

Sewage Services

OPERATING ACCOUNTS

2005-06

June 2007

Sewage Services

OPERATING ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2006

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Sewage Services

REVIEW OF THE YEAR 2005-06

ACTIVITIES

- Volume of sewage treated is 974 million cubic metres, representing an increase of 2.6% over the previous year.

FINANCIAL PERFORMANCE

- Revenue decreased by 0.7%
- Expenditure increased by 0.4%
- Deficit increased by 1.2%
- Deficit as percentage of expenditure increased from 58.4% in 2004-05 to 58.9% in 2005-06

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OPERATING ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

	Note	2006 \$M	2005 \$M
Revenue	2	725.9	730.8
Expenditure	3	<u>1,765.6</u>	<u>1,758.5</u>
Deficit		<u>(1,039.7)</u>	<u>(1,027.7)</u>
<i>Representing :</i>			
Subsidy by Government	5	<u>1,039.7</u>	<u>1,027.7</u>

FINANCIAL PERFORMANCE MEASURES

Deficit as percentage of expenditure	58.9%	58.4%
Increase/(decrease) in deficit (\$M)	12.0	7.0

The annexed notes form part of these accounts.

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BALANCE SHEET AS AT 31 MARCH 2006

	Note	2006 \$M	2005 \$M
Net assets employed			
Fixed assets	1(b), (c) & (d) and 6	21,284.9	20,502.8
Current assets	1(e) and 7	262.1	236.4
Current liabilities	8	(3,308.4)	(2,827.5)
Net current liabilities		(3,046.3)	(2,591.1)
		<hr/>	<hr/>
		18,238.6	<i>17,911.7</i>
		<hr/>	<hr/>
Financed by			
Public capital account	9	18,238.6	<i>17,911.7</i>
		<hr/>	<hr/>

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		2006 \$M	2005 \$M
	Sewage charge	466.6	470.1
	Supplies to Government establishments	22.4	22.1
	Trade effluent surcharge	209.0	209.1
	Miscellaneous services	27.9	29.5
		<u>725.9</u>	<u>730.8</u>
3. Expenditure		2006 \$M	2005 \$M
	Staff costs	436.2	448.0
	Light and power	195.9	174.8
	Sludge disposal	25.0	26.2
	Chemicals	42.2	43.8
	Operation and maintenance expenses	358.2	406.1
	Rental and management charges	10.7	8.3
	General operating expenses	112.9	145.2
	Depreciation	584.5	506.1
		<u>1,765.6</u>	<u>1,758.5</u>
4. Taxation	Deferred Tax Assets/(Deferred Tax Liabilities) not recognised in respect of:-		
		2006 \$M	2005 \$M
	Unused tax losses	<u>10,450.8</u>	<u>8,750.5</u>
	Material temporary differences arising from depreciation allowances on fixed assets	<u>(4,573.9)</u>	<u>(3,918.2)</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 2005	4,972.7	2,805.3	10,309.4	2.4	159.8	4,484.4	22,734.0
Additions	-	-	-	-	21.0	1,345.6	1,366.6
Transfers from projects under development	1,457.9	227.4	598.5	-	1.6	(2,285.4)	0.0
At 31 March 2006	6,430.6	3,032.7	10,907.9	2.4	182.4	3,544.6	24,100.6
Aggregate depreciation							
At 1 April 2005	1,022.1	402.5	692.4	2.4	111.8	-	2,231.2
Charge for the year	264.3	90.8	209.2	-	20.2	-	584.5
At 31 March 2006	1,286.4	493.3	901.6	2.4	132.0	-	2,815.7
Net book value							
At 31 March 2006	5,144.2	2,539.4	10,006.3	0.0	50.4	3,544.6	21,284.9
<i>At 1 April 2005</i>	<i>3,950.6</i>	<i>2,402.8</i>	<i>9,617.0</i>	<i>0.0</i>	<i>48.0</i>	<i>4,484.4</i>	<i>20,502.8</i>

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 2005 of \$4,750.0M. After taking into account depreciation of \$229.5M for 2005-06, the net book value of these assets as at 31 March 2006 was \$4,520.5M.

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NOTES ON THE ACCOUNTS

7. Current Assets		2006	2005
		\$M	\$M
	Stocks	113.8	96.1
	Debtors	148.3	140.3
		<u>262.1</u>	<u>236.4</u>
8. Current Liabilities		2006	2005
		\$M	\$M
	Creditors	17.1	20.4
	Current account with Treasury	3,291.3	2,807.1
		<u>3,308.4</u>	<u>2,827.5</u>
9. Public Capital Account	The Public Capital Account represents Government's investment in sewage services.		
		2006	2005
		\$M	\$M
	Balance as at 1 April	17,911.7	17,721.8
	Deficit for the year	(1,039.7)	(1,027.7)
	Additional cash investment by the Government	1,366.6	1,217.6
	Balance as at 31 March	<u>18,238.6</u>	<u>17,911.7</u>
10. Capital Commitments		2006	2005
		\$M	\$M
	Capital expenditure contracted for	2,737.6	2,041.7
	Capital expenditure authorised but not yet contracted for	4,558.7	5,160.9
		<u>7,296.3</u>	<u>7,202.6</u>