

Report of the Director of Audit



Audit Commission

The Government of the Hong Kong Special Administrative Region

Capital Works Reserve Fund

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 28 to 37, which comprise the statement of assets and liabilities as at 31 March 2021, 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 2021 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.

John Chu
Director of Audit

8 September 2021

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 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Assets			
Investments with the Exchange Fund	3	132,226,088	178,653,310
Cash and bank balances		6,945	1,713
		132,233,033	178,655,023
Liabilities			
Deposits	4	(1,548,476)	(1,821,668)
		130,684,557	176,833,355
Representing:			
Fund Balance			
Balance at beginning of year		176,833,355	146,691,879
(Deficit)/Surplus for the year		(46,148,798)	30,141,476
Balance at end of year	5, 6, 7	130,684,557	176,833,355

Notes 1 to 10 form part of these financial statements.

Charlix WONG
Director of Accounting Services
19 July 2021



Capital Works Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2021

(Expressed in Hong Kong dollars)

	Note	2021 \$'000	2020 \$'000
Cash and bank balances at beginning of year		1,713	2,084
Receipts	8	115,023,103	155,198,455
Payments	5, 9	(161,171,901)	(125,056,979)
(Deficit)/Surplus for the year		(46,148,798)	30,141,476
Other cash movements	10	46,154,030	(30,141,847)
Cash and bank balances at end of year		6,945	1,713

Notes 1 to 10 form part of these financial statements.

Charlix WONG
Director of Accounting Services
19 July 2021



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:

	2021 \$'000	2020 \$'000
Investments (Notes (ii) and (iii) below)	132,176,088	178,605,411
Deposits	50,000	47,899
	<u>132,226,088</u>	<u>178,653,310</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 2020 was 3.7% (2019: 2.9%). 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:

	2021 \$'000	2020 \$'000
Contract retention money	1,386,320	1,644,605
Others	162,156	177,063
	<u>1,548,476</u>	<u>1,821,668</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 and US\$2.5 billion under the Government Green Bond Programme in May 2019 and February 2021 respectively to provide funding for green public works projects of the Government. The outstanding liabilities, not included in the Statement of Assets and Liabilities, in respect of sums borrowed are as follows:

	2021 \$'000	2020 \$'000
Green Bonds (Notes (i) and (ii) below)	<u>27,216,000</u>	<u>7,754,000</u>

- (i) The Green Bonds denominated in United States dollars will mature between May 2024 and February 2051. During the financial year, payments of interest on the Green Bonds amounted to \$194 million (2020: \$98 million) and there was no repayment of principal (2020: 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 2021, the amount of contingent liabilities arising from legal claims, disputes and proceedings was \$2,327 million (2020: \$2,212 million).

Capital Works Reserve Fund

7. Commitments

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

Head	2021	2020
	\$'000	\$'000
Land acquisition		
701 Land acquisition	<u>20,833,140</u>	<u>20,938,801</u>
Sub-total	<u>20,833,140</u>	<u>20,938,801</u>
Capital works – Public Works Programme		
702 Port and airport development	79,983	80,960
703 Buildings	157,759,150	126,091,888
704 Drainage	61,448,313	39,464,283
705 Civil engineering	56,312,772	44,706,309
706 Highways	88,212,830	89,013,001
707 New towns and urban area development	141,152,535	115,744,310
709 Waterworks	26,549,772	19,039,912
711 Housing	23,381,856	10,550,675
Sub-total	<u>554,897,211</u>	<u>444,691,338</u>
Capital subventions		
708 (part) Capital subventions	<u>50,936,292</u>	<u>33,976,289</u>
Sub-total	<u>50,936,292</u>	<u>33,976,289</u>
Systems and equipment		
708 (part) Major systems and equipment	8,410,359	8,032,932
710 Computerisation	11,645,981	10,439,284
Sub-total	<u>20,056,340</u>	<u>18,472,216</u>
	<u><u>646,722,983</u></u>	<u><u>518,078,644</u></u>

Capital Works Reserve Fund

8. Receipts

	2021		2020
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land premium			
Sales by public auction and tender	-	53,615,877	120,151,328
Private treaty grants	-	2,263,478	156,084
Modification of existing leases, exchanges and extensions	-	32,541,912	20,681,649
Fees received in respect of short term waivers	-	291,768	738,710
	118,000,000	88,713,035	141,727,771
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	6,969,167	5,488,216
Others	-	1,243	1,347
	7,625,000	6,970,410	5,489,563
Other receipts			
Donations and contributions	90,666	-	3,549
Others	-	36,072	148,844
	90,666	36,072	152,393
Net proceeds from issuance of bonds			
Green Bonds	19,500,000	19,303,586	7,828,728
	145,215,666	115,023,103	155,198,455

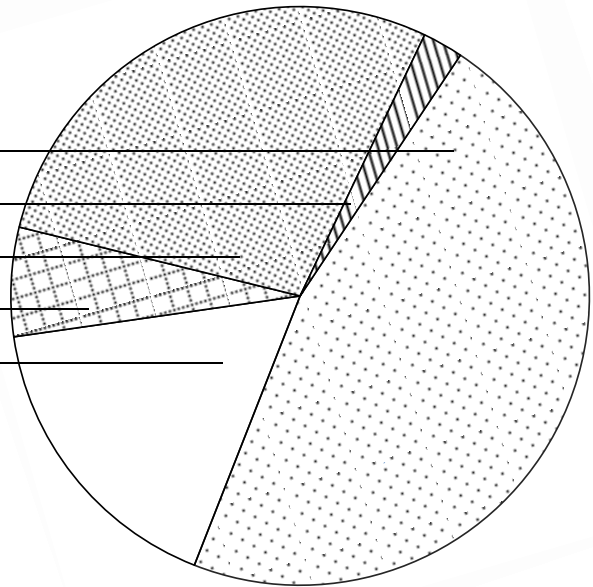
- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$6.86 billion (comprising \$2.88 billion for 2014 and \$3.98 billion for 2015), along with the investment incomes on other parts of the fiscal reserves for the two 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 \$1.46 billion up to 31 December 2020 (2019: \$1.16 billion), including the investment return for the calendar year 2020 amounting to \$0.30 billion (2019: \$0.23 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 2020-21, no amount was brought back from the Housing Reserve to the Fund. As at 31 March 2021, the investment incomes and the accumulated investment return (i.e. up to calendar year 2020) not received and recorded by the Fund and retained for the Housing Reserve totalled \$8.32 billion (2020: \$8.02 billion).

Capital Works Reserve Fund

Analysis of Receipts for the year ended 31 March 2021

<u>Sales by public auction and tender</u>	\$53.6 Billion	47%
<u>Private treaty grants and fees received in respect of short term waivers</u>	\$2.6 Billion	2%
<u>Modification of existing leases, exchanges and extensions</u>	\$32.5 Billion	28%
<u>Investment income and other receipts</u>	\$7.0 Billion	6%
<u>Net proceeds from issuance of Green Bonds</u>	\$19.3 Billion	17%



**Total Receipts
\$115.0 Billion**

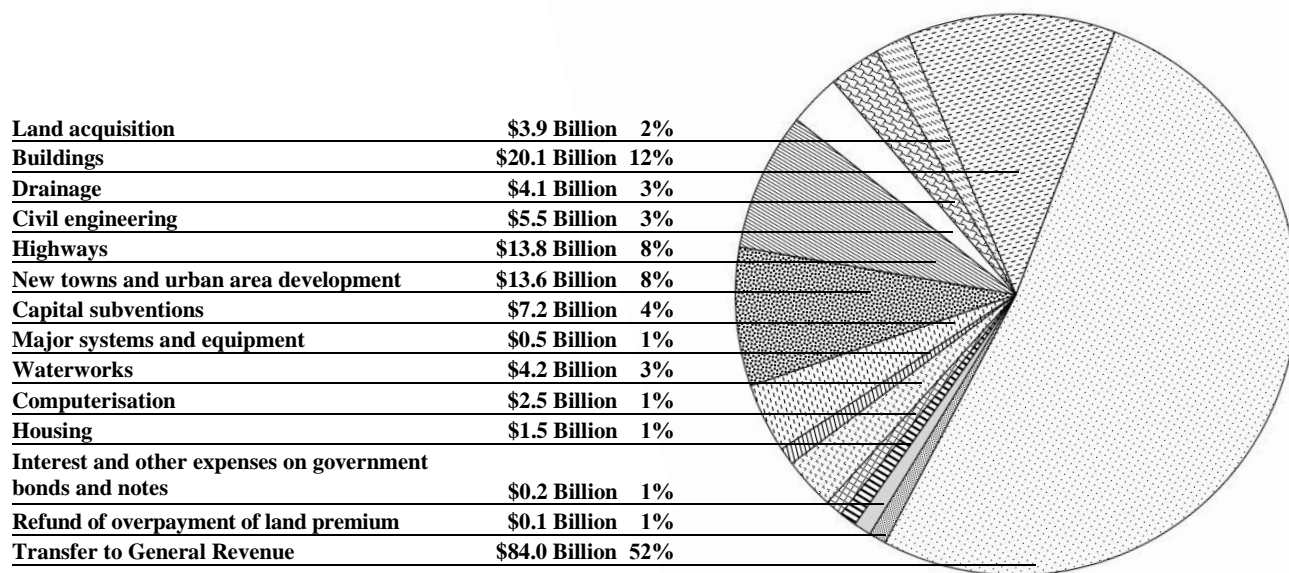
Capital Works Reserve Fund

9. Payments

	2021		2020
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land acquisition	8,979,020	3,888,348	262,326
Public Works Programme			
Port and airport development	980	978	920
Buildings	28,023,140	20,079,855	16,030,952
Drainage	3,892,571	4,135,047	3,122,658
Civil engineering	6,365,906	5,472,903	7,147,529
Highways	11,417,980	13,764,644	18,287,479
New towns and urban area development	11,830,519	13,633,287	9,768,399
Waterworks	4,033,755	4,239,208	3,202,150
Housing	1,660,322	1,485,898	1,461,962
	67,225,173	62,811,820	59,022,049
Capital subventions and major systems and equipment			
Capital subventions	6,788,457	7,233,289	6,391,407
Major systems and equipment	1,255,673	453,909	419,384
	8,044,130	7,687,198	6,810,791
Computerisation	2,856,740	2,478,973	2,309,053
Government bonds and notes			
Repayment	-	-	1,500,000
Interest and other expenses	456,955	194,034	143,008
	456,955	194,034	1,643,008
Transfer to General Revenue	84,000,000	84,000,000	55,000,000
Other payments			
Refund of overpayment of land premium	-	111,528	9,752
	171,562,018	161,171,901	125,056,979

Capital Works Reserve Fund

Analysis of Payments for the year ended 31 March 2021 *



**Total Payments
\$161.2 Billion**

* Actual payments on "Port and airport development" is not shown as it is less than \$0.1 billion.

10. Other Cash Movements

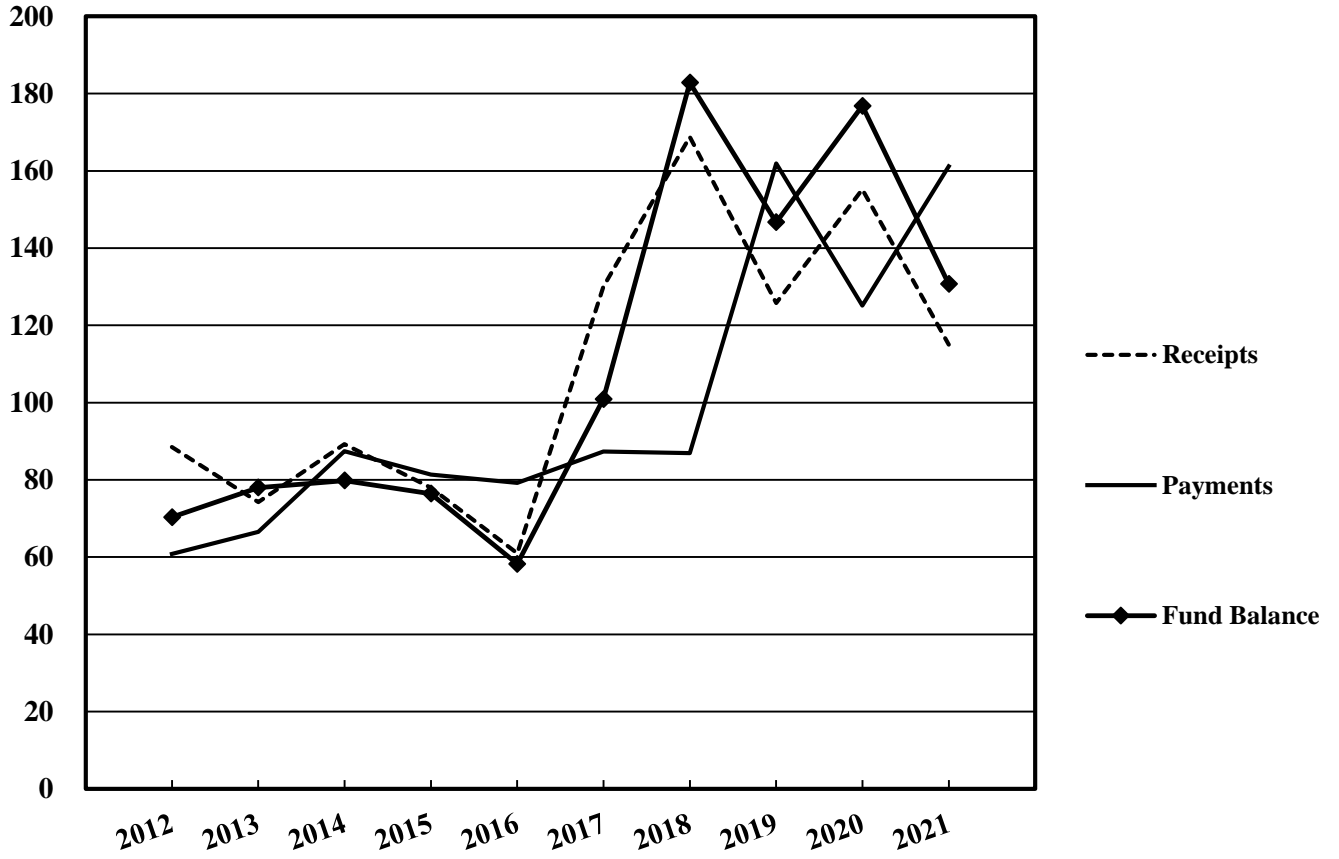
These are cash movements arising from changes in other assets and liabilities:

	2021 \$'000	2020 \$'000
Reduction/(Increase) in Assets		
Investments with the Exchange Fund	46,427,222	(30,013,293)
Reduction in Liabilities		
Deposits	(273,192)	(128,554)
	<u>46,154,030</u>	<u>(30,141,847)</u>

Capital Works Reserve Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2012 to 2021

\$Billion



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