

Capital Works Reserve Fund

REPORT OF THE DIRECTOR OF AUDIT



Audit Commission

The Government of the Hong Kong Special Administrative Region

Independent Auditor's Report To the President of the Legislative Council

Opinion

I certify that I have examined and audited the financial statements of the Capital Works Reserve Fund set out on pages 38 to 47, which comprise the statement of assets and liabilities as at 31 March 2022, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements of the Capital Works Reserve Fund are prepared, in all material respects, in accordance with the Public Finance Ordinance (Cap. 2) and section 11(1) of the Audit Ordinance (Cap. 122).

Basis for opinion

I conducted my audit in accordance with section 12(1) of the Audit Ordinance and the Audit Commission auditing standards. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report. I have fulfilled the independence and other ethical responsibilities in accordance with those standards. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The Director of Accounting Services is responsible for the other information. The other information comprises all the information included in the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2022 published by the Treasury, other than the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Director of Accounting Services' responsibilities for the financial statements

In accordance with section 16(1) of the Public Finance Ordinance, 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 responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Audit Commission auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit Commission auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 Capital Works Reserve Fund's internal control; and
- evaluate the appropriateness of accounting policies used by the Director of Accounting Services and the reasonableness of accounting estimates and related disclosures.

I communicate with the Director of Accounting Services regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Prof. LAM Chi Yuen Nelson
Director of Audit

26 October 2022

Audit Commission
6th Floor, High Block
Queensway Government Offices
66 Queensway
Hong Kong

Capital Works Reserve Fund

STATEMENT OF ASSETS AND LIABILITIES AS AT 31 MARCH 2022

(Expressed in Hong Kong dollars)

	Note	2022 \$'000	2021 \$'000
Assets			
Investments with the Exchange Fund	3	195,487,986	132,226,088
Cash and bank balances		1,776	6,945
		195,489,762	132,233,033
Liabilities			
Deposits	4	(1,701,423)	(1,548,476)
		193,788,339	130,684,557
Representing:			
Fund Balance			
Balance at beginning of year		130,684,557	176,833,355
Surplus/(Deficit) for the year		63,103,782	(46,148,798)
Balance at end of year	5, 6, 7	193,788,339	130,684,557

Notes 1 to 10 form part of these financial statements.

Ms Susanna CHEUNG
Director of Accounting Services
26 August 2022



Capital Works Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2022

(Expressed in Hong Kong dollars)

	Note	2022 \$'000	2021 \$'000
Cash and bank balances at beginning of year		6,945	1,713
Receipts	8	182,646,295	115,023,103
Payments	5, 9	(119,542,513)	(161,171,901)
Surplus/(Deficit) for the year		63,103,782	(46,148,798)
Other cash movements	10	(63,108,951)	46,154,030
Cash and bank balances at end of year		1,776	6,945

Notes 1 to 10 form part of these financial statements.

Ms Susanna CHEUNG
Director of Accounting Services
26 August 2022



Capital Works Reserve Fund

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars, unless otherwise stated)

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 subsequently deemed to have been established under section 29(3) of the Public Finance Ordinance (Cap. 2). Since 1 January 1998, it has been reconstituted 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.
- (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:

	2022 \$'000	2021 \$'000
Investments (Notes (ii) and (iii) below)	195,437,986	132,176,088
Deposits	50,000	50,000
	<u>195,487,986</u>	<u>132,226,088</u>

- (ii) The investments represent the cost of investments together with the investment income received in the year being reported.
- (iii) The investment income 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 government bond (replacing the three-year Exchange Fund Notes 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 2021 was 4.7% (2020: 3.7%). The annual investment income is receivable on 31 December each year.

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:

	2022 \$'000	2021 \$'000
Contract retention money	1,524,353	1,386,320
Others	177,070	162,156
	<u>1,701,423</u>	<u>1,548,476</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 Green Bonds of US\$1 billion in May 2019, US\$2.5 billion in February 2021, US\$1 billion in November 2021, EUR1.75 billion in November 2021 and RMB5 billion in November 2021 under the Government Green Bond Programme to provide funding for green projects. The outstanding liabilities, not included in the Statement of Assets and Liabilities, in respect of sums borrowed are as follows:

	2022 \$'000	2021 \$'000
Green Bonds (Notes (i) and (ii) below)	<u>56,680,000</u>	<u>27,216,000</u>

- (i) The Green Bonds were denominated in United States dollars (US\$4.5 billion will mature between May 2024 and February 2051), Euros (EUR1.75 billion will mature between November 2026 and November 2041) and Renminbi (RMB5 billion will mature between November 2024 and November 2026). During the financial year, payments of interest on the Green Bonds amounted to \$442 million (2021: \$194 million) and there was no repayment of principal (2021: Nil).
- (ii) The outstanding Green Bonds are translated into Hong Kong dollars at the exchange rate ruling at the reporting date.

6. Contingent Liabilities

As at 31 March 2022, the amount of contingent liabilities arising from legal claims, disputes and proceedings was \$11,598 million (2021: \$2,327 million).

Capital Works Reserve Fund

7. Commitments

The balances of the approved project estimates that were unspent were as follows:

Head	2022	2021
	\$'000	\$'000
Land acquisition		
701 Land acquisition	20,228,518	20,833,140
Sub-total	20,228,518	20,833,140
Capital works – Public Works Programme		
702 Port and airport development	78,810	79,983
703 Buildings	194,598,497	157,759,150
704 Drainage	59,943,707	61,448,313
705 Civil engineering	101,557,028	56,312,772
706 Highways	80,821,061	88,212,830
707 New towns and urban area development	128,588,625	141,152,535
709 Waterworks	29,284,328	26,549,772
711 Housing	23,786,406	23,381,856
Sub-total	618,658,462	554,897,211
Capital subventions		
708 (part) Capital subventions	50,226,461	50,936,292
Sub-total	50,226,461	50,936,292
Systems and equipment		
708 (part) Major systems and equipment	7,946,426	8,410,359
710 Computerisation	12,561,818	11,645,981
Sub-total	20,508,244	20,056,340
	709,621,685	646,722,983

Capital Works Reserve Fund

8. Receipts

	2022		2021
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land premium			
Sales by public auction and tender	-	91,649,562	53,615,877
Private treaty grants	-	6,864,956	2,263,478
Modification of existing leases, exchanges and extensions	-	44,239,769	32,541,912
Fees received in respect of short term waivers	-	289,571	291,768
	97,600,000	143,043,858	88,713,035
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	10,395,496	6,969,167
Others	-	1,209	1,243
	9,854,000	10,396,705	6,970,410
Other receipts			
Donations and contributions	6,760	2,018	-
Others	-	79,499	36,072
	6,760	81,517	36,072
Proceeds received from issuance of bonds			
Green Bonds	35,100,000	29,124,215	19,303,586
	142,560,760	182,646,295	115,023,103

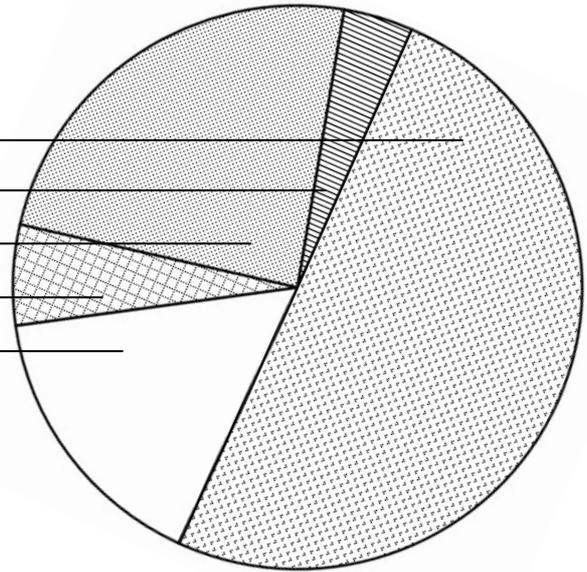
- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$6.86 billion (comprising \$2.88 billion for 2014 and \$3.98 billion for 2015), along with the investment incomes on other parts of the fiscal reserves for the two years, 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(iii). The accumulated investment return was \$1.85 billion up to 31 December 2021 (2020: \$1.46 billion), including the investment return for the calendar year 2021 amounting to \$0.39 billion (2020: \$0.30 billion). As announced in the 2019-20 Budget Speech, the Housing Reserve would be brought back to the Government's accounts and recorded as investment income over four financial years from 2019-20 to 2022-23. At the same time, \$82.37 billion (the balance of the Housing Reserve as at 31 December 2018 which included \$7.79 billion from the Fund) was earmarked for public housing development.

During the financial year 2021-22, \$2.59 billion (2021: Nil) was brought back from the Housing Reserve to the Fund and recorded as investment income. As at 31 March 2022, the investment incomes and the accumulated investment return (i.e. up to calendar year 2021) not received and recorded by the Fund and retained for the Housing Reserve totalled \$6.12 billion (2021: \$8.32 billion).

Capital Works Reserve Fund

Analysis of Receipts for the year ended 31 March 2022

Sales by public auction and tender	\$91.6 Billion	50%
Private treaty grants and fees received in respect of short term waivers	\$7.2 Billion	4%
Modification of existing leases, exchanges and extensions	\$44.2 Billion	24%
Investment income and other receipts	\$10.5 Billion	6%
Proceeds received from issuance of Green Bonds	\$29.1 Billion	16%



**Total Receipts
\$182.6 Billion**

Capital Works Reserve Fund

9. Payments

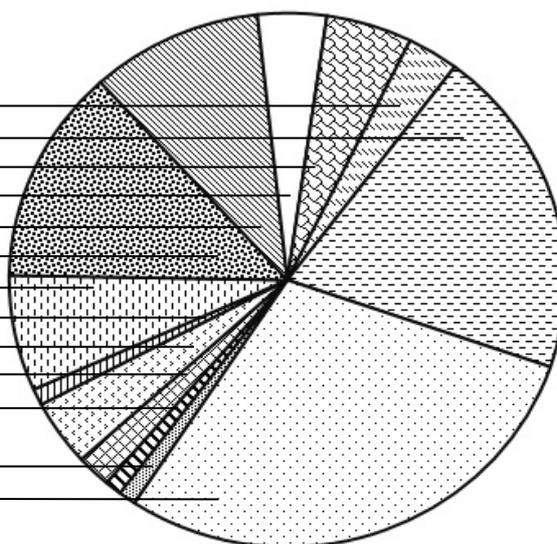
	2022		2021
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land acquisition	10,091,435	3,988,301	3,888,348
Public Works Programme			
Port and airport development	500	1,173	978
Buildings	28,308,030	24,216,709	20,079,855
Drainage	5,090,958	5,712,669	4,135,047
Civil engineering	6,070,083	5,108,794	5,472,903
Highways	9,104,996	11,736,529	13,764,644
New towns and urban area development	12,335,369	15,529,953	13,633,287
Waterworks	5,689,972	5,305,392	4,239,208
Housing	1,958,539	1,665,798	1,485,898
	68,558,447	69,277,017	62,811,820
Capital subventions and major systems and equipment			
Capital subventions	9,133,766	7,779,570	7,233,289
Major systems and equipment	1,272,400	661,315	453,909
	10,406,166	8,440,885	7,687,198
Computerisation	2,866,392	2,345,086	2,478,973
Government bonds and notes			
Repayment	-	-	-
Interest and other expenses	503,900	455,267	194,034
	503,900	455,267	194,034
Transfer to General Revenue	35,000,000	35,000,000	84,000,000
Other payments			
Refund of overpayment of land premium	-	35,957	111,528
	<u>127,426,340</u>	<u>119,542,513</u>	<u>161,171,901</u>

Further analyses of payments appear on pages 155 to 214 of the Supporting Statements.

Capital Works Reserve Fund

Analysis of Payments for the year ended 31 March 2022 *

Land acquisition	\$4.0 Billion	3%
Buildings	\$24.2 Billion	20%
Drainage	\$5.7 Billion	5%
Civil engineering	\$5.1 Billion	4%
Highways	\$11.7 Billion	10%
New towns and urban area development	\$15.5 Billion	13%
Capital subventions	\$7.8 Billion	7%
Major systems and equipment	\$0.7 Billion	1%
Waterworks	\$5.3 Billion	4%
Computerisation	\$2.3 Billion	2%
Housing	\$1.7 Billion	1%
Interest and other expenses on government bonds and notes	\$0.5 Billion	1%
Transfer to General Revenue	\$35.0 Billion	29%



**Total Payments
\$119.5 Billion**

* Actual payments on "Port and airport development" and "Refund of overpayment of land premium" are not shown as they are less than \$0.1 billion each.

10. Other Cash Movements

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

	2022 \$'000	2021 \$'000
(Increase)/Reduction in Assets		
Investments with the Exchange Fund	(63,261,898)	46,427,222
Increase/(Reduction) in Liabilities		
Deposits	152,947	(273,192)
	<u>(63,108,951)</u>	<u>46,154,030</u>

Capital Works Reserve Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2013 to 2022

\$Billion

