

(b) Paragraph 2.7 of the audit report -

3. RVD conducts a rental verification exercise each year by selecting 240 properties from the Requisition Forms for Particulars of Tenements (Form R1As) received so as to allow us to review and enhance the templates of the Requisition Forms for making it clear to payers the information that they should furnish. Over the past three years, the in-order rate rose from 61% in 2013-14 to 75% in 2015-16. We will closely monitor the return of Form R1As and consider increasing the sample size if a growing trend in the number of cases with incorrect information is spotted. Moreover, for deterrent purpose, in the event of suspected false reporting and with sufficient evidence, we will take prosecution action.

(c) Paragraph 2.10 of the audit report -

4. A breakdown by property type on those cases found in the rental verification exercises to have furnished incorrect information is as follows:

Year	Domestic	Office	Industrial	Commercial (including shops)	Total
2010-11	8	3	6	39	56
2011-12	3	4	3	34	44
2012-13	4	3	1	59	67
2013-14	22	4	6	62	94
2014-15	15	6	5	56	82
2015-16	7	1	5	46	59
Average	10	4	4	49	67

Note: Incorrect tenancy agreement particulars were found in the Requisition Forms mostly in respect of the commercial properties (including shops) mainly because their tenancy agreements contain more complicated clauses than other properties, e.g., provisions for rent adjustment during the tenancy period or additional rents payable according to turnover. Payers are used to submit relevant rental figures retrieved directly from the companies' computer systems, without appropriately reflecting other relevant rent adjustments clauses. RVD will review and enhance the templates of the Requisition Forms and remind payers how to furnish accurate rental particulars.

(d) Paragraphs 2.7 and 2.8 of the audit report -

5. RVD has taken the following measures in strengthening the rental verification mechanism:
- (i) Promote and educate the public of their responsibility to furnish rental particulars accurately and comprehensively;
 - (ii) Review and enhance the templates of the Requisition Forms to make it clear to payers the information that they should furnish;
 - (iii) Encourage the use of RVD templates in reporting to avoid omission; and
 - (iv) Remind those who have submitted incorrect information of the importance of furnishing rental particulars accurately and comprehensively through telephone conversation, correspondence and customer liaison meetings.

Under the Rating Ordinance and the Government Rent (Assessment and Collection) Ordinance, RVD may demand copies of tenancy agreements and rent receipts from rates/Government rent payers for the assessment of rates and Government rent. On environmentally friendly ground, we consider it unnecessary to request payers to return copies of relevant documents along with Requisition Forms. We would only request the payers of selected properties to provide copies of tenancy agreements and rent receipts for rental verification purpose.

(e) Paragraph 2.9 of the audit report -

6. RVD has taken the following measures for improving the return rate of Form R1As:
- (i) Continue to promote via press release, radio announcements of public interest, RVD website and MyGovHK, reminding the public of their responsibility to complete and return Requisition Forms, as well as encouraging electronic submission of Form R1As via RVD website; and
 - (ii) Send email to remind payers who use eRVD Bill to complete and return Requisition Forms on time and encourage them to submit Form R1As via electronic means.

We will consider the need to develop a mobile website to facilitate submission of Form R1As through mobile phones; and enhance the deterrent effect by strengthening prosecution of those who have not returned the Requisition Forms.

7. Moreover, we will continue to monitor the return rate of the Requisition Forms and, should the situation get worsen, consider taking appropriate action to motivate the return of the Forms and to request Department of Justice to relay to the court whether or not the sentences (a fine generally ranges between \$1,000 and \$2,000) are sufficient to achieve a deterrent effect.
8. It is worth noting that the return rate has reached some 80% in recent years, which is already higher than other countries. As a matter of fact, apart from the Requisition Forms, RVD will also collect rental information from other sources, such as the Form CR109 and the stamped tenancy agreements. RVD's annual revaluation is based on the overall rental level of properties, and the impact of non-return of individual Requisition Forms on the revaluation exercise is limited.
9. After completion of each GR, a statistical audit is conducted by RVD, based on the "Standard on Ratio Studies" issued by the International Association of Assessing Officers, at a macro level to affirm that the new rateable values are of reasonable, correct and consistent level as at the valuation reference date, and that the required standard of relative equity amongst individual assessments both between and within different property groups has been achieved. The statistical audits have shown that the accuracy of RVD's valuations has met the international standard.

(f) Paragraphs 2.16(d) and 2.17 of the audit report -

10. We have liaised with the Government Chief Information Officer seeking his assistance in exploring the feasibility of developing paperless solutions for capturing rental information for stamped tenancy agreements.

II. Interim Valuations

- (g)** 11. Based on Table 7 of the audit report, and with appropriate adjustment for transient cases (i.e. those with orders issued within 1 year), already assessed cases and other non-assessable cases, we have arrived at a rough estimate in the amount of about \$4.2 million per annum of rates income if such UBWs (referring to such major types of UBWs as those on top roofs, side roofs, lane/yard, subdivided units and basement excavation) would have been assessed, representing only 0.02% of the total rates revenues in 2016-17. However, this is a rough revenue estimate which cannot be treated as a proper basis for collecting the additional rates. We estimate that we need to spend \$11.1 million in terms of staff cost for assessing these UBWs to rates (about 2% of the total departmental expenditure in 2016-17).

(h) Paragraph 3.14(d) of the audit report -

12. RVD will put in place a regular bring-up system (the details are set out in Item (l) paragraph 22) to keep track of those unauthorised building works (UBWs) with removal orders issued but not yet demolished so that timely interim valuations would be made within the 2-year time-bar in recovering rates, so as to better safeguard rates revenue.

(i) Paragraph 3.22(b) of the audit report -

13. Upon receiving the memo from the Buildings Department (BD) in January 2016 about the cessation of the notification arrangement, RVD had enquired about the background of the decision. It was the intention then that RVD would reactivate negotiation with BD of setting up afresh a notification mechanism when the audit report was released. In fact, RVD discussed with BD on 12 May 2016 and the two departments agreed to put in place a cost-effective, regular and paperless notification mechanism. In each quarter, BD sends to RVD lists retrieved from its computer systems covering UBWs with removal orders issued but not yet demolished (such UBWs may be assessable to rates) and demolished UBWs. The notification mechanism will also cover a list of UBWs which are not issued with removal orders, but involve high rental values and are difficult to detect by general external inspections (e.g. subdivided properties and basements) so that RVD could assess the rates and Government rent of the properties concerned more effectively.

III. Rates Exemption for Rural Properties

(j) Para. 4.7 of the audit report -

14. In the early years, the assessment and collection of rates were only confined to the properties in the urban area. Starting from 1954, the rating system adopted in the urban area was extended by phases to the New Territories. The whole area of the New Territories was included in the rating area in 1988. Separately, the Rating Ordinance stipulates that the properties in designated village areas (DVAs) are exempted from assessment to rates. Hence, RVD pooled its resources together previously to assess the houses outside DVAs where more rateable properties were found and to consider if the boundaries of DVAs should be revised. 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 taking forward such duties in a prudent

manner in order to safeguard government revenue on rates. Since 1992 when the relevant policy was established, RVD has conducted a total of 7 exercises to amend the boundaries of DVAs and had de-designated 227 DVAs.

15. In response to the findings and recommendations of the audit report, for the houses within DVAs where non-compliance has been detected and where rateable values have been assessed for Government rent purposes, RVD will issue rates demands in the coming few months. As to other non-compliant houses within DVAs, RVD will work out a plan by the fourth quarter of 2016 to assess them to rates, with a view to issuing rates demands in phases starting from the first quarter of 2017. RVD will also seek the assistance of BD and the Lands Department to provide information on ineligible cases detected in the course of their enforcement action with a view to expediting the whole assessment process.

IV. Collection of Rates and Government Rent

(k) Paragraph 5.5 of the audit report -

16. As at 30 September 2015, the \$172 million outstanding in rates and government rent as set out in Table 17 involved about 34 000 accounts with breakdown as follows :-

From the earliest period in arrears ¹	No. of accounts	Cumulative arrears per account	
		Lowest (\$)	Highest (\$'000)
Less than 1 year	12 900	4	175
1 to less than 2 years	900	5	5,937 ²
2 years or more	20 200 ³	5	7,068 ⁴
Total	34 000		

Notes

- 1 Categorised by the earliest outstanding period in the accounts to avoid double-counting as one account may contain arrears straddling different periods.
- 2 Payer undergoing compulsory liquidation proceedings.
- 3 As at 31 March 2016, 13 200 accounts (65%) had been settled and another 2 900 (14.5%) with judgment obtained or charges registered.
- 4 Account already settled.

17. Recovery of arrears in rates and government rent is an ongoing task of RVD. In fact, in the previous 3 years, RVD recovered over \$100 million annually through legal actions or after issuing warning letters. As at 31 March 2016, follow-up action in respect of the 34 000 accounts is as follows -

14 000 cases	of which some \$70 million have been recovered
4 000 cases	with judgment obtained or charges registered
2 000 cases	the very small amount of arrears involved have been/will be written off on account of cost effectiveness in taking further recovery action
9 000 cases	recovery actions ongoing for these accounts with amounts outstanding for less than 1 year
3 000 cases	with small outstanding amount [*]
2 000 cases	with property owners deceased, bankrupt, or liquidated, etc. [*]

*Note: *RVD will take necessary cost effective actions to recover or write off the arrears when appropriate according to the merit of individual cases.*

18. RVD will take all legal means to recover arrears in rates and government rent, including issuing warning letters and taking legal actions at Small Claims Tribunal or District Court. We have reviewed internal procedures and redeployed the limited resources in according priority to protecting Government's interest by speeding up legal actions on arrears cases, including application of charging orders for the judgments obtained. While on legal advice, in general a charging order can provide adequate protection to the interest of the Government, RVD will nonetheless seek all practicable and legal means to recover arrears in respect of properties subject to charging orders. Under its existing mechanism, when failing all legal means to recover the arrears and no other practicable action is available after seeking legal advice, RVD will refer the case to Lands Department (LandsD) for considering re-entry/vesting actions against the property under the Government Rights (Re-entry and Vesting Remedies) Ordinance (Cap.126) where government rent is involved.
19. Having considered the Director of Audit's recommendation and reviewed its internal procedures for recovery of arrears, RVD will remind the staff concerned to refer long outstanding arrears cases with charging orders earlier where warranted to the LandsD for consideration of re-entry/vesting action.

V. Improvement Measures

- (l) 20. In response to the request of the Financial Services and Treasury Bureau, RVD will
- (i) put in place a regular “bring-up system” to keep track of the UBWs with removal orders issued but not yet demolished so that timely interim valuations would be made within the 2-year time-bar in recovering rates, so as to better safeguard rates revenue; and
 - (ii) to issue rates demand notes in the coming few months for the houses within DVAs where non-compliance has been detected and where rateable values have been assessed by RVD for Government rent purpose. As to other non-compliant houses within DVAs, RVD will work out a plan by the fourth quarter of 2016, with a view to issuing rates demand notes in phases starting from the first quarter of 2017.
21. As we are now making an assessment on the resources involved in taking forward the various recommendations for enhancing operation as set out in the audit report, we cannot provide at this stage an estimate of the additional resources required. By reviewing the nature and importance of various tasks from time to time, we will set our work priorities and pay regard to cost-effectiveness so as to strike a proper balance. If necessary, we will make an application for allocating additional resources for the extra work.
22. The regular bring-up system is detailed as follows:
- (i) BD has undertaken to regularly provide RVD with lists of specific types of UBWs (the details are set out at answer (i) in paragraph 13 above).
 - (ii) RVD will set up a database to store the data collected from BD and analyze such data by reference to RVD’s records. RVD will regularly update the list and demolished UBWs will be excluded from the list.
 - (iii) We will deploy our staff to inspect and assess the UBWs which were issued with removal orders 15 months’ ago and still standing, so that timely interim valuations would be made within the 2-year time-bar in recovering rates, so as to better safeguard rates revenue.

Yours sincerely,



(TANG Ping Kwong)

Commissioner of Rating and Valuation

- c.c. Secretary for Financial Services and the Treasury
- Director of Buildings
- Director of Home Affairs
- Director of Lands
- Director of Audit