

Consolidated Account

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
Assets			
Investments with the Exchange Fund	3	964,736,313	853,155,234
Deposits with banks	4	542,313	1,258,984
Cash and bank balances	5	4,357,692	3,295,918
Advances	6	2,996,632	3,041,990
	7	972,632,950	860,752,126
Liabilities			
Deposits	8	(18,622,203)	(17,810,275)
Suspense Accounts	9	(50,405)	(54,216)
	10	(18,672,608)	(17,864,491)
		<u>953,960,342</u>	<u>842,887,635</u>
Representing:			
Consolidated Fund Balance			
Balance at beginning of year		842,887,635	828,514,118
Surplus for the year		111,072,707	14,373,517
Balance at end of year	11, 12, 13	<u>953,960,342</u>	<u>842,887,635</u>

Notes 1 to 18 form part of these financial statements.

Martin SIU
Director of Accounting Services
28 August 2017



Consolidated Account

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
Cash and bank balances at beginning of year		3,295,918	3,127,945
Revenue	14, 15	573,124,704	450,006,819
Expenditure	14, 16	(462,051,997)	(435,633,302)
Surplus for the year before repayment of government bonds and notes	17	111,072,707	14,373,517
Repayment of government bonds and notes		-	-
Surplus for the year after repayment of government bonds and notes	17	111,072,707	14,373,517
Other cash movements	18	(110,010,933)	(14,205,544)
Cash and bank balances at end of year		4,357,692	3,295,918

Notes 1 to 18 form part of these financial statements.

Martin SIU
Director of Accounting Services
28 August 2017



Consolidated Account

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

1. Purpose

The Consolidated Account gives an overview of the financial position and cash resources of the Government of the Hong Kong Special Administrative Region.

2. Accounting Policies

- (i) The Consolidated Account covers the General Revenue Account and the following eight Funds: Capital Works Reserve Fund, Capital Investment Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund. It excludes the Bond Fund, the balance of which is not part of the fiscal reserves.
- (ii) The Consolidated Account is prepared on a cash basis. Assets of capital investments acquired and loans made in the Capital Investment Fund and the Loan Fund, and liabilities of government bonds and notes in the Capital Works Reserve Fund are not included in the Statement of Assets and Liabilities of the Consolidated Account (Notes 7 and 10).
- (iii) Inter-fund transfers as set out in Note 14(i) are eliminated in full on consolidation.
- (iv) 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.
- (v) Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Foreign currency balances are translated into Hong Kong dollars at weighted average cost.

Consolidated Account

3. Investments with the Exchange Fund

(i) These are investments and deposits held:

	2017 \$'000	2016 \$'000
Investments (Notes (ii) to (iv) below)		
General Revenue Account	567,568,301	516,978,886
Capital Works Reserve Fund	102,604,328	59,877,819
Capital Investment Fund	3,078,306	2,835,100
Civil Service Pension Reserve Fund	31,899,385	27,128,846
Disaster Relief Fund	27,743	14,539
Innovation and Technology Fund	7,988,980	41,743
Loan Fund	4,190,965	4,469,548
Lotteries Fund	22,786,703	22,016,138
Future Fund (Note (iii) below)		
General Revenue Account	4,800,000	-
Land Fund	219,729,659	219,729,659
	224,529,659	219,729,659
	964,674,370	853,092,278
Deposits		
General Revenue Account	12,640	13,471
Capital Works Reserve Fund	48,342	48,267
Loan Fund	869	1,118
Lotteries Fund	92	100
	61,943	62,956
	964,736,313	853,155,234

(ii) The investments represent the cost of investments together with the investment income received in the year being reported.

(iii) Pursuant to the directive of the Financial Secretary in the 2015-16 Budget, the Future Fund was established on 1 January 2016 with an initial endowment of \$219.73 billion from the balance of the Land Fund as a notional savings account within the fiscal reserves (Note 12). As from 1 July 2016, the Future Fund also includes \$4.8 billion held against the General Revenue Account, representing about one-third of the actual consolidated surplus in 2015-16 as top-up. The Future Fund placement is held in the Exchange Fund for securing higher investment returns over a ten-year investment period in accordance with an arrangement entered into with the Hong Kong Monetary Authority in December 2015. Investment income on the Future Fund placement is determined annually based on a composite rate (4.5% for the calendar year 2016) computed on a weighted average basis with reference to the agreed rate under the Investment Portfolio (Note (iv) below) and the annual rate of return linked with the performance of the Long-Term Growth Portfolio. The Future Fund (\$224.53 billion), together with investment income (\$10.07 billion up to 31 December 2016) not received and compounded on an annual basis, is retained within the Exchange Fund until 31 December 2025 or upon decision of the Financial Secretary for withdrawal, whichever is the earlier.

Consolidated Account

3. Investments with the Exchange Fund *(Continued)*

(iv) The part of the fiscal reserves outside the Future Fund (Note (iii) above) is referred to as Operating and Capital Reserves (Note 12). Investment income on the Operating and Capital Reserves placement with the Exchange Fund is calculated, in accordance with an arrangement entered into with the Hong Kong Monetary Authority in 2007, 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 (replaced by three-year government bond with effect from 1 January 2016) for the previous year subject to a minimum of zero percent, whichever is the higher. The rate of return for the calendar year 2016 was 3.3% (2015: 5.5%). The annual investment income is receivable on 31 December each year.

4. Deposits with Banks

These are Hong Kong dollar and foreign currency deposits placed with licensed banks in Hong Kong:

	2017 \$'000	2016 \$'000
General Revenue Account	<u>542,313</u>	<u>1,258,984</u>

5. Cash and Bank Balances

These balances cover cash in hand, in transit, with banks and agents, and with public officers for operating standing or special imprest accounts as provided under section 22 of the Public Finance Ordinance:

	2017 \$'000	2016 \$'000
General Revenue Account	4,341,392	3,279,897
Capital Works Reserve Fund	1	952
Capital Investment Fund	-	1
Innovation and Technology Fund	2,485	1
Loan Fund	13,814	15,067
	<u>4,357,692</u>	<u>3,295,918</u>

6. Advances

These are moneys paid out from time to time to individuals or organisations for a variety of reasons and are either recoverable or chargeable to expenditure upon authority being given:

	2017 \$'000	2016 \$'000
General Revenue Account	<u>2,996,632</u>	<u>3,041,990</u>

Consolidated Account

7. Assets

The following capital investments acquired and loans made are not included in the Statement of Assets and Liabilities (Note 2(ii)):

	2017 \$'000	2016 \$'000
Investments		
Capital Investment Fund		
Equity holdings	134,288,685	124,795,346
Other investments	492,371,319	465,913,116
	626,660,004	590,708,462
Loans Outstanding		
Capital Investment Fund		
Loans to investees	1,545,829	917,454
Loan Fund		
Housing loans	3,070,889	3,122,638
Education loans	17,353,286	16,763,924
Other loans	6,427,960	4,267,875
	28,397,964	25,071,891
Total	655,057,968	615,780,353

8. 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 to revenue:

	2017 \$'000	2016 \$'000
General Revenue Account	16,816,005	16,032,856
Capital Works Reserve Fund	1,779,334	1,756,652
Loan Fund	22,100	18,200
Lotteries Fund	4,764	2,567
	18,622,203	17,810,275

Consolidated Account

9. Suspense Accounts

These Suspense Accounts are established under Resolutions passed by the Legislative Council under section 30 of the Public Finance Ordinance:

	2017	2016
	\$'000	\$'000
Correctional Services Industries (Note (i) below)	31,470	29,441
Government Logistics Department — Unallocated Stores (Note (i) below)	7,755	7,628
The Special Coin (Note (ii) below)	(89,879)	(91,372)
The Financial Secretary Incorporated (Note (iii) below)	249	87
	(50,405)	(54,216)

- (i) The balances on the Correctional Services Industries Suspense Account and the Government Logistics Department — Unallocated Stores Suspense Account represent the cost of stocks in hand.
- (ii) The balance on The Special Coin Suspense Account represents the unutilised balance of net proceeds arising from issuing and dealing with special and commemorative coins.
- (iii) The balance on The Financial Secretary Incorporated Suspense Account represents the net amount arising from dealing with the regrant or renewal of Government Leases and managing the properties comprised therein.

10. Liabilities

The following outstanding liabilities under the Loans Ordinance (Cap. 61) are not included in the Statement of Assets and Liabilities (Note 2(ii)):

	2017	2016
	\$'000	\$'000
Outstanding government bonds and notes (Note (i) below)	1,500,000	1,500,000

- (i) Following a resolution passed under section 3(1) of the Loans Ordinance, the Government issued in July 2004 bonds and notes totalling \$20 billion to retail and institutional investors. These include institutional notes of US\$1.25 billion denominated in United States dollars. The net proceeds were credited to the Capital Works Reserve Fund. The outstanding bonds and notes are denominated in Hong Kong dollars with maturity in July 2019. During the financial year, there were payments of interest of \$77 million on the notes but no repayment of principal.

Consolidated Account

11. Contingent Liabilities

As at 31 March 2017, the Government had the following contingent liabilities:

- (i) guarantee to the Hong Kong Export Credit Insurance Corporation for liabilities under contracts of insurance amounting to \$36,799 million (2016: \$33,453 million);
- (ii) legal claims, disputes and proceedings amounting to \$29,324 million (2016: \$12,053 million);
- (iii) guarantees provided under the SME Financing Guarantee Scheme — Special Concessionary Measures amounting to \$20,811 million (2016: \$24,079 million);
- (iv) guarantees provided under the SME Loan Guarantee Scheme amounting to \$4,544 million (2016: \$5,253 million);
- (v) guarantees provided under the Special Loan Guarantee Scheme amounting to \$899 million (2016: \$3,504 million);
- (vi) possible capital subscriptions to the Asian Development Bank amounting to \$5,804 million (2016: \$5,990 million); and
- (vii) guarantees provided under a commercial loan of the Hong Kong Science and Technology Parks Corporation amounting to \$1,957 million (2016: \$2,002 million).

12. Consolidated Fund Balance

The consolidated fund balance comprises the following individual fund balances:

	2017 \$'000	2016 \$'000
Operating and Capital Reserves (Note 3(iv))		
General Revenue Account	558,594,868	508,486,156
Capital Works Reserve Fund	100,873,337	58,170,386
Capital Investment Fund	3,078,306	2,835,101
Civil Service Pension Reserve Fund	31,899,385	27,128,846
Disaster Relief Fund	27,743	14,539
Innovation and Technology Fund	7,991,465	41,744
Loan Fund	4,183,548	4,467,533
Lotteries Fund	22,782,031	22,013,671
	729,430,683	623,157,976
Future Fund (Note 3(iii))		
General Revenue Account	4,800,000	-
Land Fund	219,729,659	219,729,659
	224,529,659	219,729,659
Total	953,960,342	842,887,635

Consolidated Account

13. Commitments

Commitments comprise the outstanding balances of capital and non-recurrent funding approvals that may result in future cash outflows. The commitments were as follows:

	2017	2016
	\$'000	\$'000
Capital works	321,058,587	342,990,741
Land acquisition	5,245,069	6,181,799
Capital subventions	32,228,722	33,995,697
Plant, vehicles, systems and equipment	21,145,676	16,293,327
Non-recurrent expenditure	29,013,864	27,856,507
Investments	54,011	71,350
Loans and non-recurrent grants	31,321,127	31,096,572
	<u>440,067,056</u>	<u>458,485,993</u>

14. Revenue and Expenditure

(i) Inter-fund transfers totalling \$23,864 million between the General Revenue Account and the eight Funds specified in Note 2(i) are eliminated in full on consolidation.

(ii) Revenue

Revenue comprises operating revenue and capital revenue.

Operating revenue comprises all revenue items of the General Revenue Account (except certain items such as disposal proceeds of government quarters and other assets, estate duty, loan repayments received and recovery from Housing Authority, etc. which are classified as capital revenue) and all receipts of the Land Fund.

Capital revenue comprises all receipts of the other seven Funds and capital revenue items of the General Revenue Account.

(iii) Expenditure

Expenditure comprises operating expenditure and capital expenditure.

Operating expenditure comprises all expenditure of the General Revenue Account, except equipment, works and capital subventions of a minor nature which are classified as capital expenditure.

Capital expenditure comprises all payments of the Capital Works Reserve Fund (excluding repayment of government bonds and notes), Capital Investment Fund, Disaster Relief Fund, Innovation and Technology Fund, Loan Fund and Lotteries Fund and capital expenditure items of the General Revenue Account.

Consolidated Account

15. Revenue

	2017		2016
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Operating revenue			
Internal revenue	279,169,752	292,523,117	291,206,257
Duties	10,938,819	10,254,359	10,711,592
General rates	19,824,000	21,250,102	22,733,427
Motor vehicle taxes	9,864,577	7,813,679	9,311,023
Royalties and concessions	10,670,684	10,545,324	2,954,947
Other operating revenue	51,173,135	52,578,682	44,436,237
Operating revenue before investment income	381,640,967	394,965,263	381,353,483
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	16,629,501	-
Others	-	133,083	178,340
	16,537,458	16,762,584	178,340
Operating revenue after investment income	398,178,425	411,727,847	381,531,823
Capital revenue			
Land premium	67,000,000	127,969,534	60,892,837
Asset sales	224,500	169,586	209,279
Other capital revenue	28,717,327	29,294,847	7,368,316
Capital revenue before investment income	95,941,827	157,433,967	68,470,432
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	3,958,967	-
Others	-	3,923	4,564
	4,131,000	3,962,890	4,564
Capital revenue after investment income	100,072,827	161,396,857	68,474,996
Total revenue	498,251,252	573,124,704	450,006,819

- (i) Pursuant to the Financial Secretary's directives, the investment incomes for the calendar years 2014 and 2015 totalling \$72.64 billion (comprising \$27.49 billion for 2014 and \$45.15 billion for 2015) were set aside and retained within the Exchange Fund for the Housing Reserve, and not received in the respective financial years 2014-15 and 2015-16. The Housing Reserve was established in 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 Note 3(iv) and shall be received on a date as determined by the Financial Secretary. Together with the annual investment returns, including the investment return for the calendar year 2016 amounting to \$2.46 billion (2015: \$1.51 billion), the sums earmarked as Housing Reserve totalled \$76.61 billion (2015: \$74.15 billion).

Consolidated Account

16. Expenditure

	2017		2016
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Operating expenditure			
Recurrent expenditure			
Personal emoluments	70,745,379	71,775,118	68,152,175
Personnel related expenses	39,982,143	38,672,897	35,411,444
Departmental expenses	30,703,636	30,162,610	28,566,712
Other charges	74,376,627	69,052,144	63,565,104
Subventions	130,769,883	134,975,611	128,836,286
Additional commitments	884,000	-	-
Total recurrent expenditure	347,461,668	344,638,380	324,531,721
Non-recurrent expenditure	5,685,825	8,617,856	22,833,228
Additional commitments	23,653,000	-	-
Total non-recurrent expenditure	29,338,825	8,617,856	22,833,228
Operating expenditure	376,800,493	353,256,236	347,364,949
Capital expenditure			
Capital expenditure other than interest and other expenses on government bonds and notes	109,994,412	108,719,092	88,191,052
Interest and other expenses on government bonds and notes	76,671	76,669	77,301
Capital expenditure	110,071,083	108,795,761	88,268,353
Total expenditure	486,871,576	462,051,997	435,633,302

Consolidated Account

17. Surplus/(Deficit)

	2017		2016
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Operating Account			
Operating revenue	398,178,425	411,727,847	381,531,823
Operating expenditure	(376,800,493)	(353,256,236)	(347,364,949)
Operating surplus	21,377,932	58,471,611	34,166,874
Capital Account			
Capital revenue	100,072,827	161,396,857	68,474,996
Capital expenditure	(110,071,083)	(108,795,761)	(88,268,353)
Capital surplus/(deficit)	(9,998,256)	52,601,096	(19,793,357)
Surplus for the year before repayment of government bonds and notes	11,379,676	111,072,707	14,373,517
Repayment of government bonds and notes	-	-	-
Surplus for the year after repayment of government bonds and notes	11,379,676	111,072,707	14,373,517

18. Other Cash Movements

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

	2017 \$'000	2016 \$'000
(Increase)/Reduction in Assets		
Investments with the Exchange Fund	(111,581,079)	(14,883,404)
Deposits with banks	716,671	(48,585)
Advances	45,358	(164,615)
	(110,819,050)	(15,096,604)
Increase/(Reduction) in Liabilities		
Deposits	811,928	883,488
Suspense Accounts	(3,811)	7,572
	808,117	891,060
	(110,010,933)	(14,205,544)

Consolidated Account

Consolidated Revenue, Expenditure plus Repayment of Government Bonds and Notes, and Fund Balance for the years ended 31 March 2008 to 2017

\$Billion

