

CHAPTER 5

Hong Kong Housing Authority

Housing Department

Management of public rental housing tenancies

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MANAGEMENT OF PUBLIC RENTAL HOUSING TENANCIES

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PART 1: INTRODUCTION

1.1 This PART describes the background to the audit of the management of public rental housing (PRH) tenancies by the Hong Kong Housing Authority (HA) and outlines the audit objectives and scope.

Hong Kong Housing Authority

1.2 The HA was established as a statutory body in April 1973 under the Housing Ordinance (Cap. 283). Within the Government's overall housing policy framework, the HA determines and implements public housing programmes. The primary role of the HA is to provide subsidised PRH flats for low-income families that cannot afford private rental accommodation. The HA also provides interim housing (IH) flats and transit centres as temporary accommodation for families with short-term problems in finding suitable accommodation (Note 1). The major strategic objectives of the HA in the management of PRH estates are to maximise the rational allocation and eliminate abuse of housing resources with a view to enhancing the turnover of PRH flats. The membership of the HA comprises 4 official members and 29 non-official members (Note 2). Six standing committees, together with a number of sub-committees/ad hoc committees, are formed under the HA to formulate, administer and oversee policies in specified areas. The Subsidised Housing Committee advises the HA, among others, on policies concerning the management of PRH estates and the administration of rent allowance schemes. As at 31 December 2006, the HA provided 676,611 PRH flats for about 2 million people (i.e. 29% of the population of Hong Kong).

Note 1: *IH flats are provided for persons not immediately eligible for the allocation of PRH flats. Households living in IH flats have to pay a licence fee to the HA. Transit centres offer temporary accommodation to persons who become homeless (for reasons such as fires, natural disasters and immediate court eviction) and have no alternative shelters until an offer of a PRH flat or an IH flat is made.*

Note 2: *Members of the HA are appointed by the Chief Executive. The Secretary for Housing, Planning and Lands, as the Chairman, helps forge closer collaboration between the HA and the Government in the provision of housing services. The Director of Housing is the Vice-Chairman. The non-official members are appointed for a term of two years and are eligible for reappointment.*

Housing Department

1.3 The Housing Department (HD) acts as the executive arm of the HA in implementing the housing policies. The HD is responsible, among others, for the provision and management of PRH flats, and the assessment of eligibility for various forms of public housing assistance. The HD provides secretarial and executive support for the HA and its committees to enable them to discharge their duties effectively. The HD is headed by the Permanent Secretary for Housing, Planning and Lands (Housing) who also assumes the office of the Director of Housing. The mission of the HD is to:

- (a) provide affordable quality housing, management, maintenance and other housing-related services to meet the needs of its customers in a proactive and caring manner;
- (b) ensure cost-effective and rational use of public resources in service delivery and allocation of housing assistance in an open and equitable manner; and
- (c) maintain a competent, dedicated and performance-oriented team to help all families in need gain access to adequate and affordable housing.

The management of PRH flats undertaken by the HD covers property and tenancy management.

Reorganisation of the Housing Department

1.4 In January 2003, the then Housing Bureau and the HD were merged into one organisation called the HD with a view to building an organisation that could respond to service demand more efficiently and effectively. As at 1 December 2006, the HD had 8,692 staff.

Rental housing operating account

1.5 The income, expenditure and operating surplus/deficit of the rental housing operating accounts in 2005-06 and 2006-07 are shown in Table 1.

Table 1

Rental housing operating accounts

Year	Income	Expenditure	Surplus/(deficit)
	(a)	(b)	(c) = (a) - (b)
	(\$ million)	(\$ million)	(\$ million)
2005-06	11,762	11,295	467
2006-07	11,026	12,199	(1,173)

Source: HD records

Remarks: The amounts in 2006-07 were revised estimates.

The revised deficit in 2006-07 is mainly attributable to the one-month rent remission granted in February 2007, and higher maintenance and improvement expenditure on PRH estates as a result of tender price increases.

Housing Subsidy Policy

1.6 In April 1987, the HA introduced the Housing Subsidy Policy (HSP). The objective of the HSP is to reduce subsidised housing to PRH tenants (i.e. persons who sign tenancy agreements with the HA) who are no longer in need of it. Under the HSP, tenants who have lived in PRH flats for 10 years or more are required to declare their household income biennially. Households choosing not to declare their household income are required to pay rates plus double net rent (double rent). Households with total monthly income exceeding the Subsidy Income Limits specified by the HA are required to pay rates plus 1.5 times net rent (1.5 times rent) or double rent. However, the HSP does not apply to households with all members aged 60 or above, and households with all members in receipt of Comprehensive Social Security Assistance (CSSA). Households with special needs may also apply for exemption and each case would be judged on its merits. The Subsidy Income Limits are subject to annual review by the HA.

Policy on Safeguarding Rational Allocation of Public Housing Resources

1.7 In April 1996, the HA implemented the Policy on Safeguarding Rational Allocation of Public Housing Resources (PSRA). Under the PSRA, household income and net asset value are adopted as the two criteria for determining PRH households' eligibility to continue to receive subsidised public housing. Households paying double rent under the HSP are required to declare their assets at the next cycle of declaration (i.e. two years from

the last income declaration under the HSP) biennially. Households, with total monthly income and net asset values exceeding the prescribed limits specified by the HA or choosing not to declare their assets, are required to pay the market rent. The market rent is determined with reference to the assessment provided by the Rating and Valuation Department (RVD), management costs and rates. The prescribed limits are subject to annual review by the HA.

1.8 In February 1999, after a review, the HA implemented the revised PSRA. Households with total monthly income and net asset values exceeding the prescribed limits or choosing not to declare their assets are required to vacate their PRH flats. However, they may stay at their PRH flats for a period of not more than one year on a licence term, subject to payment of the market rent.

Equitable use of additional housing resources

1.9 In January 2001, the HA implemented a comprehensive package of measures on PRH tenants applying for additional housing resources. Under the new arrangements, the HSP and the PSRA apply to PRH households, irrespective of the length of their residence in the PRH flats if their applications for additional PRH resources under various tenancy management policies (such as splitting of households and flat transfers) are approved. The aim of the new arrangements is to ensure equitable allocation of PRH resources by reviewing regularly the continual need of such PRH households for subsidised housing.

1.10 As at 31 December 2005, about 18,000 PRH households paid 1.5 times or double rent. In 2005, 546 better-off tenants returned their PRH flats to the HA.

Biennial declaration of family particulars

1.11 In June 1998, the HA implemented an honour system for PRH tenants to declare their occupancy position in order to strengthen tenancy control. They are required to declare biennially their occupancy position on a prescribed form and return the completed form to PRH estate offices. If there are changes of family particulars (such as birth, death, marriage or moving out of family members), the tenants should inform estate offices and complete procedures for the addition, deletion or application for grant of new tenancy. PRH tenants are required to surrender their PRH flats to the HA immediately if they no longer live in them. If the number of household members in a PRH flat is below the minimum number set by the HA for the flat, the household needs to move to a suitable flat.

Tenancy management

1.12 For the tenancy management services of PRH flats, the role of the HD includes enforcement of the Housing Ordinance and tenancy agreements signed by the tenants and the HA, and implementation of housing policies (such as the HSP, the PSRA, biennial declarations of family particulars, flat transfers and splitting of households). PRH estate offices are responsible for executing the tenancy agreements and promoting housing policies. Estate office staff are responsible for providing tenancy-related services, including meeting tenants, conducting tenancy-related investigations and on-site processing of tenancy applications for some needy tenants (e.g. the elderly and tenants with disabilities).

Audit review

1.13 The Audit Commission (Audit) has conducted a review to examine the economy, efficiency and effectiveness of the management of PRH tenancies by the HD. The review has focused on the following areas:

- (a) implementation of housing policies (PART 2);
- (b) management of tenancy records (PART 3);
- (c) flat transfers (PART 4); and
- (d) management of other tenancy-related matters (PART 5).

1.14 In carrying out the audit review, Audit examined the records and interviewed the staff of the HD. Audit has found that there are areas where improvements can be made. Audit has made a number of recommendations to address the issues.

Acknowledgement

1.15 Audit would like to acknowledge with gratitude the full cooperation of the staff of the HD during the course of the audit review.

PART 2: IMPLEMENTATION OF HOUSING POLICIES

2.1 This PART examines the implementation of the HSP and the PSRA by the HD, and suggests measures for improvement.

Rational allocation of housing resources

2.2 The HA has to ensure that subsidised public housing is made available only to households in genuine need, and that the continuing need of households living in PRH flats is regularly reviewed and properly assessed. These objectives are achieved through the introduction of the HSP in 1987 and the PSRA in 1996 (see paras. 1.6 to 1.8).

Policy on Grant of New Tenancy

2.3 In 1999, the HA reviewed the Policy on the Grant of New Tenancy (PGNT). The HA concluded that, upon the death of a tenant, the grant of new tenancy to the tenant's second generation should be justified on the basis of genuine need, which would be ascertained through a comprehensive means test (CMT) covering an assessment of income and assets. Requests for the grant of new tenancy on grounds other than death of a tenant should also be subject to the CMT. Under the revised PGNT, households requesting for the grant of new tenancies are required to declare the household income and assets. To ensure equitable allocation of public housing resources, households granted new tenancies are also subject to the application of the HSP and the PSRA, irrespective of the length of their residence in PRH flats.

Tenancy management policies

2.4 In 2001, the HA completed a comprehensive review of some major tenancy management policies (TMP) relating to:

- (a) the addition of household members to PRH tenancies;
- (b) the overcrowding relief;
- (c) the transfer of tenants occupying converted-one-person flats;
- (d) the housing arrangement of divorce cases; and
- (e) the splitting of households.

The HA concluded that tenants' requests for these additional PRH resources must be fully justified and assessed through the CMT. Under the new arrangements, households requesting for such additional PRH resources are required to declare the household income and assets. The requests will not be considered if the total monthly income and net asset values of the households exceed the corresponding limits specified by the HA. Households granted additional PRH resources are subject to the application of the HSP and the PSRA, irrespective of the length of their residence in PRH flats.

Income and asset declarations

Declarable household income

2.5 Under the HSP, tenants are required to declare the income of all household members in an income declaration form. The types of income to be declared include:

- (a) monthly income from full-time and part-time jobs covering the basic salary and other income (such as allowances, overtime pay, bonus, double pay and commission) after deduction of Mandatory Provident Fund contributions;
- (b) for self-employed household members, monthly net profit/loss, dividends, remuneration, bonus and other income from the business;
- (c) monthly interest from fixed deposits and dividends;
- (d) monthly net rent from the letting out of owned land and landed properties (such as parking spaces and domestic/commercial/industrial properties) in Hong Kong, Mainland China or overseas. All these properties must be declared irrespective of whether they are left vacant, self-occupied, used or let out;
- (e) monthly net income from owned commercial vehicles; and
- (f) other income (such as monthly pension, CSSA payment, alimony, and financial support from relatives and friends).

Declarable household assets

2.6 Under the PSRA, tenants are required to declare the assets of all household members in an asset declaration form. The types of assets in Hong Kong, Mainland China or overseas to be declared include:

- (a) land and landed properties (such as parking spaces and domestic/commercial/industrial properties);

- (b) vehicles;
- (c) taxi and public light bus licences;
- (d) investments (such as listed shares, bonds, funds, investments/savings insurance and paper gold);
- (e) bank deposits and cash in hand; and
- (f) business undertakings.

Legislation

2.7 Under section 25(4) of the Housing Ordinance, the HD is authorised to require a PRH household to furnish the particulars regarding the total household income and assets in a specified form. Under section 26(1) of the Housing Ordinance, any person who knowingly makes any false statement in furnishing the particulars regarding the total household income or assets shall be guilty of an offence, and shall be liable on conviction to a maximum fine of \$50,000 and to imprisonment for six months. In addition, such a person may be subject to a further fine of treble the amount of rent undercharged as a result of the false statement.

Declaration forms

2.8 In the **income declaration** form, the tenant is required to sign a declaration that the information given to the HA concerning him and his household members is true to the best of his knowledge and belief, and that he understands that any person who knowingly makes any false statement to the HA shall be guilty of an offence and shall be liable on conviction to a maximum fine of \$50,000 and to imprisonment for six months. In the **asset declaration** form, the tenant is required to sign a declaration that he has consulted and confirmed with his family members the information given to the HA, and that he understands that it is an offence to knowingly make any false statement to the HA. However, in both forms, the family members are not required to sign the declarations. The family members, together with the tenant, are only required to sign an undertaking in the income and asset declaration forms that they authorise the HA and the HD to compare and verify the personal data provided with those collected from other departments, organisations or parties (such as employers and banks). The Public Housing Resources Management Sub-section (PHRMS — Note 3) of the HD conducts in-depth checking on all asset declarations. In doing so, the staff of the PHRMS interview tenants and their family members. Tenants and their family members are also required to state their assets individually on separate asset declaration forms.

Note 3: *The Task Force Against Abuses of Public Housing Resources was renamed PHRMS on 1 December 2006. The PHRMS is responsible for conducting investigation and taking enforcement action against tenancy abuses.*

Process of income and asset declarations

2.9 The process of filing income and asset declarations with the HD commences on 1 April each year and ends on 31 March of the following year. Details are as follows:

- (a) on 1 April, estate offices issue declaration forms to tenants who are required to declare their household income/assets;
- (b) by 31 May, tenants should submit income/asset declaration forms to estate offices;
- (c) estate offices perform preliminary vetting of declarations submitted by tenants. Estate offices refer suspicious cases on income declarations, and all asset declarations to the PHRMS for in-depth checking; and
- (d) estate offices complete examination of all declarations and notify tenants the results of assessments of their declarations before 31 January of the following year. Tenants may appeal to the HD against the results of assessments.

In 2006, 159,700 income declarations and 3,500 asset declarations were processed by estate offices.

Audit observations

Income declarations

2.10 Each year, in addition to the suspicious cases referred to the PHRMS by estate offices, the PHRMS conducts in-depth checking on about 800 income declarations submitted by tenants under the HSP. These income declarations are randomly selected by a computerised Integrated System for Housing Management (ISHM — see para. 3.2). Audit analysed these income declarations for the years from 2003-04 to 2005-06 and found that the PHRMS had identified cases with false statements. Details are shown in Table 2.

Table 2

**Cases with false statements in income declarations
(2003-04 to 2005-06)**

Year	Number of income declarations checked by the PHRMS	Number of cases with false statements	Percentage
	(a)	(b)	$(c) = \frac{(b)}{(a)} \times 100\%$
2003-04	764	42	5%
2004-05	840	28	3%
2005-06	797	73	9%
Total	2,401	143	
Average	800	48	6%

Source: HD records

Audit noted that from 2003-04 to 2005-06, on average, there were 48 (6%) cases with false statements made by tenants in their income declarations each year.

2.11 To minimise causing inconvenience to tenants and enable completion of the processing of income declaration forms within the one-year time span, the HD adopts an honour system by which tenants are only required to state their household income in the income declaration forms. They are not required to produce supporting evidence. They are, however, required to provide more information or documentary evidence when their income declaration forms are selected by the ISHM or referred by estate offices to the PHRMS for in-depth checking. Audit review of 10 random cases checked by the PHRMS found that in two cases, the tenants understated their income in the income declaration forms. In one of these two cases, the tenant reported in the income declaration form that the monthly income of her daughter was \$12,000. After checking with the employer, the PHRMS found that her monthly income was about \$59,000. **In Audit's view, in-depth checking of income declarations is an effective means for determining the continued eligibility of tenants for subsidised housing. The HD needs to consider increasing the number of tenants who would be required to submit documentary evidence (e.g. copies of salary statements, bank-books, bank statements, records of Mandatory Provident Fund contributions or tax returns) to substantiate their income declarations.**

2.12 Audit review of 10 random cases with false statements in income declarations found that all the tenants claimed that they did not know the exact amount of income of their family members. In one case, the PHRMS found that the tenant had understated the income of her son in two consecutive biennial declarations. In another case, the PHRMS found that the tenant had not disclosed the income of his wife and son from a number of domestic properties. However, the Prosecutions Section of the HD did not recommend prosecution of these two tenants. It was considered that it would be difficult to prove that they had knowingly made false statements. The HD did not prosecute the family members in these two cases because they had not signed any declaration regarding the information provided in the income declaration forms. **In Audit's view, signing of declarations by family members are likely to have a better deterrent effect on making false statements. The HD needs to consider requiring all income earning family members to sign the declaration in the income declaration forms.**

Suspicious cases on income declarations referred to the PHRMS

2.13 Estate offices carry out checking on the income declarations submitted by tenants and refer suspicious cases to the PHRMS for in-depth checking. The HD provides estate office staff with suggested criteria to help them identify suspicious cases for referral to the PHRMS.

2.14 The number of income declarations processed by estate offices under the HSP, and the number of suspicious cases referred by estate offices to the PHRMS for in-depth checking from 2000-01 to 2005-06 are shown in Table 3.

Table 3

**Number of income declarations and
number of suspicious cases under the HSP
(2000-01 to 2005-06)**

Year	Number of income declarations processed by estate offices	Number of suspicious cases referred by estate offices to the PHRMS for in-depth checking
2000-01	145,000	2,220
2001-02	142,400	2,191
2002-03	147,000	2,261
2003-04	136,000	1,862
2004-05	151,800	1,692
2005-06	148,600	1,495
Total	870,800	11,721

} Average 1,683

Source: HD records

Audit found that the number of income declarations processed by estate offices increased by 3,600 (2%) from 145,000 in 2000-01 to 148,600 in 2005-06. However, the number of suspicious cases on income declarations referred by estate offices to the PHRMS for in-depth checking decreased by 725 (33%), from 2,220 in 2000-01 to 1,495 in 2005-06. From 2003-04 to 2005-06, the PHRMS found that, on average, there were false statements in 530 (32%) out of 1,683 suspicious cases referred to it by estate offices each year. **In Audit's view, the HD needs to identify the reasons for the decrease in the number of suspicious cases on income declarations referred to the PHRMS for in-depth checking, and ensure that estate office staff refer all suspicious cases to the PHRMS for action.**

Prosecution of PRH tenants for making false declarations

2.15 Audit analysed the number of prosecution cases handled by the Prosecutions Section in respect of the income and asset declarations under the HSP and the PSRA from 2003-04 to 2005-06. Audit found that in recent years, there was a decrease in the number of prosecutions of those tenants who had been found to have given false information in their income and asset declarations, from 161 in 2003-04 to 77 in 2005-06. Details are shown in Table 4.

Table 4

Number of cases with false statements and number of prosecution cases

Year	Number of cases with false statements	Number of prosecution cases	Prosecution rate
	(a)	(b)	(c) = $\frac{(b)}{(a)} \times 100\%$
2003-04	722	161	22%
2004-05	557	125	22%
2005-06	749	77	10%
Total	2,028	363	
Average	676	121	18%

Source: HD records

From 2003-04 to 2005-06, on average, the PHRMS found 676 cases with false statements each year. However, only 121 (18%) tenants were prosecuted each year. For these prosecution cases, the average conviction rate was 93%.

2.16 Audit randomly selected 10 cases with false statements from the cases in Table 4 for review. It was found that in one case, no prosecution action was taken although the tenant concerned had concealed his income from a number of properties. In this case, the tenant was required to declare the household income biennially under the HSP in 2000, 2002 and 2004. In all the three income declarations, he concealed the properties he owned and did not report the rental income. In December 2004, the HD received a complaint. After in-depth checking, the PHRMS found that the tenant had a number of domestic and industrial properties. The total household income of the tenant exceeded the Subsidy Income Limits and the additional rent for the period from April 2001 to March 2005 was \$33,285. In March 2005, the tenant returned his PRH flat. The Prosecutions Section did not prosecute the tenant because there was insufficient evidence to prove that the tenant had knowingly made false statements.

2.17 **Prompt prosecution action is likely to have a deterrent effect on making false statements in the income and asset declarations. Audit considers that the HD needs to step up prosecution action against persons who make false statements. The HD, in consultation with the Department of Justice, needs to review and improve the declaration forms and prosecution procedures so that prosecution action can be taken more effectively. The HD also needs to step up its publicity efforts on the convicted cases in order to achieve a better deterrent effect.**

Termination of tenancy

2.18 Irrespective of whether a tenant who has knowingly made a false statement to the HA is charged with or convicted of the offence, the HD may terminate the relevant tenancy under section 19(1)(b) of the Housing Ordinance. From 2003-04 to 2005-06, on average, there were 676 cases with false statements each year. However, for the same period, only 9 Notices-to-Quit (NTQs) were issued by the HD to tenants for the termination of tenancies under section 19(1)(b) of the Housing Ordinance (i.e. 1 case in 2003-04, 2 cases in 2004-05 and 6 cases in 2005-06). Before that, only one NTQ was issued during the three years from 2000-01 to 2002-03. **In Audit's view, the HD needs to step up its efforts on the issuing of NTQs to tenants who have made false statements in their income and asset declarations under section 19(1)(b) of the Housing Ordinance so as to release the PRH flats to households in genuine need.**

Households required to pay the market rent

2.19 Audit analysed the number of households required to pay the market rent based on the PHRMS's asset assessment and the number of households not paying the market rent based on the ISHM from 2002-03 to 2006-07. Details are shown in Table 5.

Table 5

**Number of households required to pay the market rent
and number of households not paying the market rent
(2002-03 to 2006-07)**

As at 1 April	Number of households required to pay	Number of households not paying	Percentage of households not paying
	(a)	(b)	$(c) = \frac{(b)}{(a)} \times 100\%$
2002	332	183	55 %
2003	429	280	65 %
2004	283	205	72 %
2005	314	237	75 %
2006	314	236	75 %
	-----	-----	
Total	1,672	1,141	
	=====	=====	
Average	334	228	68 %

Source: HD records

Audit noted that from 2002-03 to 2006-07, on average, 228 (68%) out of 334 households required to pay the market rent did not do so under the PSRA. In December 2006, in response to audit enquiries, the PHRMS explained that the discrepancies might be as a result of some households, who had previously opted not to declare their assets or failed to disclose further information, subsequently resubmitted their asset declaration forms or gave the necessary information to the estate offices. These households might not be required to pay the market rent. However, the estate offices concerned did not pass the files and the asset declaration forms to the PHRMS for in-depth checking and taking follow-up action. **Audit considers that the PHRMS needs to follow up all these cases with estate offices with a view to ensuring that all households, who have total monthly income and net asset values exceeding the prescribed limits or those who have chosen not to declare their assets, are required to pay market rent while staying at PRH flats.**

Market rent lower than double rent

2.20 The market rent of PRH flats is determined with reference to the assessment provided by the RVD, management costs and rates. Audit review found that the market rent paid by some households from 2004-05 to 2006-07 was lower than the double rent of their PRH flats. Details are shown in Table 6.

Table 6

**Households paying the market rent lower than the double rent
(2004-05 to 2006-07)**

As at 1 April	Number of households paying the market rent	Households paying the market rent lower than the double rent		Average double rent per flat	Average market rent per flat	Difference between average double rent and average market rent per flat	
		(Number)	(%)	(\$)	(\$)	(\$)	(%)
	(a)	(b)	(c) = $\frac{(b)}{(a)} \times 100\%$	(d)	(e)	(f) = (e) - (d)	(g) = $\frac{(f)}{(d)} \times 100\%$
2004	78	25	32%	2,690	2,440	-250	-9%
2005	77	21	27%	2,564	2,415	-149	-6%
2006	78	19	24%	2,847	2,689	-158	-6%
Total	233	65		8,101	7,544		
Average	78	22	28%	2,700	2,515	-185	-7%

Source: HD records

Audit noted that from 2004-05 to 2006-07, on average, the market rent paid by 22 (28%) out of 78 households was lower than the double rent of their PRH flats. **In Audit's view, the HD needs to review the rationale for imposing the double rent and the market rent under the HSP and the PSRA, and the system of implementation.**

Audit recommendations

2.21 **Audit has recommended that the Director of Housing should:**

Income declarations

- (a) **increase the number of tenants required to submit documentary evidence to substantiate their income declarations (e.g. copies of salary statements, bank-books, bank statements, records of Mandatory Provident Fund contributions or tax returns);**
- (b) **require all income earning family members to sign the declaration in the income declaration forms;**

Suspicious cases on income declarations referred to the PHRMS

- (c) **identify the reasons for the decrease in the number of suspicious cases on income declarations referred to the PHRMS for in-depth checking, and ensure that estate office staff refer all suspicious cases to the PHRMS for in-depth checking;**

Prosecution of PRH tenants for making false declarations

- (d) **step up prosecution action against persons who make false statements to the HA;**
- (e) **in consultation with the Department of Justice, review and improve the declaration forms and prosecution procedures so that prosecution action can be taken more effectively;**
- (f) **step up publicity efforts on the convicted cases in order to achieve a better deterrent effect;**

Termination of tenancy

- (g) **step up efforts on the issuing of NTQs to tenants who have made false statements in their income and asset declarations under section 19(1)(b) of the Housing Ordinance;**

Households required to pay the market rent

- (h) ensure that the PHRMS follows up all the identified cases of households required to pay the market rent with estate offices;
- (i) ensure that all households, who have total monthly income and net asset values exceeding the prescribed limits or those who have chosen not to declare their assets, are required to pay the market rent during their stay at PRH flats and move out of PRH flats within one year; and

Market rent lower than double rent

- (j) in consultation with the HA, review the rationale for imposing the double rent and the market rent under the HSP and the PSRA, and the system of implementation.

Response from the Administration

2.22 The **Director of Housing** agrees with the audit recommendations. He has said that:

Income declarations

- (a) the HD will, through staff redeployment and re-prioritisation of tasks, implement a measure in April 2007 to increase the number of checking of HSP cases by the PHRMS by 50%;
- (b) the HD will, from April 2007, require all income earning family members to sign the declaration in the income declaration forms;

Suspicious cases on income declarations referred to the PHRMS

- (c) the reasons for the decrease in the number of suspicious cases on income declarations referred to the PHRMS for in-depth checking are as follows:
 - (i) with regular review, there are clear guidance about the income computation methods printed on the income declaration forms for the compliance of tenants;
 - (ii) the PHRMS regularly organises briefing sessions for estate office staff to explain the HSP income calculation methods;

- (iii) the HD Training and Development Centre organises Module Basis Training for Housing Officers newly posted to estate offices with income and asset computations forming an integral part of the training programme; and
- (iv) the PHRMS regularly issues clear guidelines to estate office staff on the implementation of the HSP and vetting of income declarations to facilitate them in clarifying suspicious cases before making referrals to the PHRMS for in-depth checking.

The HD will continue to provide effective training and adequate support to estate office staff to enhance the efficiency of handling suspicious cases on income declarations;

- (d) with the implementation of the HSP for a number of years, estate office staff are well versed with the vetting of income declarations. They are conversant with the policy, procedures and practice of referring suspicious cases to the PHRMS for in-depth checking;

Prosecution of PRH tenants for making false declarations

- (e) it is the standing objective of the Legal Service Sub-division of the HD that prosecution action will be taken against suspected offenders without hesitation where there is sufficient evidence. This is in line with the prosecution policy of the Department of Justice;
- (f) the Prosecutions Section needs to ascertain whether there is evidence to show that the false statements were made “knowingly”. The HD has taken proactive steps to revise the declaration forms in consultation with and upon the advice of the Department of Justice in the past and will continue to do so where further improvement can be made. Prosecution officers have attended training courses/seminars organised by the Department of Justice on prosecution procedures and sufficiency of evidence. Prosecutions so far have been very effective;
- (g) the HD agrees that prompt and successful prosecution would produce a deterrent effect on would-be offenders of provisions of the Housing Ordinance. However, the HD needs to have sufficient, reliable and admissible evidence in hand before making decisions to prosecute. The HD agrees that convicted cases should be publicised through the media and the HD has been doing so on a continual basis;

Termination of tenancy

- (h) the HD will certainly take prompt prosecution actions on false statements made knowingly;
- (i) the reasons for issuing only a few NTQs were that the majority of PRH tenants concerned had no material gain, and other appropriate and timely management actions (such as the recovery of rent undercharged or asking the tenants to move to smaller flats) had been taken. The guidelines relating to the issuing of NTQs to tenants have been recirculated for the compliance of estate office staff;

Households required to pay the market rent

- (j) a number of households not required to pay market rent after the PHRMS's initial asset assessment are due to a number of factors (such as subsequent fall in households' income and net asset values below the prevailing limits for a period of three months or permanent drop below the prevailing limits, the deletion of the names of well-off family members from tenancies and the surrender of PRH flats);
- (k) as at 6 February 2007, the latest position of the 236 cases not paying market rent in 2006-07 was as follows:
 - (i) in 40 cases, the households' income/net asset values were below the prevailing limits;
 - (ii) in 90 cases, the names of well-off family members were deleted from the tenancies; and
 - (iii) in 106 cases, the tenants surrendered the PRH flats;
- (l) the HD has issued new guidelines requiring estate offices to keep the PHRMS informed of the development of the identified cases of households required to pay the market rent if changes arise;
- (m) the guidelines on the requirements of households to pay the market rent and move out of PRH flats within one year have been recirculated for the compliance of estate office staff;

Market rent lower than double rent

- (n) the market rent of some PRH flats is lower than their double rent as there is no correlation between the two. The market rent of a PRH flat reflects rental level of the flat obtainable in the open market, whereas the double rent of a PRH flat depends on its normal rent which is solely determined by the prevailing housing policy; and
- (o) the HD notes the concern that in some cases, the market rent is lower than the double rent. However, the current policy of the HA is that households paying the market rent are required to vacate their PRH flats within one year. The HD will seek the views of the Subsidised Housing Committee to revise the policy by requiring these households to pay the market rent or double rent, whichever is the higher. They are still required to vacate their flats within one year.

PART 3: MANAGEMENT OF TENANCY RECORDS

3.1 This PART examines the management of PRH tenancy records by the HD and suggests measures for improvement.

Integrated System for Housing Management

3.2 The ISHM comprises a number of sub-systems with various functions. The data kept in the ISHM include the records of:

- (a) personal data of all PRH applicants/tenants and family members;
- (b) PRH applications;
- (c) public housing tenancy;
- (d) home ownership;
- (e) domestic property; and
- (f) non-domestic property.

3.3 In implementation of housing policies, enforcement of the Housing Ordinance, processing of applications for various forms of public housing assistance, and handling of tenancy-related matters, HD staff use the ISHM to check or identify:

- (a) the family sizes and particulars of PRH households;
- (b) whether a person is receiving housing benefits or double housing benefits;
- (c) tenants who are due for making declarations of income/assets under the HSP and the PSRA;
- (d) whether the need and grounds for applications for flat transfers as requested by PRH tenants are genuine; and
- (e) under-occupied households (i.e. the number of persons in the household is below the minimum number set by the HA for the PRH flat).

It is important that all information in the ISHM is correctly input, maintained and updated so that accurate and up-to-date information can be used for management purposes.

Cases involving deceased persons

3.4 Since 1995, the Registrar of Births and Deaths of the Immigration Department has provided the HD, on a monthly basis, with data of deceased persons. The HD matches such data with the names of existing tenants and family members to identify cases of deceased tenants and deceased family members. A monthly “Action Report for Deceased Persons” is generated from the ISHM for Housing Managers of PRH estates to take follow-up action, including transfer of tenancy to an authorised spouse or family member, termination of tenancy and deletion of names of family members from a tenancy. According to Estate Management Division Instruction No. M24/2005, Housing Managers should take action to resolve all outstanding cases involving deceased persons as early as possible and “in any case not later than one month” from the date such cases come to their attention. Priority should be accorded to cases involving the recovery of PRH flats and the grant of new tenancy. Actions to be taken by estate offices are shown in Appendix A.

Audit observations

Long outstanding cases

3.5 Audit analysed the Action Report for Deceased Persons as at 4 October 2006. Audit found that there were 3,934 outstanding deceased person cases which had not been resolved within the one-month time limit. The names of these deceased persons were still in the tenancy records. Details are shown in Table 7.

Table 7

**Outstanding cases based on the Action Report for Deceased Persons
(4 October 2006)**

Period outstanding	Number of cases	Percentage
2 months to 12 months	2,614	67%
Over 12 months to 24 months	799	20%
Over 24 months to 36 months	306	8%
Over 36 months to 48 months	129	3%
Over 48 months to 96 months	86	2%
	} 1,320	} 33%
Total	3,934	100%

Source: HD records

Audit noted that, as at 4 October 2006, 1,320 (33%) cases involving deceased persons had remained outstanding for more than one year, including 86 cases exceeding four years.

3.6 Audit randomly selected 10 cases involving deceased persons from the cases in Table 7 for review. It was found that:

- (a) in two cases, the tenants died in 2003, and their names appeared in the monthly Action Report for Deceased Persons two months later. However, estate office staff did not take follow-up action until mid-2006. The tenancies were transferred to the family members of the deceased in November 2006. In one of these two cases, it was found that the new tenant, if his application had been approved by the HD in April 2005, would be liable to pay 1.5 times rent (i.e. an additional rent of \$11,248 for the period from April 2005 to October 2006); and
- (b) in two other cases, the tenants died in 2003. Their applications for transfer of tenancy were processed in late 2003. However, new tenancies were granted to the family members in late 2006.

3.7 In January 2007, in response to audit enquires on the large number of outstanding cases involving deceased persons, the HD informed Audit that:

- (a) higher priority was accorded to other important tasks, including the processing of income and asset declarations;
- (b) households did not pay heed to the HD's requests for action because they had not completed the traditional Chinese funeral formalities, or had not got the death certificates;
- (c) family members could not agree on the nomination of the new tenant; and
- (d) the required forms and documents were not submitted to the HD.

Audit considers that the HD needs to introduce measures to ensure that estate offices take prompt action on all outstanding cases involving deceased persons in order to comply with the Estate Management Division Instructions.

Cases involving deceased tenants

3.8 Out of the 3,934 outstanding cases in Table 7, there were 2,288 cases (excluding deceased tenants of single-person households — see para. 3.10) involving **deceased tenants**, including 754 (33%) cases which had remained outstanding for more than one year with 27 cases exceeding five years. Details are shown in Appendix B.

3.9 **In Audit’s view, delay in transfer of tenancy after the death of tenants may result in loss of rental income and improper use of public housing resources. The HD needs to take action to remind the authorised spouse and family members of deceased tenants that they should apply for transfer of tenancy.**

Cases involving deceased tenants of single-person households

3.10 Out of the 3,934 outstanding cases in Table 7, there were 85 cases involving **deceased tenants of single-person households**, including 17 (20%) cases which had remained outstanding for more than one year. Details are shown in Appendix B.

3.11 **In Audit’s view, after the death of tenants of single-person households, the HD needs to expedite action to recover the PRH flats for allocation to other eligible persons.**

Cases involving deceased family members

3.12 Out of the 3,934 outstanding cases in Table 7, there were 1,561 cases involving **deceased family members**, including 549 (35%) cases which had remained outstanding for more than one year with 15 cases exceeding five years. Details are shown in Appendix B.

3.13 **In Audit’s view, delay in deleting the names of deceased family members from the tenancy records results in overstating the size of households. The HD needs to expedite action to delete the names of the deceased persons from the tenancy records.**

Audit recommendations

3.14 **Audit has recommended that the Director of Housing should:**

- (a) **introduce measures to ensure that estate offices take prompt action on all outstanding cases involving deceased persons not later than one month from the date such cases come to their attention, in compliance with the Estate Management Division Instructions; and**
- (b) **ensure that estate offices expedite actions on tenancies involving deceased persons by:**
 - (i) **deleting the names of the deceased from the tenancy records;**
 - (ii) **reminding the authorised spouse and family members that they should apply for transfer of tenancy, where the deceased is the tenant of the PRH flat;**
 - (iii) **where applicable, requiring the new tenant to pay a higher rent in accordance with the HSP or the PSRA after transfer of tenancy;**
 - (iv) **recovering the PRH flats if the family members are ineligible for transfer of tenancy;**
 - (v) **terminating the tenancy and recovering the PRH flat if the deceased person is the tenant of a single-person household; and**
 - (vi) **assessing whether a PRH flat is under-occupied and taking appropriate follow-up action.**

Response from the Administration

3.15 The **Director of Housing** agrees with the audit recommendations. He has said that:

- (a) the outstanding cases were mainly caused by the uncooperative attitude of some tenants. These households did not respond timely to the HD's requests for the deletion of the names of deceased persons because they had not completed the traditional funeral rites or recovered from the sadness. All such cases would require the consent of the tenants before effecting the deletion. Since January 2007, the HD has simplified the process for the deletion of the names of deceased persons without seeking the consent of the tenants. Regional Management Headquarters are monitoring the progress;
- (b) as at 26 February 2007, 3,011 out of the 3,934 outstanding cases were completed while 923 remaining cases were in the process of granting of new tenancies, and 63 (74%) flats were recovered out of the 85 cases involving deceased tenants of single-person households. The HD also served NTQs to 18 (21%) households and, based on the recommendation of the Social Welfare Department (SWD), were in the process of granting new tenancies to the tenants' eligible relatives for another 4 (5%) cases on compassionate grounds;

- (c) the HD will review the existing time frame to allow a more reasonable processing time to deal with the cases involving deceased persons in view of the practical difficulties faced by tenants in response to the requests by the HD. A new set of management guidelines will be issued in April 2007 for the compliance of estate office staff; and
- (d) the HD will ensure that estate offices expedite actions on cases involving deceased persons with high priority being accorded to those leading to the recovery of PRH flats.

Cases involving elderly tenants and elderly family members admitted to residential care homes

3.16 Since 2000, the SWD has provided the HD, on a monthly basis, with data of the elderly admitted to residential care homes. The HD conducts data matching exercises to identify PRH elderly tenants and elderly family members admitted to residential care homes. A monthly “Action Report for Elderly Persons Admitted to Elderly Home” is generated from the ISHM for Housing Managers of PRH estates to take follow-up action, including transfer of tenancy to an authorised spouse or family member, termination of tenancy and deletion of the names of elderly tenants and elderly family members from a tenancy. According to Estate Management Division Instruction No. M30/2005, the follow-up action should normally be “completed within three months”. Priority should be accorded to cases involving the recovery of PRH flats. Estate office staff should conduct inspection to make sure that elderly tenants and elderly family members have not subsequently been discharged from residential care homes for various reasons. Actions to be taken by estate offices are shown in Appendix A.

3.17 Some elderly tenants may request the HD to provide an assurance of future rehousing offers due to possible adjustment problems of living in residential care homes. Estate office staff may issue a Letter of Assurance of future accommodation to elderly tenants on a need basis.

Audit observations

Long outstanding cases

3.18 Audit analysed the Action Report for Elderly Persons Admitted to Elderly Home as at 22 September 2006. It was found that there were 3,131 outstanding cases involving elderly tenants and elderly family members admitted to residential care homes for more than three months. The names of these 3,131 elderly tenants and elderly family members were still in the tenancy records. Details are shown in Table 8.

Table 8
Outstanding cases based on the
Action Report for Elderly Persons Admitted to Elderly Home
(22 September 2006)

Period outstanding	Number of cases	Percentage
4 months to 12 months	597	19%
Over 12 months to 24 months	637	20%
Over 24 months to 36 months	664	21%
Over 36 months to 48 months	889	28%
Over 48 months to 60 months	138	5%
Over 60 months to 84 months	206	7%
Total	3,131	100%

} 2,534

} 81%

Source: HD records

Audit noted that, as at 22 September 2006, out of the 3,131 outstanding cases, 2,534 (81%) cases had remained outstanding for more than one year, including 206 cases exceeding five years.

3.19 From the 3,131 cases, Audit randomly selected 10 cases for review. It was found that estate office staff had not taken prompt follow-up action on these cases. In four cases, estate office staff repeatedly requested the family members to delete the names of elderly tenants and elderly family members, who had been admitted to residential care homes during the years from 2000 to 2003, from the tenancies. However, the family members considered that it was risky to take such action until after the elderly persons had adapted to living in residential care homes. Up to December 2006, these four cases had remained outstanding for more than three years.

3.20 In January 2007, in response to audit enquires on the large number of outstanding cases involving elderly tenants and elderly family members, the HD said that:

- (a) higher priority was accorded to other important tasks, including the processing of income and asset declarations;

- (b) estate office staff took time to verify information and conduct visits so as to ensure that elderly tenants and elderly family members had not been discharged from the residential care homes; and
- (c) households did not pay heed to the HD's requests for action because they awaited confirmation that the elderly tenants and elderly family members had really adapted to living in residential care homes.

Audit considers that the HD needs to introduce measures to ensure that estate offices complete the follow-up action within three months in order to comply with the Estate Management Division Instructions.

Cases involving elderly tenants

3.21 Out of the 3,131 outstanding cases in Table 8, there were 1,754 cases (excluding elderly tenants of single-person households — see para. 3.23) involving **elderly tenants** admitted to residential care homes, including 1,433 (82%) cases which had remained outstanding for more than one year with 113 cases exceeding five years. Details are shown in Appendix C.

3.22 In Audit's view, **very long delay in the transfer of tenancy after the admission of elderly tenants to residential care homes is undesirable. The HD needs to expedite action to remind the authorised spouse and family members of these elderly tenants to apply for transfer of tenancy.**

Cases involving elderly tenants of single-person households

3.23 Out of the 3,131 outstanding cases in Table 8, there were 104 cases involving the admission of **elderly tenants of single-person households** to residential care homes, including 69 (66%) cases which had remained outstanding for more than one year with 4 cases exceeding five years. Details are shown in Appendix C.

3.24 In Audit's view, **the HD needs to expedite action to recover the PRH flats after the long-term admission of elderly tenants of single-person households to residential care homes.**

Cases involving elderly family members

3.25 Out of the 3,131 outstanding cases in Table 8, there were 1,273 cases involving **elderly family members** admitted to residential care homes, including 1,032 (81%) cases which had remained outstanding for more than one year with 89 cases exceeding five years. Details are shown in Appendix C.

3.26 **In Audit's view, the HD needs to expedite action to delete the names of elderly family members from the tenancy records after their admission for long-term stay in residential care homes.**

Audit recommendations

3.27 **Audit has recommended that the Director of Housing should:**

- (a) **introduce measures to ensure that estate offices complete the follow-up action within three months after the admission of elderly tenants and elderly family members to residential care homes, in compliance with the Estate Management Division Instructions; and**
- (b) **after the admission of an elderly tenant and elderly family members for long-term stay in a residential care home, ensure that estate offices take prompt actions to:**
 - (i) **delete their names from the tenancy records;**
 - (ii) **remind the authorised spouse and family members that they should apply for transfer of tenancy if the tenancy is in the name of the elderly tenant;**
 - (iii) **require the new tenant to pay a higher rent in accordance with the HSP or the PSRA after transfer of tenancy, where applicable;**
 - (iv) **recover the PRH flat if the family members are ineligible for transfer of tenancy;**
 - (v) **terminate the tenancy and recover the PRH flat where the elderly tenant is a single-person household; and**
 - (vi) **assess whether the PRH flat is under-occupied and take appropriate follow-up action.**

Response from the Administration

3.28 The **Director of Housing** agrees with the audit recommendations. He has said that:

- (a) the outstanding cases involving elderly tenants and elderly family members admitted to residential care homes were mainly due to:
 - (i) resistance by the elderly who feared that they could not return to their homes in PRH flats once their names were deleted from the tenancies. They claimed that 'ageing in place' was the long established government policy rather than institutional care;
 - (ii) much time had been taken before reaching a consensus on who should inherit the tenancy for cases involving the elderly who were tenants;
 - (iii) change of a tenant other than the spouse would require the household to undergo the CMT which might make the household hesitant in effecting the change; and
 - (iv) with an ageing population, there were more elderly persons suffering from dementia. They needed services in residential care homes. The family members, particularly the spouse, refused the deletion of the names of the elderly from the tenancies as these elderly persons might come home for gatherings on a regular and short-term basis;
- (b) the HD simplified the deletion procedures in January 2007 by issuing a Letter of Assurance/Reinstatement to the elderly concerned;
- (c) as at 26 February 2007, the names of 1,366 (44%) elderly tenants and elderly family members were deleted from the tenancies while 1,765 (56%) outstanding cases were under processing including change of tenants and resumption of residence by the elderly in PRH flats. A weekly progress report has been prepared for monitoring by Regional Management Headquarters since January 2007;
- (d) to support the Government's policy in fostering harmony for families, the HD has reviewed the policy on the deletion of the names of the elderly admitted to residential care homes. The HD will seek the HA's endorsement in March 2007. A new set of management guidelines will be issued in April 2007 for the compliance of estate office staff; and
- (e) the HD will ensure that estate offices expedite tenancy actions on elderly tenants and elderly family members admitted to residential care homes with high priority being accorded to those cases leading to the recovery of PRH flats.

Rent indicators in the Integrated System for Housing Management

3.29 The data of PRH households in the ISHM include a rent indicator and an exemption indicator. Households residing in PRH flats for less than 10 years have a “T” rent indicator showing that they are not due for the income review. The HSP is not applicable to households made up of persons all aged 60 or above, and those in receipt of CSSA payments. These households have a specific exemption indicator. Households who have successfully applied for additional PRH resources, and households who have previously been subject to income review have different rent indicators showing that they are required to pay normal rent, 1.5 times or double rent after the income review. The major rent and exemption indicators used in the ISHM are shown in Appendix D. The HD conducts the HSP Household Income Review in April each year. Households living in PRH flats in the eleventh year are marked as new cases for income review. Households with income reviewed two years ago are marked as review cases. The HD issues letters to households notifying them of the income review on 1 April each year.

Audit observations

Wrong rent indicators in the ISHM

3.30 From the HSP Household Income Review records for the years from 2004 to 2006, Audit found that there were household records with a wrong rent indicator in the ISHM. The number of such cases increased by 272 (39%) from 701 in 2004 to 973 in 2006.

3.31 Audit selected the HSP Household Income Review of April 2006 for analysis. In April 2006, 159,700 households were marked for the income review.

3.32 Before the HSP Household Income Review, the PHRMS checked the household particulars in the ISHM. Households with wrong rent indicators might not be marked for income review even if they were due for the review. In 2006, the PHRMS identified the following 973 cases with a wrong rent indicator and referred them to estate offices for action:

- (a) ***377 households living in PRH flats for more than 10 years with a “T” rent indicator but without the exemption indicator.*** For households with more than 10 years’ residence in PRH flats but exempt from the application of the HSP, they should have a specific exemption indicator such as “AEM” (denoting households with all members aged 60 or above). The PHRMS found that these households had lived in PRH flats for more than 10 years. However, in the ISHM, they still had a “T” rent indicator but without a specific exemption indicator;

- (b) **384 households living in PRH flats for less than 10 years with a rent indicator other than “T”.** These households had rent indicators “N” (normal rent under the HSP), “E” (1.5 times rent under the HSP) or “D” (double rent under the HSP) in the ISHM. The discrepancies might be the result of wrong identification of the date of initial residence or wrong assignment of rent indicators to households when processing applications under other housing policies such as the PGNT or the TMP; and
- (c) **212 households exempt from the application of the HSP.** Households with all members aged 60 or above are exempt from the application of the HSP. Normally, they should have a “T” rent indicator and an “AEM” exemption indicator in the ISHM. The PHRMS found that for these households, only some of the household members were aged 60 or above, the “AEM” exemption indicator appeared in the ISHM.

3.33 **In Audit’s view, wrong rent indicators in the ISHM may lead to omitting some households from the income review under the HSP and delay in taking follow-up action. The HD needs to introduce measures to ensure that rent indicators and exemption indicators are correct before inputting them into the ISHM.**

Audit recommendations

- 3.34 **Audit has recommended that the Director of Housing should:**
- (a) **introduce measures to ensure that rent indicators and exemption indicators are correctly determined before inputting them into the ISHM;**
 - (b) **identify the reasons leading to the input of wrong rent indicators;**
 - (c) **introduce measures to ensure that all the wrong rent indicators in the ISHM are rectified;**
 - (d) **request estate offices to conduct checks of the ISHM records against the files to ensure that all households are subject to the income review under the HSP; and**
 - (e) **issue guidelines on the correct use of rent indicators and remind HD staff the importance of inputting the correct rent indicators and other tenancy information into the ISHM.**

Response from the Administration

3.35 The **Director of Housing** agrees with the audit recommendations. He has said that:

- (a) system enhancement will be made including the introduction of the validation rule for alerting/barring potentially incorrect entries into the Domestic Tenancy Management Sub-system under the new Estate Management and Maintenance System (EMMS). The counter-check program (such as periodic batch running of relevant system records) will be introduced to alert estate office staff on the potential errors. Guidelines were issued in February 2007 to clarify potential misunderstanding on incorrect entry of rent indicators into the ISHM;
- (b) the main reasons leading to wrong rent indicators were that:
 - (i) the dates of commencement in the granting of new tenancy cases had not been entered to replace the dates of initial residence; and
 - (ii) incorrect input in updating the rent indicators after the additions of non-elderly family members in those “All Elderly Members” households;
- (c) the PHRMS will continue thorough checking with ISHM reports, identify all possible mismatch cases, and closely monitor the rectification action to be taken in the ISHM by estate office staff;
- (d) guidelines requiring estate offices to conduct checks of ISHM records against files were issued in February 2007; and
- (e) guidelines on the correct use of rent indicators were issued in February 2007.

PART 4: FLAT TRANSFERS

4.1 This PART examines the management of flat transfers and suggests measures for improvement.

Flat transfer schemes

4.2 Flat transfer schemes are designed to assist tenants to move to accommodation of their preference. PRH tenants may apply for flat transfers under different circumstances. They may need to move to a bigger or another flat due to a larger family size or improved household income. Tenants may wish to live in different districts due to special reasons. Sometimes, tenants have to move to another flat due to major PRH estate improvement or redevelopment plans. The HD has different flat transfer schemes to cater for their needs. The more common flat transfer schemes are as follows:

- (a) ***Territory-wide Overcrowding Relief Scheme (TWORS)***. Households with the living density less than 5.5 square metres per person are regarded as overcrowded families. They can apply for a larger flat through the TWORS;
- (b) ***Living Space Improvement Transfer Scheme (LSITS)***. This scheme provides opportunities for non-overcrowded families to obtain more living space. Under the LSITS, households with the living density less than 7 square metres per person may apply for transfer to a larger flat;
- (c) ***Internal transfer***. Tenants who have genuine difficulties to continue living in their existing flats due to special circumstances or on medical or social grounds may apply for transfer to a flat in the same estate. Tenants who are seriously handicapped or in poor health and in need of a private toilet or washing and cooking facilities may apply for transfer to a suitable flat in the same estate;
- (d) ***External transfer***. Subject to the availability of resources, the HD launches external transfer exercises to assist households to further improve their living conditions. Notices of external transfers, including application procedures, eligibility criteria and particulars of estates available are put up in estate offices and individual housing blocks;
- (e) ***Special transfer***. If a tenant is in genuine need of housing transfer due to special circumstances or on medical or social grounds but an internal transfer cannot solve his problems, he may apply for a special transfer to another estate. Tenants who cannot afford the existing rent may apply for special transfers to flats of lower rent in other estates;

- (f) ***Pre-redevelopment transfer.*** To fully utilise the limited resources, tenants in estates scheduled for redevelopment within the next three years may apply for pre-redevelopment transfers. When suitable flats in new estates are available, these tenants are invited to apply for transfer;
- (g) ***Transfer for major repairs or improvement programmes.*** Tenants who have to move out of their flats due to structural problems, comprehensive repair or improvement works of their PRH blocks are transferred to other suitable flats by the HD; and
- (h) ***Transfer for making available suitable vacant flats in older estates.*** To make available suitable vacant flats in old estates to meet demands arising from rehousing activities (such as redevelopment and clearance), the HD sets aside a number of flats in new estates for application by the affected tenants of older estates.

Types of transfers

4.3 There are two types of transfers. Voluntary transfers are initiated by PRH tenants for reasons related to their personal circumstances. Tenants fulfilling the HD's stipulated criteria may apply for voluntary transfers. Involuntary transfers are initiated by the HD to meet operational needs or deal with cases of under-occupied households.

Transfer criteria

4.4 Different eligibility criteria apply to different flat transfer schemes. Tenants applying for flat transfers under the TWORS and the LSITS are subject to the same set of eligibility criteria. They have to pass the domestic property test (i.e. all household members must not own any domestic property) and the CMT. Households living in the New Territories may only select flats in the New Territories. Households in extended urban areas may select flats other than those in urban areas. Households with over 10 years of residence may move to flats in any district.

Audit observations

Maximum allocation standards and under-occupation standards of PRH flats

4.5 A situation of an under-occupied household arises when the number of persons in the tenancy is below the minimum number of persons set by the HA for the flat. In order to optimise public housing resources and satisfy the genuine needs of other PRH tenants, estate office staff transfer under-occupied households to other suitable flats in the same estate as far as possible. If suitable flats are not available in the same estate, estate office staff will find suitable flats in other estates.

4.6 Amendments to the under-occupation standards, adopted by the HA in 1981, on the internal floor area were made in 1992 when the Harmony block design was introduced and the majority of the old types of flats were demolished through the Comprehensive Redevelopment Programme. The under-occupation standards were promulgated in December 1992. The HA adopted the principle endorsed in 1981 that there was a relation between the maximum internal floor area for PRH households at the time of intake and the minimum number of persons allowed to stay at PRH flats.

4.7 Audit noted that the PRH flat areas of the under-occupation standards set in 1992 were larger than the flat areas of the maximum allocation standards of PRH flats. Details are shown in Table 9.

Table 9

Maximum allocation standards and under-occupation standards of PRH flats

Household size	Maximum allocation standard			Under-occupation standard of 1992	Difference	
	Pre-1973 estates	1973 and post-1973 estates	Average		Size	Percentage
	(Square metres)	(Square metres)	(Square metres)	(Square metres)	(Square metres)	
	(a)	(b)	(c) = $\frac{(a) + (b)}{2}$	(d)	(e) = (d) - (c)	(f) = $\frac{(e)}{(c)} \times 100\%$
1 person	19.8	19.8	19.8	25	5.2	26%
2 persons	33.0	31.0	32.0	35	3.0	9%
3 persons	35.0	34.0	34.5	44	9.5	28%
4 persons	41.0	42.0	41.5	56	14.5	35%
5 persons	41.0	44.0	42.5	62	19.5	46%
6 persons	53.0	50.0	51.5	71	19.5	38%

Source: HD records

Remarks: The under-occupation standard for single-person households is 25.5 square metres for flats without proper kitchen facilities.

4.8 **Audit considers that the HD, in consultation with the HA, needs to review the rationale and mechanism for setting the under-occupation standards, which are higher than the maximum allocation standards of PRH flats.**

Under-occupied households

4.9 Audit found that, as at 6 October 2006, there were 31,707 under-occupied households in PRH estates pending transfer to smaller flats. An ageing analysis of these under-occupied households is shown in Table 10.

Table 10
Ageing analysis of under-occupied households
(6 October 2006)

Period	Number of households	Percentage
Less than 1 year	6,069	19%
1 year to less than 2 years	5,025	16%
2 years to less than 3 years	3,980	12%
3 years to less than 4 years	3,108	10%
4 years to less than 5 years	3,168	10%
5 years and above	10,357	33%
	} 16,633	} 53%
Total	31,707	100%

Source: HD records

Out of the 31,707 under-occupied households, there were 16,633 (53%) cases lasting for three years or more, including 10,357 cases lasting for five years or more.

4.10 According to the tenancy agreement, in the event of a PRH flat becoming under-occupied, the HD may request the tenant to move to any flat suitable for the household. If the household refuses to move without acceptable reasons, the HD will issue an NTQ to terminate the tenancy. Since 2000, quarterly reports highlighting the under-occupied households with details of family sizes and living space have been obtained by estate offices for follow-up action. Audit noted that about 3,100 under-occupied households were rehoused by estate offices during the period from April 2000 to September 2006 (i.e. an average of about 477 cases each year).

4.11 Estate office staff persuade under-occupied households to move to smaller flats in the same estate, or to another estate if no suitable flat is available in the same estate. The HD recognises that under-occupied households do not warrant strong enforcement actions.

4.12 **In Audit's view, it is not an optimal use of public housing resources for flats to remain under-occupied for a prolonged period. The HD needs to expedite action to deal with the problem of under-occupied flats so as to make them available to households in need.**

Under-occupied single-person households

4.13 Audit found that 14,314 (45%) out of the 31,707 under-occupied households in Table 10 were single-person households, including 5,740 non-elderly single-person households. According to HD standards, a single-person flat is under-occupied if the living density for the tenant is over 25 square metres. Audit noted that 64 out of the 14,314 single-person households had living density exceeding 50 square metres.

4.14 Out of the 5,740 non-elderly single-person households, there were 2,774 (48%) cases lasting for three years or more, including 1,672 cases lasting for five years or more. An ageing analysis of these 5,740 cases is shown in Table 11.

Table 11

**Ageing analysis of under-occupied
non-elderly single-person households
(6 October 2006)**

Period	Number of households	Percentage
Less than 1 year	1,230	21%
1 year to less than 2 years	957	17%
2 years to less than 3 years	779	14%
3 years to less than 4 years	564	10%
4 years to less than 5 years	538	9%
5 years and above	1,672	29%
	} 2,774	} 48%
Total	5,740	100%

Source: HD records

4.15 In March 2006, the Internal Audit Unit of the HD conducted a review of the flat transfer schemes. In its report, the Internal Audit Unit stated that it would be difficult for estate office staff to take proper follow-up action against under-occupied households without clear guidelines/instructions, and that the practice of persuading tenants to move to smaller flats was ineffective.

4.16 Audit randomly selected 10 out of the 64 cases (see para. 4.13) of non-elderly single-person households each occupying a PRH flat exceeding 50 square metres for review. According to HD under-occupation standards, flats of such sizes are for accommodating families of at least four persons. From the said sample, Audit noted that HD staff did not follow up effectively on eight cases. Details are as follows:

- (a) ***One case with rejection of rehousing offers.*** The tenant, a CSSA recipient, had stayed in the under-occupied flat for two years. The HD could not recover the flat despite the fact that he had rejected two rehousing offers without acceptable reasons, and had not responded to the third offer;
- (b) ***Four cases without acceptable reasons from tenants.*** Estate office staff approached the tenants for flat transfers in 2003, 2005 and 2006. They refused to move out of their flats, indicating that they might or would get married soon. Up to December 2006, these four non-elderly single-person households had stayed in the PRH flats for more than three years; and
- (c) ***Three cases without response from tenants.*** Estate office staff approached the tenants in 2001, 2003 and 2005 offering flat transfers. However, no response was received from the tenants. Up to December 2006, no further follow-up action had been taken by estate office staff.

In the remaining two cases, one non-elderly single-person household, staying at the under-occupied flat since July 2003, moved out of the flat in November 2006. The other non-elderly single-person household, staying at the under-occupied flat since November 2005, moved out of the flat in January 2007.

4.17 **In Audit's view, it is inappropriate for non-elderly single-person households to occupy flats designed for households of at least four persons. The HD needs to issue clear procedural guidelines/instructions to estate office staff for handling cases of under-occupied households, including the issue of an NTQ in warranted cases.**

Under-occupied households allocated with two or three PRH flats

4.18 The HD may allocate two or three PRH flats to a large-sized household if a large PRH flat is not available at the time of allocation. Audit noted that, out of the 31,707 under-occupied households in Table 10, there were 28,181 (89%) single-person and two-person households. As at 6 October 2006, there were 1,664 under-occupied households allocated with two or three PRH flats. Details are shown in Appendix E. An ageing analysis of these 1,664 under-occupied households is shown in Table 12.

Table 12

**Ageing analysis of under-occupied
households allocated with two or three PRH flats
(6 October 2006)**

Period	Number of households	Percentage
Less than 1 year	281	17%
1 year to less than 2 years	256	15%
2 years to less than 3 years	198	12%
3 years to less than 4 years	156	9%
4 years to less than 5 years	180	11%
5 years and above	593	36%
	} 929	} 56%
Total	1,664	100%

Source: HD records

4.19 Audit noted that, out of the 1,664 under-occupied households in Table 12, there were 929 (56%) cases lasting for three years or more, including 593 (36%) cases lasting for five years or more. **In Audit's view, these households were not using public housing resources properly. The HD needs to expedite action to recover the extra PRH flats from these households or transfer them to flats of suitable size, in order to release public housing resources to other eligible persons.**

Period of under-occupation in the ISHM

4.20 In the audit sample of 10 cases mentioned in paragraph 4.16, Audit noted that, in seven cases, the periods of under-occupation recorded in the ISHM were shorter than those recorded in the files kept by estate offices. In three cases, the under-occupation periods in the ISHM were understated by five months or more. Details are shown in Table 13.

Table 13

**Different under-occupation periods
(6 October 2006)**

Case	Under-occupation period in		Difference (c) = (a) - (b)
	estate office files	ISHM	
	(a)	(b)	
1	14 months	Less than 1 month	13 months
2	85 months	78 months	7 months
3	83 months	78 months	5 months
4	10 months	6 months	4 months
5	68 months	66 months	2 months
6	56 months	54 months	2 months
7	22 months	21 months	1 month

Source: HD records

4.21 The shorter under-occupation periods recorded in the ISHM might be due to delay in inputting data into the computer system. **In Audit's view, accurate under-occupation period in the ISHM is an important piece of management information. The HD needs to identify the reasons leading to, and rectify the incorrect recording of under-occupation periods in the ISHM.**

Audit recommendations

4.22 **Audit has recommended that the Director of Housing should:**

*Maximum allocation standards and
under-occupation standards of PRH flats*

- (a) **in consultation with the HA, review the rationale and mechanism for setting the under-occupation standards, which are higher than the maximum allocation standards of PRH flats;**

Under-occupied households

- (b) **formulate a long-term strategy to address the problem of a large number of PRH flats which are under-occupied;**
- (c) **expedite action to deal with the problem of under-occupied flats and release these flats to other households in need;**

Under-occupied single-person households

- (d) **issue clear procedural guidelines/instructions to estate office staff for handling under-occupied households, including the issue of an NTQ in warranted cases;**

Under-occupied households allocated with two or three PRH flats

- (e) **expedite action to recover the extra PRH flats from under-occupied households allocated with more than one PRH flat, or transfer them to flats of suitable size;**

Period of under-occupation in the ISHM

- (f) **identify reasons leading to, and rectify the incorrect recording of under-occupation periods in the ISHM; and**
- (g) **introduce measures to prevent recurrence of incorrect recording of under-occupation periods in the ISHM.**

Response from the Administration

4.23 The **Director of Housing** agrees with the audit recommendations. He has said that:

Maximum allocation standards and under-occupation standards of PRH flats

- (a) the under-occupation standards are more generous than the maximum allocation standards. This is to give the HA reasonable flexibility in implementing the allocation policy by not treating households having a small change in the number of family members as under-occupied households. The current under-occupation standards were last revised in 1992 when the HA fixed its new allocation standards for the Harmony blocks. The HA will review the under-occupation policy;

Under-occupied households

- (b) members of the Subsidised Housing Committee discussed the issue in February 2007. Members of the Legislative Council Panel on Housing will also discuss the HA's under-occupation policy in March 2007. The HA will review the under-occupation policy taking into consideration the views of the Subsidised Housing Committee and the Legislative Council Members. The HD will formulate an action plan and issue new guidelines upon the endorsement of a revised under-occupation policy by the HA, tentatively in mid-2007;
- (c) the HD plans to tackle the issue of under-occupation on the basis of the following guiding principles:
 - (i) elderly tenants and households with disabled members should be the last ones on the list of under-occupied households to be transferred, and consideration should be given to providing financial support to such tenants on transfer;
 - (ii) to avoid more acute shortage of small flats, instead of taking action to demand under-occupied households to move from large flats to small flats under the tenancy agreements, priority should be given to allocating flats to applicants on the waiting list and clearerees (i.e. people affected by clearance operations and redevelopment projects);
 - (iii) in planning new public housing projects, the keen demand for small flats should be taken into account; and
 - (iv) the under-occupation standards should be reviewed in due course;

Under-occupied single-person households

- (d) the HD will issue clear procedural guidelines/instructions to estate office staff for handling under-occupation cases upon the endorsement of the revised under-occupation policy by the HA. In handling under-occupation cases, the HD encounters the following difficulties:
 - (i) the majority of the households are unwilling to move out, while mandatory transfer would be stressful and costly to them, in particular the elderly. The HA has all along adopted a flexible approach taking into account both reasonableness and feelings of the tenants. Every case was dealt with having regard to its own circumstances, in order not to put tenants in an unnecessary predicament. For example, single-person households who are awaiting reunion with their family members from Mainland China are allowed to continue to reside in their flats even in

the case of under-occupation. In addition, in view of the reluctance of many tenants to move to an unfamiliar living environment, the HD would arrange internal transfers or transfer them to the neighbouring estates as far as possible. In 2005 and 2006, an average of about 500 under-occupied households were transferred to flats of more appropriate sizes every year;

- (ii) nearly 90% of the under-occupied households have to move to one-person or two-person flats under the existing requirement. The progress of transfers has however been affected by the inadequate supply of such flats. In addition, with nearly 70,000 applicants on the waiting list (two-thirds of total) being one-person or two-person families, and the phasing out of the converted one-person flats (commonly known as split flats) and old-style Housing for Senior Citizens flats, the problem of inadequate supply has become more serious. Notwithstanding a total of 20,500 new small flats would be available in the next three years from 2006 to 2009, the HD does not expect that they would be sufficient for accommodating the transfers of all under-occupied households;
 - (iii) in view of the relatively few large-sized households on the waiting list, even if larger flats are recovered from under-occupied households, they would not be readily let out again, resulting in a loss of rental income and an increase in vacancy rate, particularly in the cases of older estates; and
 - (iv) since 2000, the HA has converted approximately 49,000 flats originally intended for sale to rental flats, many of which are large flats. In order to rent out these large flats, the HA has relaxed the allocation standards so that these flats could be allocated to families with fewer members. They would become under-occupied households once there is a small change in the number of family members (e.g. when a three-person household becomes a two-person one);
- (e) the reasons for the eight outstanding cases were mentioned in paragraph 4.16. The HD will seek the HA's agreement to implement interim measures to deal with these seriously under-occupation cases prior to a review of the under-occupation standards;

Under-occupied households allocated with two or three PRH flats

- (f) the HD will expedite action to recover the extra PRH flats from under-occupied households allocated with two or three PRH flats, or transfer them to flats of suitable size upon the endorsement of the revised under-occupation policy by the HA;

Period of under-occupation in the ISHM

- (g) the under-occupation cases in the ISHM are counted and generated on a quarterly basis while the deletion of family members is recorded in files kept by estate offices according to the actual date of the deletion. This leads to the mismatch on counting the length of under-occupation periods. The variations would also be due to delay in updating ISHM records by estate offices;
- (h) estate offices were reminded to promptly update the information in the ISHM in February 2007; and
- (i) the HD will make enhancement to the EMMS to prevent recurrence of incorrect recording of the under-occupation periods in the ISHM.

PART 5: MANAGEMENT OF OTHER TENANCY-RELATED MATTERS

5.1 This PART examines the management of other tenancy-related matters by the HD and suggests measures for improvement.

Domestic rent in arrears

5.2 PRH tenants are required to sign a tenancy agreement before moving into a PRH flat. The tenancy agreement states that the tenant is required to pay rent punctually on the first day of each month. The HD will terminate the tenancy if a tenant has incurred two months' rent in arrears, or has paid rent in arrears for three consecutive months. For tenants in temporary financial hardship, HD staff assist them to apply for rent reduction under the Rent Assistance Scheme (RAS). The RAS grants rent reduction to PRH tenants experiencing temporary financial hardship. For tenants with long-term financial problems, the HD, subject to their consent, refers them to the SWD for assistance.

5.3 PRH tenants, upon the termination of tenancies on grounds of rent in arrears and eviction from the PRH flats, are rehoused in transit centres, while their future housing needs are reassessed. After confirming that rehousing is needed, they are offered IH flats in the New Territories.

Audit observations

High level of domestic rent in arrears

5.4 The average monthly domestic rent in arrears relating to PRH flats from 1997-98 to 2005-06 is shown in Table 14. The average monthly domestic rent in arrears increased from \$11.5 million in 1997-98 by 3.8 times to \$55.2 million in 2005-06.

Table 14

Average monthly domestic rent in arrears

Year	Average monthly domestic rent in arrears	Increase over the previous year	Average monthly percentage of domestic rent in arrears
	(\$ million)	(\$ million)	(Note) (%)
1997-98	11.5	—	1.5
1998-99	14.0	2.5	1.8
1999-2000	17.8	3.8	2.3
2000-01	21.9	4.1	2.8
2001-02	24.7	2.8	3.1
2002-03	30.8	6.1	3.8
2003-04	45.1	14.3	5.1
2004-05	53.5	8.4	5.7
2005-06	55.2	1.7	5.7

Source: HD records

Note: The percentage of domestic rent in arrears is calculated as follows:

$$\frac{\text{Cumulative domestic rent in arrears}}{\text{Domestic rent receivable for the month}} \times 100\%$$

5.5 The HD management uses the report “Monthly Billboard on Rent Arrears” to assess the performance of estate office staff on rent collection. Audit noted that, as at 30 September 2006, the domestic rent in arrears was \$47.6 million (i.e. 4.9% of rent receivable for the month of September 2006). According to the report “Monthly Billboard on Rent Arrears” as at 30 September 2006, there were 14 PRH/IH estates with domestic rent in arrears exceeding 10%, ranging from 10.5% to 65.6%, of their rent receivables for the month of September 2006. Details are shown in Table 15.

Table 15

**14 PRH/IH estates with the domestic rent
in arrears exceeding 10% of the rent receivable**

Estate	Rent in arrears as at	Rent in arrears
	30 September 2006	expressed as a percentage of the rent receivable for the month of September 2006
	(\$ '000)	(%)
Long Bin IH	167	65.6%
Po Tin IH	238	24.1%
Shek Lei (II) IH	93	15.9%
Tai Ping	81	15.4%
Lung Tin	41	14.6%
Nam Cheong	179	14.0%
Wah Kwai	128	13.7%
Po Tin	364	13.0%
Tin Ping	219	12.8%
Yat Tung (II)	986	12.5%
Kwai Hing	58	12.3%
Leung King	364	11.9%
Tin King	132	11.5%
Tin Yan	488	10.5%

Source: HD records

Audit considers that, for these 14 PRH/IH estates, the HD needs to identify the reasons for the high level of rent in arrears and take action to reduce the arrears.

Direct rent payment for CSSA households

5.6 In September 2005, the HD proposed new measures to deal with the high level of rent in arrears. Before that, the HD analysed the status of 27,190 households with rent in arrears totalling \$52.6 million as at 31 January 2005, of which 8,900 (32.7%) were CSSA households. The HD also found that, about 136,300 (21.6%) out of the 631,000 households in PRH estates were in receipt of the CSSA, including the rent allowance. About 6.5% of CSSA households and 3.7% of non-CSSA households in PRH estates had rent in arrears in January 2005.

5.7 The HD concluded that:

- (a) the problem of rent in arrears was not entirely related to the affordability of tenants. This was because the rent of CSSA households was met from the rent allowance included in the CSSA payment; and
- (b) lower sensitivity to civic responsibility and less capable of self-financial management were possible contributing factors to the high level of rent in arrears for CSSA households.

5.8 The problem of CSSA households in default of rent payment is tackled by the HD jointly with the SWD on a case-by-case basis. The HD and the SWD have a manual 'mini' direct rent payment (DRP) system to address the problem of frequent rent defaulters who are under the CSSA Scheme and living in PRH flats. The SWD arranges direct payment of the rent portion of some CSSA households to the HD's designated bank account. However, as at 30 September 2005, only about 600 CSSA households had their rent paid directly by the SWD to the HD. In the light of the rising trend of rent in arrears involving CSSA households, the HD explored the arrangement of DRP by the SWD for all PRH tenants in receipt of the rent allowance under the CSSA Scheme.

5.9 In September 2005, the HD noted that there was no legal impediment for the SWD to pay the rent due from CSSA recipients. Consent from those affected CSSA recipients who were tenants of the HA was not necessary.

5.10 In the same month, the HD liaised with the SWD to arrange for the DRP for CSSA households. The SWD proposed to adopt the manual DRP system only to the some 9,000 CSSA households with rent in arrears (i.e. leaving out the remaining "in-order" CSSA households). This proposal would be quicker to implement. However, the HD preferred to implement the DRP across the board. In November 2005, the feasibility study of the DRP commenced. The DRP project required an enhancement of the SWD computer system. The SWD estimated that the earliest possible implementation date of the DRP would be July 2006. In January 2006, in response to an enquiry of the Ad Hoc Committee on Review of Domestic Rent Policy of the HA, the HD said that the implementation date would be around mid-2006.

5.11 According to the SWD, the implementation of the DRP involved contract variation for the SWD computer system. Considerable lead time was required as it involved a series of procedures including the formulating of an enhancement proposal by the contractor, funding arrangement, vetting by the Government Logistics Department and the approval from the Financial Services and the Treasury Bureau. The SWD considered that the DRP project could only commence in May 2006 upon the clearance of the required procedures. In May 2006, the contractor's proposal for the DRP project was finalised and endorsed by the SWD and the HD. According to the contractor's proposal, the implementation date of the DRP would be revised to December 2006.

5.12 The roll-out of the DRP would require a one-off payment conversion process during which the computer for SWD front-line operation would have to be closed down. Since there was no available time slot in December 2006 as the long Christmas holiday had been reserved for the regular social security schemes rate adjustment exercise, the SWD planned to use the time slot of the 2007 New Year holiday to roll out the DRP. In August 2006, the SWD reported that, after a critical review of the situation, the implementation date of the DRP was rescheduled to February 2007 to give way for the social security schemes rate adjustment exercise. The HD urged the SWD to instruct the contractor to complete the DRP project soonest, as the HD had committed to implement the DRP in late 2006 or January 2007 at the latest. Both the Subsidised Housing Committee and the Appeal Panel (Housing) (Note 4) expressed great concern on the high rate of rent in arrears of CSSA households.

5.13 In October 2006, the SWD was informed that the granting of rent remission was under consideration by the HD. Subsequent to this, the SWD had to divert all resources in November and December 2006 to rearrange the CSSA payment of the affected households to cope with rent remission in order to guard against mis-payments. The SWD considered that the DRP and rent remission were two mutually exclusive events and could not be implemented concurrently from both the technical and manpower resources points of view. Balancing the pros and cons, the HD and the SWD agreed to further postpone the roll-out date of the DRP in order to make use of the 2007 New Year holiday to roll out the HD's rent remission for the month of February 2007. In November 2006, the HA announced that rent remission for the month of February 2007 would be granted to PRH households. Following this, the implementation date of the DRP was deferred to the second quarter of 2007.

5.14 **Audit considers that the HD needs to:**

- (a) **take follow-up action on those CSSA households who have rent in arrears, having regard to the deferred implementation of the DRP; and**
- (b) **in cooperation with the SWD, ensure that there is no further slippage in the implementation of the DRP.**

Note 4: *The Chief Executive appoints a panel of persons comprising a chairman and such number of members as the Chief Executive thinks fit, none of whom shall be a public officer.*

Provision of more convenient rent collection services

5.15 In 2003, the HD decided to provide more convenient rent collection services for its tenants by developing a new computerised EMMS to replace the ISHM. Under the ISHM, tenants could pay rent at their estate shroff offices, by auto-pay through banks and Payment-by-Phone Service, and through internet banking, phone banking, or Automatic Teller Machines. The EMMS would, in addition to the services provided by the ISHM, enable the HD to have more rent collection points (such as convenience stores).

5.16 In September 2005, the HA decided that the provision of rent collection services at convenience stores would be implemented in mid-2006. This would run in parallel with the collection services provided at estate shroff offices until December 2006. The HA planned that, by the end of 2006, some 800 new locations including convenience stores throughout Hong Kong would be available for rent collection. The number of estate shroff offices could then be reduced gradually. The estimated cost savings would be about \$20.5 million a year. The HA considered that the provision of more convenient rent collection services, the implementation of the DRP and other new measures such as the promotion of auto-pay, could improve substantially the situation of rent in arrears.

5.17 In December 2005, the Revenue Management Subsystem of the EMMS was implemented. Improvement to rent collection services was made available under this first stage of implementation. PRH tenants could make rent payment at all HD estate shroff offices during office hours.

5.18 In April 2006, the HD invited tenders for the provision of rent collection services at other places. Upon evaluation of tenders, two tenders met all the mandatory requirements. Both tenderers expressed concern about the liability limit under the contract. They submitted counter proposals to the HD. In August 2006, the HD considered that the tenderers were not eligible for the award of the contract and cancelled the tender exercise.

5.19 In September 2006, the HD conducted another tender exercise with revised conditions of contract, taking into account the views expressed by the tenderers in the last tender exercise. In November 2006, the HD awarded the contract and the target date for the provision of rent collection services at convenience stores was deferred to March 2007.

5.20 Audit considers that the HD needs to expedite action to provide rent collection services at convenience stores. This may encourage PRH tenants to pay rent promptly.

Audit recommendations

5.21 **Audit has recommended that the Director of Housing should:**

High level of domestic rent in arrears

- (a) **identify the reasons for, and take prompt action to reduce the high level of rent in arrears in the PRH/IH estates in Table 15;**
- (b) **assist PRH tenants with temporary financial hardship by inviting them to apply for rent reduction under the RAS and, subject to their consent, refer those with long-term financial problems to the SWD;**

Direct rent payment for CSSA households

- (c) **take follow-up action on households receiving CSSA payments with rent in arrears, having regard to the deferred implementation of the DRP;**
- (d) **in cooperation with the SWD, ensure that there is no further slippage in the implementation of the DRP;**

Provision of more convenient rent collection services

- (e) **expedite action so that convenience stores would provide rent collection services; and**
- (f) **take prompt action to reduce the number of estate shroff offices to achieve cost savings.**

Response from the Administration

5.22 The **Director of Housing** agrees with the audit recommendations. He has said that:

High level of domestic rent in arrears

- (a) the reasons for the high level of rent in arrears in the 14 PRH/IH estates are as follows:

- (i) the comparatively lower income families reside in the Long Bin, Po Tin and Shek Lei (II) IH estates;
 - (ii) the remaining PRH households in Tenant Purchase Scheme estates at Tai Ping, Nam Cheong, Wah Kwai, Tin Ping, Kwai Hing, Leung King and Tin King are mostly singleton elderly or low-income groups. About 70% better-off tenants have already purchased their PRH flats under the Scheme; and
 - (iii) according to the result of social surveys, more low-income groups are living in estates in Tin Shui Wai, Tuen Mun and Island districts (such as Lung Tin, Po Tin, Yat Tung (II) and Tin Yan estates);
- (b) the HD will continue to step up tenancy actions against habitual rent defaulter cases according to the prevailing policy;
 - (c) it has long been the HA's policy to grant rent reduction under the RAS to families with temporary financial hardship and refer these cases to the SWD where applicable. The HD will continue to publicise the RAS in PRH/IH estates with a high level of rent in arrears;

Direct rent payment for CSSA households

- (d) the HD will strengthen tenancy actions on habitual rent in arrears cases involving CSSA recipients before the implementation of the DRP;
- (e) the HD and the SWD are working closely and aiming at implementing the DRP in mid-2007;

Provision of more convenient rent collection services

- (f) the alternative collection channels for rent payments through convenience stores will be implemented in March 2007; and
- (g) the HD will take action to reduce the number of estate shroff offices accordingly upon the full implementation of the alternative rent collection channels.

5.23 The **Director of Social Welfare** has said that:

- (a) the SWD has all long been very cooperative and supportive in assisting the HD to solve the problem of rent defaulted by CSSA households. The implementation of the DRP is not solely a matter of technical readiness. It also hinges on other factors such as legal consideration as regards whether consent of CSSA recipients was required, and the HD's rent relief measures which affect the amount of CSSA payment and the SWD's capacity to deal with the subsequent workload generated; and
- (b) the SWD has been fully supportive of the HD's DRP initiative notwithstanding the change of plan and introduction of a new initiative half-way at short notice. The target of the SWD is to roll out the DRP in mid-2007 and the SWD would do its best to meet the target.

Recovery of public rental housing flats

5.24 The tenancy agreement states that the tenant is not allowed to assign, sublet or part with the possession of his PRH flat, and is required to pay rent punctually on the first day of each month. The HD will terminate the tenancy by giving one month's notice to the tenant when there is a breach of the terms of the tenancy agreement. An NTQ will be served on the tenant specifying the date on which he is required to give the HA vacant possession of the PRH flat. The tenancy is deemed to be terminated upon the expiry of the NTQ. The number of NTQs served on PRH tenants from 2003-04 to 2006-07 is shown in Table 16.

Table 16

**Number of NTQs served on PRH tenants
(2003-04 to 2006-07)**

Reason stated in NTQ	Number of NTQs			
	2003-04	2004-05	2005-06	2006-07 (up to September 2006)
Rent in arrears	4,268	6,215	9,598	4,700
Non-occupation of premises	254	446	536	291
Unauthorised occupation of premises	28	75	103	31
Others (such as subletting and improper usage of PRH flats)	180	278	344	201
Total	4,730	7,014	10,581	5,223

Source: HD records

5.25 If the tenant does not surrender the flat upon the expiry of the NTQ and no appeal on the NTQ has been lodged, estate office staff are required to visit the flat. A Notice to Occupier is served on the occupant informing him to deliver vacant possession of the flat in seven days, failing which the HD will take eviction action.

5.26 Upon the expiry of the Notice to Occupier, estate office staff are required to pay another visit to the PRH flat to ascertain whether the occupant has moved out voluntarily. If the flat is still occupied, an Eviction Notice will be served on the occupant within the next two days, informing him of the scheduled date of eviction. The period of the Eviction Notice lasts 21 days. Evictees who claim to be homeless are admitted to transit centres (see para. 5.3).

5.27 PRH tenants served with NTQs may lodge an appeal to the Appeal Panel (Housing) within 15 days from the date of the issue of the NTQ. The Appeal Panel (Housing) is an independent statutory body appointed to hear appeals from PRH tenants against the HA's decision to terminate their tenancies. A tenant who has lodged an appeal is allowed to live in the PRH flat until the Appeal Panel (Housing) has determined his case. During the appeal period, the tenants are required to pay mesne profits which are set at the same level as the rent of the flat concerned.

Audit observations

Long outstanding NTQ cases

5.28 To monitor the recovery of PRH flats after the issue of NTQs, estate office staff are required to update the ISHM with details of NTQs served and appeals lodged by PRH tenants. A monthly report “Flats not recovered within four months after NTQ expiry date” is generated for the HD management to monitor the situation of such flats.

5.29 According to the monthly report “Flats not recovered within four months after NTQ expiry date” as at 30 September 2006, there were 602 PRH flats which had not been recovered within four months after the NTQ expiry dates, and no appeals had been lodged by the tenants. An ageing analysis of these cases is shown in Table 17.

Table 17

**Ageing analysis of PRH flats not recovered
within four months after NTQ expiry dates
(30 September 2006)**

Period	Number of PRH flats
4 months to less than 6 months	127
6 months to less than 12 months	332
12 months to less than 24 months	126
24 months to less than 36 months	13
36 months to less than 60 months	3
60 months and above	1
	} 143
Total	602

Source: HD records

Audit noted that, as at 30 September 2006, 143 cases had remained outstanding for 12 months or more, including 17 cases lasting for 24 months or more. **Audit considers that the HD needs to expedite action to resolve these long outstanding NTQ cases.**

Reasons for deferring the recovery of PRH flats

5.30 To facilitate the HD management's monitoring of the recovery of PRH flats after issuing NTQs, estate office staff are required to input into the ISHM the reasons for deferring the recovery of flats in respect of long outstanding NTQ cases. The monthly report "Flat not recovered within four months after NTQ expiry date" lists out the reasons.

5.31 According to the monthly report as at 30 September 2006, in the ISHM there were only 39 (6%) out of the 602 outstanding NTQ cases with reasons recorded (e.g. seeking assistance from the SWD and awaiting the allocation of IH flats) for deferring the recovery of PRH flats. No reasons were recorded in the ISHM for the other cases. **Audit considers that the HD needs to ensure that the reasons for deferring the recovery of PRH flats after the NTQ expiry dates are promptly input into the ISHM.**

Audit recommendations

5.32 **Audit has recommended that the Director of Housing should:**

Long outstanding NTQ cases

- (a) **expedite action to resolve the long outstanding NTQ cases;**
- (b) **ensure that estate offices take prompt action to recover PRH flats after the NTQ expiry dates; and**

Reasons for deferring the recovery of PRH flats

- (c) **ensure that HD staff promptly input into the ISHM the reasons for deferring the recovery of PRH flats after the NTQ expiry dates.**

Response from the Administration

5.33 The **Director of Housing** agrees with the audit recommendations. He has said that:

Long outstanding NTQ cases

- (a) some of the tenants in the 602 cases had lodged appeals but such information was not updated in the ISHM. As at 26 February 2007, 418 (69%) out of the 602 outstanding cases were settled through the recovery of flats, re-grant of tenancies and invalidation of NTQs by the Appeal Panel (Housing). Action is being taken on the remaining 184 (31%) cases (i.e. 68 cases pending appeal hearing, 40 cases awaiting settlement of arrears by instalments, 6 cases pending compassionate rehousing by the SWD, 48 cases pending re-granting of tenancies and 22 cases pending recovery of flats). The 143 long outstanding cases of 12 months or more were either settled or with reasons given above. The HD has tightened up control measures on these cases. Regional Chief Managers have been assigned with this task;
- (b) estate offices have been reminded to take prompt action to recover PRH flats after the NTQ expiry dates through recirculation of standing instructions; and

Reasons for deferring the recovery of PRH flats

- (c) estate offices have been reminded to input into the ISHM the reasons for deferring the recovery of PRH flats after the NTQ expiry dates through recirculation of standing instructions.

Appeal cases

5.34 Under section 21 of the Housing Ordinance, a tenant, who has appealed against the NTQ served on him, shall not be deemed to be a trespasser until his appeal has been determined. The Appeal Panel (Housing), with administrative and secretarial support provided by the HD, hears appeals from PRH tenants. In 2001, the Internal Audit Unit of the HD reported that the average waiting time for hearing an appeal by the Appeal Panel (Housing) had increased to 5 months, and the number of backlog cases had increased to 400 cases in March 2001. The long waiting time for hearing appeals would delay the recovery of PRH flats from default tenants.

5.35 In March 2006, a Legislative Council Member expressed concern about possible abuse of the appeal procedures by PRH tenants as a means to defer rent payment. In reply, the HD said that it would shorten the waiting time for hearing appeals by increasing the number of members of the Appeal Panel (Housing) and the supporting staff. The number of members of the Appeal Panel (Housing) was increased from 42 in June 2006 to 54 in November 2006. The number of new appeal cases and the number of appeals heard by the Appeal Panel (Housing) in 2006 are shown in Table 18.

Table 18

**Number of new appeal cases and
number of appeals heard by the Appeal Panel (Housing)
(2006)**

Month	Number of new cases (a)	Number of cases withdrawn or rejected by the Appeal Panel (Housing) (b)	Number of appeals heard (c)	Net increase/ (decrease) (d) = (a) - (b) - (c)	Number of appeal cases carried forward
January	838	122	57	659	2,893
February	286	231	64	(9)	2,884
March	477	214	72	191	3,075
April	409	180	75	154	3,229
May	376	208	119	49	3,278
June	391	231	123	37	3,315
July	386	416	115	(145)	3,170
August	285	494	122	(331)	2,839
September	290	313	127	(150)	2,689
October	356	230	130	(4)	2,685
November	411	280	146	(15)	2,670
December	354	252	106	(4)	2,666
Total	4,859	3,171	1,256	432	

} Average (108)

Source: HD records

Remarks: The number of cases brought forward to January 2006 was 2,234.

Audit observations

5.36 Since the increase in the number of members of the Appeal Panel (Housing) in July 2006, the number of outstanding appeal cases has decreased, on average, by 108 each month. Audit noted that the number of outstanding appeal cases had increased from 400 cases in March 2001 to 2,666 cases in December 2006. **Audit considers that the long waiting time for hearing appeals delays the recovery of PRH flats from the tenants. The HD needs to expedite action to clear the large number of outstanding appeal cases.**

Audit recommendation

5.37 **Audit has recommended that the Director of Housing should expedite action to clear the large number of outstanding appeal cases (e.g. increasing the number of members of the Appeal Panel (Housing) and strengthening the administrative and secretarial support to the Panel).**

Response from the Administration

5.38 The **Director of Housing** agrees with the audit recommendation. He has said that the HD has secured additional resources from 2007-08 to 2009-10 to enable the Appeal Panel (Housing) to expand its membership further and to strengthen the administrative and secretarial support to the Panel. The number of members of the Appeal Panel (Housing) will increase to 80 in April 2007 and will further increase to over 100 in 2008-09 and 2009-10.

Appendix A
(paras. 3.4 and 3.16 refer)

**Actions to be taken by estate offices on cases involving
deceased persons and elderly persons admitted to residential care homes**

Action to be taken	Status of a deceased person			Status of an elderly person admitted to residential care homes		
	Tenant	Tenant of single-person household	Family member	Tenant	Tenant of single-person household	Family member
Estate office should take follow-up action with a view to deleting the name of the deceased/elderly person from the tenancy record.	✓	✓	✓	✓	✓	✓
Estate office should urge the spouse to take over the tenancy without the need to undergo the CMT. If the tenant has no spouse or the spouse is not an authorised member of the PRH flat, estate office should urge the family members to nominate a new tenant. The household is subject to the CMT. The household is required to pay 1.5 times or double rent if the total monthly income exceeds the Subsidy Income Limits. The household is required to vacate the PRH flat if the total monthly income and net asset value exceed the prescribed limits. However, they may stay at the flat for a period of not more than one year and pay the market rent.	✓			✓		
Estate office should terminate the tenancy and recover the PRH flat. For cases involving unauthorised occupation of the PRH flat, estate office should issue a Notice to Occupier to inform the unauthorised occupant(s) to move out of the flat.		✓			✓	
Estate office should transfer the household to other suitable flat if the number of household members is below the minimum number of persons set for the PRH flat.	✓		✓	✓		✓

Source: HD records

Appendix B
(paras. 3.8, 3.10 and
3.12 refer)

**Cases involving deceased tenants and deceased family members
(4 October 2006)**

Period outstanding	Deceased tenants		Deceased tenants of single-person households		Deceased family members	
	Number of cases	Percentage	Number of cases	Percentage	Number of cases	Percentage
2 months to 12 months	1,534	67%	68	80%	1,012	65%
Over 12 months to 24 months	455	20%	13	15%	331	21%
Over 24 months to 36 months	172	8%	1	1%	133	9%
Over 36 months to 48 months	75	3%	2	3%	52	3%
Over 48 months to 60 months	25	1%	-	-	18	1%
Over 60 months to 96 months	27	1%	1	1%	15	1%
Total	2,288	100%	85	100%	1,561	100%

Source: HD records

Appendix C
(paras. 3.21, 3.23 and
3.25 refer)

**Cases involving elderly tenants and elderly
family members admitted to residential care homes
(22 September 2006)**

Period outstanding	Elderly tenants		Elderly tenants of single-person households		Elderly family members	
	Number of cases	Percentage	Number of cases	Percentage	Number of cases	Percentage
4 months to 12 months	321	18%	35	34%	241	19%
Over 12 months to 24 months	353	20%	24	23%	260	20%
Over 24 months to 36 months	388	22%	9	8%	267	21%
Over 36 months to 48 months	500	29%	30	29%	359	28%
Over 48 months to 60 months	79	5%	2	2%	57	5%
Over 60 months to 96 months	113	6%	4	4%	89	7%
Total	1,754	100%	104	100%	1,273	100%

Note: Brackets in the original table indicate that for elderly tenants, the last four categories (Over 36 to 96 months) total 1,433 cases (82%). For elderly tenants of single-person households, the last three categories (Over 36 to 96 months) total 69 cases (66%). For elderly family members, the last four categories (Over 36 to 96 months) total 1,032 cases (81%).

Source: HD records

**The major rent and exemption indicators
in the Integrated System for Housing Management**

Rent indicator	Annotation
D	Double rent (HSP)
E	1.5 times rent (HSP)
F	Normal rent (TMP)
G	1.5 times rent (TMP)
J	Double rent (TMP)
N	Normal rent (HSP)
T	Tenancy not due for income review (HSP)
W	Market rent
X	Normal rent (PGNT)
Y	1.5 times rent (PGNT)
Z	Double rent (PGNT)

Exemption indicator	
AEM	All elderly members

Source: HD records

Appendix E
(para. 4.18 refers)

**Under-occupied households allocated with
two or three public rental housing flats
(6 October 2006)**

Household size	Households occupying two PRH flats		Households occupying three PRH flats		Total number of households
	Number	Total internal floor area in square metres	Number	Total internal floor area in square metres	
	(a)		(b)		(c) = (a) + (b)
1 person	11	27 to 47	–	–	11
2 persons	85	37 to 75	–	–	85
3 persons	435	44 to 78	2	49 to 53	437
4 persons	400	56 to 88	2	70 to 79	402
5 persons	575	62 to 87	6	69 to 70	581
6 persons	147	71 to 88	1	103	148
Total	1,653		11		1,664

Source: HD records

Acronyms and abbreviations

Audit	Audit Commission
CMT	Comprehensive means test
CSSA	Comprehensive Social Security Assistance
DRP	Direct rent payment
EMMS	Estate Management and Maintenance System
HA	Hong Kong Housing Authority
HD	Housing Department
HSP	Housing Subsidy Policy
IH	Interim housing
ISHM	Integrated System for Housing Management
LSITS	Living Space Improvement Transfer Scheme
NTQ	Notice-to-Quit
PGNT	Policy on the Grant of New Tenancy
PHRMS	Public Housing Resources Management Sub-section
PRH	Public rental housing
PSRA	Policy on Safeguarding Rational Allocation of Public Housing Resources
RAS	Rent Assistance Scheme
RVD	Rating and Valuation Department
SWD	Social Welfare Department
TMP	Tenancy management policies
TWORS	Territory-wide Overcrowding Relief Scheme