

## **A. Introduction**

The Audit Commission ("Audit") conducted a review to examine the allocation and utilization of public rental housing ("PRH") flats.

### Background

2. The Hong Kong Housing Authority ("HA") is a statutory body established under the Housing Ordinance (Cap. 283) to develop and implement a public housing programme which seeks to achieve the Government's policy objective of meeting the housing needs of people who cannot afford private rental accommodation. The primary role of the HA is to provide subsidized PRH to low-income families. It plans, builds, manages and maintains PRH flats.

3. The Housing Department ("HD"), as the executive arm of the HA, provides secretarial and executive support to the HA and its committees. The HD also supports the Transport and Housing Bureau in dealing with all housing-related policies and matters.

4. Public housing resources are valuable and heavily subsidized. According to the HD, the average construction cost for a PRH flat is about \$0.7 million (not including the land cost) and it also takes about five years to construct a flat. As at 31 March 2013, the HA had a stock of about 728 000 PRH flats, accommodating some 2 million people (710 000 households). Out of a strength of 8 500 HD staff, about 5 000 staff (mainly in the Strategy Division and the Estate Management Division) were responsible for the allocation and management of PRH flats.

5. PRH estates are grouped into four districts (i.e. the Urban District, the Extended Urban District, the New Territories District and the Islands District)<sup>1</sup>. According to the current housing allocation policy of the HA, the HD gives an eligible applicant three housing offers, one at each time, according to the applicant's choice of district.

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<sup>1</sup> The Urban District comprises Hong Kong Island and Kowloon. The Extended Urban District includes Kwai Chung, Ma On Shan, Sha Tin, Tseung Kwan O, Tsing Yi, Tsuen Wan and Tung Chung. The New Territories District includes Fanling, Sheung Shui, Tai Po, Tin Shui Wai, Tuen Mun and Yuen Long. The Islands District excludes Tung Chung.

6. The HA maintains a Waiting List ("WL") for PRH applicants. In general, PRH flats are allocated to eligible general applicants in accordance with the order their applications are registered on the WL (i.e. on a first-come-first-served basis), taking into account their family size and choice of district. As at 31 March 2013, there were 116 000 general applicants (including both family applicants and single elderly applicants) and 112 000 non-elderly one-person applicants under the Quota and Points System ("QPS")<sup>2</sup> on the WL. The HA's current target is to maintain the average waiting time ("AWT") at around three years for general applicants and around two years for single elderly persons (i.e. those aged 60 or above). No target is set on the AWT for QPS applicants.

### The Committee's Report

7. The Committee's Report sets out the evidence gathered by the Committee which is relevant to the issues identified in the Director of Audit's Report ("the Audit Report"). The Report is divided into the following parts:

- Introduction (Part A) (paragraphs 1 to 10)
- Allocation of flats to people in need of public rental housing (Part B);
  - (a) Management of the Waiting List for general applicants (paragraphs 11 to 20)
  - (b) Implementation of the Quota and Points System (paragraphs 21 to 28)
  - (c) Processing of applications (paragraphs 29 to 34)
- Maximizing the rational utilization of public rental housing flats (Part C);
  - (a) Management and control of unoccupied flats (paragraphs 35 to 50)
  - (b) Implementation of the Well-off Tenants Policies (paragraphs 51 to 58)

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2 The QPS was introduced in September 2005 to rationalize and re-prioritize the allocation of PRH to non-elderly one-person applicants. Under the QPS, points are assigned to applicants based on three determining factors: (i) age at the time of application; (ii) PRH residency; and (iii) waiting time. An annual allocation quota is set under the QPS at 8% of the number of flats to be allocated to WL applicants, subject to a maximum of 2 000 units. The number is broadly equivalent to the annual average of PRH units allocated to non-elderly one-person applicants over the 10 years before the introduction of the QPS.

- (c) Under-occupation of public rental housing flats (paragraphs 59 to 66)
- Tackling abuse of public rental housing (Part D);
  - (a) Checking of eligibility of applicants (paragraphs 67 to 72)
  - (b) Processing of household declarations under the Well-off Tenants Policies (paragraphs 73 to 76)
  - (c) Flat inspections under the Biennial Inspection System (paragraphs 77 to 78)
  - (d) Enforcement actions (paragraphs 79 to 86)
- Way forward (Part E) (paragraphs 87 to 90); and
- Conclusions and recommendations (Part F) (paragraph 91).

#### Public hearings

8. The Committee held two public hearings on 25 and 28 November 2013 to receive evidence on the findings and observations of the Audit Report.

#### Declaration of interests

9. At the beginning of the Committee's first and second public hearings held on 25 and 28 November 2013:

- **Hon Alan LEONG Kah-kit** declared that he was currently a member of the HA; and
- **Hon Kenneth LEUNG** and **Hon NG Leung-sing** declared that they were former members of the HA.

Opening statement by the Secretary for Transport and Housing

10. **Professor Anthony CHEUNG, Secretary for Transport and Housing**, made an opening statement at the beginning of the Committee's first public hearing held on 25 November 2013, the summary of which is as follows:

- in line with the policies set by the HA, the HD had taken a number of initiatives to maximize the rational utilization of PRH resources. With such a large-scale operation and service area, the Administration recognized that there was always room for improvement in the day-to-day administration of public housing, including rationalizing working procedures and enhancing transparency;
- the HA's objective was to provide PRH to low-income families who could not afford private rental accommodation, and its target was to maintain the AWT at around three years for general applicants on the WL. The AWT for general applicants was calculated (a) on the average of the waiting time of general applicants housed to PRH over the past 12 months; and (b) the waiting time counted from the date of registration to the date of the first offer of a PRH flat. Currently, applicants would have three housing offers to cater for their choices as far as practicable;
- for the enhancement of transparency in PRH application, the Administration shared the Director of Audit's view that there was a need to conduct investigations periodically to identify long-outstanding cases on the WL. In fact, the HA had conducted analyses of the housing situation of WL applicants annually since 2011 to study, amongst other things, cases on the WL with longer waiting times. The HA recently reported the outcome of the 2013 analysis to the Panel on Housing of the Legislative Council ("LegCo") at the Panel meeting held on 4 November 2013. The HA planned to continue with the special analyses and report the same on an annual basis;
- the Long Term Housing Strategy Steering Committee ("LTHS Steering Committee") had in September 2013 published the Long Term Housing Strategy ("LTHS") Consultation Document, putting forward recommendations on the QPS which included allocating more points to those who are above the age of 45, and developing a mechanism to regularly review the income and asset of QPS applicants, etc. The public consultation would end on 2 December 2013;

- there were divergent views on the Well-off Tenants Policies in the community; some were of the opinion that the policies should be tightened whilst some advocated for relaxation or even cancellation. The LTHS Consultation Document further invited public's views on the policies, which would facilitate the HA to further consider the related issues and better utilize the public housing resources; and
- having considered the recommendations made by the Director of Audit on handling the Under-occupation ("UO") issue in 2006-2007, the HA endorsed in 2007 various interim measures and established the "Prioritized UO" ("PUO") threshold to deal with the UO cases in a phased approach. The HD further reviewed the UO policy in 2010 and 2013 respectively to revise the PUO threshold to achieve better results.

The full text of the Secretary for Transport and Housing's opening statement is in *Appendix 27*.

## **B. Allocation of flats to people in need of public rental housing**

### Management of the Waiting List for general applicants

#### *Transparency and accountability in the AWT computation*

11. Currently the HA defines waiting time for PRH as the period between registration on the WL and the first housing offer, excluding any frozen period in between<sup>3</sup>. According to the HA's published information, as at end-June 2013, the AWTs of the applicants were 2.7 years for general applicants and 1.5 years for single elderly applicants. The AWT for general applicants had been increasing since 2008-2009<sup>4</sup>.

12. The Committee noted from paragraph 2.18 of the Audit Report that Audit's analysis of the data of the 13 586 general applicants housed in the 12-month period ended 31 March 2013 showed that the average elapsed time whilst waiting for PRH ("ETW") for an applicant ranged from 2.91 years (if the applicant accepted the first

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3 Under the established methodology, waiting time refers to the time taken between registration on the WL and the first offer of a PRH flat, excluding any frozen period during the application period (for example, when the applicant has yet to fulfill the seven-year residence requirement, the applicant is imprisoned, the applicant has requested to put his application on hold pending arrival of family members for family reunion).

4 The AWT for general applicants increased from 1.8 years in 2008-2009 to 2.7 years in 2012-2013.

offer) to 4.12 years (if the applicant accepted the third offer). As such information was useful for the applicants in making their decisions on whether to accept the housing offer right away or wait for the next chance, the Committee asked whether consideration would be given to publicizing on the HA's website information about the average ETW between the first and second offers and that between the second and third offers.

13. **Secretary for Transport and Housing** said and **Mr Duncan Warren PESCOD, Director of Housing**, supplemented that:

- in the past, the Administration had mentioned the definition of the AWT and the basis of its calculation on numerous public occasions, including at LegCo meetings and to the press;
- in view of the Director of Audit's recommendation, the Administration agreed to enhance the publicity in this aspect. The HA would incorporate into the brochure on "Waiting List for Public Rental Housing - Information for Applicants" and the application form for PRH the definition and computation method of the AWT for applicants, together with other information recommended by Audit for applicants' reference. As the HA targeted to complete the editing and printing of the documents by April 2014, its plan was to publicize all such information on the HA/HD's website at the same time when the new brochure and the new application form for PRH would be available for use in April 2014;
- an application must be vetted to ensure that the applicant concerned was eligible. The receipt of an application did not necessarily mean that the applicant concerned fulfilled the eligibility criteria and could be registered on the WL. Sometimes, an applicant needed to submit further documents in support of his application. Hence, the waiting time started when the HD had vetted the application and considered the applicant eligible for PRH;
- whilst eligible applicants were given three housing offers, they were provided with a housing opportunity at the first offer. In other words, an applicant would be rehoused if he accepted the first offer. It was a matter of personal decision if the applicant declined the first offer to wait for subsequent offers. Hence, the waiting time would only be counted up to the first offer. The decision as to whether or not to accept the first, second or third offer rested entirely with the applicant

and was not under the control of the HA. It was therefore not appropriate for the HA to publish information regarding aspects of waiting time over which it had no control;

- publishing past figures on the waiting time, say from the first offer to the second offer or from the second offer to the third offer as suggested might actually be misleading and would not help applicants in making informed decisions. The past trend of time between offers did not reflect the situation in the future since it depended on the supply and demand circumstances at that particular time; and
- nonetheless, the HA would consider making available additional statistics of WL applicants when the HA conducted the next special analysis of the housing situation of the WL applicants in 2014.

*"Three offers in one go" approach*

14. As reported in paragraph 2.19 of the Audit Report, since year 2000, applicants had been given three single offers on different dates in the allocation of PRH flats. The average ETW for 2012-2013 between the first and second offers was 0.43 years (i.e. over 22 weeks), and that between the second and third offers was 1.21 years (i.e. (0.43 + 0.78) years or over 62 weeks), which had considerably exceeded the HA's expected timeframe of 9 to 12 weeks at the time of year 2000. To shorten the AWT for PRH applicants, the Committee enquired:

- whether consideration would be given to making "three offers in one go" to a PRH applicant; and
- whether the HA had made available on its website the information on the vacant stock of PRH flats across districts to help applicants make informed decision on the choice of district.

15. **Director of Housing** responded and **Secretary for Transport and Housing** replied in his letters of 12 December 2013 and 7 January 2014 (*Appendices 28 and 29*) that:

- the "three offers in one go" approach was introduced in April 1999 but this was not welcomed by WL applicants. The HA thus reverted to the single-offer allocation methodology in April 2001;

- the HA's experience indicated that the "three offers in one go" method would largely reduce the availability of housing resources for allocation and prolong the processing time since three flats would have to be frozen simultaneously for an applicant to make his decision, instead of allowing three applicants to consider their respective offers at the same time;
- when housing resources were in short supply, it was possible that all three offers being generated through random computer batching might fall within the same sub-district, which might not meet the special circumstances of individual applicants;
- the HA considered it more appropriate to maintain the current approach of making three separate offers to an applicant. The fact was that if the applicant took up the first offer, he would be rehoused at that point of time. This method offered better options for applicants and allowed for more efficient deployment of available units;
- although the AWT for PRH applicants could be shortened by confining the number of housing offers to two, the HA was not in favor of the suggestion to reduce the number of offers;
- the HA had all along been following the principle of optimization of resources. As soon as newly completed units or refurbished units became available, the Lettings Unit ("LU") would expedite its work in making flat allocation to applicants on the WL and in other rehousing categories;
- the information on the vacant stock of PRH flats varied drastically from day to day. If the HA published such information, it would create confusion to WL applicants regarding the vacancy position of flats across districts, and would not help them make their location choice. As such, the HA did not consider it appropriate to publish such information on its website; and
- nonetheless, the HA was considering other measures to help PRH applicants make their choice of district, including the arrangement for grouping the PRH estates into smaller districts.



*Long-outstanding applications on the WL*

16. The Committee noted from paragraph 2.24 of the Audit Report that as at 31 March 2013, 29% of the 116 927 general applicants on the WL had already waited for three years or more for the allocation of PRH. In particular, 7% had waited for five years or more. The Committee enquired about the reason(s) for the 7% of general applicants on the WL having to wait for five years or more for the allocation of PRH; and the measures that had been/would be taken to address the issue(s) identified.

17. **Director of Housing** said and **Ms Agnes WONG, Deputy Director of Housing (Strategy)**, supplemented that:

- the HA had been conducting a special analysis of the housing situation of WL applicants every year since 2011. The relevant work included manually going through individual file records in detail and verifying the information in the file records in order to examine the distribution of waiting times and ascertain the reasons for the long waiting time of individual cases;
- the HA's analysis of the housing situation of the general applicants in the past three years showed that applicants with longer waiting times were in general those opting for flats in the Urban or the Extended Urban Districts. The Urban and the Extended Urban Districts were more popular, and thus applicants opting for flats in these two Districts were more likely to have longer waiting time than those opting for flats in other Districts. Households on the WL with bigger families also tended to have longer waiting time;
- in the next few years, there would be a steady supply of newly completed flats in the Urban and Extended Urban Districts. Amongst the new production from 2013-2014 to 2016-2017, about 19% would be one/two-person units, 25% would be two/three-person units, 39% would be one-bedroom units (for three to four persons) and 16% would be two-bedroom units (for four persons or above). The new supply should help meet the demand for PRH in the Urban and Extended Urban Districts and for three to four-person households;
- apart from new PRH production, the HA would also strive to address the demand through recovery of PRH flats. Based on the HA's experience, there was a net gain of an average of about 7 000 flats recovered from

surrender of flats by sitting tenants as well as enforcement actions against abuse of PRH resources, which could be made available for allocation to WL applicants every year; and

- the HA would step up its efforts in tackling abuse of PRH resources through carrying out rigorous investigations into occupancy-related cases randomly selected from PRH tenancies and suspected abuse cases referred by frontline management and the public. In 2012-2013, the HD proactively investigated some 8 700 cases, and some 490 PRH flats were recovered on grounds of tenancy abuse. Furthermore, to detect suspected non-occupation cases, the HD completed an 18-month "Taking Water Meter Readings Operation" in all PRH flats in July 2012, and in view of its effectiveness in recovering PRH flats, the HD would launch similar operations again in the future.

18. As reported in paragraph 2.27 of the Audit Report, the HD had carried out a special exercise in 2012 to investigate into those cases (about 1 400 cases) of general applicants on the WL as at end of June 2012 with waiting time of five years or more but without any housing offer. Results of the HD's investigation showed that 40% of these cases involved special circumstances of various kinds.

19. As to what follow-up actions had been taken against the other 60% cases (about 860 general applicants) with waiting time of five years or more but without any housing offer, **Secretary for Transport and Housing** said and **Deputy Director of Housing (Strategy)** supplemented that:

- as the special circumstances accorded to each of the long-outstanding applications was not entered into the computer system of the HD, the HD had to manually go through individual file records in detail and verify the information in the file records in order to ascertain the reasons for the long waiting time of individual cases. Some of the long-outstanding applications were found to involve multiple kinds of special circumstances, such as change of household particulars and location preference on social/medical grounds;
- according to the special studies (including manually going through some individual file records) conducted by the HD on the 118 700 general applicants still on the WL as at end-June 2013, the major reasons behind those cases with longer waiting time included the following:

- (a) of the 118 700 general applicants still on the WL as at end-June 2013, about 16% (i.e. about 19 200 applicants) had a waiting time of three years or above and without any housing offer. In particular, some 2 100 cases had a waiting time of five years or above and without any housing offer;
- (b) many of these 2 100 cases involved special circumstances of various kinds, including change of household particulars (33%); refusal to accept housing offer(s) with reasons (13%); as well as other circumstances such as cancellation periods, location preference on social/medical grounds and applications for Green Form Certificate for purchasing Home Ownership Scheme ("HOS") units (8%);
- (c) of these 19 200 general applicants, about 45% (i.e. about 8 700 cases) had already reached the detailed investigation stage and would be given an offer soon if they were eligible. As regards the remaining 55% (i.e. about 10 500 cases), they mainly opted for flats in the Urban and the Extended Urban Districts;
- (d) in terms of household size, about 70% of these 19 200 general applicants were three and four-person households opting for flats in the Urban and the Extended Urban Districts;
- (e) some applicants on the WL might have their cases cancelled for different reasons (e.g. failure to meet income eligibility requirements at the detailed investigation stage, failure to attend interviews, etc.). To provide flexibility to these applicants whose circumstances might change thereafter, the HA's existing policy was that they might apply for reinstatement of their applications if they fulfilled the eligibility criteria again within a specific timeframe<sup>5</sup>. Strictly speaking, the applicant was ineligible during the period from cancellation to reinstatement of application. However, due to the limitations of the computer system, the HD had not been able to exclude such periods from the calculation of the AWT. Going through each individual file to exclude such periods was not practicable given the large number of applications involved; and

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5 For example, for an application which is cancelled because the applicant's income or asset has exceeded the prescribed limit, if the applicant subsequently becomes eligible again, the applicant can request for reinstatement of the original application not earlier than six months and not later than two years after the first cancellation date of the application.

- it was the HA's plan to continue with the aforesaid special analyses and report the same to LegCo on an annual basis.

20. At the request of the Committee, **Secretary for Transport and Housing** provided, after the public hearings, a breakdown by reasons of the number of PRH applications put on hold or frozen as at end-June 2013 (in Appendix 28).

### Implementation of the Quota and Points System

#### *Built-in incentive encouraging early application for PRH*

21. Under the QPS, points are assigned to applicants based on three determining factors, namely, the age of the applicants at the time of submitting their PRH applications, whether the applicants are PRH tenants, and the waiting time of the applicants<sup>6</sup>. Because each year of waiting under the QPS attracts 12 points, whereas each year of age increase at the time of application attracts only 3 points, there is a built-in incentive to apply for PRH early under the QPS, and this may have been a catalyst for the increasing number of PRH applications in recent years. The current system tends to encourage young applicants to apply for PRH under the QPS as early as possible (best at the minimum age of 18) despite the fact that they may not have a pressing need for housing.

22. According to paragraph 2.41 of the Audit Report, an analysis of the AWTs of those applicants who had been housed through the QPS during the period 2008-2009 to 2012-2013 showed that no PRH flat had been allocated to any applicant aged below 30, and the majority of the housed applicants were aged 50 or above. The Committee asked whether the HA had reviewed the QPS to evaluate its effectiveness and to see whether it needed to be fine-tuned, say by raising the minimum age for applications under the QPS.

23. **Director of Housing** responded that:

- the QPS was introduced to rationalize the utilization of the limited public housing resources amongst different groups of applicants. It was not a means to meet the PRH demand from non-elderly one-person applicants per se. The LTHS Steering Committee supported the HA's

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<sup>6</sup> The relative priority of an applicant on the WL will be determined according to the points he/she has received. The higher the number of points accumulated, the earlier the applicant will be offered a flat.

*Allocation and utilization of public rental housing flats*

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policy to continue giving priority to families and elderly applicants over non-elderly one-person applicants for PRH flats;

- nevertheless, having regard to the relatively limited upward mobility for QPS applicants over the age of 35, the LTHS Steering Committee recommended that these applicants should be accorded higher priority under the QPS. In particular, the LTHS Steering Committee recommended that the QPS should be enhanced by allocating extra points to those above the age of 45 to improve their chance to gain earlier access to PRH;
- the HA's experience indicated that some single youngsters aged 18 or above might not be living in acceptable living condition and were genuinely in need of public housing resources. The HA therefore did not consider it appropriate to set a higher age limit for QPS applicants;
- there was also a suggestion that certain criteria should be set based on need, taking into account the specific circumstances of individual applicants. For instance, as mark deduction was currently applied to those living in PRH flats, consideration could be given to extending the mark deduction to those who were students when registered and hence would most likely earn an income exceeding the WL income limit after graduation. Nevertheless, as this was a difficult and sensitive issue, the HA must be aware of the interests of all parties and compassionate when it administered the public housing programme; and
- the LTHS Steering Committee would submit a report on the public consultation. The HA would give due consideration to the recommendations made by the LTHS Steering Committee and public views received during the public consultation before making the final decision on whether and how to refine the QPS.

24. At the request of the Committee, **Secretary for Transport and Housing** provided, after the public hearings, information on the age and employment status of QPS applicants over the years (in Appendix 28).

*Screening out ineligible applicants on the WL*

25. The Committee noted from paragraph 2.35 of the Audit Report that according to the HA's 2012 Survey on QPS applicants for PRH, as at end of

December 2012, amongst the 106 900 QPS applicants, 67% (71 500) were aged 35 or below. Amongst these young applicants, 34% were students when they applied for PRH; 47% had attained post-secondary or higher education; and 33% were PRH tenants. Some of these younger and better educated applicants may be able to improve their living conditions on their own through income growth and eventually drop out of the QPS. To provide a more accurate picture of the demand for PRH, the Committee asked whether consideration would be given to introducing a mechanism to screen out ineligible applicants on the WL on a periodic basis.

26. **Secretary for Transport and Housing** advised that a revalidation check system was introduced by the HA in 1993 to manage the WL for PRH to eliminate applicants who had become ineligible due to changes in circumstances before their applications were due for investigation. In year 2000 when the time gap between pre-registration stage and vetting interview stage had been significantly shortened, such revalidation process was rendered redundant. As an increasing number of QPS applicants had post-secondary or above education attainment, and the limited PRH resources available should be reserved for people with relatively greater need for assistance, the LTHS Steering Committee recommended the HA to develop a mechanism to conduct regular revalidation check on QPS applicants to screen out applications which were no longer eligible. The relevant proposals would be put to the HA for its consideration in early 2014.

27. As to whether the HA would set an AWT target for QPS applicants, **Secretary for Transport and Housing** responded that:

- given the limited PRH resources and the surging number of general applicants, extending the three-year target of the AWT to QPS applicants would result in them taking up a greater share of PRH resources currently available for general applicants; and
- nevertheless, the LTHS Steering Committee recommended that consideration be given to setting out a roadmap to progressively extend the AWT target of about three years to non-elderly one-person applicants aged above 35, and that the QPS should be enhanced by increasing the annual PRH quota for applicants under the QPS.

28. At the request of the Committee, **Secretary for Transport and Housing** provided in Appendices II and III to his letter of 7 January 2014 (in Appendix 29) the number of QPS applications cancelled by applicants and by the HD respectively after

the QPS applicants had been registered on the WL and at the detailed vetting stage over the past five years from 2008-2009 to 2012-2013.

### Processing of applications

#### *Resubmitted applications*

29. Each applicant for PRH should submit a completed application form, providing the names of the applicant and all family members, and declaring in the application form, amongst others, their monthly income and net assets owned. A total of 17 declaration forms are currently in use for PRH applications.

30. As revealed in paragraph 2.62 of the Audit Report, Audit's analysis of those applications accepted for registration during the period from 2008-2009 to 2012-2013 showed that, on average:

- 55% applications were accepted for registration right away and no resubmission was required;
- 36% applications were accepted for registration upon the first resubmission; and
- 9% applications had to be resubmitted more than once before they were accepted for registration.

31. To address the undesirable situation whereby multiple resubmission of application forms by applicants was required, **Deputy Director of Housing (Strategy)** advised that:

- declarations by applicants formed a very important part of the honor system adopted by the HD for processing applications. Many applicants however did not use the appropriate declaration forms to support their applications, resulting in the need for re-submission. Some of them did not seem to know the proper use of these declaration forms provided by the HD;
- to provide more guidance to applicants, the HA would suitably revise the PRH application form, the brochure on "Waiting List for Public Rental Housing - Information for Applicants", and the video clip to

provide guidance to applicants on the availability and the proper use of the declaration forms. The PRH application form, the brochure on "Waiting List for Public Rental Housing - Information for Applicants", and the video clip would be ready after revision in April 2014. Reminders to advise applicants to refer to previous return letters would also be incorporated in the brochure on "Waiting List for Public Rental Housing - Information for Applicants", and the video clip on PRH application; and

- for resubmitted applications, the HD had already included in its reply letter to the applicants concerned the list of outstanding information which the respective applicant needed to supplement, together with the applicant's submission for the applicant to follow up. The HD had also put in place a system to contact an applicant by telephone or to arrange an interview with an applicant if his application had been returned for more than two times.

*Long time taken for random checking of income and assets*

32. To deter false declarations by applicants, annual random checks on income and assets for 300 applications (120 newly-registered applications under the purview of the Registration and Civil Service Unit ("RCSU"), and 180 applications in flat allocation stage under the purview of the LU) would be conducted by the Public Housing Resources Management Sub-section ("PHRM") of the Estate Management Division of the HD.

33. The Committee noted from paragraph 2.75 of the Audit Report that the average case investigation time in the past five years from 2008-2009 to 2012-2013 increased significantly by 43% and 72% for referrals from the RCSU and LU respectively. In 2012-2013, the average case investigation time was more than five months (156 and 165 days for referrals from the RCSU and LU respectively), exceeding the agreed timeframe of three months. The Committee asked whether the HD had put in place any measures to remedy the deficiency.



34. **Mr Tony LIU, Assistant Director of Housing (Estate Management)** said that:

- the unduly long investigation time taken by the PHRM was not desirable since it delayed the PRH application and flat allocation process for those affected;
- the HD had investigated into the reasons for the unduly long time taken by the PHRM for the random checking of income and assets. It was found that the unduly long investigation time was mainly attributed to the uncooperative applicants who did not follow the scheduled date to attend the interview or did not produce the relevant supporting documents such as employment certificates; and
- the HD had in August 2013 strengthened its guidelines and reminded the investigators to follow the established timeframe in checking the income and assets of PRH applicants. To tighten the monitoring and supervision, the investigators were required to report to their supervisors for cases that could not be completed within the prescribed timeframe (i.e. three months) whereas the supervisors were required to review the investigation progress regularly to ensure timely completion of all investigations.

### **C. Maximizing the rational utilization of public rental housing flats**

#### Management and control of unoccupied flats

##### *Speeding up the letting of long vacant flats*

35. As reported in paragraphs 3.4-3.5 and 3.9 of the Audit Report, as at 31 March 2013, there were 12 471 unoccupied flats, representing about 1.7% of the total stock of PRH flats. The HD classified the unoccupied flats as "unlettable", "lettable vacant" or "under offer" flats<sup>7</sup>. In calculating the vacancy rate, the HD used the formula "number of lettable vacant flats divided by the lettable stock" and only counted the number of lettable vacant flats as vacant flats. As at 31 March 2013, the 4 370 unlettable flats and 3 964 "under offer" flats had not been included as vacant flats in calculating the vacancy rate. The HD had launched the Express Flat Allocation Scheme ("EFAS") since 1997 to speed up the letting of those unpopular or

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<sup>7</sup> An "under offer" flat is pending take-up by tenants which, according to the offer letter, is to be completed within two weeks from the date of the letter.

long vacant flats. In the past three years (2010 to 2012), 2 400, 2 200 and 2 500 flats were pooled under the EFAS respectively.

36. Responding to the Committee's enquiry as to whether the HD had implemented any measures to encourage eligible applicants to take up those unpopular flats with adverse "Environmental Indicator", **Director of Housing** said and **Deputy Director of Housing (Strategy)** supplemented that:

- the EFAS was conducted annually to invite eligible applicants on the WL to take up the less popular or long vacant flats. Flats offered for letting under the EFAS exercises included those unpopular flats with adverse "Environmental Indicator", such as loan shark/murder/suicide cases, flats at remote locations, and long vacant flats;
- flats with vacant period over nine months, flats with high refusal rates, Housing for Senior Citizen ("HSC") Type II units, Converted Interim Housing units, or flats with adverse "Environmental Indicator" would be pooled under the EFAS; and
- the following measures had already been put in place to help boost the acceptance rates of these flats:
  - (a) there were four rounds of flats pooling conducted every year (i.e. two rounds for family flats and two rounds for one-person flats);
  - (b) for flats which were selected in the first round flat selection of an EFAS exercise but subsequently rejected by applicants, they would be pooled for the second round flat selection under the same exercise;
  - (c) for flats which failed to be let out for more than 12 months, tenants taking up such flats were entitled to half rent reduction for eight to 12 months upon acceptance of the offer; and
  - (d) for flats which were not let out despite repeated attempts, the HD would explore alternative usage. Examples included the conversion of rental flats at Tin Lee House, Lung Tin Estate into HOS flats for sale.

37. At the request of the Committee, **Secretary for Transport and Housing** provided, after the public hearings, the number of EFAS flats taken up each year by family applicants, single elderly applicants and QPS applicants respectively from 2010 to 2012, and an account of the progress made in the letting of those flats pooled under the EFAS in 2013 (in Appendix 28).

38. The Committee noted from paragraph 3.10 of the Audit Report that the HD reported 4 137 vacant flats available for letting as at 31 March 2013. Audit's analysis of the vacancy periods for these vacant flats showed that 21% (887) had been vacant for one year or more, and about 2% (76) for five years or more. Out of the 887 flats which had remained vacant for over one year, 470 (53%) flats had not been included in previous EFAS exercises.

39. As to why the 470 flats had not been included in previous EFAS exercises, **Secretary for Transport and Housing** replied in his letter of 12 December 2013 (Appendix 28) that:

- out of the 470 flats, 203 were vacant but not let out flats which were not classified as "less popular flats" because they had been reserved under various rehousing categories such as government clearance projects, estate clearances, etc.;
- 150 flats were either under offer at the time of flat pooling with offer rejected after finalization of the EFAS flat list; or failed to let out for not more than nine months at the time of flat pooling. Hence, they did not meet the flat pooling criteria;
- 116 flats were reserved by estates or the LU for various types of transfer use; and
- the remaining flat was a former Converted One Person ("C1P") flat and was only available for letting on 19 March 2013.

40. Making reference to Table 17 in paragraph 3.10 of the Audit Report, the Committee enquired whether the HD had taken any measures to expedite the letting of the 46 flats that had remained vacant for 10 years or more as at 31 March 2013.

41. **Deputy Director of Housing (Strategy)** advised that:

- these 46 flats comprised 42 flats in Lung Tin Estate, one C1P flat in Tsui Ping (North) Estate, and three flats in Apleichau Estate, Cheung Hong Estate and Shan King Estate respectively;
- for the 42 flats in Lung Tin Estate, Tai O, the HA had already endorsed the conversion of the rental units in Tin Lee House of this estate to HOS flats for sale;
- as regards the C1P flat in Tsui Ping (North) Estate, the vacant period included the waiting period for departure of the sharing occupant in order to convert the flat back to an independent one; the time required for the flat conversion works and for carrying out structural repairs work at the external wall of the building; and
- of the remaining three flats, one flat in Apleichau Estate had been offered for 42 times; one flat in Cheung Hong Estate and another in Shan King Estate had been offered for 38 times. They had also been pooled for EFAS exercises previously. Those who were willing to take up the flats were entitled to 12-month half rent reduction. These flats were still not let out as at 31 March 2013. However, the flats in Shan King Estate and Cheung Hong Estate were successfully let out on 20 May 2013 and 6 December 2013 respectively.

*Long time taken for refurbishment of some vacated flats*

42. All vacant flats have to be refurbished before re-letting so as to bring the internal finishes and fitting-out of the flats up to a standard acceptable to the prospective tenants. Since 2006, the HD has issued guidelines to allow the re-letting and refurbishment processes to take place in parallel once a flat is vacated so that a vacant flat can be accepted by a prospective tenant as soon as possible and even before the refurbishment is completed.

43. As to how the HD had performed in terms of the average turnaround time for vacant flat refurbishment, **Secretary for Transport and Housing** replied that:

- according to the HD's 2012-2013 Corporate Plan, the target of the average turnaround time for vacant flat refurbishment should not exceed 44 days;

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- for the past three years up to March 2013, a total of about 43 500 vacant flats were refurbished and the average turnaround time was 43.87, 43.55 and 43.85 days in 2010-2011, 2011-2012 and 2012-2013 respectively, which all met the HD's performance pledge of not exceeding 44 days;
- the pledge for vacant flat refurbishment was an average turnaround time. The completion time of refurbishment for each individual flat would vary according to the complexity of the refurbishment works. For example, refurbishment involving extensive structural renovations, serious water seepage repairs and re-roofing works above a vacant flat might lead to a longer time for completion; and
- the flats listed out in Table 18 in paragraph 3.13 of the Audit Report were very special and isolated cases where longer processing time was justified.

44. The Committee noted from Table 18 in paragraph 3.13 of the Audit Report that the refurbishment period (from tenants vacated from flats to completion of refurbishment) was quite long (ranging from five months to more than three years) for five vacant flats selected for Audit's inspection.

45. At the request of the Committee, **Secretary for Transport and Housing** provided, after the public hearings, an account of why the HD had taken so long to complete the refurbishment of these five vacant flats (in Appendix 28).

*Monitoring of unlettable flats*

46. According to paragraph 3.18 of the Audit Report, the LU is responsible for overseeing the overall utilization and letting position of vacant flats reserved. It monitored the reservation and de-reservation of flats. Different divisions of the HD were allowed to keep a pool of reserved flats to meet their operational needs (e.g. for relocating tenants affected by redevelopment). Some of these reserved flats were classified as "unlettable". Flats reserved for prolonged period without imminent demand should be released to the LU for disposal.

47. On the reasons of reservation of PRH flats, **Assistant Director of Housing (Estate Management)** advised that some of the flats were occupied as quarters by warden and HD staff, some pending demolition or conversion to HOS flats for sale,

and others were reserved for rehousing residents affected by the redevelopment projects under the Urban Renewal Authority. Reservation of flats was regularly reviewed by the Regional Chief Managers ("RCM"). In light of Audit findings, the HD had shortened the review interval from bi-monthly basis to 1.5-month basis. **Secretary for Transport and Housing** provided, after the public hearings, a breakdown by reasons of reservation on the number of unlettable flats withheld from letting (in Appendix 28).

48. Making reference to Table 19 in paragraph 3.18 of the Audit Report which provided an analysis of the vacancy period of the 4 370 unlettable flats as at 31 March 2013, the Committee asked:

- why 171 HSC Type I flats and 367 C1P flats had remained vacant for 10 years or more; and
- why the vacancy period of 598 unlettable flats was unknown.

49. **Assistant Director of Housing (Estate Management)** explained that:

- the 171 HSC Type I units and 367 C1P units had remained vacant for 10 years or more pending conversion to ordinary PRH flats. These flats had been sub-divided previously into two to four units with shared kitchen and toilet, so that individual senior citizens or single-persons were allocated to individual rooms within the flats. Due to the unpopularity of these units, a phasing-out programme to freeze the letting of HSC Type I units and C1P units was introduced in 2006 and 2000 respectively. As only non-elderly tenants of HSC Type I units would be encouraged to transfer voluntarily, conversion works could only be carried out upon the recovery of the last occupied unit in the flat; and
- as the termination date of the last tenancy of these flats was not available in the Domestic Tenancy Management Sub-system ("DTMS") as at 31 March 2013, the 598 cases were classified as "vacancy period unknown". The 598 unlettable flats included 463 vacant flats which had never been let out before, 73 staff quarters and 62 cases which involved backdated cases and termination of additional room tenancies. In fact, except the 73 staff quarters which were still being occupied, the vacancy period for all the remaining vacant flats had been confirmed upon the retrieval of relevant housefiles.

50. At the request of the Committee, **Secretary for Transport and Housing** provided, after the public hearings, the numbers of HSC Type I units and C1P units recovered each year from 2008-2009 to 2012-2013, and the resultant numbers of normal PRH flats recovered therefrom (in Appendix 29).

### Implementation of the Well-off Tenants Policies

#### *Objective of the Well-off Tenants Policies*

51. The HA encourages PRH households who have benefited from a steady improvement in their income and assets to return their PRH flats to the HA for reallocation to families that are more in need of the PRH flats. In 1987 and 1996, the HA implemented the Housing Subsidy Policy ("HSP") and the Policy on Safeguarding Rational Allocation of Public Housing Resources ("SRA") respectively. The HSP and the SRA are collectively referred to as the "Well-off Tenants Policies". According to the Well-off Tenants Policies, tenants with total household income and net asset value both exceeding the prescribed limits, or those who choose not to declare their assets, are required to vacate their PRH flats. The net asset limits are currently set at about 84 times of the 2013-2014 Waiting List Income Limits ("WLILs"). The Committee asked why well-off tenants were not required to vacate their PRH flats when their income exceeded a certain threshold regardless of their asset level.

52. **Secretary for Transport and Housing** advised that when formulating the Well-off Tenants Policies, the HA adopted both income and assets as the two factors in determining the subsidy for PRH tenants since it was considered that tenants with only an increase in income might not be able to afford the downpayment required for the purchase of a private property. Moreover, the total household income might be affected by changes in the overall economic situation of the society, individual trades or an individual's health condition. If there was only an increase in assets but not in income, the tenants might not be able to afford the monthly mortgage payment or the rent for private flats. On the other hand, if both of their household income and assets had exceeded the respective limits, they should be able to afford to purchase or rent an appropriate accommodation in the HOS or private property markets.

#### *Effectiveness in achieving the objective of the Well-off Tenants Policies*

53. According to the Hong Kong 2011 Population Census Report, of the 719 511 PRH households in 2011, 188 877 (26%) had income of \$20,000 or more

per month which had exceeded the 2013-2014 WLIL of \$18,310 per month for a three-person household. Audit noted that the median monthly income for all domestic households in Hong Kong was \$20,200 in 2011. It appeared that many of these PRH households had already benefited from considerable improvement in their income over the years.

54. The Committee noted from Appendix B to the Supplementary Information Sheets presented by the HD at the first public hearing (in *Appendix 30*) that on average, 450 flats were recovered each year from 2008-2009 to 2012-2013 from well-off tenants on various grounds. The Committee however noted from paragraphs 3.36 of the Audit Report that as at 31 March 2013, 20 445 (3%) of PRH households were paying additional rent or market rent under the Well-off Tenants Policies. Amongst them, 18 109 households were paying 1.5 times rent, 2 321 were paying double rent, and 15 were paying market rent.

55. As to why the Well-off Tenants Policies had not been able to induce the well-off tenants to return their PRH flats, **Secretary for Transport and Housing** advised that:

- owing to a severe supply-demand imbalance for public and private housing, the price and rental indices for private residential properties had reached historical high in recent years. The surging property price acted as a disincentive to well-off tenants to purchase their own homes and surrender their PRH flats;
- notwithstanding this, the Administration had taken measures to extend the HOS Secondary Market to White Form Buyers and to expedite the construction of PRH flats with a view to rectifying the long-standing problem of supply-demand imbalance; and
- the Well-off Tenants Policies were always contentious and was one of the discussion items of the LTHS Steering Committee. The LTHS Steering Committee noted the divergent views on the policies in the community. For example, there were views that the HA should examine whether better-off tenants should move out of PRH only when both their income and asset levels exceeded the limits, or when either their income or asset level exceeded the respective limits. There were also views that some of the existing arrangements, such as the initial income declaration period (currently 10 years after in-take into PRH) and the subsequent income and asset declaration period (currently every



two years after tenants were required to declare their income), might need to be reviewed. The LTHS Consultation Document further invited public's views on the policies and the collected views would be passed to the HA for consideration.

56. At the request of the Committee, **Secretary for Transport and Housing** provided, after the public hearings, the numbers of HOS flats purchased by PRH tenants in the first-hand market and the secondary market without the premium paid over the past five years from 2008-2009 to 2012-2013 (in Appendix 29).

*Verification of reasons for HSP exemption*

57. As reported in paragraphs 3.32 and 3.34 of the Audit Report, the DTMS contained some essential data fields which facilitated the HSP implementation (e.g. date of initial residence, rent review category, exemption reason, etc.). For households to be exempted from the HSP, an exemption indicator was entered in the DTMS so that these households would not be extracted in HSP cycles. Audit however noted during site visits to estates that some households should be subject to HSP review but were excluded because the exemption indicator was incorrectly input or had not been updated. The Committee asked whether the HD had taken measures to rectify the incorrect data.

58. **Assistant Director of Housing (Estate Management)** responded that:

- memos and email messages had been issued periodically to remind estate staff to counter-check tenants' records so as to rectify any irregularities in the DTMS; and
- each year well before the commencement of HSP cycle, exception reports containing irregular cases were forwarded by the PHRM to Housing Managers ("HMs") of the Domestic Tenancy Management Office ("DTMO")/Estate Office for prompt rectification so as to ensure an accurate retrieval of the HSP cases for income declaration. Commencing from the upcoming April HSP cycle, other than forwarding exception reports to HMs of the DTMO/Estate Office for prompt verification and rectification, a progress report showing those unresolved cases would be delivered to all concerned HMs of the DTMO/Estate Office by PHRM in mid-February. Respective District Senior Housing Managers ("DSHMs") would be informed upon

completion of the rectification of those outstanding cases by end-February.

### Under-occupation of public rental housing flats

#### *Inadequate efforts to tackle the UO issue*

59. The HA's long-standing policy is to allocate PRH flats to households having regard to their sizes under the established allocation standards. Due to subsequent moving-out, decease, marriage or emigration of some family members, the remaining members may enjoy more living space than is allowed under the prevailing UO standards, rendering the family an UO household. The HA has put in place a policy requiring a household with living space exceeding the UO standards to move to another PRH flat of appropriate size. From May 2007 to October 2010, households with living density exceeding 35 m<sup>2</sup> per person would be classified as PUO cases, and households with disabled members or elderly members aged 60 or above had been accorded a lower priority. Up to September 2013, a total of four housing offers would be given to the PUO households on transfer. If the household concerned refuses all the four housing offers without justified reasons, its existing tenancy would be terminated by a Notice-to-Quit.

60. The Committee noted from paragraphs 3.46-3.47 of the Audit Report that in the past seven years, the number of UO households increased by 54% from 35 500 in 2007 to 54 555 in 2013. As at 31 March 2013, 20 845 (38%) of the 54 555 UO households were occupying flats which had exceeded their maximum allocation standards by 50%. In particular, 1 458 (3%) UO households were occupying flats which had far exceeded their maximum allocation standards by 100%. The Committee asked about the challenges facing the HD in the transfer of UO households.

61. **Secretary for Transport and Housing** said and **Assistant Director of Housing (Estate Management)** supplemented that:

- according to the HA's records, there were about 35 500 UO households in 2007. The HA had in 2007 endorsed various interim measures and established the PUO threshold to deal with UO cases in a phased approach. Subsequently, the HA reviewed the UO policy in 2010 and 2013 respectively to revise the PUO threshold to achieve better results;

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- over the past six years, the HD had resolved about 21 000 UO cases, indicating an average of about 3 700 cases resolved each year. However, over the same period, about 40 000 households became UO cases as a result of having their family members moved out or passed away. This accounted for the accumulation of about 54 500 UO cases as at March 2013;
- out of the 21 000 UO cases resolved in the past six years, 5 500 cases were resolved through transfer to smaller flats. Another 9 000 cases had their flats recovered through purchase of a flat under HOS/Tenants Purchase Scheme, voluntary surrender, etc. Of the remaining 6 500 cases, they were resolved through addition of family members, some of the family members becoming disabled or attaining the age of 60;
- taking into consideration the keen demand from applicants of other rehousing categories and the limited supply of small flats, the HA could only allocate some 1 000 units for the transfer of UO households in 2013-2014. Moreover, the shortage of small flats within the residing District Council constituency of the PUO households might also prolong the handling time for arranging housing offers; and
- the negative reaction of PUO tenants being required to move to smaller flats was one of the challenges the HD had to face. During the implementation of the UO policy, the HD had all along adopted a pragmatic, reasonable and considerate approach to handle every case, particularly those with changes in the household size due to decease of family members. As for cases with medical and social grounds meriting special discretion, estate staff would seek the special approval of RCMs or DSHMs to grant additional offers or temporary stayput at the present flats on individual merits. The HD had adopted a caring yet persistent approach to persuade those concerned to move. Such an approach inevitably took time but had proved to be effective.

*Slow progress in dealing with PUO cases*

62. In 2007, the HA endorsed measures to deal with the UO households in order of priorities beginning with handling those PUO cases. As at 31 March 2013, about 3% (1 765) of the 54 555 UO households were classified as PUO cases.

63. As to why 749 (43%) of the 1 765 PUO cases had remained outstanding for two years or more, **Assistant Director of Housing (Estate Management)** advised that of these 749 PUO cases, some 20 cases, such as staff quarters, estates under Estate Clearance Project, etc. were exempted from the transfer of UO cases. Moreover, some of the cases, such as pending family reunion or on other medical or social grounds, had been approved for temporary stay. Also, the delay for some cases was due to the limited supply of small flats within the same estate or the same District Council constituency of the households residing. Up to 30 November 2013, the number of outstanding PUO cases had been further reduced to 486.

*Transfer of UO households*

64. As revealed in paragraphs 3.54 and 3.56 of the Audit Report, over the past six years, Audit noted that only 5 512 UO households (i.e. an average of 919 households a year) were successfully transferred by the HD. Out of the 54 555 UO households as at 31 March 2013, only 2 403 (4%) households had been given housing offers. Since the implementation of the PUO policy in 2007 and up to August 2013, the HD had issued notices-to-quit to 4 PUO households. Subsequently, one tenancy of a PUO household was terminated and the other cases were rectified. The Committee asked:

- whether the HD had/would put in place any improvement measures to tackle the UO issue; and
- whether consideration would be given to offering a higher level of Domestic Removal Allowance ("DRA") in order to encourage UO households' transfer to smaller flats.

65. **Assistant Director of Housing (Estate Management)** said and **Secretary for Transport and Housing** stated in his letter of 12 December 2013 (Appendix 28) that:

- the HA had in June 2013 endorsed new arrangements for tackling UO in PRH. Upon implementation of the revised measures in October 2013, new PUO households would be given a maximum of three housing offers with a view to expediting their transfer to smaller flats, and the threshold of PUO had been tightened leading to more families becoming PUO households that required transfer;

- of the remaining 28 255 (i.e. 54 555 minus 26 300) UO cases, some 13 000 cases involved elderly aged 60 or above but below 70 would be placed at the end of the UO list for transfer until the next review. The HA would review the policy after three years of implementation; and
- the granting of DRA to tenants was intended to meet part of the costs of removal and basic fitting-out works. The DRA rates were pegged with those adopted by the Government which were reviewed annually by an inter-departmental Compensation Review Committee in accordance with the basis approved by the Finance Committee of LegCo, and approved by the Secretary for Financial Services and the Treasury under the delegated authority. The same set of DRA rates was applicable to all HA's clearance projects as well as UO and management transfers.

66. At the request of the Committee, **Secretary for Transport and Housing** provided, after the public hearings, the numbers of PRH flats recovered due to issuance of notice-to-quit, voluntary surrender and tenants moving out of PRH upon purchase of HOS flats in the past five years (in Appendix 29).

#### **D. Tackling abuse of public rental housing**

##### Checking of eligibility of applicants

##### *Supporting documents for preliminary vetting*

67. In applying for PRH, an applicant must submit the completed application form together with the required supporting documents to the Applications Sub-section for preliminary vetting of his eligibility for registration. As reported in paragraph 4.4 of the Audit Report, whilst applicants were required to provide supporting documents relating to the declared income and assets, in practice, supporting documents relating to investments and deposits were exempted for pre-registration vetting. Given that investments and deposits were the most common types of assets usually possessed by PRH applicants, the Committee queried why supporting documents were required for other assets that were seldom possessed by low-income applicants, but not required for assets they usually possessed.

68. **Director of Housing** explained and **Mrs Rosa HO, Assistant Director of Housing (Housing Subsidies)** supplemented that:

- considering the fact that the value of investment and bank deposits would change over time, at present, the HA did not require PRH applicants to submit supporting documents on investments and bank deposits at the time of application. This also expedited the pre-registration vetting and allowed applicants to be registered on the WL within a pledged time of three months;
- the HA had relied on an honour system and requested applicants to declare their asset amount at the time of application and for them to notify the HA of any changes in the information after registration;
- to determine their eligibility for PRH, applicants were requested to submit all supporting documents at the detailed vetting stage, which was closer to the time of flat allocation;
- to maintain the integrity of the system, the PHRM of the HD would conduct detailed investigations through random selection of the WL applicants both at the pre-registration vetting stage and at the detailed investigation stage; and
- the current system struck an appropriate balance between asking the applicant to submit too many supporting documents at the application stage, hence delaying the application process on the one hand, and guarding against the false submission of information on the other. The HA would keep in view the possibility to require the submission of documentation relating to investments and bank deposits at the application stage.

*In-depth checking of selected applications*

69. As reported in paragraphs 4.10-4.11 of the Audit Report, the HD only selected a small sample of applications for in-depth checking of PRH applications (120 from newly-registered applications and 180 from applications in the process of flat allocation) each year. In total, only 300 applications a year were selected for in-depth checking, representing only a small percentage of the number of applications on the WL. However, newly-registered applications had a high rate of false declaration detected (35% in 2012-2013) as compared with applications in the process of flat allocation (2% in 2012-2013); and the rates of detected false

declarations for both types of application were increasing in recent years (particularly 2012-2013). To better manage the WL for PRH and to eliminate ineligible applicants before their registration on the WL, the Committee asked whether consideration would be given to extending the in-depth checking to all new applications.

70. **Director of Housing** responded that as there might be changes in the applicants' income and assets whilst waiting for PRH, eliminating ineligible applicants at the pre-registration vetting stage did not necessarily guarantee the eligibility of all applications at the time the first housing offer was made. Given the resources constraint, the HD did not consider it appropriate to conduct the in-depth checking of the applicants' income and assets on a repeated basis. To ensure the rational utilization of the public housing resources, the HD had relied on the detailed investigation on applicants due for flat allocation to ascertain the eligibility of applicants. Besides, any in-depth and detailed checking before an applicant was registered on the WL would inevitably consume more vetting resources and lengthen the pre-registration period. This was contrary to the original intent of expediting the process to ascertain the eligibility of applicants to be registered into the WL. Subject to resources constraint, the HD would make adjustment to the numbers of new applications selected at different stages of the application process for in-depth checking. The HA would also keep in view the possibility to require the submission of documentation relating to investments and bank deposits at the application stage.

*Follow-up actions on false declarations*

71. As revealed in paragraph 4.14 of the Audit Report, amongst the 67 newly-registered applications detected by the PHRM to contain false declarations over the past five years, the RCSU had followed up 46 cases as at end-July 2013. All of these 46 applications were cancelled and referred to the Prosecutions Section for further enforcement action; and amongst the nine applications in the process of flat allocation detected by the PHRM to contain false declarations over the past five years, the Waiting List Unit ("WLU") had followed up eight cases up to the end of July 2013. In one case, the WLU did not find any false declarations. For the other seven cases, the WLU cancelled the applications on three cases and referred two cases to the Prosecutions Section for further enforcement action.

72. As to whether the HD would align the practices within the Applications Sub-section between the RCSU and the WLU in handling false declaration cases at different stages of the application process to ensure fairness in treatment, **Director of**

**Housing** replied in the positive and said that an internal guideline was issued on 21 October 2013 to that effect.

Processing of household declarations under the Well-off Tenants Policies

73. Under the HSP, tenants are required to declare the monthly income of all household members every two years in an income declaration form. Under the SRA, tenants are required to declare the net asset value of all household members every two years in an asset declaration form. Each HSP 2-year cycle involves around 343 000 households.

74. As reported in paragraph 4.27 of the Audit Report, from 2008-2009 to 2012-2013, on average, about 156 000 households were required to submit their income/asset declarations to the HD each year. During the period, the PHRM checked, on average, some 3 700 cases (or 2.4% of the households subject to declarations) a year, and some 650 cases (18% of the sample checked) were found to contain false declarations. The false declaration rate appeared to be high. The Committee asked whether the HD had/would put in place any measures to address the high rates of false declarations by PRH tenants under the Well-off Tenants Policies.

75. **Secretary for Transport and Housing** responded and **Director of Housing** supplemented that:

- to deter and detect false declarations, the HD had adopted a three-pronged approach viz. detection and prevention, in-depth investigation and operation as well as publicity and education;
- the HD's frontline management staff conducted initial checking on the income and assets declarations from all PRH tenants and referred doubtful/marginal cases to the PHRM for in-depth investigation. In addition, the PHRM also carried out in-depth investigations on randomly-selected cases and all double rent cases;
- checkings of PRH tenants' income and asset declarations under the Well-off Tenants Policies involved obtaining information on property search, rateable value and size of landed properties, vehicle ownership and business registration from relevant departments as well as enquiries from banks and employers;



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- the management of the HD would review and revise as appropriate the current guidelines for conducting in-depth checking and remind staff for compliance. Supervisors would also closely monitor the investigation and offer advice to investigators in doubtful cases;
- in 2013-2014, besides strengthening detective measures from frontline management staff, 30 extra experienced estate staff were deployed to the Central Team to step up action to tackle tenancy abuses and to conduct 5 000 additional checks of tenants' income/assets declarations; and
- furthermore, the education and promotion programmes to promote awareness of the need of proper use of public housing resources had been strengthened.

76. At the request of the Committee, **Secretary for Transport and Housing** provided, after the public hearings, information on the money spent on implementing the Well-off Tenants Policies in the past two years and the amount of additional rent received from well-off tenants over the same period (in Appendix 28).

Flat inspections under the Biennial Inspection System

77. With effect from 1 November 2008, the HD has implemented the Biennial Inspection System to replace the previous declaration system. Within a 24-month cycle, all flat inspections in the respective estates have to be completed. To address the potential abuse problem, the HD relies much on the flat inspections conducted by estate staff and considers the flat visit to be the most direct and effective means of detecting tenancy abuses such as non-occupation, occupation by unauthorized persons and subletting. The estate staff also need to ascertain the occupancy position when a tenancy has changes in the household size (e.g. addition or deletion of household members).

78. On the cost-effectiveness of the Biennial Inspection System, **Assistant Director of Housing (Estate Management)** advised that:

- at present, about 970 HD staff working in frontline estate offices and DTMO were required to conduct the biennial flat inspection ("BI"). Assuming an Housing Officer takes 10 minutes to complete a BI, it was estimated that a staff cost of about \$17 million was incurred annually for conducting the BI for detecting UO households;

- the main reason for PRH tenants becoming UO households was that family members departed or died, leading to their deletion from the PRH tenancy. Very often, by conducting the BI, the HD could obtain the information about the departure of the concerned family members. For detection of deceased family members, the Registrar of Births and Deaths had been providing HD with monthly reports of deceased person records. By carrying out record matching, the HD could have updated information on deceased person records who were residing in PRH flats; and
- in the course of conducting the BI, not only had tenancy abuse cases been detected by the HD staff, the special needs of some tenants had also been identified by the HD staff and timely referrals could have been made.

### Enforcement actions

#### *Prosecution of WL applicants making false declarations*

79. The PHRM acts as a central team to conduct in-depth investigations including the taking of cautioned statements on false statement cases. The Prosecutions Section of the Legal Service Sub-division is delegated the authority by the Department of Justice ("DoJ") for taking prosecution action for various offences under the Housing Ordinance and other Ordinances. Applicants for PRH and existing PRH tenants are required to declare their household income and/or assets and family particulars in order to assess their eligibility or continuing eligibility under various housing management policies. Should they knowingly make any false statements, they commit an offence under section 26(1) of the Housing Ordinance. Most of the offences under the Housing Ordinance are summary offences and there is a time bar for their prosecution. Both the date of discovery of the offence and the date of commission of the offence are relevant for the determination of time bar. No prosecution can be taken if the time bar has passed.

80. The HD adopts an honour system in processing declarations from PRH applicants and tenant's declarations, and only requests applicants/tenants to supply minimal supporting documents. Without full supporting documents, it would be difficult for the HD staff to detect any false statements at an early stage and take further enforcement action.

81. Making reference to Table 33 in paragraph 4.63 of the Audit Report, the Committee asked why the number of false declaration cases referred by the Applications Sub-section to the Prosecutions Section had decreased over the past five years, from 48% in 2008-2009 to 14% in 2012-2013.

82. **Mrs Kitty YAN, Assistant Director of Housing (Legal Service)** explained and **Secretary for Transport and Housing** stated in his letter of 12 December 2013 (Appendix 28) that:

- prosecution rate was calculated on the basis of the number of cases referred to the Prosecutions Section for consideration of prosecution action as against the number of cases in respect of which prosecution action was ultimately taken;
- as a decision whether or not to prosecute depended on the sufficiency of available evidence in satisfying the relevant burden of proof for a conviction, the fact that the prosecution rate was low might simply mean that the available evidence in many of the cases submitted to the Prosecutions Section was not sufficient or was not yet sufficient to secure a conviction;
- it would be fundamentally wrong to treat prosecution rate as a benchmark or target for the prosecution's performance as the rate itself depended on the quality of evidence of the incoming cases;
- according to the HD's analysis, there were various reasons for the decrease in prosecution rate, such as changes in the nature of false statement cases, and decreased cases with cautioned statement or interviewing officer. Also, in accordance with the DoJ's Code for Prosecutors, the Prosecutions Section had ceased to offer any directions for obtaining evidence or setting questions for taking cautioned statements since early 2010; and
- the most important principle was that the departmental prosecutors had to strictly follow the Code for Prosecutors issued by the Prosecutions Division of the DoJ and they prosecuted only when all the elements of an offence were present and in an admissible form.

83. As reported in paragraph 4.64(b) of the Audit Report, for the 1 117 cases with no prosecution action, 1 111 (99%) cases were due to insufficient evidence and

six (1%) cases were due to lapse of the time bar before submission of the suspected cases to the Prosecutions Section.

84. As to whether the HD had taken any follow-up action(s) against the 1 117 false declaration cases with no prosecution action, **Assistant Director of Housing (Estate Management)** advised that:

- for false declaration cases with no prosecution action, frontline staff would interview the individual offenders and serve a warning letter to remind them not to commit the misdeed again;
- for cases of understating income, thus rendering the household eligible for paying less rent, the frontline staff would ask the tenant/licensee, in writing, to pay the new rent derived from the accurate information with immediate effect and to recover the total amount of rent undercharged. As for those not eligible for allocation of PRH, the HD would terminate the tenancy and recover the flat; and
- the 1 117 false declaration cases without prosecution action were largely due to insufficient admissible evidence. Their PRH applications were cancelled on grounds of submission of false information.

85. The Committee noted from paragraph 4.65 of the Audit Report that the conviction rates of those prosecuted cases were very high (over 90% as calculated from Table 32 in paragraph 4.56 of the Audit Report) but the prosecution rate was low (14% in 2012-2013 as shown in Table 33 in paragraph 4.63 of the Audit Report). The Prosecutions Section's analysis showed that the main reason for the low prosecution rate was insufficient evidence to prove the knowingly element of the offences. The Committee enquired about the measures that had been/would be taken to improve the enforcement work of the HD.

86. **Assistant Director of Housing (Estate Management)** advised that:

- the HD staff were reminded to observe the timeframe for prosecution action. For offences discovered and handled by the Estate Office, the housefiles should be forwarded to the Cautioned Statement Team of PHRM for collection of cautioned/witness statements before passing to the Prosecutions Section in accordance with the action timeframe;

- for normal cases, the action time was within 14 working days from the date of discovery; whilst for urgent cases, the action time was shortened to within 2 working days;
- furthermore, estate staff were reminded to use the "Checklist" during initial investigation for the establishment of the knowingly element and recording interview/statements; and
- the HD had in December 2013 issued instruction reminding frontline staff to observe the requirement for submission of the relevant files and documents to the Prosecutions Section in accordance with the action timeframe.

## **E. Way forward**

87. The Committee enquired about the timetable and action plans for the HA to take forward Audit's recommendations.

88. **Secretary for Transport and Housing** replied that:

- on Audit's recommendation for the HD to conduct investigations periodically to identify long-outstanding cases on the WL (paragraph 2.31(b) of the Audit Report refers), the HD had in fact conducted an analysis of the housing situation of WL applicants in 2011, 2012 and 2013 to study, amongst other things, those cases on the WL with longer waiting times. The reports of the analysis had been uploaded to the HA/HD website for public's reference. The HD would continue with the special analyses on an annual basis;
- on Audit's recommendation that the HA should conduct a comprehensive review of the QPS and consider the need to screen out ineligible QPS applicants periodically (paragraph 2.50 of the Audit Report refers), the HA would consider the LTHS Steering Committee's recommendations, views gathered during the three-month public consultation as well as the Audit Report and the comments received during the Public Accounts Committee's hearings, before deciding whether and how to refine the QPS;

- the HD would, on an on-going basis, enhance legal training for staff working in the Applications Sub-section and estate offices. Plans in hand included organizing more experience sharing seminars (starting from May 2014), with role-play exercises, with the aim of further strengthening their repertoire of knowledge, skills and abilities required to gather sufficient evidence for handling false declaration cases; and
- with regard to other recommendations accepted by the Administration, actions required were either completed or on-going. Where policy clearance was required for the follow-up action and implementation, they would be referred to the HA or its committees for discussion and endorsement.

89. The Committee asked why the HA, being the statutory body to develop and implement public housing programmes, had not conducted a timely review of the QPS since its inception in September 2005, but had waited for the LTHS Steering Committee's review.

90. **Secretary for Transport and Housing** advised that:

- the Well-off Tenants Policies and the QPS for non-elderly one-person applicants for PRH were controversial issues and there were divergent views in the community. Indeed, when the two issues were discussed at the Subcommittee on Long Term Housing Strategy under LegCo Panel on Housing, divergent views were also expressed by LegCo Members; and
- given the controversy and divergent views of the community on these two subjects, it was only prudent for the HA to take into full account of the recommendations of the LTHS Steering Committee; latest views of various sectors of the community as expressed during the three-month public consultation exercise on the LTHS; as well as the Audit Report and the comments received during the Public Accounts Committee's hearings before forming its considered views and mapping out the way forward.

## **F. Conclusions and recommendations**

91. The Committee:

<b>Overall comments</b>
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Effectiveness in achieving the objective of public housing programme

- notes that:

- (a) the Hong Kong Housing Authority ("HA") sets out in its mission statement that it strives to ensure cost-effective and rational use of public resources in service delivery and allocation of housing assistance in an open and equitable manner;
- (b) it is both expensive and time-consuming to build a public rental housing ("PRH") flat. According to the Housing Department ("HD"), the average construction cost for a PRH flat is about \$0.7 million (excluding the land cost), the average operating cost is about \$16,000 per flat per annum and it takes about five years to construct a flat; and
- (c) as at 31 March 2013, out of 8 500 staff in the HD, about 5 000 staff (mainly in the Strategy Division and the Estate Management Division) were responsible for the allocation and management of PRH flats;

- is concerned whether the limited supply of PRH flats is able to meet the ever-increasing demand for PRH, having regard to the following:

- (a) the number of PRH applicants on the Waiting List ("WL") had been surging over the past 10 years (228 000 as at 31 March 2013) and the Average Waiting Time ("AWT") for general applicants had been increasing since 2008-2009 (2.7 years as at 31 March 2013); and
- (b) the supply of PRH flats includes the current plan of the HA to construct about 79 000 PRH flats in the five years from 2012-2013 to 2016-2017, and the surrender of an average of about 7 000 flats recovered every year from existing tenants as well as through enforcement actions against abuse of PRH resources;

Allocation of flats to people in need of public rental housing

- expresses great dissatisfaction and finds it unacceptable that:
  - (a) the HD lacked transparency in informing PRH applicants of the definition and computation method of the AWT which is defined by the HD to cover only the period between registration on the WL and the first housing offer;
  - (b) in the absence of the transparency for the AWT and allocation mechanism for PRH, it was difficult for PRH applicants to make informed decisions on whether to accept the housing offer right away or make alternative accommodation arrangement pending further housing offer;
  - (c) the HD had failed to take a proactive approach in the implementation of the Quota and Points System ("QPS"), which was introduced in September 2005 for the allocation of PRH flats to non-elderly one-person applicants, as reflected by the following:
    - (i) the AWT target of about three years for general applicants is not applicable to QPS applicants;
    - (ii) as at end of March 2013, 112 000 (49%) of the 228 000 applications on the WL for PRH were applications under the QPS;
    - (iii) out of 111 528 QPS applicants registered on the WL as at 31 March 2013, 33 868 (30%) had waited for more than three years; and
    - (iv) assuming that there would not be any new applicants or drop-out cases and with the quota of not more than 2 000 units a year, it would take many years to fully meet the demand of the existing QPS applicants; and
  - (d) the HD had not implemented effective measures to screen out ineligible QPS applicants on a periodic basis, having regard to the following:
    - (i) as at March 2013, about half of the QPS applicants aged below 30 had attained post-secondary or higher education.



Some of these better educated applicants might be able to improve their living conditions on their own through income growth; and

- (ii) the waiting times of some 14% applicants under the QPS could be as long as more than five years and these applicants could have become ineligible due to changes in circumstances.

This was not conducive to providing accurate management information for the purposes of planning PRH construction programmes and formulating housing policies/initiatives;

- considers that:
  - (a) the HA should make available additional statistics of WL applicants, including the AWT between registration and the second offer, and the AWT between registration and the third offer, as well as information on the vacant stock of PRH resources across districts to help applicants make informed decisions; and
  - (b) the HA should reinstate the revalidation check system which was implemented between 1993 and 2000 to eliminate applicants who had become ineligible due to changes in circumstances whilst waiting;
- acknowledges that:
  - (a) the Secretary for Transport and Housing ("STH") has agreed to incorporate into the brochure on "Waiting List for Public Rental Housing - Information for Applicants" and into the application form the definition and computation method of average waiting time for PRH applicants by April 2014; and
  - (b) the HA will conduct investigations on an annual basis into those cases of general applicants who had waited for five years or more but without any housing offer, with a view to identifying the long-outstanding cases on the WL;

Maximizing the rational utilization of public rental housing flats

- expresses great dissatisfaction that:
  - (a) the HD did not include unoccupied flats which were unlettable or "under offer" in its calculation of the vacancy rate of PRH, although the purpose of the vacancy rate is to indicate the extent to which the HD had maximized the use of PRH resources. As at 31 March 2013, there were 12 471 unoccupied flats (including 4 370 unlettable flats, 4 137 lettable flats and 3 964 "under offer" flats), representing about 1.7% of the total stock of PRH flats (against its pledge of 1.5%);
  - (b) the HD was slow to respond to the issue of long vacant flats which were available for letting, as a result of which the turnover of these long vacant flats was not maximized. As at 31 March 2013, out of the 887 flats which had remained vacant for over one year, 470 (53%) flats had not been included in the previous Express Flat Allocation Scheme ("EFAS") exercises. Out of the 46 vacant flats which had remained vacant for 10 years or more, 42 flats had been endorsed by the HA for conversion to Home Ownership Scheme ("HOS") flats for sale;
  - (c) the excessive time taken to complete refurbishment of vacant flats had resulted in an unnecessarily long waiting time for the prospective tenants. The refurbishment (including the time pending refurbishment) for some flats selected for audit inspection had taken five months to more than three years to complete. According to the HD's 2012-2013 Corporate Plan, the target of the average turnaround time for vacant flat refurbishment should not exceed 44 days;
  - (d) inadequate efforts had been made by the HD to achieve the objective of the Well-off Tenants Policies, i.e. to encourage the well-off households (those who opt not to declare assets or whose net asset value exceeds 84 times of the 2013-2014 Waiting List Income Limit ("WLIL")) to return their PRH flats to the HA for reallocation to families that are more in need of subsidized housing, thereby ensuring the rational utilization of scarce PRH resources; and

- (e) the HD had made slow progress in dealing with the transfer of the prioritized under-occupied ("PUO") households to smaller flats, in spite of an annual staff cost of about \$17 million on conducting the biennial flat inspections for detecting UO households. As at 31 March 2013, out of 1 765 PUO cases, 749 (43%) cases had remained outstanding for two years or more and 16 (1%) cases had remained outstanding for five years or more;
- considers that:
  - (a) the HA should take additional measures to ensure better utilization of those unlettable flats and higher turnover of those "under offer" flats; and
  - (b) the HA should adopt more effective measures to expedite the recovery from well-off tenants and UO households of PRH flats, as well as the conversion of Converted One Person ("C1P") flats and Housing for Senior Citizen ("HSC") flats into normal PRH flats to increase the supply of PRH flats;

Tackling abuse of public rental housing

- expresses great dissatisfaction and finds it unacceptable that:
  - (a) the HD had been fudging the issue of exemption of submission of supporting documents for investments and deposits at the date of application, despite the facts that:
    - (i) newly-registered applications had a high rate of false declaration detected as compared with applications in the process of flat allocation; and
    - (ii) submission of supporting documents at the date of application for investments and deposits would deter PRH applicants from taking the risk of making false declarations;
  - (b) the HD had not adopted a risk-based approach in the conduct of in-depth checking of PRH applicants in that the HD only selects a small sample of 300 applications (120 from newly-registered applications and 180 from applications due for flat allocation) each year, disregarding the high rate of false declarations detected amongst newly-registered applications;

- (c) differential treatment was accorded by the HD to applications with false declarations at different stages of the application process. The Waiting List Unit ("WLU") would cancel applications with false declarations only if the irregularities found had affected the applicants' eligibility for applying PRH, and referrals to the Prosecutions Section would be made for cancelled cases only if the WLU considered that there was sufficient evidence of false declarations knowingly made. On the contrary, the Registration and Civil Services Unit ("RCSU") would cancel all such applications with false declarations and refer the cases concerned to the Prosecutions Section; and
- (d) the HD staff was too slow to pass the relevant files and documents to the Prosecutions Section for further enforcement action, as a result of which no prosecution could be taken after the time bar. Based on the statistics kept by the Prosecutions Section, for 28 (2%) and 12 (2%) cases in 2011 and 2012 respectively, the relevant files and documents were submitted to the Prosecutions Section after the time bar;
- considers that the HA should tighten its guidelines and controls on tackling false declarations by WL applicants and well-off tenants as well as suspected abuse cases of PRH resources, and ensure timely enforcement actions to be taken against such cases to achieve its deterrent effect;

#### Way forward

- notes that:
  - (a) in September 2013, the Long Term Housing Strategy ("LTHS") Steering Committee, chaired by the STH, produced a consultation document on the LTHS for three months' public consultation which ended in December 2013, and the LTHS Steering Committee would submit a report on the public consultation thereafter; and
  - (b) the HA will take into account views expressed in the consultation document, those received from the public, as well as Audit's observations and recommendations in formulating the LTHS and relevant policy measures (including whether and how to refine the QPS);

- considers that:
  - (a) the HA should play a more proactive role in implementing improvement measures to address the changing housing needs of the community, and conducting timely review at acceptable intervals on the effectiveness of the public housing programmes under its purview in achieving their objectives, instead of merely awaiting the review of the LTHS Steering Committee; and
  - (b) the HA should, in taking forward the recommendations of the LTHS Steering Committee, satisfy itself that any modifications to the QPS are conducive to ensuring the effectiveness and sustainability of the QPS in achieving its objective; and the improvement measures will be delivering the intended outcome and value for money;

<b>Specific comments</b>
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Allocation of flats to people in need of public rental housing

- expresses great dissatisfaction and finds it unacceptable that HD had failed to ensure transparency of the AWT and had not implemented measures to identify the long-outstanding applications on the WL in that:
  - (a) despite the importance of the AWT to PRH applicants, the definition of the AWT and its basis of calculation are not readily disclosed through common channels accessible to the general public;
  - (b) as at 31 March 2013, 29% (or more than 33 600) of general applicants on the WL had already waited for three years or more for the allocation of PRH. In particular, 7% (or more than 7 550) had waited for five years or more; and
  - (c) in a special exercise conducted by the HD in 2012, for 860 out of about 1 400 general applications on the WL with waiting time of five years or more but without any housing offer, no mention had been made in the investigation report as to whether there were valid reasons for the long waiting times or whether they were just omissions;

*Allocation and utilization of public rental housing flats*

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- expresses great dissatisfaction and finds it unacceptable about the HD's management of the QPS and the effectiveness of the points system of the QPS in achieving its objective, having regard to the following:
  - (a) there is a built-in incentive for applicants to apply for PRH early (best at the minimum age of 18) under the QPS even though they may not have a pressing need for housing, and this may have been a catalyst for the increasing number of PRH applications in recent years;
  - (b) it would take many years to fully meet the demand of the existing QPS applicants (more than 111 500 as at 31 March 2013), given that the annual PRH allocation under the QPS is set at 8% of the number of PRH flats to be allocated to WL applicants, subject to a ceiling of 2 000 units;
  - (c) using the total number of QPS applicants on the WL to forecast the demand for PRH can be misleading, as about half of the 60 300 QPS applicants aged below 30 as at March 2013 had attained post-secondary or higher education and might be able to improve their living conditions on their own through income growth and eventually drop out of the QPS; and
  - (d) screening out ineligible QPS applicants from the WL has not been performed periodically, notwithstanding the fact that the time gap between registration and investigation of applicants could be more than five years. Many QPS applicants on the WL may have become ineligible due to changes in circumstances whilst waiting and this will inflate the demand for PRH and provide misleading management information for the purposes of planning PRH construction programmes and formulating housing policies/initiatives;
- expresses great dissatisfaction and finds it unacceptable that the HD had not adopted effective measures to streamline the processing of PRH applications, as evidenced by the following:
  - (a) records of some applicants who had already been housed in PRH were not deleted from the WL;
  - (b) many applicants did not use the appropriate declaration forms to support their applications, resulting in the need for resubmission;

- (c) for the past five years, on average 45% PRH applications had to be resubmitted and, in particular, 9% applications had to be resubmitted more than once before they were accepted for registration; and
  - (d) the Public Housing Resources Management Sub-section ("PHRM") took more than three months on average to complete the random checking of income and assets for an application, and the unduly long time taken for such checking would delay the PRH application and flat allocation process for those affected;
- notes that:
- (a) the HD will conduct regular checks to ensure that follow-up actions are promptly taken on WL applicants who have been housed through other channels;
  - (b) the LTHS Steering Committee supports the HA's policy that priority should continue to be given to general applicants for PRH flats, and has looked at ways to better manage the PRH demand and refine the existing measures on rationalization of PRH resources, including the QPS, with a view to increasing PRH supply; and
  - (c) the Director of Housing has agreed with the audit recommendations in paragraphs 2.31, 2.50 and 2.79 of the Director of Audit's Report ("Audit Report");
- considers that:
- (a) the HA should enhance the transparency of the AWT for general applicants and QPS applicants, by making public the AWT between registration and the second offer, and the AWT between registration and the third offer;
  - (b) the HA should review the points system of the QPS with a view to introducing improvement measures and formulating the intended outcome of implementing the QPS;
  - (c) the HA should set an AWT target for QPS applicants as far as practicable, taking account of the anticipated supply of PRH flats and the genuine demand of QPS applicants for PRH;

- (d) the HA should expeditiously implement measures to periodically screen out ineligible QPS applicants pending flat allocation; and
- (e) the HA should formulate a mechanism whereby the operation of the QPS would be kept under continual monitoring;
- acknowledges that:
  - (a) the STH has agreed to incorporate into the brochure on "Waiting List for Public Rental Housing - Information for Applicants" and into the application form the definition and computation method of the AWT for PRH applicants by April 2014;
  - (b) the HA will provide more guidance to applicants by revising the application form, the brochure on "Waiting List for Public Rental Housing - Information for Applicants" and the video clip to advise applicants where to obtain the declaration forms and the proper use of the forms. The materials will be ready in April 2014;
  - (c) for resubmitted applications, the HD had included in the reply letter to the applicants concerned the list of outstanding information which an applicant needs to supplement, together with his submission for the applicant to follow up;
  - (d) the HD had in August 2013 revised the relevant guidelines to expedite the PHRM's efforts to conduct the random checking of income and assets of WL applicants; and
  - (e) the HD had put in place measures to conduct random checking of outstanding deceased person records on a periodic basis, as well as adopted a risk-based approach in selecting all long outstanding cases of deceased persons' record for checking;

Maximising the rational utilisation of public rental housing flats

- expresses great dissatisfaction that the HD had not attached great importance to the rational utilisation of PRH resources, as reflected by the following:
  - (a) there were many unoccupied flats which were unlettable or "under offer" and the numbers of these flats were not disclosed when information on the vacancy rate of the PRH was released;



*Allocation and utilization of public rental housing flats*

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- (b) during audit site visits, many "under offer" flats were found vacant for more than three months, and some for over a year;
  - (c) as at 31 March 2013, 21% (887) of lettable vacant flats had been vacant for one year or more, and 2% (76) for five years or more. Some 470 of these vacant flats had not been put under the EFAS to speed up the letting of these flats;
  - (d) the refurbishment period (from tenants vacated from flats to completion of refurbishment) for some vacant flats inspected by Audit was long (ranging from five months to more than three years);
  - (e) as at 31 March 2013, 109 unlettable flats had been frozen from letting and reserved for "operational/management reasons" for more than one year, and no evidence of reservation authority could be found for reserving 35 of these flats;
  - (f) some households should be subject to the Housing Subsidy Policy ("HSP") review, but were excluded because the exemption indicators were incorrectly input or had not been updated;
  - (g) as at 31 March 2013, amongst the 54 555 UO households, 42 164 (77%) cases had remained unresolved for two years or more. In particular, 9 224 (17%) cases had remained unresolved for 10 years or more;
  - (h) as at 31 March 2013, amongst the 1 765 PUO cases, 43% (749) had remained unresolved for two years or more, and about one-third (585) had not been given any transfer offers by HD;
  - (i) as at 31 March 2013, there were 2 405 UO households each occupying two or more PRH flats, including nine one-person households and 224 two-person households each occupying two flats; and
  - (j) as at 31 March 2013, 807 C1P flats and 1 867 HSC flats were classified as unlettable. Many of them had been vacant for five years or more;
- expresses great dissatisfaction and finds it unacceptable that the HD had not taken a proactive approach in implementing the Well-off Tenants

Policies and had failed to explore alternative ways to induce well-off tenants to return their PRH flats, having regard to the following:

- (a) the number of flats recovered from well-off tenants over the years was less than satisfactory. According to the HD, an average of 450 flats were recovered each year from well-off tenants in the past five years from 2008-2009 to 2012-2013;
  - (b) with reference to the Hong Kong 2011 Population Census Report, many PRH households should have already benefited from considerable improvement in their income over the years. However, as at 31 March 2013, only 3% of PRH households were paying additional rent under the Well-off Tenants Policies; and
  - (c) the additional rent (i.e. 1.5 times or double net rent plus rates) under the HSP might not be able to induce well-off tenants to vacate their PRH flats as the current rent of PRH is far below the market rent;
- notes that:
- (a) the HD management staff had reviewed the exemption indicators of PRH households and, as a result, rectified some 160 cases;
  - (b) the LTHS public consultation document invited public's views on the Well-off Tenants Policies and the collected views would be passed to HA for consideration; and
  - (c) the Director of Housing has agreed with the audit recommendations in paragraphs 3.24, 3.40 and 3.62 of the Audit Report;
- considers that:
- (a) the HA should enhance transparency of the vacancy rate of the PRH, in particular the number of unoccupied flats which were unlettable or "under offer" should be made public;
  - (b) the HD should step up its efforts to ensure better utilization of unlettable flats and higher turnover of "under offer" flats;

- (c) the HD should adopt a more proactive approach in the recovery from well-off tenants and UO households of PRH flats to avail more PRH flats for the needy families and ensure equitable allocation of PRH resources; and
  - (d) the HA should explore alternative ways to expedite the phasing-out of C1P and HSC units as well as the conversion of C1P units and HSC units into normal PRH flats to increase the supply of PRH flats;
- acknowledges that:
- (a) the HA had put in place measures to improve the letting of those long vacant flats. For flats which were not let out for more than 12 months, tenants taking up such flats are entitled to half rent reduction for eight to 12 months upon acceptance of the offer. For flats which were not let out despite repeated attempts, the HA will explore alternative usage, such as conversion of such flats into HOS flats for sale; and
  - (b) the HA had in June 2013 endorsed revised measures to tackle UO cases which included the tightening of the threshold of PUO, leading to more families becoming PUO households that required mandatory transfer to smaller flats. The latest measures which took effect from 1 October 2013 would help increase the supply of PRH flats. The HA will review the policy after three years of implementation;

Tackling abuse of public rental housing

- expresses great dissatisfaction and finds it unacceptable about the HD's lax attitude and lack of rigorous enforcement actions in tackling abuse of PRH resources, as reflected by the following:
  - (a) whilst PRH applicants are required to provide supporting documents relating to the declared income and assets, in practice, supporting documents relating to investments and deposits, which are the most common types of assets possessed by applicants, are exempted from submission for pre-registration vetting;
  - (b) in the past five years, on average, the PHRM checked some 3 700 income/asset declaration cases each year under the Well-off

Tenants Policies, and some 650 (18%) cases were found with false declarations. The false declaration rate was high;

- (c) the PHRM did not collect sufficient supporting documents whilst conducting in-depth checking for some income/asset declaration cases under the Well-off Tenants Policies;
  - (d) for some income/asset declaration cases under the Well-off Tenants Policies, Audit noted that inadequate follow-up actions were taken by the PHRM (e.g. warning letters not issued, repeated offence cases not referred to the Prosecutions Section, and under-charged rent not recovered);
  - (e) there were cases of late submission of relevant files and documents to the Prosecutions Section, which affected its timely prosecution actions within the time bar; and
  - (f) the prosecution rate for false declaration cases relating to WL applicants had decreased over the past five years, from 48% in 2008-2009 to 14% in 2012-2013. For the 1 117 cases with no prosecution action, 1 111 (99%) cases were due to the lack of sufficient evidence;
- expresses great dissatisfaction and finds it unacceptable that the HD had not adopted a risk-based approach in deterring false declarations by applicants and tenants, and had failed to apply a consistent treatment to all suspected abuse cases of PRH resources and false declarations in that:
- (a) the HD only selects a small sample of 300 applications (120 from newly-registered applications and 180 from applications due for flat allocation) each year for in-depth checking of PRH applicants, representing only a small percentage of the number of applications on the WL. In particular, newly-registered applications had a high rate of false declarations detected (i.e. 35% in 2012-2013);
  - (b) the flat inspection practices of different estate officers varied and the follow-up actions on some doubtful cases were inadequate to identify possible tenancy abuses; and
  - (c) in comparison, the RCSU had adopted a more stringent practice in handling false declarations by new applicants than that adopted by

the WLU on applicants due for flat allocation. The difference in practice might invite questions about the fairness in treating applicants with false declarations found at different stages of the application process;

- notes that:
  - (a) the HD has strengthened the efforts in deterring false declarations by deploying 30 additional experienced staff to increase the number of checks, increasing the publicity budget, and publicizing convicted false declaration cases to draw public attention; and
  - (b) the Director of Housing has agreed with the audit recommendations in paragraphs 4.17, 4.35, 4.51 and 4.68 of the Audit Report;
- considers that PRH applicants should be required to provide supporting documents relating to investments and deposits for pre-registration vetting to deter false declarations by applicants;
- acknowledges that:
  - (a) the HD had in October 2013 issued guidelines to align the practice adopted by the RCSU and WLU in handling false declaration cases found at different stages of the application process;
  - (b) the Director of Housing has undertaken to conduct more in-depth checking of WL applicants each year whilst resources permitting, having regard to the high rates of false declarations detected at different stages of the application process;
  - (c) the HD will, on an on-going basis, enhance legal training for the HD staff working in the Applications Sub-section and estate offices, with the aim of further strengthening their repertoire of knowledge, skills and abilities required to gather sufficient evidence for handling false declaration cases;
  - (d) the HD will step up its efforts in tackling abuse of PRH resources through carrying out rigorous investigations into occupancy-related cases randomly from PRH tenancies and suspected abuse cases referred by frontline management and the public. Furthermore, to detect suspected non-occupation cases,

the HD will launch "Taking Water Meter Readings Operation" in PRH flats or similar operations again in the future; and

- (e) the HD had in December 2013 issued instruction reminding frontline staff to observe the requirement for submission of the relevant files and documents to the Prosecutions Section in accordance with the action timeframe;

Way forward

- notes that:

- (a) in September 2013, the LTHS Steering Committee produced a consultation document on the LTHS for three months' public consultation which ended in December 2013, and the LTHS Steering Committee would submit a report on the public consultation thereafter;
- (b) the HA will take into account views expressed in the consultation document, those received from the public, as well as Audit's observations and recommendations in formulating the LTHS and relevant policy measures (including whether and how to refine the QPS); and
- (c) the STH has agreed with the audit recommendation in paragraph 5.8 of the Audit Report; and

<b>Follow-up action</b>
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- wishes to be kept informed of:

- (a) the outcome of the LTHS Steering Committee's public consultation on the review of the QPS and any improvement measures to be implemented with the definite timetable and intended outcome;
- (b) the developments in following up the various recommendations of the LTHS Steering Committee; and
- (c) the definite timetables and action plans as well as progress made in implementing the various recommendations made by Audit and the Committee.