

Sewage Services

OPERATING ACCOUNTS

2019-20

April 2021

Sewage Services

OPERATING ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2020

| | <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 - 9 |

Sewage Services

REVIEW OF THE YEAR 2019-20

ACTIVITIES

- Volume of sewage treated is 1,033 million cubic metres, representing an increase of 0.5% over the previous year.

FINANCIAL PERFORMANCE

- Revenue decreased by 13.0%
- Expenditure increased by 4.1%
- Deficit after taxation increased by 15.4%
- Deficit after taxation as percentage of expenditure increased from 60.3% in 2018-19 to 66.8% in 2019-20

Sewage Services

OPERATING ACCOUNT FOR THE YEAR ENDED 31 MARCH 2020

| | Note | 2020 Total \$M | 2019 Total \$M |
|-------------------------|----------|-------------------------|-------------------------|
| Revenue | 2 | 1,404.3 | 1,614.7 |
| Expenditure | 3 | <u>4,230.1</u> | <u>4,062.4</u> |
| Deficit before taxation | | (2,825.8) | (2,447.7) |
| Taxation | 1(f) & 4 | <u>-</u> | <u>-</u> |
| Deficit after taxation | 1(h) & 5 | <u><u>(2,825.8)</u></u> | <u><u>(2,447.7)</u></u> |
| Representing : | | | |
| Subsidy by Government | 5 | <u><u>2,825.8</u></u> | <u><u>2,447.7</u></u> |

FINANCIAL PERFORMANCE MEASURES

| | | |
|--------------------------------------|-------|-------|
| Deficit as percentage of expenditure | 66.8% | 60.3% |
| Increase/(Decrease) in deficit (\$M) | 378.1 | 153.0 |

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

| | Sewage Charge \$M | Trade Effluent Surcharge \$M | 2020 Total \$M | 2019 Total \$M |
|--------------------------------------|-------------------------|---------------------------------------|----------------------|----------------------|
| Revenue | 1,189.3 | 160.6 | 1,349.9 | 1,564.1 |
| Expenditure (excluding depreciation) | 2,219.7 | 360.7 | 2,580.4 | 2,465.5 |
| % of cost recovery | 53.6% | 44.5% | 52.3% | 63.4% |

The annexed notes form part of these accounts.

Sewage Services

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020

| | Note | 2020 \$M | 2019 \$M |
|----------------------------|-----------------------|-----------------|-----------------|
| Net assets employed | | | |
| Fixed assets | 1(b), (c) & (d) and 6 | 52,599.7 | 50,763.7 |
| Current assets | 1(e) and 7 | 529.9 | 566.2 |
| Current liabilities | 8 | (12,818.0) | (11,624.4) |
| Net current liabilities | | (12,288.1) | (11,058.2) |
| | | <u>40,311.6</u> | <u>39,705.5</u> |
| Financed by | | | |
| Public capital account | 1(h) and 9 | <u>40,311.6</u> | <u>39,705.5</u> |

The annexed notes form part of these accounts.

Sewage Services

NOTES TO THE ACCOUNTS

1. Accounting Policies

(a) Basis of
Accounting

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.

(b) Fixed Assets

- (i) No cost is included for land.
- (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.
- (iii) All sewerage projects, or part thereof, are accounted for as fixed assets upon commissioning and subject to depreciation.
- (iv) All fixed assets are stated at cost less accumulated depreciation except projects under development which are stated at cost.

(c) Projects under
Development

- (i) For capital projects, the costs include the actual direct expenditure, and staff costs for design, planning and supervision during the construction period.
- (ii) Expenditure incurred on all sewerage projects funded under the expenditure vote of Drainage Services Department and other works departments is capitalised as projects under development. Upon commissioning of the projects or part thereof, the related expenditure incurred will be transferred to the respective categories of fixed assets.

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>Sludge treatment facilities</td><td>2%</td></tr><tr><td>Leasehold improvements</td><td>33% - 35%</td></tr><tr><td>Computer systems, equipment and vehicles</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 does not have a separate legal identity, its 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.

2. Revenue

| | 2020 | 2019 |
|---------------------------------------|-----------------------|-----------------------|
| | Total | Total |
| | \$M | \$M |
| Sewage charge | 1,124.7 | 1,257.0 |
| Supplies to Government establishments | 64.6 | 66.1 |
| Trade effluent surcharge | 160.6 | 241.0 |
| Miscellaneous services | 54.4 | 50.6 |
| | <u>1,404.3</u> | <u>1,614.7</u> |

3. Expenditure

| | 2020 | 2019 |
|------------------------------------|-----------------------|-----------------------|
| | Total | Total |
| | \$M | \$M |
| Staff costs | 724.4 | 684.0 |
| Light and power | 325.4 | 323.8 |
| Sludge disposal | 73.9 | 74.7 |
| Chemicals | 220.6 | 180.8 |
| Operation and maintenance expenses | 948.0 | 959.3 |
| Rental and management charges | 36.8 | 35.2 |
| General operating expenses | 305.1 | 257.6 |
| Depreciation | 1,595.9 | 1,547.0 |
| | <u>4,230.1</u> | <u>4,062.4</u> |

Sewage Services

NOTES TO THE ACCOUNTS

4. Taxation

| | 2020 \$M | 2019 \$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>50,677.8</u> | <u>46,401.6</u> |
| Material temporary differences arising from depreciation allowances on fixed assets | <u>(21,235.8)</u> | <u>(19,787.4)</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 2019 | 27,901.8 | 7,494.6 | 17,822.9 | 4,998.0 | 2.4 | 557.3 | 7,521.6 | 66,298.6 |
| Additions | 45.5 | 22.6 | - | 5.8 | - | 1.0 | 3,357.0 | 3,431.9 |
| Transfers from projects under development | 767.1 | 827.5 | 120.6 | - | - | 1.8 | (1,717.0) | - |
| Disposals | - | - | - | - | - | (0.7) | - | (0.7) |
| At 31 March 2020 | <u>28,714.4</u> | <u>8,344.7</u> | <u>17,943.5</u> | <u>5,003.8</u> | <u>2.4</u> | <u>559.4</u> | <u>9,161.6</u> | <u>69,729.8</u> |
| Accumulated Depreciation | | | | | | | | |
| At 1 April 2019 | 7,509.0 | 2,669.1 | 4,581.0 | 299.9 | 2.4 | 473.5 | - | 15,534.9 |
| Charge for the year | 856.3 | 238.2 | 371.0 | 100.4 | - | 30.0 | - | 1,595.9 |
| Written back on Disposals | - | - | - | - | - | (0.7) | - | (0.7) |
| At 31 March 2020 | <u>8,365.3</u> | <u>2,907.3</u> | <u>4,952.0</u> | <u>400.3</u> | <u>2.4</u> | <u>502.8</u> | <u>-</u> | <u>17,130.1</u> |
| Net Book Value | | | | | | | | |
| At 31 March 2020 | <u>20,349.1</u> | <u>5,437.4</u> | <u>12,991.5</u> | <u>4,603.5</u> | <u>-</u> | <u>56.6</u> | <u>9,161.6</u> | <u>52,599.7</u> |
| At 1 April 2019 | <u>20,392.8</u> | <u>4,825.5</u> | <u>13,241.9</u> | <u>4,698.1</u> | <u>-</u> | <u>83.8</u> | <u>7,521.6</u> | <u>50,763.7</u> |

(a) 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 2019 of \$2,292.4M. After taking into account depreciation of \$115.9M for 2019-20, the net book value of these assets as at 31 March 2020 was \$2,176.5M.

(b) The capital expenditure relating to (i) the feasibility study for the relocation of Sha Tin, Sham Tseng and Sai Kung sewage treatment works into caverns and (ii) investigation and design for relocating Sha Tin sewage treatment works into cavern has been excluded.

Sewage Services

NOTES TO THE ACCOUNTS

| | | | |
|----------------------------------|--|-----------------|-----------------|
| 7. Current Assets | | 2020 | 2019 |
| | | \$M | \$M |
| | Stocks in hand | 225.5 | 232.9 |
| | Debtors | 304.4 | 333.3 |
| | | <u>529.9</u> | <u>566.2</u> |
| 8. Current Liabilities | | 2020 | 2019 |
| | | \$M | \$M |
| | Creditors | 132.7 | 97.7 |
| | Current account with Treasury | 12,685.3 | 11,526.7 |
| | | <u>12,818.0</u> | <u>11,624.4</u> |
| 9. Public Capital Account | The Public Capital Account represents Government's investment in Sewage Services. | | |
| | | 2020 | 2019 |
| | | \$M | \$M |
| | Balance as at 1 April | 39,705.5 | 39,816.8 |
| | Deficit for the year | (2,825.8) | (2,447.7) |
| | Addition | 3,431.9 | 2,336.4 |
| | Balance as at 31 March | <u>40,311.6</u> | <u>39,705.5</u> |
| 10. Commitments | Outstanding commitments as at 31 March 2020 and 31 March 2019 not provided for in the operating accounts were as follows - | | |
| | | 2020 | 2019 |
| | | \$M | \$M |
| | (i) Capital works projects, property, plant and equipment and capital subventions | 36,116.2 | 15,084.5 |
| | (ii) Non-recurrent expenditure | - | - |
| | (iii) Investments | - | - |
| | (iv) Loans and non-recurrent grants | - | - |
| | | <u>36,116.2</u> | <u>15,084.5</u> |