

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 2024, and the statement of receipts and payments for the year then ended, and notes to the financial statements, including material accounting policy information.

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 2024 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

29 October 2024

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 2024

(Expressed in Hong Kong dollars)

	Note	2024 \$'000	2023 \$'000
Assets			
Investments with the Exchange Fund	3	100,839,526	151,400,431
Cash and bank balances		1	3,426
		100,839,527	151,403,857
Liabilities			
Deposits	4	(2,648,633)	(1,898,230)
		98,190,894	149,505,627
Representing:			
Fund Balance			
Balance at beginning of year		149,505,627	193,788,339
Deficit for the year		(51,314,733)	(44,282,712)
Balance at end of year	5, 6, 7	98,190,894	149,505,627

Notes 1 to 10 form part of these financial statements.

Ms Susanna CHEUNG
Director of Accounting Services
26 August 2024



Capital Works Reserve Fund

STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 MARCH 2024

(Expressed in Hong Kong dollars)

	Note	2024 \$'000	2023 \$'000
Cash and bank balances at beginning of year		3,426	1,776
Receipts	8	98,927,348	154,118,729
Payments	5, 9	(150,242,081)	(198,401,441)
Deficit for the year		(51,314,733)	(44,282,712)
Other cash movements	10	51,311,308	44,284,362
Cash and bank balances at end of year		1	3,426

Notes 1 to 10 form part of these financial statements.

Ms Susanna CHEUNG
Director of Accounting Services
26 August 2024



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:

	2024 \$'000	2023 \$'000
Investments (Notes (ii) and (iii) below)	100,789,520	151,350,427
Deposits	50,006	50,004
	<u>100,839,526</u>	<u>151,400,431</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 2023 was 3.7% (2022: 5.6%). 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:

	2024 \$'000	2023 \$'000
Contract retention money	1,912,205	1,687,643
Others	736,428	210,587
	<u>2,648,633</u>	<u>1,898,230</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, RMB5 billion in November 2021, HK\$20 billion in May 2022, US\$3 billion in January 2023, EUR1.25 billion in January 2023, RMB10 billion in January 2023, HK\$0.8 billion in February 2023, US\$2.25 billion in June 2023, EUR1.5 billion in June 2023, RMB15 billion in June 2023, HK\$20 billion in October 2023, US\$0.2 billion in February 2024, EUR0.08 billion in February 2024, RMB1.5 billion in February 2024 and HK\$2 billion in February 2024 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:

	2024 \$'000	2023 \$'000
Government Bonds		
Green Bonds (Notes (i) and (ii) below)	<u>192,528,875</u>	<u>122,497,375</u>

- (i) The Green Bonds were denominated in United States dollars (US\$9.95 billion will mature between May 2024 and January 2053), Euros (EUR4.58 billion will mature between January 2025 and November 2041), Renminbi (RMB31.5 billion will mature between November 2024 and June 2033) and Hong Kong dollars (HK\$42 billion will mature between May 2025 and October 2026). During the financial year, payments of interest on the Green Bonds amounted to \$3,767 million (2023: \$1,041 million) and there was repayment of principal with nominal value of HK\$800 million (2023: 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 2024, the amount of contingent liabilities arising from legal claims, disputes and proceedings was \$9,725 million (2023: \$12,305 million).

Capital Works Reserve Fund

7. Commitments

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

Head		2024	2023
		\$'000	\$'000
Land acquisition			
701	Land acquisition	131,181,580	57,926,045
	Sub-total	131,181,580	57,926,045
Capital works – Public Works Programme			
702	Port and airport development	78,299	78,299
703	Buildings	241,604,521	215,333,675
704	Drainage	61,388,997	57,284,519
705	Civil engineering	96,799,222	97,412,982
706	Highways	66,176,009	72,101,092
707	New towns and urban area development	106,113,882	117,545,089
709	Waterworks	26,539,524	28,315,063
711	Housing	50,052,171	41,278,449
	Sub-total	648,752,625	629,349,168
Capital subventions			
708 (part)	Capital subventions	67,754,635	61,126,688
	Sub-total	67,754,635	61,126,688
Systems and equipment			
708 (part)	Major systems and equipment	6,834,281	7,471,280
710	Computerisation	14,733,362	15,046,632
	Sub-total	21,567,643	22,517,912
		869,256,483	770,919,813

Capital Works Reserve Fund

8. Receipts

	2024		2023
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land premium			
Sales by public auction and tender	-	7,273,888	33,617,647
Private treaty grants	-	133,781	1,729,660
Modification of existing leases, exchanges and extensions	-	11,560,144	34,331,691
Fees received in respect of short term waivers	-	612,946	248,828
	85,000,000	19,580,759	69,927,826
Investment income			
Investments with the Exchange Fund (Note (i) below)	-	6,686,917	18,120,400
Others	-	23,176	1,227
	6,861,000	6,710,093	18,121,627
Other receipts			
Donations and contributions	7,922	13,740	4,410
Others	-	132,869	72,691
	7,922	146,609	77,101
Proceeds received from issuance of Government Bonds	65,000,000	72,489,887	65,992,175
	<u>156,868,922</u>	<u>98,927,348</u>	<u>154,118,729</u>

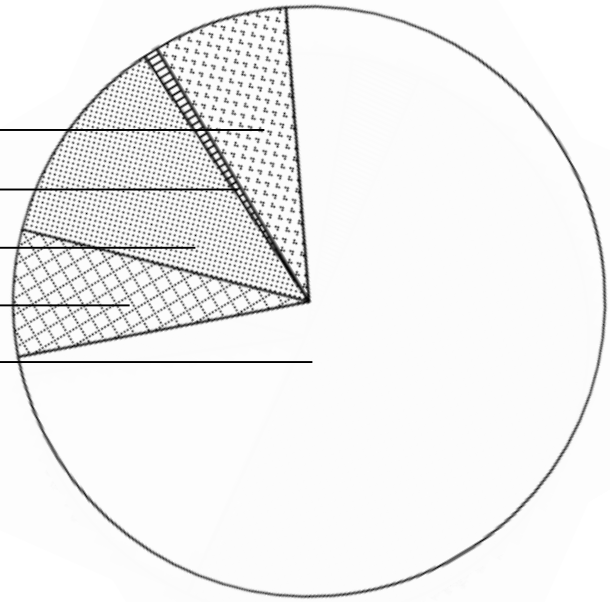
- (i) Pursuant to the Financial Secretary's directives, the investment incomes of the Fund for the calendar years 2014 and 2015 totalling \$6.86 billion (comprising \$2.88 billion for 2014 and \$3.98 billion for 2015), along with the investment incomes on other parts of the fiscal reserves for the two 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). 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 2023-24, no amount was brought back from the Housing Reserve to the Fund (2023: \$6.46 billion). As at 31 March 2024, there was no investment income and accumulated investment return (i.e. up to calendar year 2023) not received and recorded by the Fund and retained for the Housing Reserve (2023: Nil).

Capital Works Reserve Fund

Analysis of Receipts for the year ended 31 March 2024

Sales by public auction and tender	\$7.3 Billion	7%
Private treaty grants and fees received in respect of short term waivers	\$0.7 Billion	1%
Modification of existing leases, exchanges and extensions	\$11.6 Billion	12%
Investment income and other receipts	\$6.8 Billion	7%
Proceeds received from issuance of Government Bonds	\$72.5 Billion	73%



Total Receipts
\$98.9 Billion

Capital Works Reserve Fund

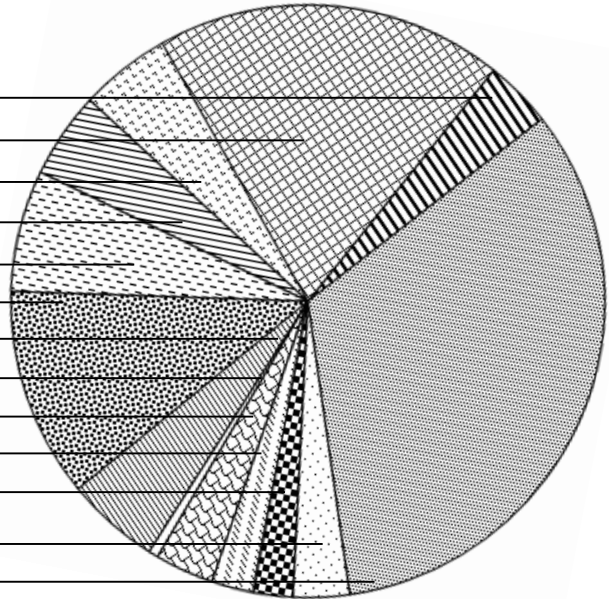
9. Payments

	2024		2023
	Original Estimate \$'000	Actual \$'000	Actual \$'000
Land acquisition	9,955,770	5,545,000	6,083,804
Public Works Programme			
Port and airport development	100	-	511
Buildings	31,517,020	28,429,924	26,429,758
Drainage	6,823,633	7,455,392	6,901,539
Civil engineering	9,094,015	7,058,148	7,116,710
Highways	8,738,015	9,981,248	10,513,742
New towns and urban area development	13,275,048	17,196,881	20,613,145
Waterworks	5,140,244	4,820,864	7,035,306
Housing	3,509,401	3,224,369	2,193,137
	78,097,476	78,166,826	80,803,848
Capital subventions and major systems and equipment			
Capital subventions	9,143,738	7,674,545	6,779,760
Major systems and equipment	1,280,954	782,640	614,761
	10,424,692	8,457,185	7,394,521
Computerisation	3,851,390	3,440,813	2,614,869
Government Bonds			
Repayment	800,000	800,000	-
Interest and other expenses	4,493,000	3,804,006	1,091,548
	5,293,000	4,604,006	1,091,548
Transfer to General Revenue	50,000,000	50,000,000	100,000,000
Other payments			
Refund of overpayment of land premium	-	28,251	412,851
	<u>157,622,328</u>	<u>150,242,081</u>	<u>198,401,441</u>

Capital Works Reserve Fund

Analysis of Payments for the year ended 31 March 2024 *

Land acquisition	\$5.5 Billion	4%
Buildings	\$28.4 Billion	19%
Drainage	\$7.5 Billion	5%
Civil engineering	\$7.1 Billion	5%
Highways	\$10.0 Billion	7%
New towns and urban area development	\$17.2 Billion	11%
Capital subventions	\$7.7 Billion	5%
Major systems and equipment	\$0.8 Billion	1%
Waterworks	\$4.8 Billion	3%
Computerisation	\$3.4 Billion	2%
Housing	\$3.2 Billion	2%
Repayment, interest and other expenses on Government Bonds	\$4.6 Billion	3%
Transfer to General Revenue	\$50.0 Billion	33%



**Total Payments
\$150.2 Billion**

* Actual payments on "Refund of overpayment of land premium" is not shown as it is less than \$0.1 billion.

10. Other Cash Movements

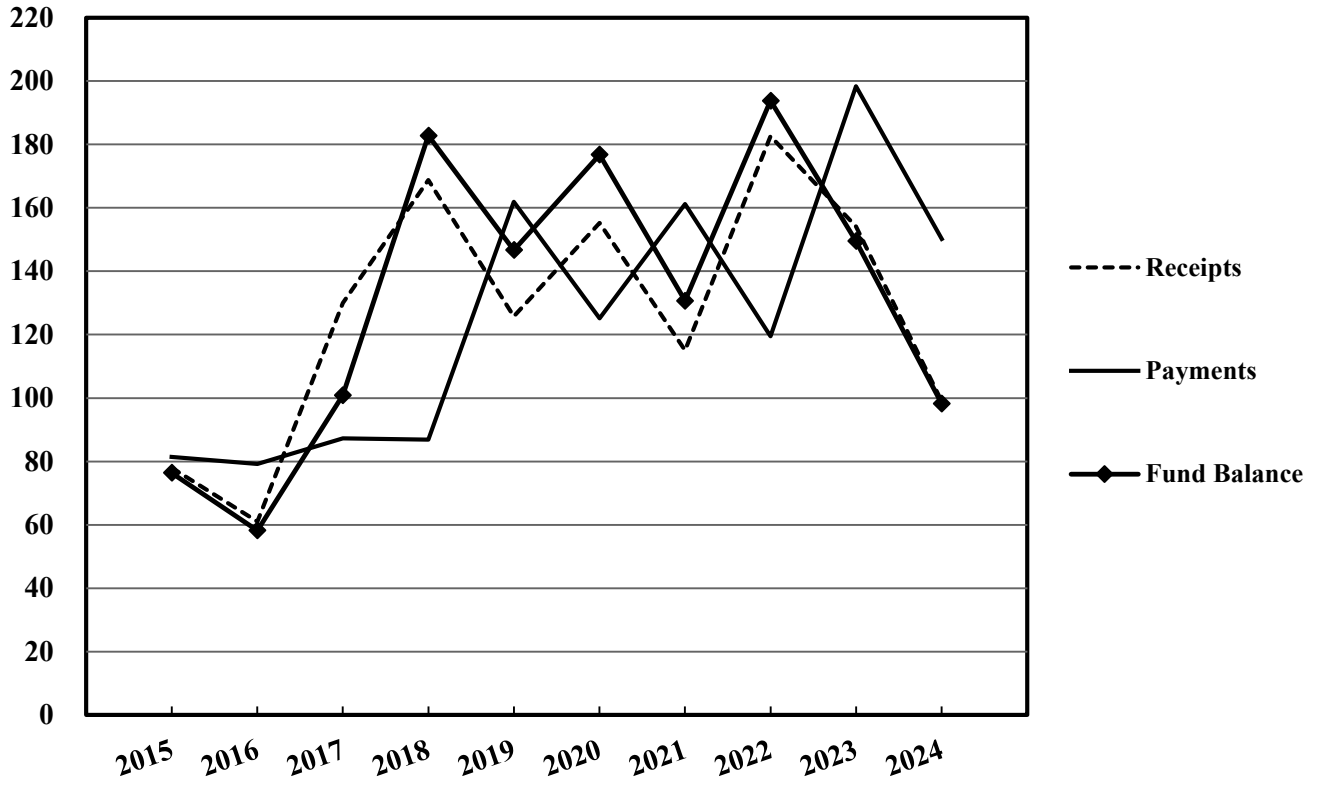
These are cash movements arising from changes in other assets and liabilities:

	2024 \$'000	2023 \$'000
Reduction in Assets		
Investments with the Exchange Fund	50,560,905	44,087,555
Increase in Liabilities		
Deposits	750,403	196,807
	51,311,308	44,284,362

Capital Works Reserve Fund

Receipts, Payments and Fund Balance for the years ended 31 March 2015 to 2024

\$Billion



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