

Capital Works Reserve Fund

REPORT OF THE DIRECTOR OF AUDIT



Audit Commission

The Government of the Hong Kong Special Administrative Region

Independent Audit Report To the President of the Legislative Council

I certify that I have examined and audited the financial statements of the Capital Works Reserve Fund set out on pages 36 to 45, which comprise the statement of assets and liabilities as at 31 March 2015, and the statement of receipts and payments for the year then ended, and a summary of significant accounting policies and other explanatory information.

Director of Accounting Services' responsibility for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance (Cap. 2), the Director of Accounting Services is responsible for the compilation and supervision of the accounts of the Government of the Hong Kong Special Administrative Region, for the management of accounting operations and procedures, and for ensuring that all regulations, directions or instructions made or given under the Public Finance Ordinance relating thereto and in respect of the safe custody of public moneys and its accounting are complied with.

Auditor's responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with section 12(1) of the Audit Ordinance (Cap. 122) and the Audit Commission auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used by the Director of Accounting Services, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements of the Capital Works Reserve Fund for the year ended 31 March 2015 are prepared, in all material respects, in accordance with the Public Finance Ordinance and section 11(1) of the Audit Ordinance.

David Sun
Director of Audit

27 October 2015

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

Capital Works Reserve Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2015

	Note	2015 HK\$'000	2014 HK\$'000
Assets			
Investments with the Exchange Fund	3	77,914,677	81,059,287
Cash and bank balances		4,101	909
		77,918,778	81,060,196
Liabilities			
Deposits	4	(1,556,334)	(1,287,294)
		76,362,444	79,772,902
Representing:			
Fund Balance			
Balance at beginning of year		79,772,902	77,990,584
(Deficit)/Surplus for the year		(3,410,458)	1,782,318
Balance at end of year	5, 6, 7	76,362,444	79,772,902

Notes 1 to 10 form part of these financial statements.

Martin SIU
Director of Accounting Services
20 August 2015



Capital Works Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2015

	Note	2015 HK\$'000	2014 HK\$'000
Cash and bank balances at beginning of year		909	1,710
Receipts	8	77,990,057	89,179,116
Payments	5, 9	(81,400,515)	(87,396,798)
(Deficit)/Surplus for the year		(3,410,458)	1,782,318
Other cash movements	10	3,413,650	(1,783,119)
Cash and bank balances at end of year		4,101	909

Notes 1 to 10 form part of these financial statements.

Martin SIU
Director of Accounting Services
20 August 2015



Capital Works Reserve Fund

NOTES TO THE FINANCIAL STATEMENTS

1. Purpose and Legislation

The Capital Works Reserve Fund was set up to finance public works programmes, acquisitions of land, capital subventions and major systems and equipment items. It was initially established on 1 April 1982 by a Resolution of the Legislative Council passed on 20 January 1982 and has been reconstituted since 1 January 1998 under another Resolution passed on 17 December 1997 (hereinafter referred to as the Resolution).

2. Accounting Policies

- (i) The accounts of the Capital Works Reserve Fund are kept on a cash basis. Transactions are recorded when moneys are received or paid. The Statement of Assets and Liabilities of the Fund excludes fixed assets, loans, investments other than those made under paragraph (d)(iii) of the Resolution, and debtors and creditors other than those deposits referred to in Note 4 below.
- (ii) For the purposes of these financial statements, a contingent liability is defined as:
- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Government; or
- (b) a present obligation that arises from past events but is not recognised because:
- it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - the amount of the obligation cannot be measured with sufficient reliability.
- (iii) Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates.

3. Investments with the Exchange Fund

- (i) These are investments and deposits held under paragraph (d)(iii) of the Resolution:

	2015	2014
	HK\$'000	HK\$'000
Investments (Notes (ii) and (iii) below)	77,870,016	81,017,935
Deposits	44,661	41,352
	<u>77,914,677</u>	<u>81,059,287</u>

- (ii) The investments represent the cost of investments together with the investment income received in the year being reported. Effective from 1 April 2007, the investment income is calculated on the basis of the average annual investment return of the Exchange Fund's Investment Portfolio for the past six years or the average annual yield of three-year Exchange Fund Notes for the previous year subject to a minimum of zero percent, whichever is the higher. The annual investment income is receivable on 31 December of each year.
- (iii) Pursuant to the Financial Secretary's directive in December 2014, the HK\$2.88 billion investment income for the calendar year 2014 was set aside and retained within the Exchange Fund as provision for the Housing Reserve, and not received on 31 December 2014. As explained in the 2015-16 Budget Speech, the Housing Reserve is to provide financial resources to meet the ten-year public housing supply target. The investment income retained within the Exchange Fund earns the same rate of investment return as stipulated in (ii) above and shall be receivable on a date as determined by the Financial Secretary.

Capital Works Reserve Fund

4. Deposits

These are moneys received from time to time from individuals or organisations for a variety of reasons and are in due course either repayable or transferable for credit to the Fund:

	2015 HK\$'000	2014 HK\$'000
Contract retention money	1,244,115	1,016,033
Others	312,219	271,261
	<u>1,556,334</u>	<u>1,287,294</u>

5. Fund Balance

The Fund Balance includes receipts from sums borrowed for the purposes of the Capital Works Reserve Fund under the Loans Ordinance (Cap. 61) that are required to be credited to the Fund under paragraph (b)(v) of the Resolution. Repayments of the principal in relation to the outstanding liabilities in respect of sums borrowed are included in payments charged to the Fund under paragraph (d)(ii) of the Resolution.

Following a resolution passed under section 3(1) of the Loans Ordinance, the Government issued in July 2004 bonds and notes totalling HK\$20 billion to retail and institutional investors. These include institutional notes of US\$1.25 billion denominated in United States dollar. The outstanding liabilities, not included in the Statement of Assets and Liabilities, in respect of sums borrowed are as follows:

	2015 HK\$'000	2014 HK\$'000
Outstanding government bonds and notes	<u>1,500,000</u>	<u>11,197,188</u>

The outstanding bonds and notes are denominated in Hong Kong dollars with maturity in July 2019. During the financial year, repayments of HK\$9,688 million principal and payments of HK\$325 million interest were made.

6. Contingent Liabilities

As at 31 March 2015, the amount of contingent liabilities arising from legal claims, disputes and proceedings was HK\$5,976 million (2014: HK\$2,194 million).

Capital Works Reserve Fund

7. Commitments

Outstanding commitments of projects were as follows:

Head	2015	2014
	HK\$'000	HK\$'000
Land acquisition		
701 Land acquisition	<u>3,907,116</u>	<u>4,384,099</u>
Sub-total	<u>3,907,116</u>	<u>4,384,099</u>
Capital works – Public Works Programme		
702 Port and airport development	166,764	185,601
703 Buildings	28,059,134	30,201,135
704 Drainage	17,388,346	21,032,137
705 Civil engineering	40,141,846	30,870,829
706 Highways	191,326,762	226,159,366
707 New towns and urban area development	13,924,087	16,213,903
709 Waterworks	13,663,909	17,169,650
711 Housing	2,852,925	3,058,043
Sub-total	<u>307,523,773</u>	<u>344,890,664</u>
Capital subventions		
708 (part) Capital subventions	<u>35,223,480</u>	<u>37,898,927</u>
Sub-total	<u>35,223,480</u>	<u>37,898,927</u>
Systems and equipment		
708 (part) Major systems and equipment	4,284,070	4,005,049
710 Computerisation	7,117,451	7,341,931
Sub-total	<u>11,401,521</u>	<u>11,346,980</u>
	<u><u>358,055,890</u></u>	<u><u>398,520,670</u></u>

Capital Works Reserve Fund

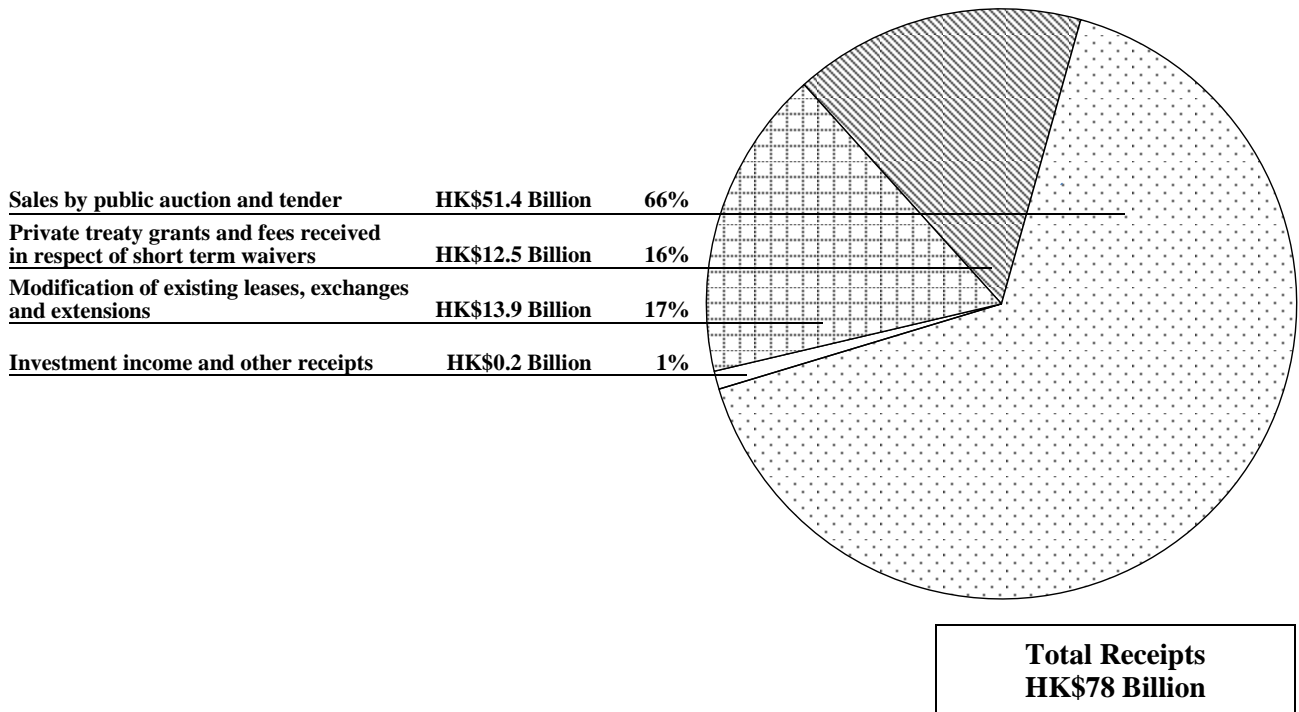
8. Receipts

	2015		2014
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Land premium			
Sales by public auction and tender	-	51,445,256	75,261,874
Private treaty grants	-	11,822,917	191,376
Modification of existing leases, exchanges and extensions	-	13,894,010	8,228,051
Fees received in respect of short term waivers	-	641,903	573,581
	70,000,000	77,804,086	84,254,882
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	-	4,758,639
Others	-	2,210	3,087
	3,101,000	2,210	4,761,726
Transfer from General Revenue	5,000,000	-	-
Other receipts			
Recovery from MTR Corporation Ltd.	131,000	-	-
Donations and contributions	51	70	18,900
Others	-	183,691	143,608
	131,051	183,761	162,508
	<u>78,232,051</u>	<u>77,990,057</u>	<u>89,179,116</u>

- (i) The HK\$2.88 billion investment income for the calendar year 2014 was set aside and retained within the Exchange Fund as provision for the Housing Reserve, and not received on 31 December 2014.

Capital Works Reserve Fund

Analysis of Receipts for the year ended 31 March 2015



Capital Works Reserve Fund

9. Payments

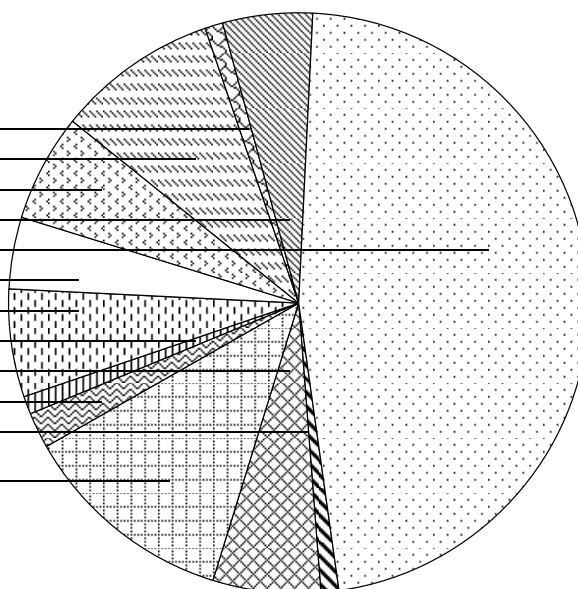
	2015		2014
	Original Estimate HK\$'000	Actual HK\$'000	Actual HK\$'000
Land acquisition	2,816,837	597,814	1,657,317
Public Works Programme			
Port and airport development	1,586	2,767	2,013
Buildings	7,270,103	7,635,375	7,546,209
Drainage	4,814,955	5,078,055	6,076,752
Civil engineering	5,894,763	4,338,765	3,856,580
Highways	38,374,214	38,189,058	37,521,843
New towns and urban area development	2,939,705	3,092,768	2,606,787
Waterworks	4,391,862	4,589,762	4,306,358
Housing	648,404	658,537	523,335
	64,335,592	63,585,087	62,439,877
Capital subventions and major systems and equipment			
Capital subventions	6,428,544	5,171,336	20,589,684
Major systems and equipment	1,096,308	476,893	504,354
	7,524,852	5,648,229	21,094,038
Computerisation	1,850,588	1,543,917	1,600,794
Government bonds and notes issued in July 2004			
Repayment	9,750,000	9,687,794	-
Interest and other expenses	326,737	325,126	574,068
	10,076,737	10,012,920	574,068
Other payments			
Refund of overpayment of land premium	-	12,548	30,704
	86,604,606	81,400,515	87,396,798

Further analyses of payments appear on pages 146 to 218 of the Supporting Statements.

Capital Works Reserve Fund

Analysis of Payments for the year ended 31 March 2015 *

Land acquisition	HK\$0.6 Billion	1%
Buildings	HK\$7.6 Billion	9%
Drainage	HK\$5.1 Billion	6%
Civil engineering	HK\$4.3 Billion	5%
Highways	HK\$38.2 Billion	47%
New towns and urban area development	HK\$3.1 Billion	4%
Capital subventions	HK\$5.2 Billion	6%
Major systems and equipment	HK\$0.5 Billion	1%
Waterworks	HK\$4.6 Billion	6%
Computerisation	HK\$1.5 Billion	2%
Housing	HK\$0.7 Billion	1%
Repayment of, interest and other expenses on government bonds and notes	HK\$10.0 Billion	12%



**Total Payments
HK\$81.4 Billion**

* Actual payments on “Port and airport development” and “Refund of overpayment of land premium” are not shown as it is less than HK\$0.1 billion each.

10. Other Cash Movements

These are cash movements arising from changes in other assets and liabilities:

	2015 HK\$'000	2014 HK\$'000
Reduction/(Increase) in Assets		
Investments with the Exchange Fund	3,144,610	(2,025,644)
Increase in Liabilities		
Deposits	269,040	242,525
	3,413,650	(1,783,119)

Capital Works Reserve Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2006 to 2015

HK\$Billion

