

Sewage Services

OPERATING ACCOUNTS

2004-05

February 2006

Sewage Services

OPERATING ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2005

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REVIEW OF THE YEAR 2004-05

ACTIVITIES

- Volume of sewage treated is 949 million cubic metres, representing a decrease of 0.3% over the previous year.

FINANCIAL PERFORMANCE

- Revenue increased by 19.8%
- Expenditure increased by 7.8%
- Deficit increased by 0.7%
- Deficit as percentage of expenditure decreased from 62.6% in 2003-04 to 58.4% in 2004-05

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OPERATING ACCOUNT FOR THE YEAR ENDED 31 MARCH 2005

	Note	2005 \$M	2004 \$M
Revenue	2	730.8	610.0*
Expenditure	3	<u>1,758.5</u>	<u>1,630.7</u>
Deficit		<u>(1,027.7)</u>	<u>(1,020.7)</u>
<i>Representing:</i>			
Subsidy by Government	5	<u>1,027.7</u>	<u>1,020.7</u>

FINANCIAL PERFORMANCE MEASURES

Deficit as percentage of expenditure	58.4%	62.6%
Increase/(decrease) in deficit (\$M)	7.0	(123.9)

* The figure represents the net amount of revenue, after deducting the concessions of \$141.7M for Sewage Charge and Trade Effluent Surcharge (being part of the package of relief measures due to the outbreak of the Severe Acute Respiratory Syndrome (SARS) in 2003).

The annexed notes form part of these accounts.

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BALANCE SHEET AS AT 31 MARCH 2005

	Note	2005 \$M	2004 (as restated) \$M
Net assets employed			
Fixed assets	1(b), (c) & (d) and 6	20,502.8	<i>19,791.3</i>
Current assets	1(e) and 7	236.4	<i>230.3</i>
Current liabilities	8	(2,827.5)	<i>(2,299.8)</i>
Net current liabilities		(2,591.1)	<i>(2,069.5)</i>
		17,911.7	<i>17,721.8</i>
Financed by			
Public capital account	9	17,911.7	<i>17,721.8</i>

The annexed notes form part of these accounts.

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NOTES ON THE ACCOUNTS

1. Accounting Policies

(a) Basis of Accounting	<p>The accounts have been prepared on the historical cost basis of accounting modified to include notional receipts and payments. Although the Sewage Services has incurred deficits since inception, the accounts are prepared on a going concern basis on the assumption that the deficit will be met by a corresponding subsidy from the Government.</p>
(b) Fixed Assets	<p>(i) No cost is included for land.</p> <p>(ii) By a Resolution passed by the Legislative Council on 26 July 1995, the assets comprising the public sewerage systems and sewage disposal facilities under the control of the Director of Drainage Services on 31 March 1995 as set out in the document titled “Inventory of Public Sewerage Systems and Sewage Disposal Facilities as at 31 March 1995” were appropriated to the Sewage Services Trading Fund (SSTF) at a zero valuation. Upon closure of the SSTF, these assets have been reverted to the Government. The net book values of these assets are shown in note 6.</p> <p>(iii) All sewerage projects are accounted for in the financial year following the year of commissioning and subject to depreciation.</p> <p>(iv) All other fixed assets are stated at cost less accumulated depreciation except projects under development which are stated at cost.</p>
(c) Projects under Development	<p>(i) For capital projects, the costs include the actual direct expenditure, and staff costs for design, planning and supervision during the construction period.</p> <p>(ii) Expenditure incurred on all sewerage projects funded under the expenditure vote of Drainage Services Department and other works departments is capitalized as projects under development. Following the year of commissioning of the projects or part thereof, the related expenditure incurred will be transferred to the respective categories of fixed assets.</p>

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NOTES ON THE ACCOUNTS

(d) Depreciation

(i) Depreciation is provided on a straight line basis calculated to write off the cost of the assets less residual value over their estimated useful lives.

(ii) The annual rates of depreciation used are :-

Sewage treatment works

- Civil works 2%
- Electrical and mechanical equipment 6% - 7%

Pumping stations

- Civil works 2%
- Electrical and mechanical equipment 4%
- Rising mains 4%

Infrastructural assets

- Tunnel sewers 1%
- Sewers 2.5%
- Outfalls 2%

Leasehold improvements 33% - 35%

Computer systems, equipment and vehicles 12.5% - 20%

(iii) No depreciation is provided on projects under development.

(e) Stocks

Stocks are stated at the lower of cost and net realisable value, using the weighted average cost method. Stocks include mechanical, electronic and electrical spare parts, and chemicals.

(f) Taxation

(i) Notional profits tax is provided, where necessary, based on the expected taxable surplus for the year, using tax rates prevailing at the balance sheet date, and any adjustment to tax payable in respect of previous years. No provision for notional profits tax has been made in the accounts as the Sewage Services has no taxable surplus for the year.

(ii) Deferred tax is recognised, where appropriate, for all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognised to the extent that it is probable that taxable surplus will be available against which the temporary differences can be utilised. No provision for deferred tax in respect of all material temporary differences has been made in the accounts as the Sewage Services has no taxable surplus against which the temporary differences can be utilised.

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NOTES ON THE ACCOUNTS

(g) Employee Benefits	Employee benefits including salaries, gratuities, pensions, housing benefits and annual leave are accrued and recognised as an expense in the year in which the associated services are rendered by employees.
(h) Operating Deficit	Since the Sewage Services do not have a separate legal identity, their financial resources form part of the General Revenue. All deficits are deemed to be financed by the General Revenue and adjusted to the Public Capital Account.

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NOTES ON THE ACCOUNTS

2. Revenue

	2005 \$M	2004 \$M
Sewage charge	470.1	381.1
Supplies to Government establishments	22.1	24.1
Trade effluent surcharge	209.1	172.8
Miscellaneous services	29.5	32.0
	<u>730.8</u>	<u>610.0</u>

3. Expenditure

	2005 \$M	2004 \$M
Staff costs	448.0	472.6
Light and power	174.8	171.4
Sludge disposal	26.2	26.4
Chemicals	43.8	43.4
Operation and maintenance expenses	406.1	333.5
Rental and management charges	8.3	10.4
General operating expenses	145.2	140.6
Depreciation	506.1	432.4
	<u>1,758.5</u>	<u>1,630.7</u>

4. Taxation

Deferred Tax Assets/(Deferred Tax Liabilities) not recognised in respect of:-

	2005 \$M	2004 \$M
Unused tax losses	<u>8,750.5</u>	<u>7,225.5</u>
Material temporary differences arising from depreciation allowances on fixed assets	<u>(3,918.2)</u>	<u>(3,422.0)</u>

5. Subsidy by Government

The subsidy by the Government is to cover the costs of provision of free allowance to domestic consumers and part of the operating costs for the provision of sewage services.

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NOTES ON THE ACCOUNTS

6. Fixed Assets

	Sewage Treatment Works \$M	Pumping Stations \$M	Tunnel, Sewers and Outfalls \$M	Leasehold Improvements \$M	Computer Systems, Equipment and Vehicles \$M	Projects Under Development \$M	Total \$M
Cost							
At 1 April 2004 (as restated)	4,717.9	2,564.2	7,786.6	2.4	141.4	6,303.9*	21,516.4*
Additions	-	-	-	-	18.0	1,199.6	1,217.6
Transfers from projects under development	254.8	241.1	2,522.8	-	0.4	(3,019.1)	0.0
At 31 March 2005	4,972.7	2,805.3	10,309.4	2.4	159.8	4,484.4	22,734.0
Aggregate depreciation							
At 1 April 2004	817.2	318.3	497.7	2.4	89.5	-	1,725.1
Charge for the year	204.9	84.2	194.7	-	22.3	-	506.1
At 31 March 2005	1,022.1	402.5	692.4	2.4	111.8	-	2,231.2
Net book value							
At 31 March 2005	3,950.6	2,402.8	9,617.0	0.0	48.0	4,484.4	20,502.8
At 1 April 2004 (as restated)	3,900.7	2,245.9	7,288.9	0.0	51.9	6,303.9*	19,791.3*

* The cost of Projects Under Development at 1 April 2004 has been restated as follows :

	<u>\$M</u>	<u>\$M</u>
Projects Under Development balance as at 1 April 2004 as previously stated		8,444.6
Adjusted by eliminating the cost of the following:		
1. Sewerage projects which had been completed in 1993 and appropriated to the SSTF at a zero valuation.	(1,379.9)	
2. Other sewerage projects which had been transferred to fixed assets prior to the closure of the SSTF.	(760.8)	(2,140.7)
Restated Projects Under Development balance at 1 April 2004		<u>\$6,303.9</u>

Consequently, the cost of fixed assets at 1 April 2004 has been restated from \$23,657.1M to \$21,516.4M and the net book value at 1 April 2004 has been restated from \$21,932.0M to \$19,791.3M.

As referred to in note 1(b)(ii), the assets which were appropriated to the SSTF at a zero valuation and reverted to the Government upon its closure have a net book value as at 1 April 2004 of \$4,983.6M. After taking into account depreciation of \$233.6M for 2004-05, the net book value of these assets as at 31 March 2005 was \$4,750.0M.

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NOTES ON THE ACCOUNTS

7. Current Assets

	2005 \$M	2004 \$M
Stocks	96.1	87.9
Debtors	140.3	140.3
Cash at bank	0.0	2.1
	<u>236.4</u>	<u>230.3</u>

8. Current Liabilities

	2005 \$M	2004 \$M
Creditors	20.4	16.4
Current account with Treasury	2,807.1	2,283.4
	<u>2,827.5</u>	<u>2,299.8</u>

9. Public Capital Account

The Public Capital Account represents Government's investment in sewage services.

	2005 \$M	2004 \$M
Balance as at 1 April	17,721.8	19,634.3
Restatement of cost of fixed assets as disclosed in Note 6	-	(2,140.7)
Balance as at 1 April, as restated	17,721.8	17,493.6
Deficit for the year	(1,027.7)	(1,020.7)
Additional cash investment by the Government	1,217.6	1,248.9
Balance as at 31 March	<u>17,911.7</u>	<u>17,721.8</u>

10. Capital Commitments

	2005 \$M	2004 \$M
Capital expenditure contracted for	2,041.7	3,048.2
Capital expenditure authorised but not yet contracted for	5,160.9	5,060.2
	<u>7,202.6</u>	<u>8,108.4</u>

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NOTES ON THE ACCOUNTS

11. Comparative Figures

Certain comparative figures for the year ended 31 March 2004 have been restated to reflect the adjustment of cost of Projects Under Development as stated in Note 6.