

Director of Audit's Report No.66
Chapter 1 : Efforts of the Rating and Valuation Department in
safeguarding revenue on rates and government rent

Public Hearing of the Public Accounts Committee
(7 May 2016)

Opening Remarks by the Secretary for Financial Services and the Treasury
(English translation)

Chairman,

First of all, I would like to express my gratitude to the Director of Audit for the value for money audit on the efforts in safeguarding revenue on rates and government rent, as well as the recommendations on the work of the Rating and Valuation Department (“RVD”) and other relevant departments. As stated in the Report, the Government generally agrees with the recommendations made by the Director of Audit.

2. Before responding to the Report, I would like to reiterate the following:
 - (1) **The Government has been striving to safeguard revenue from rates and government rent, which are broad-based and stable sources of government revenue.** RVD has been making relentless efforts in stepping up enforcement to guard against and combat evasion of rates and government rent. The rates arrears rate has been maintained at around 0.4% in recent years, which is far below the arrears rate in other jurisdictions charging similar taxes.
 - (2) **The Financial Services and the Treasury Bureau (FSTB), as the policy bureau of RVD, has kept in constant view the functioning of the Department, and reviews with the Department its operation from time to time.** From the bureau’s perspective, we always support RVD in delivering its statutory functions and carrying out its core business in a cost effective manner.
 - (3) **RVD is responsible for the assessment and collection of rates under the Rating Ordinance and government rent under the Government Rent (Assessment and Collection) Ordinance. The workload arising from the annual cycles of assessment and collection should not be understated.** At present, Hong Kong has about 3.17 million properties liable to rates, and 2.21 million properties liable to government rent under the Government Rent (Assessment and

Collection) Ordinance. RVD is required to update the Valuation List and the Government Rent Roll from time to time, and to conduct and issue interim valuations in the light of alterations to properties and completion of new buildings. As stated in the Audit report, in 2014-15, for example, there were 28 000 new assessments added to and 12 000 assessments deleted from the Valuation List, and 23 000 new assessments added to and 8 000 assessments deleted from the Government Rent Roll.

Moreover, RVD is required to conduct general revaluation of all properties liable to rates and government rent in Hong Kong on an annual basis. Each round of exercise would have to be completed within a period of only five months, commencing every year from October to February in the following year. In 2015-16, for rates, there are 2.43 million assessments with a total rateable value of \$608.6 billion, representing a year-on-year increase of 7.9%; and for government rent, there are 1.89 million assessments with a total rateable value of \$354.1 billion, representing a year-on-year increase of 8.3%. RVD has all along been making its best endeavours to cope with the ever increasing workload.

Under such circumstances, I would like to appeal to the Public Accounts Committee to take note, in the course of the hearing, of the myriad of work on RVD's shoulders. It is therefore necessary for RVD to set its priorities and pay regard to cost-effectiveness, so as to strike a proper balance in taking forward the various recommendations in the Report.

3. The Audit report focuses on four key areas, including General Revaluations, interim valuations, rates exemption for rural properties, and collection of rates and government rent. Now, I will set out our responses from the bureau's perspective on each of these aspects.

(1) General Revaluations

4. It is a key aspect of RVD's core business to conduct General Revaluations, as I have just mentioned. Rental information provides an important basis for the general revaluation of rateable value each and every year. RVD has all along been collecting rental information from many different sources. As pointed out in the Audit report, RVD would issue Requisition Forms for Particulars of Tenements (Form R1A) to selected properties, and require ratepayers to complete and return the forms, so that the Department can get hold of the relevant rental information. In taking forward its work, RVD has to **count on the cooperation of ratepayers**. It is worth noting that the

return rate has reached some 80% in recent years, which shows that the majority of ratepayers have complied with the requirement to return the forms. The verification exercise conducted on a sample basis on the rental information furnished in the forms also shows that **the information provided is correct for 70% of the cases.**

5. After completion of each General Revaluation, RVD would conduct a rental verification exercise on a sample basis, so as to ascertain whether the information furnished in the R1A Forms are accurate. RVD would conduct a statistical audit each year to ensure that the accuracy of the valuation can meet international standards. The Department would also select 240 cases and require the ratepayers concerned to supply supporting documents for their furnished rental information (such as copies of tenancy agreements and rent receipts) to monitor the accuracy of the information furnished. As a matter of fact, apart from the Requisition Forms, RVD would also collect rental information from other sources, such as the Notices of New Letting or Renewal Agreement and the stamped tenancy agreements. RVD's annual revaluation is based on the overall rental level of properties, and the impact of inaccuracy in individual Requisition Forms on the revaluation exercise is limited.

6. In any event, RVD will, in the light of Audit's recommendations, conduct review and explore further possible measures. It will closely monitor the situation and step up enforcement actions, with a view to enhancing the reliability of information collected from the Requisition Forms. RVD would also touch base with the Buildings Department ("BD") to put in place a mechanism to collect information on subdivided properties, so that RVD can assess their rateable values more accurately to safeguard government revenue.

(2) Interim valuations

7. The Audit report has put forward a number of recommendations in particular on the assessment of unauthorised building works ("UBWs"). These include reviewing the departmental instruction with a view to strengthening the procedures for using information of UBWs obtained from BD for rating assessment purposes, as well as seeking BD's assistance in extending the scope of the notification arrangements of assessable UBWs to cover those without removal orders issued, so as to carry out interim valuations more efficiently. In dealing with the rating assessments of UBWs, RVD has all along followed the established rating principles and the relevant policy objectives.

8. For UBWs with rates already assessed, RVD has been collecting rates until the removal of the UBWs concerned. Following the rating principles under common law that properties of transient nature would not be so assessed,

RVD has all along taken it that UBWs with removal orders issued would be demolished soon and can thus be regarded as properties of transient nature. However, as the Audit report points out, it may take some time for individual UBWs to be demolished. In the light of the situation, FSTB has asked RVD to put in place some form of bring up system to keep track of those existing UBWs with removal orders issued but not yet demolished such that timely interim valuations would be made within the 24-month time-bar in recovering rates, so as to better safeguard rates revenue. This would also prevent the occurrence of the unreasonable situation whereby individual unassessed UBWs could avoid being subject to rating assessment for a long period, only because the removal orders issued have not been complied with.

(3) Rates exemption for rural properties

9. For rural properties, the Rating Ordinance provides that properties in designated village areas (“DVAs”) are exempted from assessment to rates. RVD has reviewed from time to time the boundaries of DVAs, so that any part of the DVAs which no longer meets the relevant exemption criteria would be taken out from the DVAs, and the village houses within the part so removed would no longer be exempted on such basis. RVD has all along been delivering the relevant duties in a prudent manner, in order to safeguard rates revenue. Since 1992 when the relevant policy was established, RVD has conducted a total of seven exercises to amend the boundaries of DVAs.

10. As pointed out in the Audit report, a village house located within a DVA would be entitled to exemption only if it complies with certain prescribed criteria in terms of number of storeys, floor area and height. **We agree that it is incumbent on RVD to inspect the status of village houses within DVAs, so as to ensure that only those in compliance with the prescribed statutory requirements are exempted from rates.**

11. Since the exercise will involve inspection of some 16 000 village houses in 105 DVAs, the caseload is voluminous. It is only **pragmatic for RVD to conduct inspection in a phased manner in view of competing priorities.** For those houses within DVAs which have been found to be unable to meet the prescribed criteria for rates exemption and where rating assessments have been made, the Department will issue rates demands as soon as practicable. As regards other houses within DVAs, RVD will work out its work plan by the fourth quarter of 2016, with a view to issuing rates demands to non-compliant houses by phases beginning from the first quarter of 2017. RVD will also seek the assistance of BD and Lands Department (“LandsD”) to provide information on ineligible cases detected in the course of their enforcement work, with a view to expediting the whole exercise.

(4) Collection of rates and government rent

12. Regarding the long outstanding arrears cases with charging orders, RVD has been taking follow-up actions in an on-going manner. With a view to further facilitating LandsD in taking action on bona vacantia cases, RVD has reminded its staff to notify LandsD of such cases as soon as practicable, and to request LandsD to inform RVD in a timely manner upon taking possession of the relevant properties, so that RVD can delete the rating assessments.

Concluding remarks

13. Chairman and Members, may I once again thank the Audit Commission for recommending areas for improvement in RVD's work in safeguarding revenue on rates and government rent. RVD will make strenuous efforts to follow up and strive for excellence. FSTB will monitor RVD's follow-up actions on various recommendations, and will provide the necessary support. I myself, together with the Commissioner of Rating and Valuation and other colleagues, would be happy to respond to questions raised by the Committee.

14. Thank you, Chairman.

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