

Sewage Services

OPERATING ACCOUNTS

2012-13

February 2014

Sewage Services

OPERATING ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2013

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REVIEW OF THE YEAR 2012-13

ACTIVITIES

- Volume of sewage treated is 1,001 million cubic metres, representing an increase of 1.5% over the previous year.

FINANCIAL PERFORMANCE

- Revenue increased by 8.0%
- Expenditure increased by 3.2%
- Deficit decreased by 0.2%
- Deficit as percentage of expenditure decreased from 58.2% in 2011-12 to 56.3% in 2012-13

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OPERATING ACCOUNT FOR THE YEAR ENDED 31 MARCH 2013

	Note	2013 \$M	Restated 2012 \$M
Revenue	2	1,022.8	947.4
Expenditure	3	<u>2,339.1</u>	<u>2,265.9</u>
Deficit		<u>(1,316.3)</u>	<u>(1,318.5)</u>
<i>Representing :</i>			
Subsidy by Government	5	<u>1,316.3</u>	<u>1,318.5</u>

FINANCIAL PERFORMANCE MEASURES

Deficit as percentage of expenditure	56.3%	58.2%
Increase/(decrease) in deficit (\$M)	(2.2)	37.0

COST RECOVERY RATES FOR SEWAGE CHARGE AND TRADE EFFLUENT SURCHARGE (EXCLUDING DEPRECIATION)

	Sewage Charge \$M	Trade Effluent Surcharge \$M	2013 Total \$M	2012 Total \$M
Revenue	775.6	207.1	982.7	907.2
Expenditure (excluding depreciation)	1,275.3	222.7	1,498.0	1,444.2
% of cost recovery	60.8%	93.0%	65.6%	62.8%

The annexed notes form part of these accounts.

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BALANCE SHEET AS AT 31 MARCH 2013

	Note	2013 \$M	Restated 2012 \$M
Net assets employed			
Fixed assets	1(b), (c) & (d) and 6	34,132.8	30,493.8
Current assets	1(e) and 7	406.9	384.0
Current liabilities	8	(7,096.2)	(6,558.5)
Net current liabilities		(6,689.3)	(6,174.5)
		27,443.5	24,319.3
Financed by			
Public capital account	9	27,443.5	24,319.3

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) 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

	2013 \$M	2012 \$M
Sewage charge	739.5	669.4
Supplies to Government establishments	36.1	33.2
Trade effluent surcharge	207.1	204.6
Miscellaneous services	40.1	40.2
	<u>1,022.8</u>	<u>947.4</u>

3. Expenditure

	2013 \$M	<i>Restated</i> 2012 \$M
Staff costs	518.7	483.2
Light and power	229.9	219.1
Sludge disposal	42.9	36.4
Chemicals	151.0	159.6
Operation and maintenance expenses	412.3	412.2
Rental and management charges	22.5	20.4
General operating expenses*	160.3	153.0
Depreciation*	801.5	782.0
	<u>2,339.1</u>	<u>2,265.9</u>

* As a result of the restatement of the cost of fixed assets as mentioned in Note 6, prior year adjustment is made to increase the general operating expenses and the depreciation provided for the year ended 31 March 2012 by \$0.8M and \$30.6M respectively.

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NOTES ON THE ACCOUNTS

4. Taxation

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

	2013	<i>Restated</i>
	\$M	<i>2012</i>
		<i>\$M</i>
Unused tax losses*	<u>25,226.0</u>	<u>22,633.3</u>
Material temporary differences arising from depreciation allowances on fixed assets*	<u>(10,362.2)</u>	<u>(9,085.9)</u>

* As a result of the restatement of the cost of fixed assets as mentioned in Note 6, prior year adjustment is made to increase the unused tax loss as at 31 March 2012 by \$156.8M and the material temporary differences as at 31 March 2012 by \$8.5M.

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 2012	8,468.2	4,444.5	12,617.2	2.4	336.3	11,979.9	37,848.5
Prior year adjustment *	334.4	80.0	475.0	-	-	(889.4)	0.0
At 1 April 2012 (restated)	8,802.6	4,524.5	13,092.2	2.4	336.3	11,090.5	37,848.5
Additions	-	-	-	-	12.1	4,430.4	4,442.5
Transfers from projects under development	442.6	111.1	539.6	-	37.2	(1,130.5)	0.0
Disposals	-	-	-	-	(2.0)	-	(2.0)
At 31 March 2013	9,245.2	4,635.6	13,631.8	2.4	383.6	14,390.4	42,289.0
Aggregate depreciation							
At 1 April 2012	3,350.4	1,366.6	2,232.5	2.4	257.7	-	7,209.6
Prior year adjustment *	99.5	7.2	38.4	-	-	-	145.1
At 1 April 2012 (restated)	3,449.9	1,373.8	2,270.9	2.4	257.7	-	7,354.7
Charge for the year	362.0	139.5	274.1	-	27.8	-	803.4
Written back on disposals	-	-	-	-	(1.9)	-	(1.9)
At 31 March 2013	3,811.9	1,513.3	2,545.0	2.4	283.6	-	8,156.2
Net book value							
At 31 March 2013	5,433.3	3,122.3	11,086.8	0.0	100.0	14,390.4	34,132.8
<i>At 1 April 2012 (restated)</i>	<i>5,352.7</i>	<i>3,150.7</i>	<i>10,821.3</i>	<i>0.0</i>	<i>78.6</i>	<i>11,090.5</i>	<i>30,493.8</i>

* Projects under Development of \$889.4M should have been transferred to the respective categories of fixed assets as they have already been commissioned. As a result of this prior year adjustment, the aggregate depreciation as at 31 March 2012 is increased by \$145.1M and the net book value of fixed assets as at 31 March 2012 is decreased by \$145.1M. See also Notes 3, 4, 8 and 9.

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 are included in the accounts at zero value. These assets have a net book value as at 1 April 2012 of \$3,236.3M. After taking into account depreciation of \$208.2M for 2012-13, the net book value of these assets as at 31 March 2013 was \$3,028.1M.

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NOTES ON THE ACCOUNTS

7. Current Assets

	2013 \$M	2012 \$M
Stocks	202.9	196.3
Debtors	204.0	187.7
	<u>406.9</u>	<u>384.0</u>

8. Current Liabilities

	2013 \$M	<i>Restated</i> 2012 \$M
Creditors	46.2	60.1
Current account with Treasury*	7,050.0	6,498.4
	<u>7,096.2</u>	<u>6,558.5</u>

* As a result of the restatement of the cost of fixed assets as mentioned in Note 6, prior year adjustment is made to increase the balance of current account with Treasury as at 31 March 2012 by \$3.2M.

9. Public Capital Account

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

	2013 \$M	<i>Restated</i> 2012 \$M
Balance as at 1 April	24,319.3	21,496.4
Deficit for the year*	(1,316.3)	(1,318.5)
Prior year adjustments*	-	(116.9)
Additional cash investment by the Government	4,440.5	4,258.3
Balance as at 31 March	<u>27,443.5</u>	<u>24,319.3</u>

* As a result of the restatement of the cost of fixed assets as mentioned in Note 6, prior year adjustment is made to decrease the Public Capital Account balance as at 31 March 2012 by \$148.3M.

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NOTES ON THE ACCOUNTS

10. Capital Commitments

	2013 \$M	2012 \$M
Capital expenditure contracted for	17,520.6	20,224.3
Capital expenditure authorised but not yet contracted for	5,265.7	5,049.9
	<u>22,786.3</u>	<u>25,274.2</u>

11. Comparative Figures

Certain comparative figures for the year ended 31 March 2012 have been restated to reflect the restatement of the cost of fixed assets as stated in Note 6.