CHAPTER 2

THE GOVERNMENT OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION

GENERAL REVENUE ACCOUNT

GOVERNMENT DEPARTMENTS

Rating and Valuation Department
Home Affairs Department

Rating and Valuation Department's assessment of rates and government rent

Audit Commission
Hong Kong
31 March 2003

RATING AND VALUATION DEPARTMENT'S ASSESSMENT OF RATES AND GOVERNMENT RENT

Contents

RATING AND VALUATION DEPARTMENT'S ASSESSMENT OF RATES AND GOVERNMENT RENT

Summary and key findings

A. **Audit review.** The Rating and Valuation Department (RVD) is responsible for the assessment of rates under the Rating Ordinance and government rent under the Government Rent (Assessment and Collection) Ordinance. For the year 2002-03, the estimates for rates and government rent collectible are $9,143 million and $4,300 million respectively. Audit has recently conducted a review to examine the RVD's efforts in rating valuations and assessments, and to ascertain whether there are areas for improvement in the RVD's performance (paras. 1.2 and 1.14). The audit findings are summarised in paragraphs B to J below.

B. **General revaluations.** The RVD carries out a general revaluation (GR) every year to bring rateable values up to date and to redistribute the liability for rates and government rent fairly (para. 2.2). Audit notes that there are two areas that require attention, as follows:

(a) ***Rental information.*** Rental information is important for assessing rateable values. The RVD relies mainly on the return by owners or occupiers of the prescribed forms (Form R1As) to obtain rental information. However, only about 6% of the Form R1As issued during the GR period gave the RVD usable rental information for GR purposes. For the 2002-03 GR, the RVD only achieved a rental evidence ratio of 39:1. This means that, for every 40 tenements assessed in that GR, rental information of only one tenement was obtained. Audit considers that there is a need for the RVD to vigorously explore ways of obtaining more rental information to improve the rental evidence ratio (paras. 2.3 to 2.5); and

(b) ***Property characteristics.*** The RVD takes into account the characteristics of properties (e.g. location, view and amenities) in assessing rateable values. The RVD relies on various means to identify physical changes to properties, including the conduct of annual tenement reviews under a rolling programme (RP). Audit notes that, while the RP provides an important means of updating property characteristics, it has only covered 5% of all assessments since its commencement in 2000. With the RP entering its fourth year, Audit considers that it is now opportune for the RVD to conduct a comprehensive review of its cost-effectiveness, scope of coverage and, more importantly, the way forward to realise its full potential (paras. 2.12 to 2.16).

C. **Timeliness of interim valuations.** It is important for the RVD to complete interim valuations within 24 months, from the date on which the rates first become due. Failure to meet this requirement will result in revenue loss because, under the Rating Ordinance, the RVD cannot backdate the rates demand for more than 24 months (i.e. the 24-month time-bar, para. 3.3(b)). Audit has found that:

(a) the RVD did not have regular management reports showing the number of tenements for which the 24-month time-bar requirement had not been met. Audit's analysis revealed that 2,252 interim valuations, made during the 18-month period July 2001 to December 2002, had failed to meet this requirement. The revenue loss in these cases could amount to $12.7 million (paras. 3.9 and 3.10); and

(b) the interim valuations for a large number of rural properties (totalling 29,443 tenements) were still outstanding, but they were not reported in the monthly submissions to the RVD's senior management. Many of these outstanding interim valuations had already exceeded the 24-month time-bar for backdating rates (paras. 3.15 and 3.16).

D. **Performance indicators.** The performance indicators used by the RVD are inadequate for measuring efficiency and effectiveness. Audit considers that there is a need for the RVD to develop more performance indicators on efficiency and effectiveness and publish them in the Controlling Officer's Report and through other means (para. 4.5).

E. **Outsourcing opportunities.** Audit's research indicates that it is a common practice for rating authorities abroad to outsource part of their valuation work. In 2002, the RVD adopted a new outsourcing initiative. Through the outsourcing exercise, the RVD expedited the clearance of the outstanding caseload and, at the same time, achieved savings. To realise the full potential of outsourcing, Audit considers that there is a need for the RVD to devise a clear strategy for progressively increasing the scale of outsourcing (paras. 5.3 to 5.7).

F. **Designated village areas.** Designated village areas (DVAs) are protected zones within which all village type houses (VTHs) are exempted from rates. Following a policy review in 1992, the Government stated that the designation of DVAs should be restricted to those village areas which retained the essential character of New Territories (NT) villages. During the years 1993 to 1998, the RVD completed four de-designation reviews resulting in the de-designation of 225 DVAs. However, de-designation action has ceased since 1998. As at November 2002, there were still 107 DVAs. With the fast development of the NT in the past decade, Audit considers that rates exemption en bloc may no longer be justified in some DVAs, and that the de-designation exercise needs to be resumed as early as possible. If all the 107 remaining DVAs are de-designated, rates amounting to $20 million a year could be collected (paras. 6.3, 6.5, 6.7, 6.9, 6.11 and 6.12).

G. **Rates exemption for individual VTHs outside DVAs.** Individual VTHs outside DVAs may also be exempted from rates, upon application by indigenous villagers. To be eligible for rates exemption, the VTHs must be occupied by indigenous villagers, or their immediate family members, for domestic purposes. The Director of Home Affairs is the authority for approving such applications. As at November 2002, there were some 20,000 VTHs outside the DVAs which had been granted rates exemption. Audit notes that the Home Affairs Department (HAD) does not have sufficient and updated information for monitoring the changes in eligibility of exempted cases, particularly in cases involving the letting out of the VTHs. Audit considers that the HAD needs to strengthen its monitoring of the exempted cases by proactively conducting periodic checks to ensure that the rates exemptions are valid (paras. 6.4, 6.16, 6.17 and 6.19).

H. **Suspension of government rent demands.** Interests in land are exempted from liability to pay government rent if certain exemption criteria are met. After submitting an application to the Lands Department (LandsD) for rent exemption, the applicant may apply to the RVD for suspension of rent demands, pending the outcome of the rent exemption application. According to the RVD's records, a large number of tenements had their rent demands suspended for a long period of time. However, Audit's enquiries revealed that the LandsD had already ruled that many of these cases (in particular those received by the RVD before 2000) did not qualify for rent exemption. Audit considers that there is a need for the RVD to take immediate action to recover the suspended rent for these cases which, over the years, had accumulated to $66 million (paras. 7.2 to 7.5 and 7.7).

I. **Rating of advertising signs.** The RVD is empowered by law to separately assess advertising signs for rating purposes. Advertising signs present a problem in assessment because they are not subject to registration and are regularly altered, dismantled or abandoned. For those advertising signs that are illegally erected, there is no sure way of knowing their existence other than by site inspection by RVD staff. An audit survey of advertising signs, conducted during the period November 2002 to January 2003 in selected areas, indicated that there was room for improvement in the RVD's performance in identifying advertising signs for rates assessment (paras. 8.2, 8.4 and 8.8 to 8.10).

J. **Change in use of agricultural land.** Agricultural land is exempted from assessment to rates. However, when changes in the use of agricultural land have occurred, the land may become liable to be assessed to rates. In December 2002, Audit conducted a survey in two selected areas, focusing on the unauthorised use of agricultural land for commercial car park operations, to see how effective the RVD was in identifying changes in the use of agricultural land for rating purposes. The results indicated that there was room for improvement in the RVD's performance (paras. 9.2 to 9.4 and 9.7).

K. **Audit recommendations.** Audit has made the following main recommendations that the Commissioner of Rating and Valuation should:

General revaluations

(a) draw up an action plan to explore ways of improving the rental evidence ratio (para. 2.17(a));

(b) consider taking enforcement actions to ensure that owners and occupiers comply with the statutory requirements of completing the Form R1As properly and returning them to the RVD within the specified time (para. 2.17(c));

(c) in consultation with the Inland Revenue Department and the Department of Justice, revisit the issue of obtaining and using the rental information in the stamped leases for rating purposes (para. 2.17(e));

(d) conduct a comprehensive review of the RP and, in the light of the results, develop a clear strategy for the RP, including defining its long and short-term objectives, setting annual performance targets and drawing up action plans for monitoring the results (para. 2.17(g) and (h));

Timeliness of interim valuations

(e) require sufficient management information to be provided to the RVD's senior management for effectively monitoring the RVD's performance with regard to the 24-month time-bar requirement (para. 3.18(c));

Performance indicators

(f) in line with practices in advanced countries, develop and publish more performance indicators for measuring efficiency and effectiveness (para. 4.7(a));

Outsourcing opportunities

(g) devise a long-term strategy for progressively increasing the scale of outsourcing the RVD's work (para. 5.8(a));

Designated village areas

(h) draw up an action plan, with clear milestone dates, to complete the de-designation reviews of the remaining 107 DVAs as soon as possible (para. 6.13(a));

Suspension of government rent demands

(i) take immediate action to recover the suspended government rent as soon as the LandsD has ruled that the tenements do not qualify for rent exemption (para. 7.12(a)); and

Rating of advertising signs and change in use of agricultural land

(j) adopt a more structured approach to enable RVD staff to carry out more effectively the work of identifying advertising signs and changes in land use for rating purposes (paras. 8.11(a) and 9.8(a)).

L. With regard to the audit findings on rates exemption for VTHs outside DVAs (see para. G above), Audit has recommended that the Director of Home Affairs should conduct periodic checks to ascertain if there are changes in eligibility of the exempted cases (para. 6.22(a)).

M. **Response from the Administration.** The Administration generally agrees with Audit's recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the objectives and scope of the audit.

Background

1.2 The Rating and Valuation Department (RVD) is responsible for the assessment of properties to rates under the Rating Ordinance (Cap. 116) and government rent under the Government Rent (Assessment and Collection) Ordinance (Cap. 515). For the year 2002-03, the estimates for rates and government rent collectible are $9,143 million and $4,300 million respectively (i.e. $13,443 million in total).

1.3 ***Rates.*** Properties in all parts of Hong Kong are liable to be assessed to rates. Rates are levied on real property at a percentage of the rateable value. The rateable value of a property is the estimated annual open market rental value at a designated valuation reference date, assuming that the property was then vacant and to let. The percentage charged is determined by the Legislative Council (LegCo). For the year 2002-03, the designated valuation reference date is 1 October 2001 and the percentage of rates charge is 5%.

1.4 ***Government rent.*** Government rent, under the Government Rent (Assessment and Collection) Ordinance, refers to government rent payable on extension of non-renewable land leases (Note 1), and for new land leases granted, since 27 May 1985 (Note 2). The rent charge has remained at 3% of the current rateable value of a property. The basis of assessment of the rateable value for government rent purposes is the same as that for rates.

Valuation List and Government Rent Roll

1.5 Each year, the Commissioner of Rating and Valuation is responsible for compiling the Valuation List of landed properties throughout the territory under the Rating Ordinance. The Valuation List is a record of all properties assessed to rates with their corresponding rateable

---

Note 1: *The assessment and collection of government rent chargeable during the renewed term of a renewable lease are governed by the Government Leases Ordinance (Cap. 40) which provides that such rent payable shall be assessed at 3% of the rateable value of the property as at the date of renewal and will remain unchanged until the property is redeveloped.*

Note 2: *27 May 1985 was the date from which the Sino-British Joint Declaration took effect. All land leases granted since that date are liable to government rent from 1 July 1997.*

values. The Valuation List as at 1 April 2002 contained approximately 2 million assessments with a total rateable value of $275 billion.

1.6 The Commissioner of Rating and Valuation is also responsible for the compilation of the Government Rent Roll under the Government Rent (Assessment and Collection) Ordinance. The Government Rent Roll contains the rateable values of all properties liable for assessment. As at 1 April 2002, the Government Rent Roll contained approximately 1.45 million assessments with a total rateable value of $137 billion.

1.7 ***Interim valuations and deletions.*** The RVD maintains the Valuation List and the Government Rent Roll by adding new properties that have become liable to rates and/or government rent, and deleting properties that have ceased to be liable. The process of maintaining the Valuation List and the Government Rent Roll is effected by "interim valuations" and "deletions".

1.8 ***Annual General Revaluations.*** Rental values change over time. Since 1999, General Revaluations (GRs) are carried out every year in order to bring rateable values up to date.

1.9 ***Accounting and billing.*** In 1995, the RVD took over the functions of rates billing and maintenance of rates accounts from the Treasury. In June 1997, the RVD assumed responsibility for the charging of government rent under the relevant ordinance. Rates and government rent are payable quarterly in advance. Where a property is liable to both rates and government rent, a combined demand note is issued.

Organisation of the RVD

1.10 As at December 2002, the RVD had 11 Divisions supported by about 960 staff. An extract of the organisation chart of the RVD is at Appendix A.

Information systems strategy

1.11 At present, the RVD operates 12 major computer systems, including the Property Master System (PMS), the General Revaluation System (GRS) and the Rental Information System (RIS).

1.12 The PMS is an infrastructural system that provides the basic property information. The GRS supports the GR work each year, the results of which are input into other computer systems for analysis and billing. The RIS maintains rental information to support the RVD's rating assessment and to provide rental advice.

1.13 The RVD places strong emphasis on the continuing development of information technology capabilities to meet service demands. Several projects will be implemented over the next few years with a view to further enhancing efficiency and cost effectiveness.

Audit review

1.14 In recent years, the RVD has experienced an upsurge of workload due mainly to the implementation of various government initiatives including the introduction of the new government rent in 1997 and the annual GRs in 1999. The RVD has made commendable efforts to cope with the additional workload without a corresponding increase in its staff establishment. Against this background, Audit has recently conducted a review to examine the RVD's efforts in rating valuations and assessments, and to ascertain whether there are areas for improvement in the RVD's performance. The audit has focused on the following areas:

(a) General Revaluations (see PART 2 below);

(b) timeliness of interim valuations (see PART 3 below);

(c) performance indicators (see PART 4 below);

(d) outsourcing opportunities (see PART 5 below);

(e) rates exemptions of village type houses (see PART 6 below);

(f) suspension of government rent demands and cancellation of rent exemption (see PART 7 below);

(g) rating of advertising signs (see PART 8 below); and

(h) change in use of agricultural land (see PART 9 below).

PART 2: GENERAL REVALUATIONS

2.1 This PART examines the RVD's annual GR process.

Objective of GRs

2.2 The rateable value of a property is the estimated annual open market rental value at a designated valuation reference date. Rental values vary in different locations and change over time for different categories of properties. Since 1999, GRs are carried out every year to bring rateable values up to date and to redistribute the liability for rates and government rent fairly. These are tasks of a very large scale. For example, in the GR for 2002-03, approximately 2 million assessments in the Valuation List and 1.45 million assessments in the Government Rent Roll were reviewed.

Rental information

2.3 ***Form R1As.*** The RVD relies mainly on rental information returned by owners or occupiers in Form R1As to support the rating assessments (Note 3). Each year, during the GR exercise, the RVD issues Form R1As in bulk to owners or occupiers selected according to a set of pre-determined criteria. As shown in Table 1 below, for the past two GRs (i.e. the 2001-02 and 2002-03 GRs), only about 6% of the Form R1As issued gave usable rental information for GR purposes.

Note 3: *Form R1As are also called "Requisitions for Particulars of Tenements". They are served on owners or occupiers requiring them to furnish up-to-date occupation and tenancy particulars of specified tenements to the RVD for rating and valuation purposes.*

Table 1

Results of the 2001-02 and 2002-03 GRs

	Particulars (Note 1)	**2001-02 GR**		**2002-03 GR**	
		No.	**% based on (a)**	**No.**	**% based on (a)**
(a)	Bulk issue of Form R1As	623,000	(100%)	661,000	(100%)
(b)	Form R1As returned	468,000	(75%)	477,000	(72%)
(c)	Rental information obtained (Note 2)	103,400	(17%)	90,000	(14%)
(d)	**Usable rental information (Note 3)**	**35,500**	**(6%)**	**36,800**	**(6%)**

Source: *RVD's records*

Note 1: *The GR for 2001-02 was conducted in the financial year 2000-01, the core period being October 2000 to February 2001. Similarly, the GR for 2002-03 was conducted in the financial year 2001-02, the core period being October 2001 to February 2002.*

Note 2: *Of the returned Form R1As, only a relatively small percentage contained rental information. Most indicated that the properties were owner-occupied or vacant.*

Note 3: *Only rental information with lease commencement dates falling within the period from July to next January was relevant for GR purposes. However, not all of these data were used. Some 20% of these data (such as unreasonable rentals obtained, rentals under short-term tenancy, part-let and furnished lettings) were regarded as outliers and were not used.*

2.4 ***Rental evidence ratio.*** The RVD conducts a post-GR review (referred to as the Post-GR Statistical Audit) after each GR exercise to ascertain whether the rateable values have been set correctly and whether relative equity has been achieved between and within groups of assessment. This includes a review of the adequacy of rental information obtained for GR purposes. The rental evidence ratio is used as a means of measuring such adequacy (Note 4). As shown in Table 2 below, overall, the rental evidence ratios ranged from 34:1 to 39:1 for the past three GRs.

Note 4: *Rental evidence ratio = Number of tenements assessed without rental evidence : Number of tenements with rental evidence obtained*

Table 2

Rental evidence ratios for the past three GRs

Type of tenement	Rental evidence ratio		
	2000-01 GR	**2001-02 GR**	**2002-03 GR**
Domestic	53 : 1	49 : 1	61 : 1
Non-domestic	14 : 1	12 : 1	14 : 1
Parking	61 : 1	42 : 1	29 : 1
Overall	**38 : 1**	**34 : 1**	**39 : 1 (Note)**

Source: RVD's records

Note: There are many different property types and their rental evidence ratios differ significantly. For example, for the 2002-03 GR, the ratios ranged from 9:1 for arcade shops to 136:1 for small domestic houses. More information about the rental evidence ratios for the various property types is at Appendix B.

Using the overall rental evidence ratio of the 2002-03 GR (i.e. 39:1) as an illustration, this means that for every 40 tenements assessed in that GR, rental information of only one tenement was obtained. The RVD used the rental information obtained as references for assessing the rateable values of similar units in the same developments. For high-rise buildings, where there were a number of similar, related assessments, the rental information obtained could serve as references for many assessments within a common building or development.

Audit observations on rental evidence ratio

2.5 Rental information is important for assessing rateable values. Audit notes that the RVD's post-GR reviews have consistently referred to the need for the RVD to consider possible ways of gathering more rental information during the GR core period (i.e. October to next February). **To address this need, Audit considers it necessary for the RVD to draw up an action plan to vigorously explore ways of obtaining more rental information to improve the rental evidence ratio.** Audit's review indicates that the following possible courses of action are worth pursuing:

(a) increasing the return rate of Form R1As and deterring mis-reporting of rental information (see paras. 2.6 to 2.7 below); and

(b) making use of the stamp duty collection process at the Inland Revenue Department (IRD) to obtain rental information (see paras. 2.8 to 2.11 below).

Audit observations on Form R1As

2.6 ***Need for enforcement action.*** As shown in Table 1 of para. 2.3 above, although the return of Form R1As is a statutory requirement, the return rates for the GRs for 2001-02 and 2002-03 were only 75% and 72% respectively. The RVD does not strictly enforce this requirement and has not taken action to invoke the penalty provision in the Rating Ordinance (Note 5) to deter non-compliance. Furthermore, for domestic tenements, the RVD does not issue reminders in cases where no return is received within the specified time. **In Audit's view, more vigorous actions are needed to remind owners and/or occupiers of their statutory obligations of submitting returns and to enforce this requirement.**

2.7 ***Need for verification procedures.*** Given the annual revenue of $13,443 million from rates and government rent (see para. 1.2 above), an under-assessment of the total rateable values by as little as one percent could result in a revenue loss of $134 million a year. Therefore, it is important for the RVD to manage the risks of under-reporting of rental income in the returned Form R1As. However, the RVD does not verify the rental information reported in the Form R1As, although it is empowered by law to require the owner or occupier to submit receipts or other related documents for inspection. **To protect government revenue, Audit considers it necessary for the RVD to critically assess the risks of under-reporting of rental information in Form R1As and, in the light of the results, consider drawing up verification procedures (say, on a test-check basis) to detect and deter under-reporting.**

Audit observations on making use of the stamp duty collection process at IRD

2.8 ***Useful rental information in stamped leases.*** The Stamp Duty Ordinance (Cap. 117) provides for the charging and stamping of specified instruments including leases of properties. In the 12 months ended October 2002, the Stamp Office of the IRD received some 194,000 leases for stamping (Note 6). These leases contain a large quantity of usable rental information, especially in comparison with the just 36,800 pieces of usable rental information obtained through the issue of Form R1As in the GR for 2002-03 (see item (d) in Table 1 of para. 2.3 above). Furthermore, the information in the stamped leases is more likely to reflect the genuine market rents, and hence is more reliable than that in the Form R1As.

2.9 ***RVD has no access to rental information in stamped leases.*** At present, the RVD has no access to the rental information in the stamped leases because of legal concerns (see para. 2.10 below). Instead, under an agreed arrangement to facilitate the RVD's rating work, IRD staff help

---

Note 5: *According to sections 45 and 46 of the Rating Ordinance, any person who knowingly makes a false statement in furnishing information to the RVD or refuses or neglects to furnish any of the particulars specified in Form R1As shall be guilty of an offence and shall be liable on conviction to a fine.*

Note 6: *The figure of 194,000 does not include an estimated 186,000 duplicate copies of leases submitted for stamping. Under the present arrangement, after stamping, the IRD returns the leases (both original and duplicate) to the applicants. The IRD does not keep a record of the rental information contained in the stamped leases.*

the RVD distribute a questionnaire on rental information (RVD 675) to stamp duty applicants, when they present their leases at the Stamp Office for stamping. However, as return of the questionnaire is voluntary, the return rates so far have not been satisfactory. For example, in the 12-month period ended October 2002, the RVD's records indicated that only about 2,400 questionnaires were returned to the RVD, representing only 1.2% of the 194,000 leases stamped.

2.10 ***Legal advice in 1995.*** In 1995, legal advice was sought on whether disclosure by the IRD to the RVD of rental information in the stamped leases was in breach of the IRD's duty of confidentiality. The advice of the Department of Justice (D of J) then was that ***the issue was not entirely free from doubt*** but, for the sake of prudence, ***it seemed inadvisable not to treat such information as confidential*** since the leases might not necessarily become public documents (for details see Appendix C).

2.11 ***Need to revisit the issue.*** **Given the significant quantity of rental information in the stamped leases (and the apparently inconclusive legal advice obtained in 1995), Audit considers it worthwhile for the RVD to revisit this issue in consultation with the IRD and the D of J. There is a need to critically review the relevant legal provisions (Note 7), to see if legal constraints really exist and, if so, how they can be overcome by legislative amendments.** In this connection, Audit's research indicates that some rating authorities abroad (e.g. in Singapore and the UK) are using, to varying degrees, the information in the stamped leases for rating purposes. A brief description of the Singaporean and UK practices is at Appendix D. The RVD can draw on their experiences in revisiting this issue.

Property characteristics

2.12 Apart from rental information, the RVD also takes into account the characteristics of the properties in assessing the rateable values of individual tenements. The characteristics include the age, size and location of the properties and other details such as the view, amenities, level of noise and nuisance.

2.13 Property characteristics for individual tenements are captured during the interim valuation process and are kept in the PMS. In order to ensure valuation accuracy and equity, it is necessary for the RVD to maintain an up-to-date, accurate and complete property database. The RVD relies mainly on the following means to update the PMS:

(a) ***Site visits.*** In handling objections to rates assessments, RVD staff conduct site visits where necessary. During the site visits, they may note physical changes that may affect property characteristics. For example, the construction of a flyover may affect the view and noise level of the nearby buildings;

Note 7: *It should be noted that those leases presented to the IRD are stamped under the Stamp Duty Ordinance. While section 4 of the Inland Revenue Ordinance (Cap.112) provides for the keeping of secrecy of information obtained under that Ordinance, there is no similar secrecy provision in the Stamp Duty Ordinance. This indicates that the information obtained under the Stamp Duty Ordinance is not as sensitive as that obtained under the Inland Revenue Ordinance.*

(b) ***Rolling Programme.*** Under a Rolling Programme (RP), the RVD conducts a tenement review each year (from February to June) to identify physical changes to properties and to review the relativity of the rateable values within and between buildings. In selecting properties for review, the factors to be considered include comments from senior professional staff in charge of the GR exercise, results of the post-GR review and properties identified in the last RP exercise but not reviewed because of other work interruptions (e.g. the handling of objections); and

(c) ***Information from other government departments.*** This source includes, for example, the Buildings Department which passes information to the RVD concerning new and demolished buildings, alterations and additions to existing buildings, and improvements that are subject to rates assessment.

Audit observations on the RP for updating property characteristics

2.14 ***RP reviews are useful.*** Audit notes that the RP provides an important means of updating property characteristics. The findings of the RP reviews have been very useful. Since the commencement of the current programme in 2000, the RP reviews have identified numerous changes of property characteristics resulting in updating of data in the PMS. However, it is a resource-intensive programme. Although considerable manpower resources (i.e. 19 man-years) had been deployed in the last three years, the reviews only covered 5% of all assessments (Note 8).

2.15 ***Criteria needed for selection of properties for review.*** Given the heavy resources required and the limited coverage of each RP review, the choice of properties to be covered in the review is very important. While the selection of properties for review depends on a number of factors (see para. 2.13(b) above), the RVD has no clear guidelines on how these factors are applied to select the properties to be reviewed. **To maximise the benefits of each RP review, Audit considers that there is a need for the RVD to establish clear criteria for prioritising the subject properties and for monitoring the outcome of the RP reviews in a systematic manner.**

2.16 ***Need for long-term strategy.*** **With the RP entering its fourth year, Audit considers that it is now opportune for the RVD to conduct a comprehensive review of its cost effectiveness, scope of coverage and, more importantly, the way forward to realise its full potential. After such a review, there is a need for the RVD to develop a clear strategy for the RP, define its long and short-term objectives, set annual performance targets and draw up action plans (with clear milestone dates) for monitoring the results.**

Note 8: *The three years' RP reviews had covered only 100,354 assessments. Given a total of 2 million assessments, the RP reviews had covered only about 5% of all assessments.*

Audit recommendations on the GR process

2.17 **Audit has *recommended* that the Commissioner of Rating and Valuation should:**

Rental information

(a) **draw up an action plan to explore ways of improving the rental evidence ratio (see para. 2.5 above);**

(b) **remind owners and occupiers of the statutory requirement of properly completing the Form R1As and returning them to the RVD within the specified time (see para. 2.6 above);**

(c) **consider taking enforcement actions to ensure that owners and occupiers comply with the statutory requirements (see para. 2.6 above);**

(d) **critically assess the risks of under-reporting of rental information in Form R1As and, in the light of the results, consider drawing up verification procedures (on a test-check basis) to detect and deter under-reporting (see para. 2.7 above);**

(e) **in consultation with the IRD and the D of J, revisit the issue of obtaining and using the rental information in the stamped leases for rating purposes and, in this regard, draw on the experiences of other rating authorities (see para. 2.11 above);**

Property characteristics

(f) **establish clear criteria for prioritising the subject properties and for monitoring the outcome of the RP reviews in a systematic manner (see para. 2.15 above);**

(g) **conduct a comprehensive review of the RP, particularly covering its cost-effectiveness and the way forward in order to realise its full potential (see para. 2.16 above); and**

(h) **in the light of the results of the comprehensive review, develop a clear strategy for the RP, define its long and short-term objectives, set annual performance targets and draw up action plans (with clear milestone dates) for monitoring the results (see para. 2.16 above).**

Response from the Administration

2.18 The **Commissioner of Rating and Valuation** has accepted the audit recommendations. He has said that:

Rental information

(a) the return rate of Form R1As for the 2003-04 GR (which was in progress at the time of the audit) has improved to 82%, compared with 72% for the 2002-03 GR;

(b) in the 2002-03 GR exercise, the RVD issued reminders to the ratepayers for 15,000 commercial properties who did not return the Form R1As on time. Following the issue of the reminders, 2,700 such forms were received. In future, as far as resources permit, the RVD will also send reminders to the ratepayers of domestic properties;

(c) the RVD will consider additional measures to remind owners and occupiers of the statutory requirement for completing Form R1As and returning them within the specified time. These include stepping up publicity efforts and revising the forms to include a warning that failure to comply with the statutory requirement attracts a level 4 penalty (i.e.$10,001 to $25,000). After reviewing the effectiveness of other improvement measures, the RVD will consider, in consultation with the D of J, taking enforcement action against non-response to rental information requisition forms;

(d) on reliability of data, in ascertaining the rateable values, the RVD screens out the rentals which are exceptionally high or low to arrive at a more unbiased analysis. In future, the RVD will draw up verification procedures for sample checks (particularly those which appear to be over or under-reporting) to detect and deter mis-reporting of rental information in Form R1As;

(e) subject to the passage of the Stamp Duty (Amendment) Bill 2002, which was introduced into LegCo in December 2002, the IRD will introduce an electronic stamping (e-stamping) service in 2004 for receiving property-related stamp duty applications and issuing stamp duty certificates. The RVD already has plans to introduce an arrangement whereby, when an applicant files an e-stamping submission for his lease, he will be invited to fill in concurrently an RVD questionnaire on rental information. If this is implemented, the RVD expects that more useful rental information can be obtained. The RVD will continue to take forward this proposal, in consultation with the IRD and the D of J;

(f) the RVD understands that the effectiveness of the arrangement mentioned in (e) above will depend on the take-up rate of e-stamping submissions and the willingness of the applicants to complete the questionnaires voluntarily. The RVD will conduct a post-implementation review at an appropriate time to assess the effectiveness of the arrangement and consider whether further measures should be taken to help the RVD achieve its objective of obtaining useful rental information from stamped leases;

Property characteristics

(g) for the purpose of the RP, the RVD is already prioritising properties by dealing with the high-risk ones with identified changes in physical characteristics, using the factors mentioned in paragraph 2.13(b) above. Nevertheless, the RVD will consider establishing performance targets and criteria for prioritising properties to be reviewed under the programme; and

(h) the RP has so far been operating well in identifying anomalies. Nevertheless, the RVD will assess the cost-effectiveness, scope of coverage and the long and short-term objectives of the programme. It will also consider the feasibility of conducting a systematic review of all properties.

2.19 The **Commissioner of Inland Revenue** has said that the IRD has made verbal consultation with the RVD and the D of J, in considering the implementation of Audit's recommendation on the issue of obtaining and using the rental information in the stamped leases for rating purposes (see para. 2.17(e) above). She has also said that:

(a) at present, the Stamp Office of the IRD does not require stamp duty applicants to fill in any applications for payment of stamp duty. They are only required to take their leases to the Stamp Office for inspection and after checking and calculation of the stamp duty due, IRD staff will inform the applicants of the amount of stamp duty due and the applicants may then proceed with payment. The process takes only several minutes. After payment, the Stamp Office will return the stamped leases to the applicants and will not keep record of the leases. If the IRD is to extract and store the rental information in respect of each and every stamped lease and pass the information onto the RVD, the process of stamping will become much more labour intensive and will delay the existing procedures of stamping; and

(b) the IRD is discussing with the RVD on how to further facilitate the cross-use of lease information when the e-stamping procedure is introduced in 2004 (see para. 2.18(e) above). Both the IRD and the RVD are exploring whether an arrangement can be put in place whereby, when an applicant files an e-stamping submission for his lease, he will be invited to fill in concurrently an RVD questionnaire on rental information. This arrangement will facilitate the RVD's collection of more rental information from the applicants. The IRD will continue to work with the RVD on this proposal.

PART 3: TIMELINESS OF INTERIM VALUATIONS

3.1 This PART examines the timeliness of the RVD in conducting interim valuations of new properties.

Interim valuations

3.2 A newly-built property, or property not already included in the valuation list in force, is usually assessed by way of an interim valuation. The RVD then issues a Notice of Interim Valuation to the ratepayer. The number of interim valuations made by the RVD was 125,000 in 2000-01 and 129,000 in 2001-02.

Criteria for measuring timeliness of interim valuations

3.3 The timeliness of the RVD in conducting interim valuations can be measured against the following criteria:

(a) ***RVD's performance targets.*** For 2000-01, the RVD's target was to notify the ratepayer and/or rent payer the rateable value of a new property (for **80%** of the new properties) within **11 months** from the date when rates and/or government rent first became payable (Note 9). For 2001-02, the target was revised to **9 months**; and

(b) ***Statutory time limit for issuing rates demands.*** According to section 29(1) of the Rating Ordinance, any rates due on an interim valuation shall be payable from the date when the valuation becomes effective, or 24 months before the date of the issue of the first demand, whichever is the later. **This means that the RVD cannot backdate the rates demand for more than 24 months.** In order to avoid revenue loss, it is important for the RVD to complete interim valuations within 24 months from the date on which the rates first become due (hereinafter referred to as the "**24-month time-bar**").

Performance targets not achieved

3.4 With regard to paragraph 3.3(a) above, the RVD reports its performance in the Controlling Officer's Report (COR) in the Annual Estimates. According to the CORs, the RVD did not achieve the performance targets in the financial years 2000-01 and 2001-02. Table 3 below shows the RVD's reported performance for these two years.

Note 9: *Generally, for new domestic properties, rates are payable 90 days from the issue of the relevant documents (whichever is applicable): Occupation Permit, Consent to Assign, Consent to Lease or Certificate of Compliance, irrespective of the date of first occupation. In the case of new non-domestic properties, rates are payable 180 days after the issue of the relevant documents, or the date of first occupation, whichever is the earlier.*

Table 3

RVD's performance in conducting interim valuations in the financial years 2000-01 and 2001-02

Financial year	Target	Reported performance	Reasons for not meeting the target
2000-01	To notify the ratepayer and/or rent payer (for **80%** of the new properties) the rateable value of a new property within **11 months** from the date when rates and/or government rent first became payable.	Notification within 11 months was made only for **69%** of the new properties.	Due to the conversion of the computer system for updating rateable values after each annual revaluation.
2001-02	To notify the ratepayer and/or rent payer (for **80%** of the new properties) the rateable value of a new property within **9 months** from the date when rates and/or government rent first became payable.	Notification within 9 months was made only for **65%** of the new properties.	Due to the suspension of the computer system for carrying out major enhancements and the temporary reallocation of staff resources to handle rates concession.

Source: RVD's records

Audit observations on performance targets not achieved

3.5 The public expects the RVD to conduct interim valuations on a timely manner, which can be measured by the RVD's performance against its own targets. **Audit considers that there is a need for the RVD to closely monitor its progress in conducting interim valuations and take vigorous actions to ensure that the RVD's performance targets are met.**

3.6 Furthermore, Audit notes that the RVD has not set performance targets for rural properties. This means that there is no time target for conducting interim valuations of rural properties, which account for about 9% of the RVD's interim valuation caseload. **Audit considers that there is a need for the RVD to set clear performance targets for rural properties for management and accountability purposes.**

Performance against the 24-month time-bar

3.7 As mentioned in paragraph 3.3(b) above, the 24-month time-bar provides another measure of the timeliness of interim valuations. In order to monitor effectively the RVD's performance against the 24-month time-bar, the RVD's senior management would need regular management reports giving the following information:

(a) **for interim valuations already made,** the number of tenements for which the 24-month time-bar requirement has not been met and the resultant revenue loss; and

(b) **for tenements pending interim valuations,** the updated total number of such tenements, and an age analysis showing the number of tenements which have a risk of not meeting the 24-month time-bar requirement.

3.8 However, the audit has revealed that there are shortcomings in the RVD's existing management information. The audit findings are reported in paragraphs 3.9 to 3.17 below.

Audit's analysis of interim valuations already made

3.9 For interim valuations already made, Audit's enquiry indicated that the RVD did not have regular management reports showing the number of tenements for which the 24-month time-bar requirement had not been met. In December 2002, upon Audit's request, the RVD retrieved relevant data from the Interim Valuation System (IVS) for Audit's analysis. The data retrieved were in respect of those interim valuations made during the 18-month period July 2001 to December 2002. Earlier data were not available because they had been purged from the IVS.

3.10 As shown in Table 4 below, Audit's analysis of the relevant data revealed that 2,252 interim valuations, made during the 18-month period July 2001 to December 2002, had failed to meet the 24-month time-bar requirement. According to Audit's estimate, the revenue loss could amount to $12.7 million.

Table 4

Audit's analysis of interim valuations which had failed to meet the 24-month time-bar requirement

Type of tenement	Number of valuations	Estimated revenue loss ($ million)
Domestic	2,174 (Note)	11.22
Non-domestic	78	1.48
Total	**2,252**	**12.70**

Source: Audit's analysis of RVD's data

Note: Most of these tenements were rural properties. According to the RVD's estimates, some 700 of these tenements were occupied by indigenous villagers who were entitled to rates exemption. Therefore, Audit estimated the amount of revenue loss on the basis of 1,474 (i.e. 2,174 less 700) tenements only.

3.11 Examples of the RVD not having met the 24-month time-bar requirement, thus resulting in revenue loss, are given in Cases A and B below for illustration.

Case A

Case particulars

On 7 January 1999, the Lands Department (LandsD) issued a Certificate of Compliance for a village type house consisting of three tenements. Upon completion of the interim valuation of the tenements, on 23 April 2002, the RVD issued the first demand for rates which was backdated to 16 May 2000.

Audit comments

For newly-built domestic properties, rates are payable 90 days from the issue of the following documents (whichever is applicable): Occupation Permit, Consent to Assign, Consent to Lease or ***Certificate of Compliance***. In this case, had the RVD timely completed the interim valuation, rates would have become payable with effect from 7 April 1999 (i.e. 90 days from 7 January 1999 which was the date of the Certificate of Compliance).

However, the RVD took more than 36 months to complete the interim valuation and to issue the first demand for rates. As a result, rates were only demanded from 16 May 2000 onwards. The Government suffered a revenue loss of $7,848 (i.e. rates for 405 days, counting from 7 April 1999 to 15 May 2000).

Source: RVD's records

Case B

Case particulars

The Certificate of Compliance for the case subject (a village type house consisting of three tenements) was issued on 13 May 1998. Upon completion of the interim valuation, on 21 August 2001, the RVD issued the first demand for rates which was backdated to 7 September 1999.

Audit comments

Had the RVD timely completed the interim valuation, rates would have become payable from 11 August 1998 (i.e. 90 days from 13 May 1998). However, the RVD took more than 36 months to complete the interim valuation and to issue the first demand for rates. As a result, rates were only demanded from 7 September 1999 onwards. The Government suffered a revenue loss of $8,075 (i.e. rates for 392 days, counting from 11 August 1998 to 6 September 1999).

Source: RVD's records

Audit observations on interim valuations already made

3.12 ***Management information (at the departmental level).*** Audit is concerned that the RVD's senior management did not have sufficient management information to help it monitor effectively the RVD's performance with regard to the 24-month time-bar. For example, although monthly operational statistics were compiled for the Executive Directorate Committee (EDC — Note 10), such statistics did not show the number of interim valuations that had not met the 24-month time-bar requirement (and the resultant revenue loss). **Audit considers that there is a need for such important information to be regularly reported to the RVD's senior management to enable prompt action to be taken to protect the revenue.**

3.13 ***Management information (at the bureau level).*** There were no regular reports to keep the Financial Services and the Treasury Bureau (FSTB) informed of the revenue loss due to the failure to meet the 24-month time-bar requirement. **As the FSTB oversees the Government's revenue collection and financial control, Audit considers that such reports are necessary to help the FSTB exercise better control.**

Note 10: *The EDC meets monthly to review operational and management matters. It is made up of all the directorate officers of the RVD and is chaired by the Commissioner of Rating and Valuation.*

Tenements awaiting interim valuations

3.14 With regard to paragraph 3.7(b) above, the monthly submissions to the EDC showed the number of tenements for which the interim valuations were still outstanding. For example, the submission in November 2002 showed that there were 7,300 tenements awaiting interim valuations, of which 2,500 were rural properties.

3.15 However, from other RVD's records, Audit found a large number of rural properties (totalling 29,443 tenements) for which interim valuations were still outstanding. In November 2002, Audit suggested that greater efforts should be made by the RVD to clear the backlog. In December 2002, the RVD informed Audit of its proposed actions to clear the backlog, which are summarised in Table 5 below.

Table 5

RVD's proposed actions to clear the backlog of interim valuations of rural properties (as at December 2002)

	Types of tenement	Number of tenements	Proposed actions
(a)	***New village type houses (VTHs).*** They are subject to assessment of both rates and government rent. Of these tenements, 972 (i.e. 39%) had already exceeded the 24-month time-bar for backdating purposes.	2,493	The RVD will redeploy a dedicated special team to clear the backlog by 31 March 2004.
(b)	***Old VTHs in remote areas.*** These properties attract a relatively low rateable value. They are subject to assessment of both rates and government rent. All of them had exceeded the 24-month time-bar for backdating purposes.	16,000	Subject to a post-implementation review of the current pilot outsourcing scheme, the RVD will intensify the outsourcing scheme to clear the backlog by June 2004 (see para. 5.5 below).
(c)	***Tenements in the Designated Village Areas (DVAs – see PART 6 below).*** They are exempted from rates en bloc, but are subject to assessment of government rent.	10,950	The RVD will make use of existing resources to clear the backlog in three years' time.
	Total	**29,443**	

Source: RVD's records

Audit observations on tenements awaiting interim valuations

3.16 ***Under-reporting of caseload.*** Audit is concerned that a large number of tenements awaiting interim valuations were not reported in the monthly submissions to the EDC. Of these tenements, many had already exceeded the 24-month time-bar for backdating rates. Under-reporting of caseload in this manner impairs the EDC's effectiveness in monitoring the RVD's performance. **Audit considers that there is a need for the staff concerned to report all outstanding interim valuations to the EDC for monitoring purposes.**

3.17 ***Need to highlight tenements at risk.*** At the time of audit, there were no analyses in the submissions to the EDC to highlight the number of tenements that were at risk of not meeting the 24-month time-bar requirement. **Audit considers that such analyses are necessary for managing such risks to avoid revenue loss.**

Audit recommendations on the RVD's performance in conducting interim valuations

3.18 **Audit has *recommended* that the Commissioner of Rating and Valuation should:**

Performance targets

(a) **closely monitor the RVD's progress in conducting interim valuations and take vigorous actions to ensure that the RVD's performance targets are met (see para. 3.5 above);**

(b) **set clear performance targets for completing interim valuations of rural properties for management and accountability purposes (see para. 3.6 above);**

The 24-month time-bar

(c) **require sufficient management information to be provided to the RVD's senior management (e.g. the EDC), so that it can effectively monitor the RVD's performance to minimise the revenue loss due to the inability to backdate rates demands for more than 24 months. In particular, the senior management should receive regular management reports giving the following information:**

(i) **for interim valuations already made, the number of tenements for which the 24-month time-bar requirement has not been met and the resultant revenue loss (see paras. 3.9 and 3.12 above); and**

(ii) **for tenements awaiting interim valuations, the total number of such tenements and an age analysis showing the number of tenements which have a risk of not meeting the 24-month time-bar requirement (see paras. 3.16 and 3.17 above); and**

(d) **in consultation with the FSTB, draw up procedures to keep the FSTB informed of the revenue loss due to the RVD's failure to complete interim valuations within the 24-month time-bar (see para. 3.13 above).**

Response from the Administration

3.19 The **Commissioner of Rating and Valuation** generally agrees with the audit recommendations. He has said that:

Performance targets

(a) the RVD recognises the importance of completing interim valuations as soon as possible. It has endeavoured to meet the performance targets despite the heavy workload and limited staff resources. The progress of interim valuations is closely monitored by the senior management of the RVD through monthly reports to the EDC (see para. 3.12 above);

(b) in 2002-03, the RVD deployed more resources to further improve its performance. As a result, the ratepayers/rent payers of 88% (which exceeded the 80% target) of the interim valuations, completed during April to December 2002, were notified within 9 months from the dates when rates/rent first became payable;

The 24-month time-bar

(c) the 2,252 cases which did not meet the 24-month time-bar requirement during July 2001 to December 2002 represented only 2% of all interim valuations completed during that period. Of these cases, 99% were rural properties which attract a lower amount of rates compared with an average domestic unit. The assessment of these properties is labour intensive and time-consuming because they are located in remote areas, are more scattered, and have non-typical layout and multiple ownership;

(d) in the past two years, the RVD has speeded up the valuation work of rural properties. For the newly-built VTHs, the RVD has already shortened the average backdating period from 18 months to about 8 months. For the old VTHs, the RVD launched a pilot scheme in September 2002 to outsource the valuation work of 1,073 VTHs (see para. 5.3 below). The RVD will examine whether to expand the outsourcing programme and will aim to clear the existing backlog within three years;

(e) the RVD is already providing the division heads with monthly reports on cases awaiting interim valuation and those which are at risk of failing to meet the 24-month time-bar requirement. The RVD accepts Audit's recommendation and will provide such information to the EDC as a measure to step up the monitoring efforts; and

(f) the relevant reports and statistics, including information about revenue loss, will also be provided to the FSTB at regular intervals.

3.20 The **Secretary for Financial Services and the Treasury** has said that:

(a) he welcomes Audit's recommendation of having the RVD draw up procedures to keep the FSTB informed of the revenue loss relating to interim valuations which cannot be completed within the 24-month time-bar;

(b) the RVD will prepare and submit to the FSTB, at regular intervals, relevant reports and statistics on cases awaiting interim valuations and those which are at risk of failing to meet the 24-month time-bar requirement, including information on the revenue loss; and

(c) the FSTB will monitor the revenue situation and take appropriate action together with the RVD.

PART 4: PERFORMANCE INDICATORS

4.1 This PART examines the adequacy of the RVD's performance indicators.

The need for performance indicators

4.2 Performance indicators provide a means to measure how well an organisation has performed. In developing performance indicators, an organisation should, in addition to reporting operational activities and output, report efficiency and effectiveness. This will facilitate the stakeholders (e.g. the public, LegCo Members and policy bureaux) to assess whether the resources used by the organisation have produced the desired outcomes, and in an efficient and cost-effective manner.

Performance indicators used by the RVD

4.3 Each year, the RVD compiles performance indicators and targets to measure the performance of its programme activities. These indicators and targets are published in various documents, namely the COR, the Annual Summary Report and the Performance Pledge pamphlet. Performance data are also shown in the RVD's website. Table 6 below shows the performance indicators and targets used by the RVD to measure its performance under the programme areas of rating valuations and revenue collection.

Table 6

Performance indicators and targets used by RVD

	(A)	(B)	(C)	(D)
Performance output:				
• Number of assessments in the Valuation List for rates/Government Rent Roll	√	√	—	—
• Number of new assessments	√	√	—	—
• Number of assessments deleted	√	√	—	—
• Revenue from rates and government rent	√	√	—	—
• Number of rates and government rent accounts maintained	√	√	—	—
• Arrears of rates and government rent	√	√	—	—
Performance target:				
• To notify, in 80% of the cases, the ratepayer and/or rentpayer of the rateable value of a new property within nine months from the date when rates and/or government rent first become payable.	√	—	√	√
• To process objections to new and existing assessments and notify the objectors, in 75% of the cases, within four months from the expiration date of the objection period.	√	—	√	√
• To allocate, in 90% of the cases, building numbers to new buildings not later than one month after their completion in urban areas and in rural areas where there is an established numbering scheme.	√	—	√	√
• To keep the amount of arrears within 0.8% of the rates and 1.1% of the government rent demanded for the preceding 12 months.	√	√	—	—
• To update, for 90% of the cases, the change in payer's particulars, within 20 minutes for a request made in person, or within 10 working days for a request made by post except during peak periods.	—	—	√	√

Legends: *(A) refers to the COR of the Annual Estimates (2002-03)*
(B) refers to the RVD's Annual Summary Report (2001-02)
(C) refers to the RVD's website (as at December 2002)
(D) refers to Performance Pledge pamphlet (2002-03)

Source: RVD's records

Audit research of overseas practices

4.4 Audit's research indicates that rating authorities abroad (e.g. the UK and Australia) have placed much emphasis on measuring efficiency and effectiveness. Table 7 below shows some of the performance indicators they use to measure efficiency and effectiveness.

Table 7

Examples of performance indicators used by rating authorities abroad to measure efficiency and effectiveness

(a) **For measuring efficiency:**

- Average cost of an assessment
- Dollars revenue collected per dollar cost expended
- Dollars arrears recovered per dollar recovery cost expended

(b) **For measuring effectiveness:**

- Mean Ratio Test and Coefficient of Dispersion (these indicators measure valuation accuracy and uniformity — see para. 4.6 below)
- Achieving specified standards for valuation accuracy
- Getting a certain percentage of valuation right first time (i.e. to contain the number of objections and appeals to a certain percentage of the total number of assessments)

Source: Audit's research

Audit observations on performance indicators

4.5 The performance indicators used by the RVD, as shown in Table 6 of para. 4.3 above, are useful in helping stakeholders assess its performance. However, they focus mainly on output and timeliness and are, by themselves, inadequate for measuring efficiency and effectiveness. Rating authorities abroad, as can be seen from Table 7 above, place more emphasis on measuring efficiency and effectiveness. **To help stakeholders assess how well the RVD has performed, Audit considers that there is a need for the RVD to develop more performance indicators on efficiency and effectiveness and publish them in the COR and through other means (e.g. the RVD's website).**

4.6 In this connection, Audit notes that, after each annual GR exercise, the RVD has been using the Mean Ratio Test and Coefficient of Dispersion to measure valuation accuracy and uniformity (Note 11). The results are reported in an internal document known as the "Post-GR Statistical Audit Report". **As these are useful effectiveness indicators which are also widely used by rating authorities in advanced countries (see item (b) in Table 7 of para. 4.4 above), Audit considers that there is a need for the RVD to consider publishing them as additional performance indicators.**

Audit recommendations on performance indicators

4.7 **In line with practices in advanced countries, Audit has *recommended* that the Commissioner of Rating and Valuation should:**

(a) **develop and publish more performance indicators for measuring efficiency and effectiveness (see para. 4.5 above); and**

(b) **consider publishing the results of the RVD's Mean Ratio Test and Coefficient of Dispersion (which are already being reported internally) to help stakeholders assess the effectiveness of the RVD's work, in terms of valuation accuracy and uniformity (see para. 4.6 above).**

Response from the Administration

4.8 The **Commissioner of Rating and Valuation** generally agrees with the audit recommendations. He has said that:

(a) his initial view is that the Mean Ratio Test and Coefficient of Dispersion may be too technical for consumption by the general public; and

(b) nevertheless, in consultation with the FSTB, he will consider Audit's recommendation on developing and publishing in the COR more performance indicators on efficiency and effectiveness.

Note 11: *The Mean Ratio Test measures the overall level of values adopted for rating purposes as compared with market evidence used to determine these values. The Mean Ratio Test by itself is insufficient to determine accuracy when comparing one area to another. For this reason, the Coefficient of Dispersion is applied to check uniformity of values.*

PART 5: OUTSOURCING OPPORTUNITIES

5.1 This PART examines the RVD's outsourcing opportunities.

Importance of outsourcing

5.2 The public expects government services to be provided more economically, efficiently and effectively. Outsourcing is widely recognised as a means of meeting this expectation. The Government encourages departments to enhance service quality and productivity through increased private sector involvement and outsourcing.

RVD's new outsourcing initiative

5.3 In January 2002, with a view to clearing the outstanding caseload of interim valuations, the RVD endorsed a new departmental initiative of outsourcing the interim valuation work of old VTHs in the New Territories (NT). In September 2002, under a pilot scheme, the RVD awarded two contracts at a total cost of $1.3 million for outsourcing the interim valuation work of 1,073 VTHs (or 2,150 tenements). The contracts were expected to end in April 2003.

5.4 Compared with an in-house cost of $1,600, the contract price of $620 per tenement was 61% lower. Through the outsourcing exercise, the RVD could expedite the clearance of the outstanding caseload and at the same time achieve a saving of $2.11 million.

Audit's enquiry on the scope for more outsourcing

5.5 In view of the significant potential for savings, Audit enquired about the scope for more outsourcing of the RVD's work. In December 2002, the RVD agreed with Audit that there was a need to:

(a) closely monitor the progress of the pilot outsourcing scheme and conduct a post-implementation review of its cost-effectiveness (including evaluating the service quality and drawing lessons to be learnt for future exercises); and

(b) having regard to the results of the post-implementation review, consider expanding the outsourcing scheme as early as possible.

Photograph 1

VTHs in Tai Kei Leng adjacent to private developments
(para. 6.10 refers)

High-rise buildings located outside the DVA and subject to rates assessment

Low-rise VTHs located within the DVA and exempted from rates

Source: Photograph taken by Audit staff

Photograph 2

Two modern VTHs located in Tai Kei Leng
(para. 6.10 refers)

Source: Photograph taken by Audit staff

Photograph 3

Modern style VTHs located in Cheung Shue Tan
(para. 6.10 refers)

Source: Photograph taken by Audit staff

Photograph 4

Two VTHs located in Cheung Shue Tan
(para. 6.10 refers)

Source: *Photograph taken by Audit staff*

Photograph 5

An advertising sign in Wanchai
not assessed to rates as at 7 January 2003
(para. 8.9 refers)

Source: *Photograph taken by Audit staff*

Photograph 6

An advertising sign in Tsuen Wan
not assessed to rates as at 7 January 2003
(para. 8.9 refers)

Source: *Photograph taken by Audit staff*

Photograph 7

An advertising sign in Mongkok
not assessed to rates as at 7 January 2003
(para. 8.9 refers)

Source: Photograph taken by Audit staff

Photograph 8

An advertising sign in Mongkok
not assessed to rates as at 7 January 2003
(para. 8.9 refers)

Source: Photograph taken by Audit staff

Photograph 9

An open car park on agricultural land in Yuen Long not yet assessed to rates as at 30 December 2002 (para. 9.6 refers)

Source: Photograph taken by Audit staff

Photograph 10

An open car park on agricultural land in Ping Shan not yet assessed to rates as at 30 December 2002 (para. 9.6 refers)

Source: Photograph taken by Audit staff

Photograph 11

An aerial photograph of Ping Shan indicating the presence of open car parks (para. 9.6 refers)

Legend: *A, B, C and D refer to the four car parks in Ping Shan covered in Audit's survey.*

Source: *LandsD's records*

Audit observations on outsourcing opportunities

5.6 In Audit's view, the RVD's new outsourcing initiative is a step in the right direction. Subjecting the RVD's work to market testing will help enhance the economy, efficiency and effectiveness with which the RVD delivers its services. In this connection, Audit's research indicates that it is a common practice for rating authorities in advanced countries to outsource their valuation services. Notably, in the UK, the Valuation Office Agency has since 1994 outsourced half of its valuation work to private firms. Meanwhile, it is moving towards the strategic direction of seeking more outsourcing opportunities.

5.7 In Hong Kong, the RVD's outsourcing initiative is still at a pilot stage and, so far, the scale of outsourcing has remained small. **To realise the full potential of its outsourcing initiative, Audit considers that there is a need for the RVD to devise a clear strategy for progressively increasing the scale of outsourcing.**

Audit recommendations on outsourcing opportunities

5.8 **Audit has *recommended* that the Commissioner of Rating and Valuation should:**

(a) **devise a long-term strategy for progressively increasing the scale of outsourcing the RVD's work;**

(b) **in devising the strategy, take due account of the results of the post-implementation review of the pilot scheme and, where necessary, draw on the experiences of those overseas rating authorities that have reached a more advanced stage of outsourcing their work; and**

(c) **draw up an action plan, with clear targets and milestones, to implement the outsourcing strategy.**

Response from the Administration

5.9 The **Commissioner of Rating and Valuation** agrees in general with the audit recommendations.

PART 6: RATES EXEMPTIONS OF VILLAGE TYPE HOUSES

6.1 This PART examines the administration of rates exemption of VTHs.

Background

6.2 When rates were introduced to the NT in the mid-1940s, the Government gave various undertakings to exempt from rates village houses of the types inhabited throughout the NT by poor farmers, to avoid causing them hardship. Since the 1940s, the rates exemption policy has evolved to relieve villagers of the rates burden.

6.3 ***Designated village areas.*** In 1975, the Rating Ordinance was amended to create the concept of DVAs. DVAs are protected zones within which all VTHs are exempted from rates.

6.4 ***VTHs outside DVAs.*** Individual VTHs outside DVAs can also be exempted from rates upon application by indigenous villagers (Note 12), provided that:

(a) the VTHs meet prescribed building specifications as laid down by law (Note 13); and

(b) the VTHs, regardless of their ownership, are occupied or are vacant and intended to be occupied by indigenous villagers or their immediate family members for domestic purposes.

De-designation of DVAs

6.5 In 1992, the Government reviewed the policy for the designation of village areas. According to a LegCo Brief of July 1992 on the subject:

(a) designation of DVAs should be restricted to those village areas which retained the essential character of NT villages;

(b) NT villages where the essential character of rural NT villages had changed, due to the development and urbanisation of the NT, should no longer be designated. Many of the

---

Note 12: *An indigenous villager is a person descended through the male line from a person who was, in 1898, a resident of an established village in the NT.*

Note 13: *These refer to those VTHs with roofed over areas not exceeding 65.03 square metres and of height not exceeding 8.23 metres. There are, however, no prescribed building specifications for pre-war buildings.*

new VTHs in these areas were of a superior quality and were mostly owned or occupied by persons who might have no connection with the indigenous people of the NT. These VTHs were often the homes of new town dwellers or commuters to the urban areas. Such DVAs would gradually be de-designated and the VTHs would be assessed to rates; and

(c) individual VTHs in the de-designated DVAs would be granted rates exemption if they met the criteria on building specifications and occupation as mentioned in paragraph 6.4 above.

Progress in the de-designation of DVAs

6.6 According to the RVD's records, there were 332 DVAs in 1992. In August 1992, the RVD agreed with the Home Affairs Department (HAD) on the procedures for the de-designation of DVAs. It was agreed that the de-designation would be implemented by phases. The RVD would seek the HAD's agreement before recommending the Secretary for Financial Services and the Treasury to approve the de-designation of the DVAs.

6.7 During the years 1993 to 1998, the RVD completed four de-designation reviews resulting in the de-designation of 225 DVAs. As mentioned in paragraph 6.5(b) above, NT villages where the essential character of rural NT villages had changed should no longer be designated. To illustrate how this criterion was applied in practice, the following are some of the reasons used by the RVD in these reviews to support its recommendation for de-designation:

- Some of the VTHs in the DVAs had been let to outsiders.

- Villagers were enjoying urbanisation facilities including green public light buses.

- The DVA was just opposite to the Light Railway Transit Terminal.

- There were some new houses. It was suspected that there were non-villagers living there in view of the convenient location of the area.

- Small workshops and factories were found.

- Town expansion had affected the quietude of the village and the area was no longer a village.

- The outskirts of the village had already been assessed to rates, leaving behind some half-new village houses in which some had been used as provision stores.

- New Spanish-style houses were found and it was reckoned that these properties might be used by holiday-makers/beach-users in the swimming season.

6.8 Since 1998, no further review has been conducted. Audit's enquiry with the RVD indicated that this was due to the lack of resources in conducting the reviews and in handling the workload that would arise from the de-designation. The consequential workload would include, for example, the handling of applications from individual indigenous villagers for rates exemption (see para. 6.5(c) above). In this connection, it is worth noting that in one of the reports on the 1993-98 de-designation exercises, the RVD had remarked that some of the DVAs not included in the exercise were in fact ready for de-designation. However, they were not recommended for de-designation because the size of the DVAs was too big and more time and resources would be required to assess them.

Latest position of DVAs

6.9 As at November 2002, there were still 107 DVAs with 11,448 VTHs (or 17,172 tenements). Table 8 below shows an analysis of these DVAs by districts.

Table 8

Analysis of the 107 DVAs by districts

District	Number of DVAs	Number of VTHs	Number of tenements
Yuen Long	50	10,208	15,312
North	13	461	691
Tai Po	14	285	427
Shatin	4	31	47
Sai Kung	14	97	146
Islands	12	366	549
Total	**107**	**11,448**	**17,172**

Source: RVD's records

Audit's site visits to selected DVAs

6.10 In November 2002, Audit visited some DVAs to observe whether they still had the essential character of rural NT villages. The audit findings indicate that there is a prima facie case for de-designating them. Audit's findings on two selected DVAs, namely Tai Kei Leng (**大旗嶺**) and Cheung Shue Tan (**樟樹灘**), are given in Cases C and D below for illustration.

Case C: Tai Kei Leng
(DVA No. 315)

Characteristics observed

- This area can be readily accessed by public transport, including the Light Railway Transit, public buses (e.g. Nos. 656 and 968) and public light buses. It is next to the Tai Tong Road and near the Yuen Long Highway and Shap Pat Heung Interchange.

- This area is within walking distance from the Yuen Long town centre. Residents can reach the town centre by 10 to 15 minutes' walk.

- This area is adjacent to some prestigious private developments, e.g. Grand Del Sol (**朗晴居**) and Sereno Verde (**蝶翠峰**). There are some new houses of modern style in the area. (Photographs 1 and 2 on the centre pages show some of the VTHs located in Tai Kei Leng.)

- It is most likely that there are non-villagers living in the area in view of its convenient location.

Audit comments

There is prima facie evidence to support the de-designation of this DVA.

Note: This DVA has about 820 VTHs (or 1,200 tenements). In 1996, the RVD regarded this DVA as ready for de-designation.

Case D: Cheung Shue Tan
(DVA No. 415)

Characteristics observed

- The area is next to Tai Po Road – Tai Po Kau and not too far from the Chinese University of Hong Kong. It is within a short distance from a prestigious private development, namely Deerhill Tower (**鹿怡居**).
- It can be reached by public buses (Nos.70, 72, 72A, 73A and 74A).
- Some of the houses in the area are of modern style. (Photographs 3 and 4 on the centre pages show some of the VTHs located in Cheung Shue Tan.)
- It is most likely that there are non-villagers living in the area in view of its convenient location.

Audit comments

There is prima facie evidence to support the de-designation of this DVA.

Note: This DVA has 58 VTHs (or 90 tenements).

Audit observations on the de-designation of DVAs

6.11 De-designation action has ceased since 1998. As at November 2002, 107 DVAs (with 17,172 tenements) still remained and there was no definite action plan to resume the de-designation exercise. **With the fast development of the NT in the past decade, Audit considers that rates exemption en bloc may no longer be justified in some DVAs, and that the de-designation exercise needs to be resumed as early as possible.** This view is supported by Audit's findings during site visits to some of the DVAs.

6.12 According to Audit's estimate, rates amounting to $20 million a year (Note 14) could be collected if all the 107 remaining DVAs are de-designated. In response to Audit's enquiry, in December 2002, the RVD said that, while some of the DVAs might still retain the essential character of NT villages, others were perhaps ready for de-designation. The RVD also said that, subject to resource availability, it would speed up the review of de-designation in 2003 and liaise with the HAD to plan the way forward.

Note 14: *The figure of $20 million is calculated as follows: 17,172 tenements × rateable value of $46,750 in 2002-03 for a VTH tenement × 5% rates × 50% (assuming 50% of the tenements are occupied by non-indigenous villagers). The "50%" assumption was used by the RVD on an earlier occasion for calculating the implications of government rent exemption for tenements owned by indigenous villagers in DVAs.*

Audit recommendations on the de-designation of DVAs

6.13 **Audit has *recommended* that the Commissioner of Rating and Valuation, in liaison with the Director of Home Affairs, should:**

(a) **draw up an action plan, with clear milestone dates, to complete the de-designation reviews of the remaining 107 DVAs as soon as possible (see para. 6.11 above); and**

(b) **consider the option of outsourcing if the available in-house resources cannot cope with the additional workload (see para. 6.12 above).**

Response from the Administration

6.14 The **Commissioner of Rating and Valuation** agrees with the audit recommendations. He has said that:

(a) the RVD will conduct a survey of the remaining 107 DVAs to see if any of them should be de-designated according to the set criteria. The RVD will concentrate on the DVAs which have changed their rural characteristics and aim to complete the exercise within two years' time; and

(b) the RVD will consider outsourcing the work, if there is insufficient in-house resource to cope with the additional workload.

6.15 The **Director of Home Affairs** has said that she stands ready to work with the Commissioner of Rating and Valuation on the way forward with regard to the resumption of the de-designation exercise, taking into consideration the implications on the HAD's existing staff resources.

Rates exemption for individual VTHs outside DVAs

6.16 As mentioned in paragraph 6.4 above, upon application by indigenous villagers, individual VTHs outside DVAs can also be exempted from rates. As at November 2002, there were some 20,000 VTHs outside the DVAs which had been granted rates exemption. The Director of Home Affairs is the authority for approving such rates exemption. Figure 1 below shows the major steps in processing the applications.

Figure 1

Major steps in processing applications for rates exemption

Applicant	The applicant completes an application form and asks the village representative of his village (or the chairman/vice-chairman of the relevant rural committee) to certify on the form his indigenous villager status. The applicant also makes a declaration on the form that the VTH is free from illegal structures.
HAD	The completed application form is submitted to the HAD for authentication. After authentication, the HAD will pass the application form to the RVD for recommendation on whether exemption should be granted.
RVD	The RVD verifies the details of the VTH in the application form and, if necessary, conducts a site inspection. The application form together with the RVD's recommendation is then returned to the HAD for approval.
HAD	Before approving the application, the HAD may seek the Lands Department (LandsD)'s advice if the RVD has observed any illegal structures/extensions from its site inspection. Once the application is approved, the HAD informs the applicant of the result. Copies of the approval letter are sent to the Land Registry (LR), RVD and LandsD.
RVD	Once the rates exemption is granted, the RVD will stop issuing rates demand notes to the indigenous villager.

Source: HAD's records

Monitoring of changes in eligibility

6.17 To be eligible for rates exemption, the VTHs must be occupied (or if vacant, are intended to be occupied) by indigenous villagers, or their immediate family members, for domestic purposes (see para. 6.4(b) above). To monitor changes in eligibility, the HAD relies mainly on the following sources of information:

(a) under an agreed arrangement, the LR regularly informs the HAD of changes in ownership of the exempted VTHs (Note 15). On average about 40 cases per month are passed to the HAD. With regard to the letting out of VTHs, the existing arrangement does not require the LR to pass such information to the HAD (Note 16);

(b) the RVD occasionally informs the HAD of let-out cases involving exempted VTHs that have come to its notice. Such cases are rare (one or two cases per month on average), partly because the RVD does not have complete information about the letting out of VTHs, and partly because there are no clear procedures within the RVD requiring its staff to report such cases to the HAD. In an ad hoc exercise in November 2002, the RVD passed to the HAD a list showing 46 exempted cases with letting out made during January to May 2002; and

(c) indigenous villagers themselves may occasionally inform the HAD of changes in eligibility. Again, such cases are rare (one or two cases per month on average) because there is little incentive for them to report changes, particularly in the absence of any penalty for not reporting.

6.18 After receiving the relevant information, the HAD makes enquiries with the indigenous villagers either by letters or by phone. In cases where ineligibility is confirmed (or if no response is received), the HAD will cancel the exemption and notify the RVD accordingly to resume the issue of rates demands.

Note 15: *Changes in ownership often lead to changes in the occupancy status. Therefore, the information is relevant for monitoring changes in the eligibility for rates exemption that is based on occupancy by indigenous villagers.*

Note 16: *In response to an enquiry, in February 2003, the LR informed Audit that the registration of tenancy agreements or leases was voluntary and it was up to the landlords or tenants to consider whether to have them registered. Even if tenancy agreements or leases were registered, under the existing arrangement, the HAD would not be informed of let-out cases because it had not indicated its wish to receive such information.*

Audit observations on monitoring of changes in eligibility

6.19 ***Insufficient information.*** The HAD does not have sufficient and updated information for monitoring the changes in eligibility of exempted cases, particularly in cases involving the letting out of the VTHs. **In Audit's view, the HAD needs to strengthen its monitoring by proactively conducting periodic checks on the exempted cases to find out if there are changes in eligibility. This can be done on a cyclical basis (say, 3-year cycle) to even out the workload. The RVD can also help the HAD by clearly requiring RVD staff to report, on a regular basis, to the HAD all relevant let-out cases that have come to their notice.**

6.20 ***HAD's process.*** In November 2002, Audit reviewed the HAD's records to ascertain how the HAD processed the cancellation of exemptions after receiving the relevant information. From a random sample of 10 change-of-ownership cases, which the LR had informed the HAD in April 2002, Audit found that cancellations of exemption had been made in only 3 cases. Of the remaining 7 cases, Audit could not find any evidence on record showing what follow-up action had been taken and why cancellations of exemption had not been made. Upon enquiry, HAD staff explained to Audit that the indigenous villagers had been contacted by phone. They had confirmed over the phone that they were living in the properties concerned despite a change of ownership. **For management review and record purposes, Audit considers that there is a need for the HAD to require its staff to properly document all follow-up actions taken. There is also a need to ask the indigenous villagers to confirm in writing the occupancy status of the VTHs.**

6.21 ***Possible transfer of responsibility.*** Under the present arrangement, both the HAD and the RVD have to keep records of rates exemption for about 20,000 VTHs. **In Audit's view, there is a prima facie case for the two departments to consider the feasibility of transferring the approving and monitoring responsibility to the RVD.** While the HAD's assistance may still be needed to verify the indigenous villager status of the applicants, the other tasks could more appropriately be taken up by the RVD. This would minimise duplication of efforts and inter-departmental correspondence. Indigenous villagers would also benefit by getting a one-stop service from the RVD.

Audit recommendations on the administration of rates exemption

6.22 **Audit has *recommended* that the Director of Home Affairs should:**

(a) **proactively conduct periodic checks to ascertain if there are changes in eligibility of the exempted cases. This can be done on a cyclical basis (say, a 3-year cycle) to even out the workload (see para. 6.19 above);**

(b) **require HAD staff, in processing change-in-eligibility cases, to clearly document the actions taken and to seek written confirmations from the indigenous villagers of the occupancy status of the VTHs (see para. 6.20 above); and**

(c) **in consultation with the Commissioner of Rating and Valuation, consider possible ways of minimising duplication of efforts, including the option of transferring to the RVD the responsibility for approving and monitoring the exempted cases (see para. 6.21 above).**

6.23 **Audit has also *recommended* that the Commissioner of Rating and Valuation should issue a clear instruction to RVD staff requiring them to report, on a regular basis, to the HAD all relevant let-out cases that have come to their notice (see para. 6.19 above).**

Response from the Administration

6.24 The **Director of Home Affairs** has accepted the audit recommendations in paragraph 6.22 above. She has said that:

(a) she welcomes Audit's recommendation on the proactive checking of changes in eligibility of exempted cases. While the HAD does not have the legal authority to enter the premises to carry out eligibility checks physically, she will consider how best to seek appropriate information (on a cyclical basis) from the indigenous villagers to ascertain whether there are changes in eligibility. The HAD will emphasise this point to the indigenous villagers in its communications with them. In parallel, the HAD will also liaise with the RVD and the LR on a regular basis to seek their input on such changes;

(b) she agrees with the audit observation in paragraph 6.20 above. She has reminded her staff to clearly document follow-up actions in processing the change-in-eligibility cases; and

(c) as can be seen from Figure 1 in paragraph 6.16 above, while the HAD plays a part in certifying the indigenous status of the applicants, the expertise lies with the RVD in determining whether the applications should be approved. She agrees with Audit's observation in paragraph 6.21 above that, by transferring the approving and monitoring responsibility to the RVD, it would minimise duplication of efforts and resources. This will be similar to the mechanism for processing applications under the Government's small house policy for indigenous villagers. Under that mechanism, the LandsD assumes the ultimate expertise and authority in approving the applications.

6.25 The **Commissioner of Rating and Valuation** generally agrees with the audit recommendation in paragraph 6.23 above. He has said that:

(a) there are already means in the RVD's computer system to identify sales and lettings that may affect the eligibility of the exempted cases. The RVD will refine the arrangements in consultation with the HAD. The RVD will also issue clear instructions to its staff on the requirement to report to the HAD all relevant let-out cases that have come to their notice; and

(b) with regard to the audit recommendation in paragraph 6.22(c) above, the approving authority for exempting rural properties is given to the HAD because it has the knowledge and experience in verifying the indigenous status of villagers. The HAD has an elaborate system which can support the obtaining and verification of such information through their District Offices. The RVD is concerned that it does not have the capacity and resources to deal with the task. Having said that, the RVD will conduct a comprehensive review of the procedures with the HAD to see if new initiatives can be taken to speed up the processing of rates exemption applications. To avoid duplication of efforts, the RVD will also liaise with the HAD on the compilation of a common set of records to monitor the exempted cases.

6.26 The **Secretary for Financial Services and the Treasury** has said that he shares the RVD's concern that it does not have the capacity to take over, from the HAD, the responsibility for approving and monitoring the rates exempted cases.

PART 7: SUSPENSION OF GOVERNMENT RENT DEMANDS AND CANCELLATION OF RENT EXEMPTION

7.1 This PART mainly examines the RVD's procedures for handling the suspension of government rent demands and the cancellation of rent exemption.

Entitlement of rent exemption

7.2 Under section 4 of the Government Rent (Assessment and Collection) Ordinance, interests in land are exempted from liability to pay government rent if certain exemption criteria are met (Note 17). Applications for rent exemption are made to the Director of Lands who is the authority for assessing exemption eligibility. According to the RVD's records, as at November 2002, there were about 70,000 exempted cases (Note 18).

Suspension of rent demands

7.3 After submitting an application to the LandsD for rent exemption, the applicant may apply to the RVD for suspension of rent demands, pending the outcome of the rent exemption application.

7.4 ***Audit's analysis of suspended cases.*** Audit's analysis of the RVD's records indicated that, as at December 2002, the rent demands for 15,909 tenements were suspended under this arrangement. The cumulative total of the suspended rent was $121 million. For 9,638 (i.e. 61%) of these tenements, rent demands had been suspended for more than three years. Table 9 below shows the 15,909 tenements, analysed by the year in which the application for suspension was submitted to the RVD.

Note 17: *For example, an interest in land is exempted from liability to pay government rent, if it is held under an applicable lease of a rural holding which an indigenous villager held on 30 June 1984, and which he continues to hold. The term "applicable lease" here means a lease to which the Government Rent (Assessment and Collection) Ordinance applies under section 3 of the Ordinance.*

Note 18: *The figure of 70,000 does not include some 30,000 exempted cases that relate to agricultural land with low rateable values.*

Table 9

Audit's analysis of the 15,909 tenements with rent demands suspended

Year in which the application for suspension was submitted to the RVD	Number of tenements		Cumulative amount of rent suspended (Note) ($ million)	
1997	6,020		53.76	
1998	1,578	**9,638**	15.46	**82.42**
1999	2,040		13.20	
2000	1,432		9.92	
2001	3,060	**6,271**	19.28	**38.33**
2002	1,779		9.13	
Total	**15,909**		**120.75**	
			(say $121 million)	

Source: *RVD's records*

Note: *This was the cumulative amount of rent suspended up to December 2002. Irrespective of the date of application, the effective date of suspension was mostly 28 June 1997.*

7.5 ***Pre-2000 cases.*** Audit's enquiries in January 2003 revealed that, of the 9,638 cases received by the RVD before 2000 (i.e. the pre-2000 cases), some 20% had been granted rent exemption by the LandsD. For such cases, there was no need to recover the suspended rent. With regard to the remaining 80% (about 7,700 cases), the LandsD had already ruled that these cases did not qualify for rent exemption and had provided the RVD with the details of these cases in October 2001. However, the RVD had not taken action to cancel the suspension and to recover the suspended rent which, over the years, had accumulated to $66 million (Note 19).

Note 19: *The figure of $66 million is calculated as follows: $82.4 million (rent suspended in respect of the 9,638 pre-2000 cases) × 80%.*

7.6 ***Cases received in or after 2000.*** With regard to the 6,271 cases the RVD received in or after 2000 (see Table 9 in para. 7.4 above), Audit's enquiries in January 2003 revealed that about half of them had been processed by the LandsD and the results forwarded to the RVD. However, the RVD had not taken any follow-up action to update its records and, where appropriate, recover the suspended rent. As for the remaining half of the cases, the LandsD assured Audit that it would endeavour to clear the backlog by April 2003.

Audit observations on the suspension of rent demands

7.7 ***Pre-2000 cases.*** Audit is concerned that a large number of tenements (i.e. the pre-2000 cases) had their rent demands suspended unnecessarily for a long period of time. This was partly because the LandsD only provided the RVD with the details of these cases in October 2001 (Note 20), and partly because the RVD had not acted upon the LandsD's advice on a timely basis. **Audit considers that there is a need for the RVD to take immediate action to recover the suspended rent for these cases (Note 21).**

7.8 ***Cases received in or after 2000.*** With regard to the more recent cases (i.e. cases received in or after 2000), there is a need for the RVD to expedite action in close liaison with the LandsD. **The RVD needs to take action to recover the suspended rent as soon as the LandsD has ruled that a case does not qualify for rent exemption.**

Monitoring of changes in eligibility

7.9 Once an application for rent exemption has been approved, the LandsD is responsible for monitoring subsequent changes in ownership of the exempted property. Under a standing arrangement, the LandsD regularly checks its records of exempted properties against the records of the LR to identify changes in ownership. Upon cancellation of an exemption, the LandsD will update its records and request the RVD to assess and collect rent from the new owner.

7.10 Audit's analysis of the RVD records indicated that, as at October 2002, there were 1,500 tenements for which the RVD had not amended the exemption status in its computer system, notwithstanding that notice had been given by the LandsD that the exemption had been cancelled. As a result, demands for rent had not been issued to the new owners. Audit's analysis also

---

Note 20: *In February 2003, the LandsD informed Audit that it only received the RVD's request for detailed information about the cases in April 2000. The LandsD needed time to compile an electronic database record, which was passed to the RVD in October 2001.*

Note 21: *Unlike rates, the backdating of demands of government rent is not subject to a 24-month time-bar.*

indicated that, for 590 of these tenements (i.e. 39%), the effective dates of cancellation issued by the LandsD were before 2000. Table 10 below shows an analysis of the 1,500 tenements, by their effective time of cancellation.

Table 10

Audit's analysis of 1,500 tenements for which the RVD had not amended the exemption status (as at October 2002)

Effective time of cancellation	Number of tenements
Before 2000	**590**
2000	240
2001	400
2002 (up to October)	270
Total	**1,500**

Source: RVD's records

Audit observations on the monitoring of changes in eligibility

7.11 Audit is concerned that rent demands were not timely issued to the new owners of tenements for which the rent exemption had been cancelled. For these 1,500 tenements, Audit estimates that the rent involved could amount to \$3.2 million a year (Note 22). **Audit considers that clear procedures are needed to ensure that all cancellations of exemption are immediately acted on by RVD staff for the issue of rent demands.**

Note 22: *The amount of \$3.2 million is calculated as follows: \$72,000 (i.e. the average rateable value for a VTH tenement in 2001-02) × 1,500 tenements × 3% (i.e. the charge rate for government rent).*

Audit recommendations on the suspension of rent demands and cancellation of rent exemption

7.12 **Audit has *recommended* that the Commissioner of Rating and Valuation should:**

(a) **take immediate action to recover the suspended rent as soon as the LandsD has ruled that the tenements do not qualify for rent exemption (see paras. 7.7 and 7.8 above); and**

(b) **draw up clear procedures to ensure that all cancellations of rent exemption issued by the LandsD are acted upon immediately by RVD staff, so that rent demands are issued promptly to the new owners (see para. 7.11 above).**

Response from the Administration

7.13 The **Commissioner of Rating and Valuation** generally agrees with the audit recommendations. He has said that:

(a) the progress in recovering government rent in the cases concerned has been delayed due to the limitation of the RVD's computer system in dealing with these cases; and

(b) the RVD has enhanced its computer system and is now using a computerised system to compute and issue the demand notes. This has shortened the processing time significantly. The RVD expects to complete the issuing of demand notes for all outstanding cases by mid-2003.

PART 8: RATING OF ADVERTISING SIGNS

8.1 This PART examines the RVD's performance in identifying advertising signs for rates assessment.

Guidelines on assessing advertising signs

8.2 Section 9 of the Rating Ordinance empowers the RVD to separately assess advertising signs for rating purposes. Advertising signs come in a wide variety of sizes, shapes, designs, construction and type of attachment. The majority of signs are small. It shows the name, type of business carried on, or product sold at the premises (i.e. the "host tenements") to which the sign refers. In practice, a sign which advertises the name or the trade of the host tenement is normally treated as the tenant's improvement. Its rateable value is deemed to be included in the rateable value of the host tenement unless otherwise stated.

8.3 In June 1989, the RVD issued a revised departmental standing technical instruction (DSTI) on advertising signs. This DSTI, which is still in force, provides guidelines to help RVD staff determine the advertising signs which are to be assessed separately. According to the DSTI, the following signs (hereinafter referred to as "assessable signs") are normally assessed to rates either separately or as additions to the value of the host tenements:

(a) product signs which are erected on top and side roofs, or attached to, or painted on, or project from building walls, provided they are more than one storey in height, or more than three metres in width;

(b) signs which are so designed that they can be let on a panel-by-panel basis; and

(c) signs let out by the Government, Kowloon-Canton Railway Corporation, Mass Transit Railway Corporation and the ferry companies etc.

Problems in assessing advertising signs

8.4 There are many advertising signs in Hong Kong and most of them are illegally erected. They present a problem in assessment because:

(a) advertising signs are not subject to registration and consequently it is extremely difficult and time consuming to obtain the ratepayer's particulars in order to make an assessment; and

(b) existing signs are regularly altered, dismantled or abandoned.

RVD's work practice

8.5 For those assessable signs that are illegally erected, there is no sure way of knowing their existence other than by site inspection. According to the DSTI of June 1989:

(a) the case will be straightforward for signs already erected when the interim valuations are made of new buildings; and

(b) for other signs, the only way of discovering them is by periodical inspection. Whenever RVD staff are on site, they should be encouraged to look out for the existence of assessable signs. Resources permitting, systematic surveys of these signs should be organised.

8.6 Upon enquiry, in December 2002, RVD staff informed Audit that every year during the GR period (i.e. October to next February), two teams of RVD staff would carry out inspections of assessable signs on the streets of Hong Kong Island and Kowloon. While the objective of the inspections was mainly to reconfirm the existence of old assessable signs for the GR purpose, occasionally new assessable signs could also be identified. For the NT, annual exercises were not conducted. Instead, staff would look out for any new assessable signs during their routine inspections. In both cases, RVD staff were not required to submit action plans on the identification of new assessable signs and to report the results of their actions (including the streets covered, the time spent and the number of new assessable signs identified) for the senior management's approval.

8.7 After an assessable sign has been identified, RVD staff will proceed with the interim valuation, which includes identifying the ratepayer and obtaining rental information through issuing a requisition form (i.e. Form R1C) to the ratepayer. Upon completion of the interim valuation, the PMS will be updated and the advertising sign will be included as a tenement in the RVD's valuation list. According to the PMS, as at December 2002, there were some 3,200 advertising signs that had been separately assessed to rates, including 1,200 signs affixed externally to buildings and 2,000 signs inside buildings. In 2002-03, the total rates collected from these signs were about $22 million (i.e. on average, $14,000 a year for each sign affixed externally to buildings and $2,500 a year for each sign inside buildings).

Audit's survey of assessable signs

8.8 During the period November 2002 to January 2003, Audit conducted a survey of selected areas to look for assessable signs that met the following criteria:

(a) the size of the sign was large (i.e. at least one storey in height or three metres in width);

(b) the sign was attached to, or painted on, or projected from building walls; and

(c) there was no visible host tenement at the premises. As such, it was likely that the sign should qualify for separate assessment.

8.9 The objective of Audit's survey was not to compile a complete list of the assessable signs in the areas surveyed. It was intended to test check, based on an audit sample, the effectiveness of the RVD's work in identifying assessable signs for rates assessment. Audit selected 100 assessable signs found in the survey that met the criteria in paragraph 8.8 above and checked the details of the signs against the data in the PMS to ascertain if rates assessment had been made. Of these 100 signs, Audit found that (as at 7 January 2003) 46 signs had been assessed to rates and the assessment of 13 signs was in progress. Of the remaining 41 signs (i.e. 41%), as far as could be ascertained, there was no formal record in the RVD indicating that they had been identified for further action. Table 11 below shows the results of Audit's survey.

Table 11

Results of Audit's survey on advertising signs

	Particulars	**Hong Kong Island**	**Kowloon**	**NT**	**Total**
(a)	Date of survey	12 December 2002	26 November 2002	6 January 2003	
(b)	Areas covered by the survey	Wanchai Causeway Bay	Mongkok Shum Shui Po	Tsuen Wan Yuen Long	
(c)	Number of signs selected for checking	58	23	19	100 (100%)
(d)	Results of Audit's checking against data in the PMS (as at 7 January 2003):				
	— **already assessed to rates**	34 (59%)	7 (30%)	5 (26%)	**46 (46%)**
	— **assessment work in progress**	5 (8%)	6 (26%)	2 (11%)	**13 (13%)**
	— **no evidence of assessment work done**	19 (33%)	10 (44%)	12 (63%)	**41 (41%)**

(Photographs 5, 6, 7 and 8 on the centre pages show examples of assessable signs identified by Audit for which there was no evidence of assessment work done.)

Audit observations on rates assessment of advertising signs

8.10 The results of Audit's survey indicate that there is room for improvement in the RVD's performance in identifying advertising signs for rates assessment. In Audit's view, the present work practice (see para. 8.6 above) does not enable the RVD's senior management to monitor effectively its staff's performance in this regard. **There is a need to adopt a more structured approach so as to properly plan and monitor this type of work.**

Audit recommendations on rates assessment of advertising signs

8.11 **Audit has *recommended* that the Commissioner of Rating and Valuation should:**

(a) **adopt a more structured approach to enable RVD staff to carry out more effectively the work of identifying assessable advertising signs; and**

(b) **for monitoring purposes, require RVD staff to submit action plans and report the results of their actions (including the streets covered, the time spent and the details of new assessable advertising signs identified) to the senior management on a regular basis.**

Response from the Administration

8.12 The **Commissioner of Rating and Valuation** generally agrees with the audit recommendations. He has said that:

(a) there is at present no notification requirement for the putting up of advertising signs, which are frequently altered, dismantled or abandoned. Therefore, it is very difficult and time consuming to identify the signs, which can only be done by regular inspection, and to obtain ratepayers' particulars for making assessments. The RVD will pursue with the Buildings Department on the feasibility and desirability of imposing a notification requirement for advertising signs. If this is done, efficiency of the rating of advertising signs will be much improved; and

(b) in the meantime, the RVD will consider carrying out a survey of advertising signs to facilitate valuation work.

PART 9: CHANGE IN USE OF AGRICULTURAL LAND

9.1 This PART examines the RVD's performance in identifying changes in the use of agricultural land for rating purposes.

Problems in identifying changes in land use

9.2 According to section 36 of the Rating Ordinance, agricultural land is exempted from assessment to rates. However, there are known cases where agricultural land is used for other purposes such as commercial car parks, container sites and open storage. Where such changes have occurred, the land may become liable to be assessed to rates.

9.3 Audit's enquiries in December 2002 indicated that the RVD did not have a structured approach to identifying the changes in use of agricultural land, where such changes had not been authorised by the land authority (Note 23). Reliance was placed mainly on RVD staff reporting such changes that had come to their notice when carrying out field visits in relation to other duties. Therefore, there was a risk that rates might not be assessed on a timely basis following a change in land use.

Audit's survey of changes in land use

9.4 In December 2002, Audit conducted a survey to see if there were any unauthorised changes in the use of agricultural land, rendering them liable to rates assessment. The objective of Audit's survey was not to compile a complete list of all such changes in the territory but to test check, based on an audit sample, the effectiveness of the RVD's work in identifying such changes for rating purposes. For simplicity, Audit's survey focused on the use of agricultural land for commercial car park operations in two selected areas (i.e. Yuen Long and Ping Shan) where the demand for public parking facilities was high.

9.5 In the survey, Audit identified 16 open car parks (i.e. 12 in Yuen Long and 4 in Ping Shan) on agricultural land, by reference to:

Note 23: *For authorised changes in use of agricultural land, the risk of the RVD not making rates assessment is low because the LandsD copies the relevant approval documents (e.g. short-term waivers) to the RVD for rating purposes. Therefore, this PART only deals with the rates assessment of unauthorised changes.*

(a) published maps readily available in bookshops; and

(b) aerial photographs taken by the LandsD in September 2001.

9.6 Audit visited these car parks to ascertain their capacity. Audit also checked the RVD's database in the PMS to see if the car parks had been assessed to rates. Of the 16 car parks identified, Audit found that (as at 30 December 2002) only three had been assessed to rates and the assessment of two others was in progress. The total rates collectible in 2002-03 from the three car parks that had been assessed to rates were $55,000. For the remaining 11 car parks (i.e. 69%), as far as could be ascertained, there was no formal record in the RVD indicating that they had been identified for further action. The following is a summary of Audit's findings:

(a) the 16 open car parks were all located near residential areas and easily accessible;

(b) with one exception, the car parks had been in operation for at least 15 months (as at December 2002), as evidenced by the aerial photographs taken by the LandsD in September 2001; and

(c) of the 11 car parks not known to the RVD, some had more than 100 parking spaces.

(Photographs 9 and 10 on the centre pages show examples of open car parks not yet assessed to rates. Photograph 11 on the centre pages is an aerial photograph showing the location of four open car parks in Ping Shan which, as at December 2002, had not been assessed to rates.)

Audit observations on changes in the use of agricultural land

9.7 The results of Audit's survey indicate that there is room for improvement in the RVD's performance in identifying changes in the use of agricultural land for rating purposes. **Audit considers that there is a need for the RVD to adopt a more structured approach to enhance the RVD's work in identifying changes of land use, particularly for agricultural land.**

Audit recommendations on changes in the use of agricultural land

9.8 **Audit has *recommended* that the Commissioner of Rating and Valuation should:**

(a) **adopt a more structured approach to the work of identifying changes in land use for rating purposes, including requiring RVD staff to submit action plans and report results on a regular basis; and**

(b) **make good use of the aerial photographs taken by the LandsD as a tool to identify changes in land use, particularly for agricultural land, to enable the RVD to raise rates assessment in appropriate cases.**

Response from the Administration

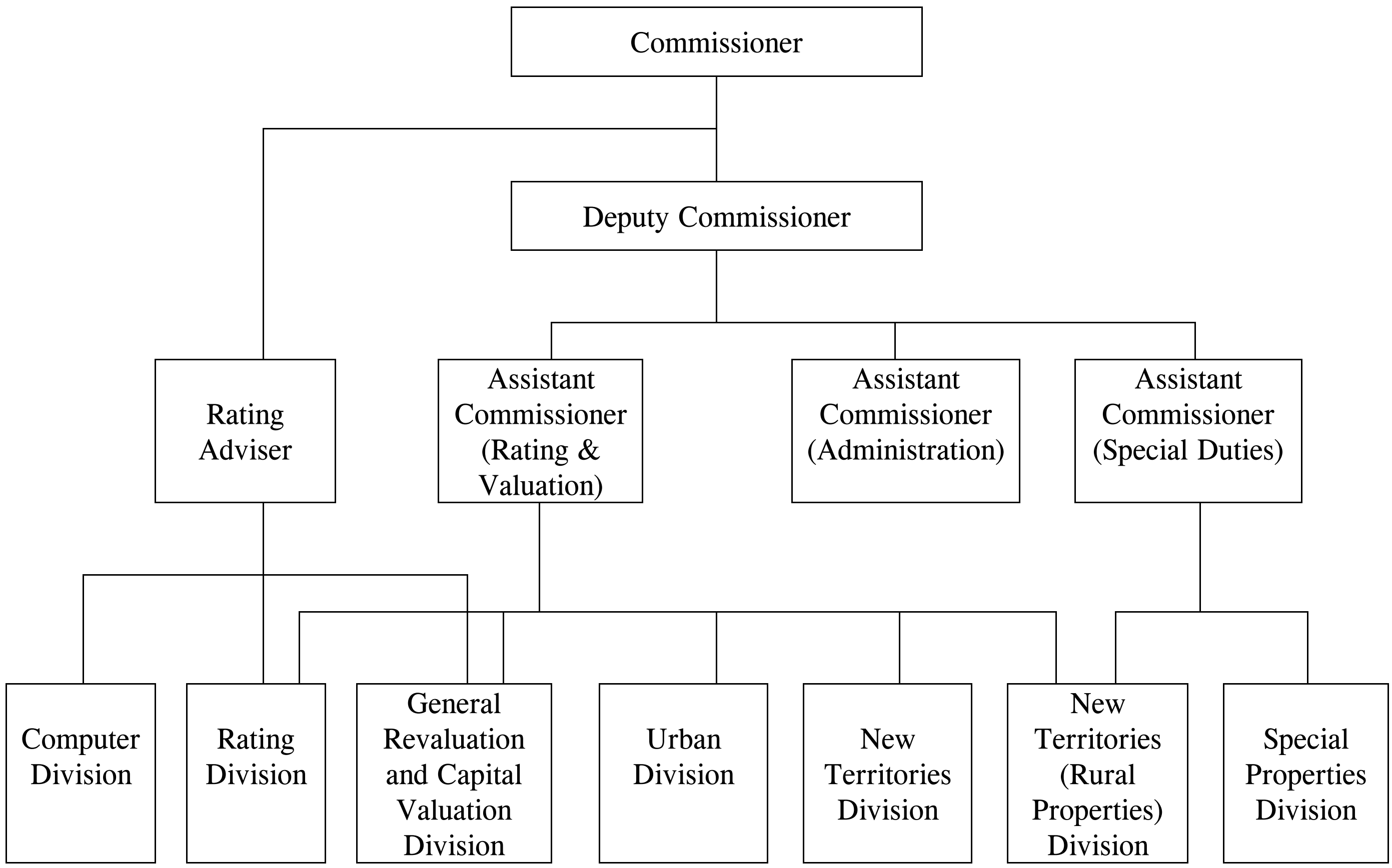
9.9 The **Commissioner of Rating and Valuation** has said that:

(a) the RVD relies on notifications by the LandsD on approved changes in land use. Monthly returns are received from the District Lands Offices. The RVD will liaise with the LandsD to ensure that the alert system is effective; and

(b) the RVD will consider using the aerial photographs as an additional tool to identify changes in land use.

Appendix A
(para. 1.10 refers)

Organisation chart of the RVD
showing the relevant divisions (as at December 2002)



Duties:

Developing and operating new and existing systems	New interim valuation work	General revaluation and capital valuation	Rating and valuation matters concerning all Hong Kong Island and Kowloon properties	Rating and valuation matters on all NT and outlying islands properties	Rating, government rent and related matters on VTHs and other rural properties in the NT and outlying islands	Valuation of specialised properties

Source: RVD's records

Appendix B
(para. 2.4 refers)

Rental evidence ratio for different property types

Property Type		**Rental Evidence Ratio**					
		2000-01 GR		**2001-02 GR**		**2002-03 GR**	
Domestic	Small House	111:1	53:1	114:1	49:1	136:1	61:1
	Tenement	54:1		44:1		57:1	
	Small Flat	70:1		64:1		79:1	
	Domestic units in VTH	35:1		39:1		46:1	
	Large Flat	22:1		22:1		26:1	
	House	21:1		19:1		23:1	
Non-Domestic	Office —Grade A and B	13:1	14:1	9:1	12:1	14:1	14:1
	Office —Grade C and D	15:1		12:1		15:1	
	Flatted Factory —Grade A and B	23:1		18:1		21:1	
	Flatted Factory —Grade C, D and E	26:1		24:1		27:1	
	Industrial/Office building	13:1		10:1		9:1	
	Ground Floor shops	10:1		10:1		10:1	
	Ground Floor shops in VTH	14:1		15:1		14:1	
	Arcade shops	8:1		7:1		9:1	
	Multiple Commercial/ Upper Floor Commercial	16:1		17:1		20:1	
	Basement shop/Upper Floor shop	10:1		10:1		10:1	
Parking	Parking (Domestic)	61:1	61:1	47:1	42:1	34:1	29:1
	Parking (Non-Domestic)	61:1		25:1		13:1	
	Overall	**38:1**		**34:1**		**39:1**	

Source: RVD's records

Appendix C
(para. 2.10 refers)

Legal advice given by the Department of Justice in 1995

In September 1995, in response to an enquiry from the IRD on whether the disclosure to the RVD of information stated on leases submitted by the public for stamping would be in breach of its duty of confidentiality owed to the parties to the leases, a then Senior Crown Counsel of the D of J advised that:

(a) the legal position in this situation was not entirely free from doubt as it might perhaps be argued that the information contained in a lease was not the sort of information which it would be reasonable to expect the parties to the lease to regard as confidential;

(b) however, for the sake of prudence, it seemed inadvisable not to treat such information as confidential since the leases might not necessarily become public documents. Furthermore, many of the documents presented for stamping were clearly regarded as confidential as they invariably contained restricted trade information; and

(c) that being the case, it seemed desirable that any policy on disclosure of information contained in documents presented should be applied across-the-board. Otherwise, the public would be led to believe that the confidential documents they presented for stamping might not be treated as such.

Appendix D
(para. 2.11 refers)

Practices in Singapore and the UK of using information in the stamp offices for rates assessment

Practice in Singapore

In Singapore, there is a tax system on properties (known in Singapore as "property tax") that operates in a similar manner as the rates system in Hong Kong. Tax at a flat rate is charged on the annual rental value of properties (for both owner-occupied and let out properties). This tax is administered by the Property Valuation and Assessment Division (PVAD) of the Inland Revenue Authority of Singapore (IRAS). The functions of the PVAD are similar to those of the RVD in Hong Kong.

2. Annually, a Valuation List is compiled based on the gross market rents of properties, taking into account physical, legal, social and economic factors. The market rents are assessed by the PVAD and it uses the data from the Stamp Office for this purpose. **As the Stamp Office and the PVAD are in the same organisation (i.e. the IRAS), there is no problem of obtaining or using the data in the stamped leases for rental assessment.**

Practice in the UK

3. For non-domestic properties in the UK (Note 1), business rates are charged in a similar manner as the rates system in Hong Kong, based on their rateable values at a prescribed date. Similar to Hong Kong, the rateable value reflects a professional assessment of the annual rent for a property in the open market. The Valuation Office Agency (VOA), as an executive agency of the Inland Revenue (IR), is responsible for assessing rateable values and compiling the business rating Valuation List. For this purpose, the VOA collects evidence of actual rents which have been/are being paid.

4. Under the current practice, the VOA receives from the IR Stamp Office hard copies of Particulars Delivered (PD) forms, which are filed with the IR Stamp Office as part of the document stamping process, for all leases in excess of a specified period of time. From the PD forms, the VOA could identify the parties to the transactions, the properties concerned and brief details of the main terms of the agreements (Note 2). **With the PD forms that disclose the existence of potentially useful rental information, the VOA sends Rent Returns to the lessees seeking full information for compiling and maintaining the Valuation List.** Meanwhile, the VOA is seeking to streamline the process by having the PD forms covering as much information as possible. In conjunction with the UK Land Registry and the IR Stamp Office, the VOA is exploring ways to satisfy the coordinated information needs of all three parties.

Note 1: *For domestic properties in the UK, a council tax is charged which, unlike Hong Kong, is based on the assessed capital values of the properties.*

Note 2: *There is a constraint on the use to which the Stamp Duty information would be put, which was laid down in a Treasury Minute issued in the 1960s. As a result, the VOA does not have access to the stamped document itself but it can use the PD forms for rating purposes.*

Appendix E

Acronyms and abbreviations

COR	Controlling Officer’ s Report
D of J	Department of Justice
DSTI	Departmental standing technical instruction
DVA	Designated Village Area
EDC	Executive Directorate Committee
FSTB	Financial Services and the Treasury Bureau
GR	General Revaluation
GRS	General Revaluation System
HAD	Home Affairs Department
IRAS	Inland Revenue Authority of Singapore
IRD	Inland Revenue Department
IVS	Interim Valuation System
LandsD	Lands Department
LR	Land Registry
LegCo	Legislative Council
NT	New Territories
PMS	Property Master System
PVAD	Public Valuation and Assessment Division
RIS	Rental Information System
RP	Rolling Programme
RVD	Rating and Valuation Department
UK	United Kingdom
VOA	Valuation Office Agency
VTH	Village type house