

# **Sewage Services**

## **OPERATING ACCOUNTS**

**2022-23**

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# Sewage Services

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## *OPERATING ACCOUNTS*

*FOR THE YEAR ENDED 31 MARCH 2023*

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# Sewage Services

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## *REVIEW OF THE YEAR 2022-23*

### **ACTIVITIES**

- Volume of sewage treated is 1,021 million cubic metres, representing a decrease of 1.4% against the previous year.

### **FINANCIAL PERFORMANCE**

- Revenue increased by 1.7%
- Expenditure increased by 4.7%
- Deficit before taxation increased by 5.6%
- Deficit before taxation as percentage of expenditure increased from 75.6% in 2021-22 to 76.3% in 2022-23

# Sewage Services

## OPERATING ACCOUNT FOR THE YEAR ENDED 31 MARCH 2023

	Note	2023 \$M	2022 \$M
Revenue	2	1,108.2 *	1,090.1 *
Expenditure	3	<u>4,667.2</u>	<u>4,459.4</u>
Deficit before taxation		(3,559.0)	(3,369.3)
Taxation	1(f) & 4	<u>-</u>	<u>-</u>
Deficit after taxation	1(h) & 5	<u>(3,559.0)</u>	<u>(3,369.3)</u>
Representing :			
Subsidy by Government	5	<u>3,559.0</u>	<u>3,369.3</u>

\* The figures represent the net revenue, after deducting the concessions of \$555.9M in 2022-23 and \$535.2M in 2021-22 for Sewage Charge and Trade Effluent Surcharge.

### FINANCIAL PERFORMANCE MEASURES

Deficit as percentage of expenditure	76.3%	75.6%
Increase/(Decrease) in deficit (\$M)	189.7	206.8

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

	Sewage Charge \$M	Trade Effluent Surcharge \$M	2023 Total \$M	2022 Total \$M
Revenue	1,050.6	0.6	1,051.2	1,032.5
Expenditure (excl. depreciation)	2,503.5	400.3	2,903.8	2,684.1
% of cost recovery	42.0%	0.1%	36.2%	38.5%

The annexed notes form part of these accounts.

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# Sewage Services

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## STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2023

	Note	2023 \$M	2022 \$M
<b>Net assets employed</b>			
Fixed assets	1(b), (c) & (d) and 6	60,273.3	56,885.3
Current assets	1(e) and 7	416.6	449.9
Current liabilities	8	(17,776.9)	(15,957.9)
Net current liabilities		(17,360.3)	(15,508.0)
		<u>42,913.0</u>	<u>41,377.3</u>
<b>Financed by</b>			
Public capital account	1(h) and 9	<u>42,913.0</u>	<u>41,377.3</u>

*The annexed notes form part of these accounts.*

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# Sewage Services

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## 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               | <ul style="list-style-type: none"><li>(i) No cost is included for land.</li><li>(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.</li><li>(iii) All sewerage projects, or part thereof, are accounted for as fixed assets upon commissioning and subject to depreciation.</li><li>(iv) All fixed assets are stated at cost less accumulated depreciation except projects under development which are stated at cost.</li></ul> |
| (c) Projects under Development | <ul style="list-style-type: none"><li>(i) For capital projects, the costs include the actual direct expenditure, and staff costs for design, planning and supervision during the construction period.</li><li>(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.</li></ul>   |

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# Sewage Services

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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%          |
| Sludge treatment facilities              | 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
- Notional profits tax is excluded from reporting with effect from 2022-23. Prior to 2022-23, notional profits tax was reported in the operating accounts in accordance with the following accounting policies -
- Notional profits tax was 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 had been made in the accounts as the Sewage Services had no taxable surplus for the year. No provision for deferred tax in respect of all material temporary differences had been made in the accounts as the Sewage Services had no taxable surplus against which the temporary differences could be utilised.

# 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	2023 \$M	2022 \$M
Sewage charge	976.3	952.6
Supplies to Government establishments	74.3	67.5
Trade effluent surcharge	0.6	12.4
Miscellaneous services	57.0	57.6
	<u>1,108.2</u>	<u>1,090.1</u>

3. Expenditure	2023 \$M	2022 \$M
Staff costs	734.3	733.8
Light and power	405.8	359.7
Sludge disposal	75.8	66.1
Chemicals	263.5	218.5
Operation and maintenance expenses	1,122.1	1,042.0
Rental and management charges	31.7	31.1
General operating expenses	327.3	290.3
Depreciation	1,706.7	1,717.9
	<u>4,667.2</u>	<u>4,459.4</u>

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# Sewage Services

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## NOTES TO THE ACCOUNTS

### 4. Taxation

The Sewage Services is no longer required to report notional profits tax with effect from 2022-23. Accordingly, no notional profits tax has been provided by the Sewage Services for the year ended 31 March 2023.

The taxation charged to the Operating Account for the year ended 31 March 2022 represented -

	2022 \$M
Notional profits tax charge for the year	<u>-</u>
Deferred tax assets/(liabilities) not recognised in respect of -	
Unused tax losses	<u>60,496.0</u>
Material temporary differences arising from depreciation allowances on fixed assets	<u>(24,521.8)</u>

### 5. Subsidy by Government

The subsidy by the Government is to cover the costs of provision of free allowance to domestic consumers, concessions for Sewage Charge and Trade Effluent Surcharge as part of the relief measures by the Government to sustain the support for businesses, 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
<b>At Cost</b>								
At 1 April 2022	31,090.2	8,979.7	18,869.9	5,032.7	2.4	592.5	12,759.2	77,326.6
Additions	46.1	17.3	-	0.9	-	0.6	5,029.8	5,094.7
Transfers from projects under development	474.1	515.1	239.7	-	-	6.1	(1,235.0)	-
Disposals	-	-	-	-	-	-	-	-
<b>At 31 March 2023</b>	<b>31,610.4</b>	<b>9,512.1</b>	<b>19,109.6</b>	<b>5,033.6</b>	<b>2.4</b>	<b>599.2</b>	<b>16,554.0</b>	<b>82,421.3</b>
<b>Accumulated Depreciation</b>								
At 1 April 2022	10,124.7	3,426.4	5,732.0	603.9	2.4	551.9	-	20,441.3
Charge for the year	905.8	282.4	398.1	100.8	-	19.6	-	1,706.7
Written back on Disposals	-	-	-	-	-	-	-	-
<b>At 31 March 2023</b>	<b>11,030.5</b>	<b>3,708.8</b>	<b>6,130.1</b>	<b>704.7</b>	<b>2.4</b>	<b>571.5</b>	<b>-</b>	<b>22,148.0</b>
<b>Net Book Value</b>								
<b>At 31 March 2023</b>	<b>20,579.9</b>	<b>5,803.3</b>	<b>12,979.5</b>	<b>4,328.9</b>	<b>-</b>	<b>27.7</b>	<b>16,554.0</b>	<b>60,273.3</b>
<i>At 1 April 2022</i>	<i>20,965.5</i>	<i>5,553.3</i>	<i>13,137.9</i>	<i>4,428.8</i>	<i>-</i>	<i>40.6</i>	<i>12,759.2</i>	<i>56,885.3</i>

(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 as zero value. These assets have a net book value as at 1 April 2022 of \$1,944.6M. After taking into account depreciation of \$115.9M for 2022-23, the net book value of these assets as at 31 March 2023 was \$1,828.7M.

(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, design as well as related construction for relocating Sha Tin sewage treatment works into cavern has been excluded.

# Sewage Services

## NOTES TO THE ACCOUNTS

	2023	2022
	\$M	\$M
<b>7. Current Assets</b>		
Stocks in hand	196.2	218.4
Debtors	220.4	231.5
	416.6	449.9
<b>8. Current Liabilities</b>		
	2023	2022
	\$M	\$M
Creditors	161.3	88.1
Current account with Treasury	17,615.6	15,869.8
	17,776.9	15,957.9
<b>9. Public Capital Account</b>	The Public Capital Account represents Government's investment in Sewage Services.	
	2023	2022
	\$M	\$M
Balance as at 1 April	41,377.3	40,554.3
Deficit for the year	(3,559.0)	(3,369.3)
Addition	5,094.7	4,192.3
	42,913.0	41,377.3
<b>10. Commitments</b>	Outstanding commitments as at 31 March 2023 and 31 March 2022 not provided for in the operating accounts were as follows -	
	2023	2022
	\$M	\$M
(i) Capital works projects, property, plant and equipment and capital subventions	34,877.0	38,476.5
(ii) Non-recurrent expenditure	-	-
(iii) Investments	-	-
(iv) Loans and non-recurrent grants	-	-
	34,877.0	38,476.5