

Sewage Services

OPERATING ACCOUNTS

2016-17

February 2018

Sewage Services

OPERATING ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2017

	<i>Page</i>
<i>Review of the year</i>	1
<i>Operating Account</i>	2
<i>Statement of Financial Position</i>	3
<i>Notes to the Accounts</i>	4 – 10

Sewage Services

REVIEW OF THE YEAR 2016-17

ACTIVITIES

- Volume of sewage treated is 1,011 million cubic metres, representing an increase of 0.3% over the previous year.

FINANCIAL PERFORMANCE

- Revenue increased by 9.2%
- Expenditure increased by 20.9%
- Deficit increased by 29.1%
- Deficit as percentage of expenditure increased from 58.7% in 2015-16 to 62.7% in 2016-17

Sewage Services

OPERATING ACCOUNT FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 \$M	2016 \$M
Revenue	2	1,438.4	1,316.8
Expenditure	3	<u>3,858.8</u>	<u>3,191.5</u>
Deficit before taxation		(2,420.4)	(1,874.7)
Taxation	1(f) and 4	<u>-</u>	<u>-</u>
Deficit after taxation	1(h)	<u><u>(2,420.4)</u></u>	<u><u>(1,874.7)</u></u>
<i>Representing :</i>			
Subsidy by Government	5	<u><u>2,420.4</u></u>	<u><u>1,874.7</u></u>

FINANCIAL PERFORMANCE MEASURES

Deficit as percentage of expenditure	62.7%	58.7%
Increase in deficit (\$M)	545.7	502.6

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

	Sewage Charge \$M	Trade Effluent Surcharge \$M	2017 Total \$M	2016 Total \$M
Revenue	1,161.1	231.8	1,392.9	1,268.5
Expenditure (excluding depreciation)	1,933.7	362.0	2,295.7	2,101.4
% of cost recovery	60.0%	64.0%	60.7%	60.4%

The annexed notes form part of these accounts.

Sewage Services

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017

	Note	2017 \$M	2016 \$M
Net assets employed			
Fixed assets	1(b), (c) & (d) and 6	49,234.9	48,423.9
Current assets	1(e) and 7	520.2	496.3
Current liabilities	8	(9,929.2)	(9,003.1)
Net current liabilities		(9,409.0)	(8,506.8)
		39,825.9	39,917.1
Financed by			
Public capital account	9	39,825.9	39,917.1

The annexed notes form part of these accounts.

Sewage Services

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>

Sewage Services

NOTES TO THE ACCOUNTS

d) Depreciation	<p>(i) Depreciation is provided on a straight line basis to amortise the cost of fixed assets less residual value over their estimated useful lives.</p> <p>(ii) The annual rates of depreciation used are -</p> <table><tr><td colspan="2">Sewage treatment works</td></tr><tr><td>• Civil works</td><td>2%</td></tr><tr><td>• Electrical and mechanical equipment</td><td>6.7%</td></tr><tr><td colspan="2">Pumping stations</td></tr><tr><td>• Civil works</td><td>2%</td></tr><tr><td>• Electrical and mechanical equipment</td><td>4%</td></tr><tr><td>• Rising mains</td><td>4%</td></tr><tr><td colspan="2">Infrastructural assets</td></tr><tr><td>• Tunnel sewers</td><td>1%</td></tr><tr><td>• Sewers</td><td>2.5%</td></tr><tr><td>• Outfalls</td><td>2%</td></tr><tr><td colspan="2">Sludge treatment facilities</td></tr><tr><td></td><td>2%</td></tr><tr><td colspan="2">Leasehold improvements</td></tr><tr><td></td><td>33% - 35%</td></tr><tr><td colspan="2">Computer systems, equipment and vehicles</td></tr><tr><td></td><td>12.5% - 20%</td></tr></table> <p>(iii) No depreciation is provided on projects under development.</p>	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%	Sludge treatment facilities			2%	Leasehold improvements			33% - 35%	Computer systems, equipment and vehicles			12.5% - 20%
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%																																		
Sludge treatment facilities																																			
	2%																																		
Leasehold improvements																																			
	33% - 35%																																		
Computer systems, equipment and vehicles																																			
	12.5% - 20%																																		
e) Stocks in Hand	<p>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.</p>																																		
f) Taxation	<p>(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.</p> <p>(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.</p>																																		

Sewage Services

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.

Sewage Services

NOTES TO THE ACCOUNTS

2. Revenue		2017 \$M	2016 \$M
	Sewage charge	1,102.5	995.7
	Supplies to Government establishments	58.6	51.3
	Trade effluent surcharge	231.8	221.5
	Miscellaneous services	45.5	48.3
		<u>1,438.4</u>	<u>1,316.8</u>
3. Expenditure		2017 \$M	2016 \$M
	Staff costs	635.0	603.4
	Light and power	289.4	263.6
	Sludge disposal	81.1	67.5
	Chemicals	228.9	191.1
	Operation and maintenance expenses	848.1	818.9
	Rental and management charges	27.5	28.0
	General operating expenses	230.6	176.7
	Depreciation	1,518.2	1,042.3
		<u>3,858.8</u>	<u>3,191.5</u>
4. Taxation		2017 \$M	2016 \$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>39,180.5</u>	<u>35,538.9</u>
	Material temporary differences arising from depreciation allowances on fixed assets	<u>(17,308.0)</u>	<u>(16,086.5)</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.		

Sewage Services

NOTES TO THE ACCOUNTS

6. Fixed Assets

	Sewage Treatment Works \$M	Pumping Stations \$M	Tunnel, Sewers and Outfalls \$M	Sludge Treatment Facilities \$M	Leasehold Improvements \$M	Computer Systems, Equipment and Vehicles \$M	Projects Under Development \$M	Total \$M
At Cost								
At 1 April 2016	14,060.6	6,319.7	16,512.9	-	2.4	465.4	21,991.9	59,352.9
Additions	-	-	-	-	-	25.2	2,304.0	2,329.2
Transfers from projects under development	13,467.6	320.8	196.4	4,581.3	-	3.3	(18,569.4)	-
Disposals	-	-	-	-	-	(0.9)	-	(0.9)
At 31 March 2017	27,528.2	6,640.5	16,709.3	4,581.3	2.4	493.0	5,726.5	61,681.2
Accumulated Depreciation								
At 1 April 2016	4,994.0	2,036.3	3,515.7	-	2.4	380.6	-	10,929.0
Charge for the year	850.4	200.7	343.1	91.6	-	32.4	-	1,518.2
Written back on disposals	-	-	-	-	-	(0.9)	-	(0.9)
At 31 March 2017	5,844.4	2,237.0	3,858.8	91.6	2.4	412.1	-	12,446.3
Net book value								
At 31 March 2017	21,683.8	4,403.5	12,850.5	4,489.7	-	80.9	5,726.5	49,234.9
<i>At 1 April 2016</i>	<i>9,066.6</i>	<i>4,283.4</i>	<i>12,997.2</i>	<i>-</i>	<i>-</i>	<i>84.8</i>	<i>21,991.9</i>	<i>48,423.9</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 are included in the accounts at zero value. These assets have a net book value as at 1 April 2016 of \$2,647.0M. After taking into account depreciation of \$120.7M for 2016-17, the net book value of these assets as at 31 March 2017 was \$2,526.3M.

Sewage Services

NOTES TO THE ACCOUNTS

7. Current Assets

	2017 \$M	2016 \$M
Stocks in Hand	232.9	218.6
Debtors	287.3	277.7
	<u>520.2</u>	<u>496.3</u>

8. Current Liabilities

	2017 \$M	2016 \$M
Creditors	119.9	91.8
Current account with Treasury	9,809.3	8,911.3
	<u>9,929.2</u>	<u>9,003.1</u>

9. Public Capital Account

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

	2017 \$M	2016 \$M
Balance as at 1 April	39,917.1	38,658.7
Deficit for the year	(2,420.4)	(1,874.7)
Additional cash investment by the Government	2,329.2	3,133.1
Balance as at 31 March	<u>39,825.9</u>	<u>39,917.1</u>

Sewage Services

NOTES TO THE ACCOUNTS

10. Commitments

Outstanding commitments as at 31 March 2017 and 31 March 2016 not provided for in the operating account were as follows -

	2017	<i>2016</i>
	\$M	<i>\$M</i>
(i) Capital works projects, property, plant and equipment and capital subvention	12,370.4	<i>11,198.3</i>
(ii) Non-recurrent expenditure	-	-
(iii) Investments	-	-
(iv) Loans and non-recurrent grants	-	-
	<u>12,370.4</u>	<i><u>11,198.3</u></i>