Planning Guidelines, Risk Management Manual, Delegation Manual, and other instructions.

Roll out of Risk Management

9. The central Risk Management Sub-section headed by the Manager is now fully operational. The major responsibilities of the Sub-section which are related to financial (including treasury) risks, include -

- updating and maintaining the Risk Management Manual, Policies, Strategies and Guidelines
- developing methodologies & systems for risk assessment
- advising management on risk analysis, control and review during business planning and decision making
- implementing the Comprehensive Insurance Programme

The key strategy is to roll out Risk Management as an integral part of the Strategic/Business Planning and Budget process as outlined at **Annex D**.

Financial and Operational Risks

10. Details of the progress on specific Financial and Operational Risks are shown at **Annex E** for Members' information.

Comprehensive Insurance Programme (CIP)

11. Members approved vide Paper No. FC 8/96, as part of the CIP the establishment of an Insurance Fund, effective from 1 April 1996. Coverage and the premium charge out basis were agreed by the meeting of the Department's Insurance Advisory Committee (IAC) held on 26 February 1997. A Departmental Financial Instruction was issued to inform Divisions of the arrangements for the Insurance Fund. The Provisional Annual Statement of Movement of the Insurance Fund is shown as **Annex F**. Other details of the progress to-date are shown at **Annex G** for Members' information.

BENCHMARKING

Corporate Governance

12. Effective risk management is at the heart of good corporate governance and companies which have recognised and addressed risks have gained a competitive advantage in the longer term. At the National Housing Federation Finance Conference held in the UK in March 1997, Risk Management was highlighted as being a key component of best practice Corporate Governance in the public sector, with the aim of strengthening risk awareness and risk management procedures. A summary of major points relating to Corporate Governance is at **Annex H**.

Housing Corporation

13. The Housing Corporation, a quasi-government regulatory body monitoring around 2,000 Housing Associations in the UK, has developed risk management guidelines and intends to make risk management reporting including annual risk appraisal a key feature of its regulatory regime, plus requirements for annual risk appraisal and having procedures in place to manage and control risk. In particular the Corporation emphasizes that risk management is an essential part of the work of every Housing Association, regardless of size, and needs to become an integral part of the ongoing management and thus effectively part of the culture of the association. Examples of best practices from the Guidelines issued by the Housing Corporation is at **Annex I**.

Banking Industry

14. Risk Management is fundamental in the banking industry and is considered as a key to success and survival. Sound risk management is essential to promoting stability in both individual institutions and in the banking system as a whole. The Bank supervisory practices are moving from direct regulation, then capital-based supervision and now into the stage of risk-based supervision. The Hong Kong Monetary Authority issued in March 1995 a supervisory guideline on risk management of derivatives, which emphasises that even for managing complex instruments like derivatives, the key still lies in good Corporate Governance and risk management framework (**Annex J**). The Department intends to benchmark the risk management of its Treasury and Funds Management Operations against the best practices in both the public sector and the banking industry. The progress will be reported in subsequent papers.

FINANCIAL AND STAFFING IMPLICATIONS

15. As part of the Risk Management Programmes, financial implications arising from any organisational changes, appointment of consultants, or systems requirements will be dealt with in the relevant papers in due course.

PUBLICITY

16. No publicity will be given on the contents of this paper.

RECOMMENDATION

17. It is recommended that Members endorse the Risk Management Objective as detailed at paragraph 7 and the Policies and Strategies as detailed at paragraph 8 and **Annex C**.

DISCUSSION

18. Members' advice and approval to the recommendations at paragraph 17 above will be sought at the meeting of the Finance Committee to be held on 29 May 1997.

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