

Sewage Services

OPERATING ACCOUNTS

2015-16

February 2017

Sewage Services

OPERATING ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2016

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REVIEW OF THE YEAR 2015-16

ACTIVITIES

- Volume of sewage treated is 1,008 million cubic metres, representing a decrease of 0.3% against the previous year.

FINANCIAL PERFORMANCE

- Revenue increased by 7.3%
- Expenditure increased by 22.8%
- Deficit increased by 36.6%
- Deficit as percentage of expenditure increased from 52.8% in 2014-15 to 58.7% in 2015-16

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OPERATING ACCOUNT FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 \$M	2015 \$M
Revenue	2	1,316.8	1,227.1
Expenditure	3	<u>3,191.5</u>	<u>2,599.2</u>
Deficit before taxation		(1,874.7)	(1,372.1)
Taxation	1(f) & 4	<u>-</u>	<u>-</u>
Deficit after taxation	1(h)	<u><u>(1,874.7)</u></u>	<u><u>(1,372.1)</u></u>
<i>Representing :</i>			
Subsidy by Government	5	<u><u>1,874.7</u></u>	<u><u>1,372.1</u></u>

FINANCIAL PERFORMANCE MEASURES

Deficit as percentage of expenditure	58.7%	52.8%
Increase in deficit (\$M)	502.6	69.4

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

	Sewage Charge \$M	Trade Effluent Surcharge \$M	2016 Total \$M	2015 Total \$M
Revenue	1,047.0	221.5	1,268.5	1,181.7
Expenditure (excluding depreciation)	1,780.4	321.0	2,101.4	1,714.6
% of cost recovery	58.8%	69.0%	60.4%	68.9%

The annexed notes form part of these accounts.

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STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016

	Note	2016 \$M	Restated 2015 \$M
Net assets employed			
Fixed assets	1(b), (c) & (d) and 6	48,423.9	46,333.1
Current assets	1(e) and 7	496.3	446.1
Current liabilities	8	(9,003.1)	(8,120.5)
Net current liabilities		(8,506.8)	(7,674.4)
		39,917.1	38,658.7
Financed by			
Public capital account	9	39,917.1	38,658.7

The annexed notes form part of these accounts.

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NOTES TO 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 TO THE ACCOUNTS

d) Depreciation	(i)	Depreciation is provided on a straight line basis to amortise the cost of fixed 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 in Hand		Stocks in hand are valued at cost using the weighted average cost method subject to any write-off or write-down that may be necessary to reflect the individual losses in value as a result of obsolescence, damage and/or deterioration. 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 reporting period end 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 TO 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 TO THE ACCOUNTS

2. Revenue		2016	2015
		\$M	\$M
	Sewage charge	995.7	905.8
	Supplies to Government establishments	51.3	49.3
	Trade effluent surcharge	221.5	226.6
	Miscellaneous services	48.3	45.4
		<u>1,316.8</u>	<u>1,227.1</u>
3. Expenditure		2016	2015
		\$M	\$M
	Staff costs	603.4	563.9
	Light and power	263.6	258.6
	Sludge disposal	67.5	51.3
	Chemicals	191.1	166.1
	Operation and maintenance expenses	818.9	519.3
	Rental and management charges	28.0	25.8
	General operating expenses	176.7	174.3
	Depreciation	1,042.3	839.9
		<u>3,191.5</u>	<u>2,599.2</u>
4. Taxation		2016	2015
		\$M	\$M
	Notional profits tax charge for the year	<u>-</u>	<u>-</u>
	Deferred tax assets/(liabilities) not recognised in respect of -		
	Unused tax losses	<u>35,538.9</u>	<u>30,836.7</u>
	Material temporary differences arising from depreciation allowances on fixed assets	<u>(16,086.5)</u>	<u>(13,258.6)</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 TO 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
At Cost							
At 1 April 2015	9,916.2	5,834.7	15,167.1	2.4	437.2	20,030.6	51,388.2
Prior year adjustment *	-	-	-	-	-	4,831.6	4,831.6
At 1 April 2015 (restated)	9,916.2	5,834.7	15,167.1	2.4	437.2	24,862.2	56,219.8
Additions	-	-	-	-	15.1	3,118.4	3,133.5
Transfers from projects under development	4,144.4	485.0	1,345.8	-	13.5	(5,988.7)	-
Disposals	-	-	-	-	(0.4)	-	(0.4)
At 31 March 2016	14,060.6	6,319.7	16,512.9	2.4	465.4	21,991.9	59,352.9
Accumulated Depreciation							
At 1 April 2015	4,512.8	1,846.5	3,177.3	2.4	347.7	-	9,886.7
Charge for the year	481.2	189.8	338.4	-	33.3	-	1,042.7
Written back on disposals	-	-	-	-	(0.4)	-	(0.4)
At 31 March 2016	4,994.0	2,036.3	3,515.7	2.4	380.6	-	10,929.0
Net book value							
At 31 March 2016	9,066.6	4,283.4	12,997.2	-	84.8	21,991.9	48,423.9
<i>At 1 April 2015 (restated)</i>	<i>5,403.4</i>	<i>3,988.2</i>	<i>11,989.8</i>	<i>-</i>	<i>89.5</i>	<i>24,862.2</i>	<i>46,333.1</i>

* Expenditure incurred on a sewerage project has been omitted in Projects under Development. As a result of this prior year adjustment, the net book value of fixed assets as at 31 March 2015 is increased by \$4,831.6M. See also Note 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 2015 of \$2,768.3M. After taking into account depreciation of \$121.3M for 2015-16, the net book value of these assets as at 31 March 2016 was \$2,647.0M.

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7. Current Assets

	2016 \$M	2015 \$M
Stocks in Hand	218.6	206.4
Debtors	277.7	239.7
	<u>496.3</u>	<u>446.1</u>

8. Current Liabilities

	2016 \$M	2015 \$M
Creditors	91.8	78.0
Current account with Treasury	8,911.3	8,042.5
	<u>9,003.1</u>	<u>8,120.5</u>

9. Public Capital Account

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

	2016 \$M	<i>Restated</i> 2015 \$M
Balance as at 1 April	38,658.7	30,868.1
Deficit for the year	(1,874.7)	(1,372.1)
Prior year adjustment *	-	4,831.6
Additional cash investment by the Government	3,133.1	4,331.1
Balance as at 31 March	<u>39,917.1</u>	<u>38,658.7</u>

* As a result of the restatement of the cost of fixed assets as mentioned in Note 6, adjustment is made to increase the Public Capital Account balance as at 31 March 2015 by \$4,831.6M.

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NOTES TO THE ACCOUNTS

10. Commitments

Outstanding commitments as at 31 March 2016 and 31 March 2015 not provided for in the operating account were as follows -

	2016	<i>2015</i>
	\$M	<i>\$M</i>
(i) Capital works projects, property, plant and equipment and capital subvention	11,198.3	<i>13,253.2</i>
(ii) Non-recurrent expenditure	-	-
(iii) Investments	-	-
(iv) Loans and non-recurrent grants	-	-
	<u>11,198.3</u>	<i><u>13,253.2</u></i>

11. Comparative Figures

Certain comparative figures for the year ended 31 March 2015 have been restated to reflect the restatement of the cost of fixed assets as stated in Note 6.