

CHAPTER 3

Hong Kong Housing Authority

Housing Department

Allocation of public rental housing flats

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ALLOCATION OF PUBLIC RENTAL HOUSING FLATS

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PART 1: INTRODUCTION

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

Hong Kong Housing Authority

1.2 The HA was established as a statutory body in April 1973 under the Housing Ordinance (Cap. 283). Within the Government's overall housing policy framework, the HA determines and implements public housing programmes. The primary role of the HA is to provide subsidised PRH flats for low-income families that cannot afford private rental accommodation. The HA also provides interim housing (IH) flats and transit centres (TCs) as temporary accommodation for families facing short-term problems in finding suitable accommodation (Note 1).

1.3 The membership of the HA comprises 4 official members and 29 non-official members (Note 2). Six standing committees, together with a number of sub-committees/ad hoc committees, are formed under the HA to formulate, administer and oversee policies in specified areas. As at 31 March 2006, the HA provided 682,316 PRH flats for 2.02 million people (i.e. 29% of the population of Hong Kong). The number of PRH flats and the number of people living in PRH estates for the years from 1996-97 to 2005-06 are shown in Appendix A.

Housing Department

1.4 The Housing Department (HD) acts as the executive arm of the HA in implementing the housing policies. The HD is responsible, among others, for the provision of PRH flats, IH flats and TCs, and the assessment of eligibility of various forms of public housing assistance. The HD is headed by the Permanent Secretary for Housing, Planning

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

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

and Lands (Housing) who also assumes the office of the Director of Housing. The mission of the HD is to:

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

Reorganisation of the Housing Department

1.5 In January 2003, the then Housing Bureau and the HD were merged into one organisation called the HD with a view to building an organisation that could respond to service demand more efficiently and effectively. As at 1 April 2006, the HD had 8,796 staff.

Rental housing operating account

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

Table 1

Rental housing operating accounts

Year	Income	Expenditure	Surplus/(deficit)
	(a)	(b)	(c) = (a) - (b)
	(\$ million)	(\$ million)	(\$ million)
2005-06	11,762	11,295	467
2006-07	11,654	11,770	(116)

Source: HD records

Remarks: The amounts in 2006-07 were estimated figures.

The estimated deficit in 2006-07 is mainly attributable to the loss in rental income resulting from the relaxation of eligibility criteria for the Rent Assistance Scheme (Note 3), and the increase in personal emoluments and expenditure to enhance estate management and maintenance services.

Supply of public rental housing flats

1.7 The HA constructs PRH flats for low-income families in accordance with the Public Housing Construction Programme. The HA is committed to maintaining the average waiting time for PRH flats at about three years and ensuring that there is an adequate supply of PRH flats through the rolling construction programme. The actual number of PRH flats to be built is adjusted regularly, taking into account the housing demand of low-income families and the turnover in tenancy. On average, 21,400 PRH flats were built in each year from 2001-02 to 2005-06.

1.8 PRH flats are available for letting when new estates are completed or existing tenants return their flats to the HD for reallocation. From time to time, the HD recovers PRH flats from existing tenants through transfer arrangements or surrender of tenancy. After refurbishment, the recovered flats are available for allocation to eligible PRH applicants. On average, the HD recovered 17,812 PRH flats from its tenants in each year from 2001-02 to 2005-06.

Eligibility criteria for the allocation of public rental housing flats

1.9 The eligibility criteria for the allocation of PRH flats are mainly as follows:

- (a) the applicant must be 18 years of age or over. The applicant and family members must be residing in Hong Kong and have the right to land in Hong Kong without subject to any conditions of stay. Family members who are not living and have not landed in Hong Kong cannot be included in the application;
- (b) the relationship between the applicant and family members must be either husband and wife, parents, children, grandparents, grandchildren, unmarried brothers and sisters or other dependent relatives who are willing to live with the applicant;

Note 3: *The Rent Assistance Scheme grants rent reduction to PRH tenants suffering from temporary financial hardship.*

- (c) the applicant and family members must not own or co-own any domestic property (Note 4);
- (d) the total monthly income and net asset value of the applicant and family members must not exceed the maximum monthly income and total net asset value limits laid down by the HA;
- (e) the applicant must not be an ex-owner/ex-joint owner or former recipient of various subsidised home ownership schemes (such as the Home Ownership Scheme and the Home Purchase Loan Scheme); and
- (f) at the time of flat allocation, at least half of the family members included in the application must have lived in Hong Kong for seven years and are still living in Hong Kong. Children under the age of 18, regardless of the place of birth, are deemed as having satisfied the seven-year residence rule, provided that one of their parents has lived in Hong Kong for seven years. They are also deemed as having fulfilled the seven-year requirement if they have established Hong Kong birth status as permanent residents.

Allocation of public rental housing flats

1.10 PRH flats are allocated to the eligible persons under the following seven categories:

- (a) **Waiting List.** The HA maintains a Waiting List (WL) of applicants. Eligible applicants on the WL are offered accommodation in PRH estates;
- (b) **Transfer.** Tenants may want to move to a bigger or another flat due to a bigger family size or special reasons. The HA offers various transfer arrangements to cater for tenants' different needs for flat transfer;
- (c) **Comprehensive redevelopment and major repairs.** Tenants in old PRH estates scheduled for redevelopment may apply for other PRH flats. Tenants who have to move out due to comprehensive repair or improvement works of their PRH flats are eligible for the allocation of other PRH flats;
- (d) **Compassionate rehousing.** Applicants suffering from hardships of various nature (such as serious illness, disability or social problem) may apply direct to the Social Welfare Department (SWD), non-government organisations approved

Note 4: *Domestic property includes any post-war domestic property, uncompleted private domestic property, uncontrolled or self-occupied pre-war domestic property, roof-top structure approved by the Building Authority, domestic building lots and Small House Grants in Hong Kong.*

by the SWD or Probation Offices for compassionate rehousing. After confirming the eligibility of applicants, they are recommended by the Director of Social Welfare to the HD for the allocation of PRH flats;

- (e) **Civil servants.** Civilian staff on or below Salary Point 21 of the Master Pay Scale and not on a rank scale reaching Salary Point 25 of the Master Pay Scale, and disciplined services staff of rank and file can apply for the allocation of PRH flats under the Civil Service Public Housing Quota;
- (f) **Clearance.** Households affected by clearance projects such as the squatter clearance and the Urban Renewal Authority (URA – Note 5) projects are eligible for the allocation of PRH flats if they meet the rehousing criteria; and
- (g) **Emergency.** Victims of emergency incidents (such as fires and natural disasters) are eligible for the allocation of PRH flats if they meet the rehousing criteria.

In 2005-06, the HD allocated 41,037 PRH flats to eligible persons, including 27,011 (65.8%) flats to applicants on the WL.

Waiting List

1.11 The HA maintains a WL of applicants from ordinary families, single persons and elderly persons. From this WL, eligible applicants are offered accommodation in PRH estates. PRH estates in Hong Kong are grouped into four districts (i.e. the Urban District, the Extended Urban District, the New Territories District and the Islands District – Note 6). As there are insufficient PRH flats in the Urban District, applicants can only choose one district among the Extended Urban District, the New Territories District and

Note 5: *The URA, established under the Urban Renewal Authority Ordinance (Cap. 563), came into operation in May 2001. It replaces the former Land Development Corporation as the body corporate responsible for undertaking and promoting urban renewal in Hong Kong. The URA is tasked to implement an urban renewal programme consisting of 200 new projects and 25 uncompleted projects of the former Land Development Corporation in 20 years. It is mainly financed by government capital injections.*

Note 6: *The Urban District comprises Hong Kong Island and Kowloon. The Extended Urban District includes Kwai Chung, Ma On Shan, Sha Tin, Tseung Kwan O, Tsing Yi, Tsuen Wan and Tung Chung. The New Territories District includes Fanling, Sheung Shui, Tai Po, Tin Shui Wai, Tuen Mun and Yuen Long. The Islands District excludes Tung Chung.*

the Islands District for their future allocation of PRH flats (Note 7). However, elderly applicants and applicants who join the Families with Elderly Persons Priority Scheme (FEPPS) may apply for the allocation of PRH flats in any district. The allocation of PRH flats is handled strictly in accordance with the order of priority of application on the WL and the applicant's choice of district.

1.12 According to the housing allocation policy of the HA, the HD gives an eligible applicant three housing offers, one at each time, according to the applicant's choice of district. If the applicant rejects all the three housing offers without giving acceptable reasons, his application will be cancelled and he will be barred from reapplying for a PRH flat for one year. As at 31 March 2006, there were 97,402 applicants on the WL. The number of applicants on the WL for the allocation of PRH flats for the years from 1996-97 to 2005-06 is shown in Appendix B.

Audit review

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

- (a) handling of applications for the allocation of PRH flats (PART 2);
- (b) reservation of PRH flats (PART 3);
- (c) provision of housing for senior citizens (PART 4);
- (d) provision of IH flats and accommodation in TCs (PART 5); and
- (e) letting of less popular flats (PART 6).

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

Acknowledgement

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

Note 7: *With effect from 25 May 2006, the HD, after taking into account the anticipated supply of vacant flats in the Urban District in the next three years, allows applicants registered before 1 October 2004 to switch their choices of district for the allocation of PRH flats to the Urban District.*

PART 2: HANDLING OF APPLICATIONS FOR THE ALLOCATION OF PUBLIC RENTAL HOUSING FLATS

2.1 This PART examines the handling of applications for the allocation of PRH flats by the HD and suggests measures for improvement.

Submission of applications

2.2 Each applicant for a PRH flat can submit only one application to the HD. Individual family members should not be included in more than one application. The applicant should submit the completed application form together with the following documents for preliminary vetting of his eligibility for registration on the WL:

- (a) ***Proof of identity and relationship of the applicant and family members.*** These include copies of identity cards, marriage certificates, birth certificates of the applicant and family members or documentary proof of family members' relationship;
- (b) ***Income proof for the applicant and family members.*** The applicant and all working family members should provide their employment certificates stating the basic salary, double pay, bonus and other allowances. For casual workers, they must submit a written declaration on their present jobs and average monthly income. Self-employed persons should provide a copy of business registration certificate together with a written statement on the assets and the average monthly profit and income. For unemployed persons, they should provide a written statement on the source of financial support and the average monthly expenditure; and
- (c) ***Net asset value proof for the applicant and family members.*** The applicant and family members should submit copies of documents supporting the net value of different kinds of assets owned by them.

Preliminary vetting of applications

2.3 The application form and supporting documents are subject to detailed eligibility vetting by the Registration and Civil Service Unit (RCSU) of the Allocation Section of the HD before the applications are registered on the WL. The RCSU examines the application to see if the information is complete and the basic eligibility criteria are met. Information on the application form is input into the Integrated System for Housing Management

(ISHM – Note 8). The RCSU uses the ISHM to check if the applicant and family members have previously applied for or are receiving any housing benefits. Those with double housing benefits are coded in the ISHM to bar the allocation of PRH flats. If the application is in order, the RCSU registers the application on the WL and assigns an application number in sequence to the applicant. Otherwise, no registration is made.

Vetting of applications

2.4 Applications for the allocation of PRH flats are investigated in accordance with the order of registration on the WL and the availability of PRH flats in the district chosen by the applicant. When an application is due for investigation, the Waiting List Unit (WLU) of the Allocation Section arranges a vetting interview with the applicant. The applicant and family members of age 18 or above are invited to attend the interview. Family members under the age of 18 are also interviewed if they have income and/or assets. In the invitation letter, the applicant and family members are requested to bring along, among others, bank-books and bank statements. During the interview, the applicant and family members are required to declare their income, net asset value and property ownership. They are required to produce standard employment certificates bearing employers' signatures and official chops, to substantiate their declared income. For doubtful cases, the WLU may:

- (a) require additional evidence such as salary slips, bank-books, tax returns and other remuneration records from the applicant and family members;
- (b) check with the Transport Department to see if the applicant and family members are vehicle owners;
- (c) check with the Land Registry by Direct Access Services (Note 9) to see if the applicant and family members are property owners;
- (d) check with the Business Registration Office of the Inland Revenue Department or the Companies Registry to confirm the applicant's proprietorship of a business; or
- (e) send a letter to the employers concerned to verify the actual earnings of the applicant and family members.

Note 8: *The ISHM is a computerised system containing all the personal data of PRH applicants and family members, and housing allocation records.*

Note 9: *The Direct Access Services are on-line services connected to the Integrated Registration Information System of the Land Registry. The on-line services provide users with a full range of search services on land records and owners of properties maintained by the Land Registry.*

After assessing the eligibility of the application, the interviewer makes a recommendation to accept or cancel the application, or arrange follow-up actions.

Acceptance and cancellation of applications

2.5 All vetted applications are checked by an Assistant Housing Manager or a Housing Manager who authorises the acceptance or cancellation of applications, or further actions. Information is input into the ISHM. The accepted or cancelled cases are further checked by the Accepted and Cancelled Team of the WLU. The accepted cases are passed to the Lettings Unit (LU) of the Allocation Section awaiting allocation of PRH flats. Acceptance letters are sent to successful applicants. For the cancelled cases, letters of rejection are sent.

Audit observations

Verification of declared income and assets

2.6 Audit noted that the staff of the HD had not critically checked the balances in the bank-books and bank statements to ensure that the declared income and assets of the applicant and family members were correct.

2.7 Audit reviewed ten applications referred by the Allocation Section to the Task Force Against Abuses of Public Housing Resources (Task Force) for investigation (see para. 2.15). Audit noted that in one case, the HD received a complaint against an applicant who had already attended the vetting interview. The HD then conducted two more vetting interviews and concluded that, based on his bank-books and bank statements, the applicant's declaration of monthly income and assets was doubtful. The applicant later cancelled his application. **In Audit's view, as bank-books and bank statements are important documents for verifying the declared income and assets of applicants and family members, the HD needs to check these documents critically. This would ensure that the income and assets declared by applicants and family members are correct.**

2.8 Audit notes that applicants and family members are required to produce their tax returns and other remuneration records only if their applications are considered as doubtful cases. **In Audit's view, records of Mandatory Provident Fund contributions and tax returns are reliable supporting evidence for substantiating the monthly income declared by applicants and family members. The HD needs to require all applicants and family members to produce, at the vetting interview, records of Mandatory Provident Fund contributions and tax returns for checking. The HD should keep copies of bank-books, bank statements, records of Mandatory Provident Fund contributions and tax returns for future reference or further checking.**

Delay in deleting the names of deceased persons

2.9 Since 1995, the Registrar of Births and Deaths of the Immigration Department has provided the HD, on a monthly basis, with data of deceased persons. The HD conducts data matching with the names of existing tenants and family members, and applicants and family members registered on the WL. A monthly “Action Report for Registered Deceased Persons” is generated from the ISHM for Housing Managers of PRH estates to take follow-up action.

2.10 The Housing Managers of individual PRH estates are required to take follow-up actions after the death of tenants or family members. These actions may involve the transfer of tenancy to an authorised spouse, termination of tenancy and deletion of names of family members from tenancy. Estate Management Division Instruction No. M24/2005 states that Housing Managers of PRH estates should take action to resolve all outstanding cases involving deceased persons “as early as possible and in any case not later than one month from the date such cases come to surface”. However, the HD has not issued guidelines to the RCSU, the WLU and the LU requiring them to delete the names of deceased persons from the WL on a timely basis.

2.11 Audit reviewed four applications for the allocation of PRH flats involving deceased persons and found that there were irregularities in one case. The Allocation Section did not take prompt follow-up action to delete the name of the deceased person from the WL. As a result, the applicant, whose elderly family member had passed away, was allocated a PRH flat under the FEPPS.

2.12 Audit analysed the Action Report for Registered Deceased Persons as at 8 April 2006 and found that, after more than one month, follow-up action had not been taken to delete the names of 57 deceased persons from the WL. Details are shown in Table 2.

Table 2
Delay in deleting the names of deceased persons from the WL
(8 April 2006)

Delay period	Number of cases
2 months to less than 6 months	26
6 months to less than 12 months	18
12 months to less than 18 months	10
18 months to less than 24 months	3
Total	57

Source: HD records

2.13 In June 2006, Audit reviewed the outstanding cases of names of deceased persons not yet deleted from the WL as at 8 April 2006 and found that:

- (a) 17 cases were single-person applications for the allocation of PRH flats. These applications should have been deleted from the WL. In one case, the applicant was registered on the WL in May 2004. He died in July 2004. Since September 2005, his name had appeared in the monthly Action Report for Registered Deceased Persons. In April 2006, the WLU by letter asked him to attend a vetting interview. As he failed to turn up for the interview, the WLU sent another letter but received no response. The WLU then became aware that his name was in the Action Report for Registered Deceased Persons. The WLU deleted the application from the WL in April 2006;
- (b) 3 cases were applications for the allocation of PRH flats under the FEPPS. The deceased persons were registered elderly family members in the applications. One of the eligibility criteria of the FEPPS was that the applicant's family must consist of at least two members, and at least one of them must be an elderly relative. The death of an elderly family member might affect the applicant's eligibility for a PRH flat under the FEPPS; and
- (c) 3 cases were applications for the allocation of PRH flats under the Elderly Persons Priority Scheme (EPPS). The deceased persons were registered elderly members in the applications. The EPPS was designed for two or more related or unrelated elderly persons who undertook to live together upon the allocation of a PRH flat. The death of one person might affect the eligibility of the other applicants for the allocation of a PRH flat under the EPPS.

2.14 In Audit's view, delay in deleting the names of deceased applicants and deceased family members from the WL results in overstating the number of applications or the family size of an applicant on the WL, and may affect the priority in the allocation of PRH flats. The HD needs to issue guidelines that the names of deceased applicants and deceased family members should be promptly deleted from the WL, especially for applications under the elderly priority schemes.

In-depth checking of selected applications

2.15 The Task Force of the HD is responsible for conducting investigation and taking enforcement action against tenancy abuses. One of the core functions of the Task Force is to carry out investigation into the monthly income and assets of existing and prospective tenants in order to deter false declarations. Each year, the Allocation Section refers 120 newly registered applications and 180 applications in the process of flat allocation to the Task Force for in-depth checking of asset declarations. These 300 applications are randomly selected by the ISHM. The in-depth checking includes:

- (a) search of ownership of domestic property of the applicant and family members through the Direct Access Services;
- (b) valuation of reported property of the applicant and family members;
- (c) search of ownership of vehicle of the applicant and family members; and
- (d) business registration search of the applicant and family members, if they are self-employed.

If the applicant is found to have knowingly given false information, the application will be cancelled and the applicant will be prosecuted. For the years from 2003-04 to 2005-06, on average, there were irregularities in 23 (7.7%) out of the 300 cases referred to the Task Force for in-depth checking each year.

2.16 Audit found that the Task Force had only conducted in-depth checking on the assets of applicants and family members. The Task Force did not check the income of applicants and family members in respect of applications referred to it by the Allocation Section. Audit noted that in one case, the application was referred to the Task Force by the Allocation Section for in-depth checking on income and assets. However, the Task Force refused to check the income of the applicant. **In Audit's view, in-depth checking of the applications is an effective measure to deter false declarations. The Task Force needs to check the income, in addition to the assets, of applicants and family members in respect of applications referred to it by the Allocation Section.**

Investigation cases referred to the Task Force

2.17 The Allocation Section also refers suspicious applications to the Task Force for in-depth checking. Only 11 suspicious cases were referred for the years from 2003-04 to 2005-06 (i.e. 3 cases in 2003-04, 2 cases in 2004-05 and 6 cases in 2005-06). The Allocation Section processed, on average, 36,228 applications each year. Audit noted that the HD had not issued guidelines on referral of suspicious cases by the Allocation Section to the Task Force for in-depth checking. According to the results of the annual in-depth checking of 300 asset declarations by the Task Force, there were irregularities in 23 cases. **Audit considers that the HD needs to issue guidelines requiring the Allocation Section to refer all suspicious cases to the Task Force for in-depth checking.**

Prosecution of PRH applicants

2.18 Under section 26(1) of the Housing Ordinance, any person who knowingly makes any false statement in respect of an application for the allocation of a PRH flat shall be guilty of an offence and shall be liable on conviction to a maximum fine of \$50,000 and to imprisonment for six months. The HA may cancel the application submitted by any person who makes any false statement in respect of such an application, whether or not he has been charged with or convicted of the offence.

2.19 Applicants found to have knowingly given false information would have their applications cancelled and would be prosecuted. Audit analysed the number of prosecution cases handled by the Prosecutions Section of the HD and the prosecution rates for the years from 2000-01 to 2004-05. It was found that in recent years, there was a drop in the number of prosecutions on those applicants who had been found to have given false information. The number of prosecution cases dropped from 113 in 2000-01 to 34 in 2004-05. Details are shown in Appendix C. For the years from 2002-03 to 2004-05, on average, 260 applications were cancelled each year due to false statements made by applicants. However, only about 40 applicants were prosecuted each year.

2.20 For the prosecution cases for the years from 2000-01 to 2004-05, the conviction rates ranged from 94% to 100%. Details are shown in Appendix D. Despite the high conviction rates, the prosecution rates dropped from 74% in 2000-01 to 39% in 2004-05 as shown in Appendix C.

2.21 **Prompt prosecution action is likely to have deterrent effects. Audit considers that the HD needs to step up prosecution action against persons who knowingly make a false statement in an application for the allocation of a PRH flat. The HD also needs to step up its publicity efforts on the convicted cases in order to achieve a better deterrent effect.**

Audit recommendations

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

Verification of declared income and assets

- (a) **remind the staff of the HD to critically examine the bank-books and bank statements produced by applicants and family members in order to ensure that their declared income and assets are correct;**

- (b) **consider requiring applicants and family members to produce, at the vetting interview, records of Mandatory Provident Fund contributions and tax returns to substantiate their declared income;**
- (c) **consider keeping copies of bank-books, bank statements, records of Mandatory Provident Fund contributions and tax returns produced by applicants and family members for future reference or further checking;**

Delay in deleting the names of deceased persons

- (d) **issue guidelines that the names of deceased applicants and deceased family members should be promptly deleted from the WL;**
- (e) **ensure that HD staff expedite action to:**
 - (i) **delete the names of deceased applicants from the WL; and**
 - (ii) **ascertain whether those applicants, especially those applicants under the elderly priority schemes, are still eligible for the allocation of PRH flats after the death of a family member;**

In-depth checking of selected applications

- (f) **require the Task Force to check the income, in addition to the assets, of applicants and family members in respect of applications referred to it by the Allocation Section;**

Investigation cases referred to the Task Force

- (g) **issue guidelines on the referral of all suspicious cases by the Allocation Section to the Task Force for in-depth checking;**

Prosecution of PRH applicants

- (h) **step up prosecution action against persons who knowingly make a false statement in an application for the allocation of a PRH flat; and**
- (i) **step up publicity efforts on the convicted cases in order to achieve a better deterrent effect.**

Response from the Administration

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

Verification of declared income and assets

- (a) the staff of the HD have checked the balances in the bank-books and bank statements, but they have not explicitly recorded on the application files if no irregularities are detected. Proper file records on such checking have been made with immediate effect;
- (b) Interviewing Officers will be reminded to check thoroughly the bank-books and bank statements for verifying the declared income and assets of applicants and family members. To ensure the applicant is still eligible for the allocation of a PRH flat due to subsequent changes after the acceptance of his application, the applicant is required to make another declaration to such effect on the date of intake at the respective estate office;
- (c) the HD will require the applicant and family members to produce records of Mandatory Provident Fund contributions and tax returns for checking at the time of the vetting interview when such records and tax returns serve the purpose of providing their latest six-month income proof;
- (d) the process of keeping copies of bank-books and bank statements in application files as a routine procedure adds administrative burden. Such process may not be justified if no irregularities in these records are detected. However, the HD agrees to keep copies where necessary. As an improvement to the vetting process, guidelines will be given to Interviewing Officers on the detailed checking of bank-books, bank statements, records of Mandatory Provident Fund contributions and tax returns produced by applicants and family members;

Delay in deleting the names of deceased persons

- (e) the existing measures in dealing with the deletion of the names of deceased persons from the WL will be consolidated and incorporated into the internal guidebook for compliance by the WLU and the LU;
- (f) to avoid last minute changes resulting in possible ineligibility for intake, estate office staff have been instructed since December 2004 to cease intake procedures and return the case to the LU upon discovery of discrepancies between the household particulars declared during intake and those on the applications for the allocation of PRH flats;

- (g) the delay in deleting the name of the deceased person from the WL mentioned in paragraph 2.11 was crossed with the offer of the PRH flat. The omission of prompt updating was probably due to the large volume of requests (a few hundreds per month) on the change of particulars and the thousands of offers made (around 6,000 to 8,000 per month). Staff concerned have been instructed to be on the alert and make the best efforts to do the updating promptly;
- (h) further enhancement in the computerised management information system, to be launched in 2007-08, will be made to ensure prompt updating without omission;

In-depth checking of selected applications

- (i) the Task Force will undertake in-depth checking of both income and assets of applicants and family members on cases referred to it by the Allocation Section;

Investigation cases referred to the Task Force

- (j) the Allocation Section will consolidate the existing measures and practice of referring cases to the Task Force for in-depth checking into the internal guidebook for compliance by the WLU. At present, only suspicious cases which cannot be sufficiently handled by the Allocation Section will be referred to the Task Force and this is the reason for the limited number of referrals;

Prosecution of PRH applicants

- (k) the drop in the number of prosecution cases from 113 in 2000-01 to 34 in 2004-05 was partly due to the reduction in the number of cases forwarded to the Prosecutions Section. It should be noted that the Prosecutions Section would only act on cases referred to it;
- (l) another reason for the drop is that the prosecution rate is much influenced by the self-admission of offence by offenders. In 2000-01, the self-admission rate was 61.5% but it dropped to 35.6% in 2004-05. The drop in the rate of self-admission might probably be due to the higher awareness of legal rights and the change in attitude generally towards the Government and public bodies;
- (m) the number of false statement cases referred to the Prosecutions Section by the Allocation Section being much less than the number of applicants found to have given false statements is due to the fact that the “knowingly” element is not strong enough to warrant a referral to the Prosecutions Section. Staff of the Allocation Section, including the Interviewing Officers, are well equipped with general legal training in this regard;

- (n) the Prosecutions Section always takes prompt processing action on suspected cases of false statements done knowingly. The Prosecutions Section will spare no efforts in taking to court cases of false statements done knowingly, where sufficient evidence has been gathered to prosecute. The Prosecutions Section will take prosecution action where sufficient evidence exists to support a conviction of a case of “knowingly making false statement”;
- (o) on the point of getting evidence of probative value, the Prosecutions Section has conducted and will continue to conduct training seminars for colleagues on the kind of evidence that should be taken and how interviews with applicants should be conducted. The Prosecutions Section agrees that more effort should be spent on the publicity of convicted cases so as to achieve a deterrent effect. This will be done in conjunction with other sections of the HD; and
- (p) the HD will step up its publicity efforts on the convicted cases in order to achieve a better deterrent effect.

PART 3: RESERVATION OF PUBLIC RENTAL HOUSING FLATS

3.1 This PART examines the reservation of PRH flats and suggests measures for improvement.

Flats reserved by the Urban Renewal Authority

3.2 In June 2002, the HA and the URA signed a Memorandum of Understanding regarding the rehousing arrangements for people affected by the URA projects (hereinafter referred to as “clearees”). The HA agreed to assist the URA in providing PRH/IH flats to rehouse clearees under the URA projects. According to the Supplemental Memorandum of Understanding signed in July 2003, the HA agreed to provide the URA with an annual quota of up to 1,000 PRH/IH flats for the purpose of rehousing clearees. These vacant flats, specifically reserved for the URA, are available for allocation immediately to rehouse clearees.

3.3 Before March each year, the URA informs the HA of the types of PRH/IH flats (i.e. the sizes and districts) to be reserved in the following financial year. The URA is required to give the HA 30 days’ notice in writing to cancel the reservation of PRH/IH flats. The reservation of PRH/IH flats by the URA is cancelled upon expiration of the notice. To facilitate planning, the URA advises the HA the types of PRH/IH flats required on a five-year rolling basis.

3.4 Once PRH/IH flats are reserved for and accepted by the URA, irrespective of whether the flats are actually taken up or occupied by clearees, the URA is required to pay monthly reservation fees to the HA. The reservation fees, equivalent to the prevailing standard rents and other expenses paid by other tenants/licensees of the PRH/IH estates, are payable by the URA for the period from the dates of acceptance of the reserved PRH/IH flats to:

- (a) the dates of taking up the reserved PRH/IH flats by clearees; or
- (b) the expiration dates of the cancellation notices.

3.5 The URA is responsible for the initial screening of clearees in accordance with the established criteria laid down by the HA in order to establish their eligibility for PRH/IH flats. The URA nominates clearees to the HA for the allocation of PRH/IH flats in accordance with the eligibility requirements. The HA, based on the nomination of the URA, processes the applications for PRH/IH flats submitted by clearees. The URA may nominate up to 20% of the number of flats reserved for the URA for allocation to clearees on compassionate grounds.

3.6 When carees take up the PRH/IH flats, they are required to sign a tenancy agreement with the HA and pay rents direct to the HA. The URA is also required to pay the HA the cost of PRH/IH flats (Note 10) allocated to carees.

Audit observations

3.7 Audit analysed the numbers of PRH flats reserved and taken up by carees for the years from 2002-03 to 2005-06. Audit found that the number of PRH flats taken up by carees was much lower than that reserved by the URA. Details are shown in Table 3.

Table 3

**Provision of PRH flats to carees of the URA projects
(2002-03 to 2005-06)**

Year	Number of flats reserved by the URA (Note 1)	Reservation fees paid to the HA (\$)	Number of flats taken up by carees	Number of flats not taken up by carees (Note 2)	Percentage of flats not taken up by carees
	(a)	(b)	(c)	(d) = (a) - (c)	(e) = $\frac{(d)}{(a)} \times 100\%$
2002-03	231	3,544,218	17	214	93%
2003-04	271	3,562,139	81	190	70%
2004-05	748	8,639,265	91	657	88%
2005-06	744	9,797,394	215	529	71%
Average	499	6,385,754	101	398	80%

Source: HD records

Note 1: The flats reserved by the URA for the years from 2002-03 to 2005-06 were all PRH flats.

Note 2: The numbers of flats not taken up by carees included flats de-reserved and returned to the HD during the year.

Note 10: Under the Memorandum of Understanding, the URA agreed to pay the HA the costs of PRH/IH flats allocated to carees. The cost of a PRH/IH flat is equal to:

$$\frac{\text{Market rent per square metre per month}}{60\%} \times \frac{\text{Average space allocated in square metres}}{36 \text{ months}}$$

The 60% used in this formula is equivalent to the rent allowance paid to eligible elderly applicants to lease private accommodation, in lieu of the allocation of PRH flats under the Rent Allowance for Elderly Scheme. The Scheme ceased to accept new applications in 2003.

3.8 According to Table 3, on average, only 20% of the reserved PRH flats for the years from 2002-03 to 2005-06 were taken up by clearerees. The total reservation fees paid to the HA were \$25.5 million.

3.9 Audit conducted an ageing analysis of PRH flats reserved by the URA as at 31 March 2006. The results are shown in Table 4.

Table 4
Ageing analysis of PRH flats reserved by the URA
(31 March 2006)

Reserved period	Number of flats	Percentage
Up to 6 months	89	21%
Over 6 months to 12 months	27	7%
Over 12 months to 24 months	244	59%
Over 24 months	56	13%
	} 300	} 72%
Total	416	100%

Source: HD records

Audit noted that, as at 31 March 2006, 300 (72%) PRH flats had been reserved for more than one year, including 56 (13%) flats reserved for more than two years.

Audit recommendations

3.10 **Audit has recommended that the Director of Housing should, in consultation with the URA:**

- (a) **critically review the existing arrangement of reserving and forecasting the demand for PRH flats each year so as to reduce the vacant period of flats reserved by the URA to a minimum; and**
- (b) **ensure that PRH flats not taken up by clearerees are returned promptly to the HA.**

Response from the Administration

3.11 The **Director of Housing** agrees with the audit recommendations. He has said that the HD has sought comments from the URA. To ensure that PRH resources are effectively distributed to meet the demand of different users, the HD has all along monitored closely the number of flats reserved by the URA and requested the URA to review/release the flats on which it has no imminent commitments to the HD for disposal. Every year before compiling the PRH Allocation Plan, the HD requests the URA to critically review its demand. The HD will keep close liaison with the URA and continue to monitor the flat reservation position of the URA. On the issue of reserving sufficient flats for rehousing the clearerees, the URA has indicated that:

- (a) after project announcement, during various public meetings including District Council meetings and representations to the Town Planning Board during planning application, the URA has committed to the public on general terms the locations of PRH estates provided for rehousing tenants. Thus, the URA has the responsibility to ensure that sufficient resources are readily available. If flats are returned after the commitment is made, there would bound to be complaints and discontent from the public. The URA considers it not advisable to release reserved flats;
- (b) all the URA projects are in the urban area and the affected tenants prefer to have urban rehousing. Besides, it generally takes two to four years to complete the projects. The pace of rehousing varies according to the time required for planning application but will largely depend on owners' willingness to sell their property interests to the URA. If owners are unwilling to sell their properties, their tenants who wish to be rehoused will need to wait until government resumption. If tenants being cleared at the very late stage are rehoused to different estates, the URA will be accused of offering different treatments to tenants in the same project. Therefore, the URA is obliged to take a prudent approach by holding a minimum sufficient number of rehousing flats to meet the demand required at various stages. The URA needs to reserve a sufficient number of flats;
- (c) there are other unknown factors which may lead the clearerees to change their choices of settlement. Such changes are outside the control of the URA and affect the number of flats to be reserved by the URA;
- (d) with the enactment of the Landlord and Tenant (Consolidation) (Amendment) Ordinance in July 2004 and the revision of the URA compensation policy in 2005, the URA expects that more clearerees in projects announced under the Urban Renewal Authority Ordinance will choose rehousing due to the downward adjustment in the amount of cash payment;

- (e) in accordance with the Memorandum of Understanding, the URA can reserve an annual quota of up to 1,000 rehousing flats for the purpose of rehousing affected clearerees. So far, the reservation of flats has never exceeded the quota in the past four years;
- (f) for flats that are refused by the clearerees, they will only be reserved by the URA with a continual payment of reservation fees if further retention is required on operational grounds; and
- (g) the URA will review regularly the requirement of flats for reservation and ensure proper use of the resources.

Flats reserved by estate offices

3.12 Individual estate offices may need to reserve vacant PRH flats for various purposes (e.g. for internal transfers and major repairs). Upon receipt of requests for reservation of flats by estate offices, the LU withholds them from letting. When the reservation is no longer required, estate offices inform the LU that the flats are available for letting.

Audit observations

Monitoring of flats reserved by estate offices

3.13 The LU is responsible for monitoring the status of PRH flats withheld from letting. According to the LU Operation Manual, it is required to issue memos to Regional Chief Managers of estate offices **quarterly** asking them to clarify the status of PRH flats reserved by them for more than three months. These flats should be returned to the LU for disposal, unless the approval of District Senior Housing Managers has been obtained.

3.14 Audit reviewed the monitoring exercises of the reserved PRH flats conducted by the LU during the period from November 2004 to June 2006. Details are shown in Table 5.

Table 5

**LU monitoring exercises of reserved PRH flats
(November 2004 – June 2006)**

Date of memo issued by the LU	Number of months elapsed since the last monitoring exercise
29 November 2004	3
1 June 2005	6
5 September 2005	3
14 December 2005	3
6 June 2006	6

Source: Audit analysis of HD records

Audit found that during the period from November 2004 to June 2006, the monitoring exercises of reserved PRH flats had not been carried out quarterly. **The HD needs to ensure that the LU complies with the requirement in the Operation Manual (see para. 3.13).**

Release of flats reserved by estate offices

3.15 If estate offices need to retain the flats reserved for more than three months, the justifications should be stated in the standard forms (List of flats for further reservation) which would be forwarded to District Senior Housing Managers for endorsement, before submission to the LU. For the return of reserved flats, the estate offices are required to inform the LU direct by completing the standard forms (List of flats to be returned to Lettings) so as to release them for letting.

3.16 Audit examined the standard forms returned to the LU by estate offices for the two monitoring exercises carried out in December 2005 and June 2006. The response rates of these two exercises are shown in Table 6.

Table 6

Response rates of two monitoring exercises of PRH flats reserved by estate offices

Date of memo issued by the LU	Number of PRH flats included in the monitoring exercise	Number of PRH flats included in the standard forms returned to the LU (up to 6 July 2006)	Response rate
	(a)	(b)	$(c) = \frac{(b)}{(a)} \times 100\%$
14 December 2005	330	243	74%
6 June 2006 (Note)	408	203	50%

Source: HD records

Note: The deadline for the return of the standard forms was 16 June 2006.

3.17 Audit found that in these two monitoring exercises:

- (a) not all estate offices had returned the standard forms to the LU;
- (b) the LU did not follow up with the estate offices on the return of the standard forms;
- (c) without proper confirmation from estate offices, the LU could not ascertain whether the estate offices still need to retain the reserved flats; and
- (d) eleven reserved flats were included in the subsequent monitoring exercises, despite estate offices had already informed the LU that these flats could be released for letting.

3.18 **Audit considers that the HD needs to ensure that all the confirmation and standard forms on the reserved PRH flats are promptly returned by estate offices to the LU, and all information on de-reserved flats submitted by the estate offices is promptly updated, so that these flats are made available for letting.**

Flats withheld for major repairs

3.19 For PRH flats undergoing major repairs (e.g. repairs for spalling and floor recasting), they are not available for allocation until the works are completed. As at 19 May 2006, 128 flats were withheld from letting for three months or more because of major repair works. An ageing analysis of these 128 flats is shown in Table 7.

Table 7

**Ageing analysis of 128 flats
withheld from letting due to major repairs
(19 May 2006)**

Period withheld from letting	Number of flats	Percentage
3 months to less than 6 months	29	23%
6 months to less than 12 months	43	33%
12 months to less than 24 months	37	29%
24 months to less than 36 months	12	9%
36 months to less than 48 months	2	2%
48 months and above	5	4%
Total	128	100%

} 99 } 77%

Source: HD records

3.20 Audit noted that as at 19 May 2006, 99 (77%) out of the 128 flats had been withheld from letting for six months or more. This is undesirable. **The HD needs to expedite action to complete the major repair works in PRH flats and release them for letting.**

Audit recommendations

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

Monitoring of flats reserved by estate offices

- (a) **ensure that the monitoring exercises of flats reserved by estate offices are carried out quarterly, as stated in the LU Operation Manual;**

Release of flats reserved by estate offices

- (b) **ensure that estate offices submit to the LU all the confirmation and standard forms on flats reserved by them;**
- (c) **ensure that information on de-reserved flats submitted by estate offices is promptly updated;**
- (d) **ensure that de-reserved flats are made available for letting; and**

Flats withheld for major repairs

- (e) **expedite action to complete major repair works in flats and release them for letting.**

Response from the Administration

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

Monitoring of flats reserved by estate offices

- (a) the HD has taken note of the omission of the quarterly returns and introduced immediately a checklist mechanism monitored at the Senior Housing Manager level to ensure compliance with the quarterly reporting requirement;
- (b) the HD reviewed the returns in June 2006 to further alert estate office staff to the need for accelerating the disposal of the flats. Since October 2005, the HD has enhanced the monitoring system. Apart from the quarterly returns, the LU has issued monthly memos reminding estate offices concerned to conduct checking on the reserved flats and release those flats no longer required to the LU for disposal;

Release of flats reserved by estate offices

- (c) in case no written returns were received, LU staff made telephone checking with the estate offices concerned. Such verbal confirmation of returning the flats was noted on the ISHM printouts, followed by subsequent updating of flat de-reservation in the ISHM records. Guidelines have been issued to staff for making proper record of such verbal confirmation in case of need;
- (d) the eleven reserved PRH flats were included in the subsequent monitoring exercises due to the delay in updating the records. The HD has reminded staff to be more careful in future;
- (e) as an improvement measure, starting from September 2006, the LU has requested estate offices to return the standard reply forms by “fax to e-mail”;
- (f) to step up the monitoring exercises, an enhanced monitoring mechanism has been introduced to automatically de-reserve flats which are held up without proper authority. The LU will release these de-reserved flats to other users immediately; and

Flats withheld for major repairs

- (g) the existing monitoring system was reviewed and enhanced in September 2006. Reservation of PRH flats which require a prolonged period for major repairs (such as structural, spalling and floor recasting repairs) will be closely monitored by Regional Chief Managers.

PART 4: PROVISION OF HOUSING FOR SENIOR CITIZENS

4.1 This PART examines the provision of housing for senior citizens (HSC) by the HA and suggests measures for improvement.

Background

4.2 The HA gives priority to elderly people in need of accommodation for the allocation of PRH flats through various special allocation schemes. Since 1987, the HA has provided HSC units for elderly tenants. HSC units are specially designed to accommodate elderly persons who are self-reliant and can live independently. The elderly tenants are provided with warden service but have to share toilet and kitchen facilities with other tenants in nearby units. Elderly persons may be allocated these specially designed units through the Single Elderly Persons Priority Scheme or the EPPS. The latter scheme provides housing for two or more elderly persons who agree to live together upon allocation of an HSC unit. As at 31 March 2006, there were 9,917 HSC units for elderly persons. Details of these HSC units are shown in Appendix E. The rent for an HSC unit ranged from \$283 to \$1,760 a month.

4.3 HSC units are not popular among the elderly applicants. They prefer self-contained units to shared facilities in HSC units. In addition, most of them have opted for housing in the urban districts. The vacancy rate of HSC units in the New Territories is especially high. In November 2000, the HA decided to stop further production of HSC units, and concentrated more on building self-contained small units for the elderly. However, the development projects for those HSC units under construction were allowed to continue. In early 2001, the construction of 197 HSC units in each of Tin Chak Estate in Tin Shui Wai and Fu Tai Estate in Tuen Mun was completed.

Audit review in 2001

4.4 In 2001, Audit carried out a review of the Government's planning, provision and monitoring of residential services for the elderly (i.e. Report No. 38 of the Director of Audit of March 2002). One of the audit findings on the residential services for the elderly was that, as at 31 March 2001, 887 (9%) out of 9,383 HSC units were vacant, and 657 (7%) HSC units had been vacant for more than six months. Audit recommended that, among others, the HA should consider allocating HSC units, which had remained vacant for a long time, to other suitable applicants on the WL for the allocation of PRH flats so as to make full use of these units. The Public Accounts Committee expressed concern about the large number of vacant HSC units, resulting in wastage of housing resources.

Vacant housing for senior citizens units

4.5 In recent years, the HA took the following measures to reduce the number of vacant HSC units:

- (a) in April 2001, the HA changed the age limit for HSC units from 60 to 55;
- (b) in November 2001, the HA decided to remove the age requirement for access to HSC units, with priority given to elderly applicants;
- (c) since December 2001, HSC units had been included in the letting exercises under the Express Flat Allocation Scheme (EFAS – see PART 6);
- (d) some vacant HSC units were converted into normal self-contained PRH flats. The conversions of 156 HSC units in Chung On Estate in Ma On Shan, and 152 HSC units in Wah Lai Estate in Lai Chi Kok into self-contained PRH flats were completed in 2003 and 2005 respectively; and
- (e) the HA explored the feasibility of converting HSC units into small self-contained flats, residential care homes for the elderly and hostels. In April 2004, 197 HSC units in Fu Tai Estate in Tuen Mun were leased to an operator of residential care homes for the elderly. In June 2006, the conversion works of some of the HSC units in Tin Chak Estate in Tin Shui Wai were completed (see para. 4.12).

Audit observations

High vacancy rate of HSC units

4.6 Audit found that, despite the efforts made by the HA, the vacancy rate of HSC units had remained high. As at 31 March 2006, 2,438 (25%) out of 9,917 HSC units were vacant, including 831 units being offered to prospective tenants for consideration (Note 11). The vacancy rates of HSC units for the years from 2000-01 to 2005-06 are shown in Table 8.

Note 11: *According to the HD, vacant flats (such as vacant IH flats) included flats under offer. The refusal rate for the offer of HSC units was 95%.*

Table 8

**Vacancy rates of HSC units
(2000-01 to 2005-06)**

As at 31 March	Number of HSC units	Number of vacant HSC units	Vacancy rate
	(a)	(b)	(c) = $\frac{(b)}{(a)} \times 100\%$
2001	9,383	1,602	17%
2002	9,580	1,598	17%
2003	9,860	1,766	18%
2004	9,860	2,001	20%
2005	10,057	2,410	24%
2006	9,917	2,438	25%

Source: HD records

Audit noted that the vacancy rate of HSC units had increased from 17% in 2001 to 25% in 2006. The number of vacant HSC units increased by 836 (52%) from 1,602 in 2001 to 2,438 in 2006.

4.7 Audit conducted an ageing analysis of 2,438 vacant HSC units as at 31 March 2006. The results are shown in Table 9.

Table 9

**Ageing analysis of vacant HSC units
(31 March 2006)**

Vacant period	Number of vacant HSC units	Percentage
Less than 6 months	398	16.3%
6 months to less than 24 months	893	36.6%
24 months to less than 48 months	692	28.4%
48 months to less than 72 months	293	12.0%
72 months to less than 96 months	139	5.7%
96 months to less than 120 months	21	0.9%
120 months and above	2	0.1%
	2,040	83.7%
Total	2,438	100%

Source: HD records

Audit noted that, as at 31 March 2006, 2,040 (83.7%) HSC units had remained vacant for six months or more, including 23 HSC units vacant for eight years or more. Audit estimated that the notional rent of these 2,040 HSC units was \$14.5 million a year (Note 12).

4.8 In July 2006, the HA decided to phase out gradually the surplus HSC units by converting them into PRH flats or other uses. The HA considered that there was a need to address the diminishing demand for HSC units and ensure that the demand for them would be adequately met. In identifying suitable HSC units for conversion into other uses, the HA would accord priority to:

- (a) HSC premises with a high vacancy rate of over 30% or 50%, depending on the type of design;

Note 12: Based on the average rent of an HSC unit of \$757 a month, the estimated notional rent for 2,040 HSC units was \$14.5 million ($\$757 \times 1,147 \times 12 + \$757 \times 893 \times 6$) a year.

- (b) HSC units constructed by partitioning the normal PRH flats; and
- (c) HSC premises with over half of the tenants aged 70 or above, so that more elderly tenants could live in self-contained PRH flats at an earlier opportunity.

As an incentive, the HA would grant Domestic Removal Allowance to encourage tenants to join the relocation programme and arrange accommodation to affected tenants in their preferred locality if resources permitted. To ensure the smooth implementation of the programme at the right pace, the HA proposed to convert 500 HSC units each year.

4.9 The overall vacancy position of HSC units is unsatisfactory. Audit considers that the HD needs to take expeditious action to reduce the number of vacant HSC units.

***Delay in putting the HSC units
in Tin Shui Wai to beneficial uses***

4.10 In early 2001, the construction of 197 purposely-built HSC units in Tin Chak Estate in Tin Shui Wai was completed. These HSC units, located on the fourth floor to the sixth floor of the Ancillary Facilities Block of Tin Chak Estate, have an internal floor area of 4,385 square metres.

4.11 Since November 2001, the HD had explored the feasibility of converting the HSC units in Tin Chak Estate into other uses. Attempts were made to lease out the HSC premises for non-domestic use, but without success. In September 2004, the HD decided to let HSC units for domestic purposes to all eligible singleton applicants. However, the intake rate was low. Up to February 2005, there were only 11 successful cases. In March 2005, the HD decided to change the domestic use of the entire sixth floor of the HSC premises, consisting of 66 HSC units with an internal floor area of 1,439 square metres, to non-domestic use. This was because some organisations had shown interest in renting it. All the vacant flats on the sixth floor of the HSC premises were withheld from letting.

4.12 As at 31 March 2006, 161 (82%) of the 197 HSC units in Tin Chak Estate were vacant, including 157 HSC units vacant for more than five years. In July 2006, in response to audit enquiries about the HSC premises in Tin Chak Estate, the HD informed Audit that:

- (a) as at 30 June 2006, 31 HSC units were occupied by tenants;
- (b) the conversion works of the 66 HSC units on the sixth floor were completed in June 2006;

- (c) the Estate Management Office of Tin Chak Estate was relocated to the sixth floor (i.e. 414 square metres) on 17 June 2006;
- (d) the remaining area of 1,025 (1,439 – 414) square metres on the sixth floor was vacant; and
- (e) 4 HSC units on the fifth floor were converted into staff quarters in April 2006. The HD planned to convert the remaining 96 vacant HSC units on the fourth and fifth floors into PRH flats or other uses.

The HD needs to take prompt action to make full use of the sixth floor of Tin Chak Estate and the vacant HSC units on the other floors of the premises.

Audit recommendations

4.13 Audit has recommended that the Director of Housing should, in consultation with the HA:

- (a) **formulate a long-term strategy to address the problem of vacant HSC units;**
- (b) **closely monitor the overall vacancy position, and take expeditious action to reduce the number of vacant HSC units, including the conversion of such units into:**
 - (i) **self-contained units for self-reliant elderly persons;**
 - (ii) **PRH flats for eligible applicants; or**
 - (iii) **other beneficial uses (such as non-domestic purposes);**
- (c) **continue to offer vacant HSC units to other applicants on the WL through the normal allocation process and the EFAS, so as to make full use of these units; and**
- (d) **expedite action to let out the vacant area of 1,025 square metres on the sixth floor of Tin Chak Estate and put the vacant HSC units on the other floors of the premises to other beneficial uses.**

Response from the Administration

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

- (a) in July 2006, the Subsidised Housing Committee of the HA approved a long-term strategic plan to phase out gradually the HSC units by converting them into normal PRH flats or other uses;
- (b) the HD will critically review and monitor the programme planning and implementation with due regard to:
 - (i) the availability of adequate provision of self-contained single-person flats for allocation to eligible applicants in the coming years; and
 - (ii) the retention of sufficient HSC units so that the demand for HSC units from PRH applicants will be met;
- (c) the HD will continue the letting of vacant HSC units which are not included in the gradual phasing-out programme to other eligible applicants on the WL and in the coming EFAS exercises; and
- (d) the HSC premises in Tin Chak Estate will be the priority site for conversion works for other purposes. The remaining vacant area on the sixth floor would be taken up by three other non-government organisations for welfare and community uses. The Commission on Poverty, the SWD and some non-government organisations had also expressed interest on the use of the premises in Tin Shui Wai. In July 2006, a task force led by the Commission on Poverty was formed to study the proposals.

PART 5: PROVISION OF INTERIM HOUSING FLATS AND ACCOMMODATION IN TRANSIT CENTRES

5.1 This PART examines the provision of IH flats and accommodation in TCs, and suggests measures for improvement.

Background

5.2 It is government policy to ensure that no one will become homeless as a result of natural disasters or clearance operations. To achieve this objective, the HA provides accommodation for affected households not immediately eligible for the allocation of PRH flats. These households are accommodated in IH flats and TCs based on their individual circumstances. The seven-year residence rule for the allocation of PRH flats does not apply to affected households for the allocation of IH flats and accommodation in TCs.

Interim housing flats

5.3 IH flats are self-contained flats which have a good standard of finishing with water supply, telephone line, gas and cable television coverage. Some IH flats are provided with community facilities such as schools, health services for the elderly and a full range of commercial and market facilities. IH flats are provided for:

- (a) homeless households transferred from TCs;
- (b) people cleared from squatters but ineligible for the allocation of PRH flats; and
- (c) unauthorised occupants of PRH flats.

In 2006-07, households living in IH flats (IH licensees) have to pay a monthly licence fee, ranging from \$330 to \$1,220. As at 31 March 2006, there were five IH estates with 6,300 IH flats located in the Extended Urban District and the New Territories District. Details are shown in Appendix F.

Audit observations

Registration of IH licensees on the WL

5.4 As a licence condition, IH licensees are required to apply for registration on the WL for subsequent rehousing to PRH flats. When IH licensees are due for the allocation of PRH flats, their eligibility criteria are reviewed. Those who fulfil the eligibility criteria are offered PRH flats. Those with total monthly income or net asset value exceeding the

maximum limits specified by the HA, or with domestic property ownership, are ineligible for the allocation of PRH flats. According to Estate Management Division Instruction No. M01/2006, they are allowed to stay at IH flats for one year to look for alternative accommodation. If their total monthly income exceeds the Subsidy Income Limits (Note 13) specified by the HA, they are required to pay a monthly licence fee equivalent to the “market rent” during their stay at IH flats. These factors tend to make IH licensees defer and avoid registration on the WL.

5.5 As at 31 March 2006, there were 4,111 IH licensees. Audit analysed the length of stay of these IH licensees and their status of registration on the WL. The results are shown in Table 10.

Table 10

**Length of stay of IH licensees
and their status of registration on the WL
(31 March 2006)**

Length of stay	Number of IH licensees registered on the WL	Number of IH licensees not registered on the WL	Number of IH licensees cancelled or withdrew their registrations on the WL	Total number of IH licensees
	(a)	(b)	(c)	(d) = (a) + (b) + (c)
Less than 1 year	380	69	26	475
1 year to less than 5 years	2,057	352	331	2,740
5 years to less than 10 years	324	337	215	876
10 years and above	2	17	1	20
	}	} 354	} 216	
Total	2,763	775	573	4,111

Source: HD records

Note 13: The HA implements the Housing Subsidy Policy with the objective of reducing housing subsidy to public housing tenants who are no longer in need. Under the policy, households living in PRH/IH flats for ten years or more are required to declare their household income biennially. Households with total monthly income exceeding the corresponding Subsidy Income Limits specified by the HA have to pay 1.5 times or 2 times the net rent plus rates.

Audit noted that, as at 31 March 2006, out of the 4,111 IH licensees:

- (a) 775 (19%) licensees had not been registered on the WL, including 354 (9%) licensees who had stayed at IH flats for five years or more; and
- (b) 573 (14%) licensees had cancelled or withdrawn their registrations, including 216 (5%) licensees who had stayed at IH flats for five years or more.

5.6 IH licensees not registered on the WL for the allocation of PRH flats breach the IH licensing agreement. Those with total monthly income or net asset value exceeding the maximum limits specified by the HA, are ineligible for the allocation of PRH flats. They should not be allowed to stay at IH flats for more than one year. **Audit considers that the HD needs to take:**

- (a) **effective measures to ensure that all IH licensees promptly apply for registration on the WL; and**
- (b) **follow-up action on all cancellation or withdrawal of registration cases on the WL.**

IH licensees ineligible for the allocation of PRH flats

5.7 As at 31 March 2006, the total monthly income of 241 (42%) out of the 573 IH licensees, who had cancelled or withdrawn their registrations on the WL, exceeded the maximum limits specified by the HA for the application for the allocation of PRH flats. Audit noted that the HD had not requested them to move out from their IH flats. As at 31 March 2006, 227 (94%) of these 241 IH licensees had stayed at IH flats for more than one year. As at 20 July 2006, 5 out of these 241 IH licensees, with total monthly income exceeding the Subsidy Income Limits, did not pay a monthly licence fee equivalent to the “market rent”. This is at variance with the guidelines in Estate Management Division Instruction No. M01/2006 (see para. 5.4). In September 2006, in response to audit enquiries, the HD informed Audit that the 5 IH licensees were carees displaced by government clearance operations announced during the years from 1996 to 1998. They were exempted from the Comprehensive Means Test (i.e. the assessment of income and net asset) and were not subject to the limitation of one-year stay. They also do not have to pay the “market rent”.

5.8 **The HD needs to ensure that prompt action is taken to request IH licensees who are ineligible for the allocation of PRH flats to look for alternative accommodation. The HD also needs to ascertain the reasons for not requiring the IH licensees to move out from the IH flats after staying for more than one year.**

High vacancy rate of IH flats

5.9 After the completion of 8,736 IH flats in Po Tin IH Estate in 2001, the number of IH flats increased from 3,736 in 2000 to 12,472 in 2002. However, there was a decrease in the demand for IH flats because of the relaxation of rehousing criteria for people cleared from squatters (Note 14) and the expeditious rehousing of families in IH flats to PRH flats in recent years. In March 2004, the vacancy rate of IH flats was 43.4%. In June 2004, to better utilise the vacant IH flats, the HA decided to convert the IH flats in Po Tin IH Estate into PRH flats by implementing some enhancement programmes. As at 31 March 2006, 6,172 IH flats in Po Tin IH Estate were converted into PRH flats. In February 2005, the HD decided to demolish Sha Kok Mei IH Estate and return the site to the Government for conversion into a country park public car and coach parking area. In May 2006, all IH licensees in Sha Kok Mei IH Estate were evacuated. The demolition works of Sha Kok Mei IH Estate commenced in July 2006 and were expected to be completed in February 2007.

5.10 Audit noted that, as at 31 March 2006, 1,954 out of 6,156 IH flats in the four IH estates had remained vacant. Although a large number of IH flats in Po Tin IH Estate had been converted into PRH flats, the overall vacancy rate of IH flats was 32% as at 31 March 2006. Details are shown in Table 11.

Note 14: *The majority of households at IH flats were people living in squatters and rooftop structures. They were ineligible for immediate rehousing to PRH flats. In December 2002, the rehousing criteria were relaxed. Households who had lived in the structures concerned for two years prior to announcement of clearance were eligible for the allocation of PRH flats upon clearance if they met other eligibility criteria (such as the total monthly income and net asset value not exceeding the maximum limits specified by the HA and without ownership of domestic property).*

Table 11
Vacancy rates of IH flats
(31 March 2006)

IH estate (Note)	Number of IH flats	Number of vacant IH flats	Vacancy rate
	(a)	(b)	$(c) = \frac{(b)}{(a)} \times 100\%$
Kwai Shing East	824	557	68%
Shek Lei (II)	1,928	884	46%
Long Bin	840	296	35%
Po Tin	2,564	217	8%
Total	6,156	1,954	32%

Source: HD records

Note: The demolition works of Sha Kok Mei IH Estate commenced in July 2006. Hence, it was not included in this analysis.

5.11 In September 2005, to reduce the vacancy rate of IH flats, the HD considered the following proposed measures:

- (a) rehousing of affected persons living in the Urban/Extended Urban District to IH flats in the Extended Urban District after the review of the housing policies on divorce, household splitting and eviction of PRH tenants;
- (b) relaxation of the allocation standards of IH flats; and
- (c) letting of IH flats in the Extended Urban District to applicants on the WL through the EFAS exercises.

Audit noted that, as at 1 June 2006, no further action had been taken by the HD on the proposed measures.

5.12 In March 2006, to address the issue of the under-utilisation of IH flats, the HD considered that it was practical and cost-effective to demolish Kwai Shing East and Shek Lei (II) IH Estates in Kwai Chung, on the grounds that these two IH estates were over 30 years old and incurred high operating costs, so as to make way for the construction of PRH flats. Up to 1 June 2006, there was no further development on this issue.

Audit recommendations

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

Registration of IH licensees on the WL

- (a) **take effective measures to ensure that all IH licensees promptly apply for registration on the WL in accordance with the Estate Management Division Instructions;**
- (b) **take prompt follow-up action on all cancellation or withdrawal of registration cases on the WL;**

IH licensees ineligible for the allocation of PRH flats

- (c) **ascertain the reasons for not requiring IH licensees to move out from the IH flats after staying for more than one year and review the justifications for exemption in each case;**
- (d) **if no justifications for exemption exist, take action to enforce the provisions stated in the Estate Management Division Instructions; and**

High vacancy rate of IH flats

- (e) **expedite action to explore the feasibility of:**
 - (i) **implementing the measures proposed in September 2005 (see para. 5.11) to reduce the number of vacant IH flats; and**
 - (ii) **converting the two old Kwai Shing East and Shek Lei (II) IH Estates into other beneficial uses.**

Response from the Administration

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

Registration of IH licensees on the WL

- (a) prompt follow-up actions will be taken on IH licensees. Though IH licensees completed their WL applications for the allocation of PRH flats at the time of intake, some of them did not turn up for verification of their data. It should also be noted that 489 IH licensees are exempted from the application of the Comprehensive Means Test introduced in 1999 during their admission into IH flats, and 1,027 IH licensees currently cannot satisfy the seven-year residence requirement;
- (b) over the past five years from 2001-02 to 2005-06, some 13,000 IH licensees vacated their IH flats through applications for the allocation of PRH flats, other rehousing means or enforcement actions. The HD will continue to take enforcement actions according to established policies;

IH licensees ineligible for the allocation of PRH flats

- (c) in addition to the tightening up measures, the HD will critically review its IH management arrangements and issue new guidelines to its staff;

High vacancy rate of IH flats

- (d) the main reasons for the high vacancy rate are due to the relaxation of eligibility criteria for clearerees' access to PRH flats in December 2002 and the large scaling down and postponement of government clearance projects;
- (e) IH estates were constructed to replace the traditional Temporary Housing Areas for rehousing families not immediately eligible for PRH flats at the time of clearance or as a result of natural calamities. The HD will review the minimum number of IH flats required to meet operational needs;
- (f) to reduce the vacancy rate of IH flats, the HD actively explored possible measures in the past years. The HD reviewed the subject again in September 2005 and considered that the provision of transient accommodation would still be required under the existing policies of the HA; and
- (g) a discussion paper on the way forward of Kwai Shing East and Shek Lei (II) IH Estates is being prepared for submission to the HA.

Transit centres

5.15 The objective of providing accommodation in TCs is to provide basic shelter, free of charge, for victims of disasters or people who claim to be homeless for certain reasons (such as fires, natural disasters and immediate court eviction) and have no alternative shelters while the HD is in the process of ascertaining their eligibility for the allocation of PRH flats. Persons with genuine housing needs and meeting the eligibility criteria for the allocation of PRH flats are invited to register on the WL and are allocated IH flats. At present, the HD operates the Wong Chuk Hang TC (opened in March 1967) and the Po Tin TC (opened in October 2000). The Po Tin TC, located on the ground floors of six blocks of Po Tin Estate in Tuen Mun, provides 408 bed spaces. The TC accommodation at Blocks 1, 6 and 8 houses male singletons while that at Blocks 2, 3 and 7 houses families and female singletons. The Wong Chuk Hang TC provides 242 bed spaces to cater for male singletons, female singletons and families. In June 2006, the HD agreed to return the Wong Chuk Hang TC to the Government for the development of a fire station-cum-ambulance depot. The HD stopped accepting new residents at the Wong Chuk Hang TC and commenced to rehouse the residents. As at 30 June 2006, there were eight residents at the Wong Chuk Hang TC. The HD planned to close the Wong Chuk Hang TC by November 2006 upon satisfactory rehousing of all residents.

Audit observations

High vacancy rates of TCs

5.16 The vacancy rates of the Po Tin TC and the Wong Chuk Hang TC for the period from December 2000 to May 2006 are shown in Table 12.

Table 12

**Vacancy rates of TCs
(December 2000 – May 2006)**

Month	Po Tin TC (408 bed spaces)		Wong Chuk Hang TC (242 bed spaces)	
	Number of vacant bed spaces	Vacancy rate	Number of vacant bed spaces	Vacancy rate
December 2000	382	94%	190	79%
December 2001	312	76%	224	93%
December 2002	352	86%	219	90%
December 2003	342	84%	222	92%
December 2004	320	78%	231	95%
December 2005	310	76%	232	96%
May 2006	286	70%	234	97%
Average	329	81%	222	92%

Source: HD records

Audit noted that during the period from December 2000 to May 2006, the average vacancy rate of the Po Tin TC was 81%, while that of the Wong Chuk Hang TC was 92%.

5.17 **In view of the average vacancy rate of 81% of the Po Tin TC, the HD needs to review the demand for temporary accommodation in the Po Tin TC and explore the feasibility of converting the surplus accommodation into other beneficial uses (e.g. Estate Management Office).**

Long period of stay of residents at TCs

5.18 During the period of stay of residents at TCs, the HD ascertains their eligibility for the allocation of PRH flats. Residents meeting the eligibility criteria for PRH flats are invited to register on the WL and are allocated IH flats. Those not fulfilling the eligibility criteria for PRH flats may stay at TCs for a maximum of three months. During this period, they may seek assistance from the SWD (such as applying for rehousing on compassionate grounds) and non-government organisations. Audit reviewed the period of stay of residents at TCs. Audit found that, as at 31 May 2006:

- (a) 68 out of 122 residents had stayed at the Po Tin TC for more than three months, including 15 residents for over one year; and
- (b) all the 8 residents had stayed at the Wong Chuk Hang TC for more than three months, including 7 residents for over one year.

Audit recommendations

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

High vacancy rates of TCs

- (a) **review the demand for temporary accommodation in the Po Tin TC, taking into account the occupancy rates in the past;**
- (b) **explore the feasibility of converting the surplus accommodation in the Po Tin TC into other beneficial uses (e.g. Estate Management Office);**

Long period of stay of residents at TCs

- (c) **expedite action to ascertain the eligibility of the residents staying at TCs for the allocation of PRH flats;**
- (d) **take prompt action to rehouse eligible residents to PRH/IH flats;**
- (e) **help ineligible residents to seek assistance from the SWD or non-government organisations for alternative/permanent accommodation; and**
- (f) **expedite action to rehouse the eight residents at the Wong Chuk Hang TC so that the site can be returned to the Government as soon as possible.**

Response from the Administration

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

High vacancy rates of TCs

- (a) the HD will keep in view the demand for temporary accommodation in TCs and consider the conversion of surplus accommodation in TCs if required;

- (b) upon demolition of the Wong Chuk Hang TC (cessation of admission effected in mid-June 2006), the Po Tin TC will be the only one left in Hong Kong. This provision of around 400 bed spaces by the HD for the whole territory should be reasonable. The conversion of surplus accommodation in the TC for other uses is under consideration. It is planned that part of the Po Tin TC will be changed for the use of the Estate Management Office soon. As a result, the number of bed spaces will be further reduced to around 340;

Long period of stay of residents at TCs

- (c) the HD will expedite action to ascertain the eligibility of residents at TCs for the allocation of PRH/IH flats. The number of residents at TCs staying for more than three months was reduced to 25 as at 12 September 2006;
- (d) the HD will expedite action to rehouse those eligible residents at TCs to PRH/IH flats;
- (e) it is the current practice of the HD to help ineligible residents seek assistance from the SWD or non-government organisations for alternative/permanent accommodation; and
- (f) all remaining residents at the Wong Chuk Hang TC will be rehoused before the end of September 2006. The Director of Lands has been requested to take over the vacated site.

PART 6: LETTING OF LESS POPULAR FLATS

6.1 This PART examines the letting of less popular flats by the HD under the EFAS and suggests measures for improvement.

Express Flat Allocation Scheme

6.2 In mid-1997, the HD decided to introduce measures to let less popular flats (i.e. flats with a history of numerous rejections under the normal allocation process). These were usually flats in relatively remote areas or older estates, flats with less desirable floor level, orientation, surroundings or facilities, and flats with occurrence of unpleasant events. The main objective of the EFAS is to reduce the vacancy rate of PRH flats by expediting the letting of less popular flats. In October 1997, the first EFAS exercise was launched for the disposal of less popular flats. By direct mail, applicants on the WL were invited to join the EFAS exercise to select less popular flats. The EFAS allows eligible applicants on the WL with imminent housing need to be allocated PRH flats sooner.

6.3 In the early EFAS exercises, only a few hundreds PRH flats with occurrence of unpleasant events (e.g. suicide) were pooled for selection by eligible applicants. With an increasing number of vacant PRH flats with less desirable locations, environmental factors (such as near refuse collection points or pump rooms), floor levels or lack of lift services, large-scale EFAS exercises had been launched since December 2001. Up to the end of 2005, the HD conducted ten EFAS exercises. A summary of these ten EFAS exercises is shown in Appendix G.

Criteria for pooling less popular flats

6.4 The following major changes were made to the key criteria for pooling the less popular flats for selection by applicants in the EFAS exercises:

- (a) in the first five EFAS exercises, less popular flats rejected 10 times or more and left vacant for over 12 months were pooled;
- (b) in the sixth EFAS exercise, less popular flats rejected 5 times or more and left vacant for over 12 months were pooled; and
- (c) from the seventh EFAS exercise onwards, less popular flats rejected 5 times or more and left vacant for over 9 months were pooled.

6.5 Apart from pooling the less popular flats based on the key criteria in terms of the number of rejections and the vacant period, the Allocation Section also selected other vacant PRH flats, which were less popular due to their less desirable locations or internal structural designs, for the EFAS exercises.

Processing of applications under the Express Flat Allocation Scheme

6.6 In each EFAS exercise, invitation letters were sent to the target applicants who had the “registered” or “under investigation” status on the WL. Apart from direct mailing of invitation letters, the HD also put advertisements of the EFAS exercise in some local newspapers and its website. Eligible applicants whose dates of registration on the WL were on or before a specified date and fulfilling the seven-year residence rule (Note 15) could apply for a flat under the EFAS, irrespective of whether they had applied for the selection of PRH flats in the EFAS exercise before. They were required to submit an application within a specified period of time.

6.7 A preliminary checking on all applications received (such as whether an applicant had been housed to a PRH flat) was conducted so as to exclude any ineligible applicants. All applications from eligible applicants received were sorted in accordance with the order of the application numbers and the dates of registration on the WL. Eligible applicants were invited to select flats in accordance with their relative priority on the WL.

Selection of flats

6.8 Each eligible applicant was allowed to select a flat of his choice on the condition that the allocation standard of the flat selected must match with the authorised family size. There was no location restriction in the EFAS exercise. Each applicant was only given one chance to select a flat and the selection was irrevocable. The applicant was required to sign an undertaking to the effect that a flat transfer was not allowed for whatever reasons within three years from the date of commencement of the tenancy agreement of the selected flat. Offer letters were issued to successful applicants after vetting interviews. As this was a separate allocation exercise for the allocation of less popular flats, eligible applicants were only given one offer. After accepting it, the applicant was required to complete the intake formalities at the respective estate office on an appointed date. If an applicant failed to select a flat or rejected the allocation of a selected flat, his application in the EFAS exercise would be cancelled. His original application on the WL would be processed as usual. However, if he could not meet the eligibility criteria for the allocation of a PRH flat (such as exceeding the maximum monthly income and total net asset value limits), his application on the WL was also cancelled.

Note 15: *In the seventh EFAS exercise, applicants not fulfilling the seven-year residence rule were accepted. The seven-year residence rule was applied to all applicants in the other nine EFAS exercises.*

The eleventh Express Flat Allocation Scheme exercise

6.9 In June 2006, the HD launched the eleventh EFAS exercise and 62,155 invitation letters were sent to the target applicants on the WL not due for the allocation of PRH flats. The application period was from 30 June 2006 to 21 July 2006. Selection of flats was scheduled to be held in two phases at around late-September to November 2006. The first phase was targeted at families with two persons or more and the second phase was targeted at single applicants (including elderly or non-elderly applicants). Offer letters would be issued to successful applicants within two months from the dates of selection of flats.

Audit observations

Identification of less popular flats

6.10 Before the launching of an EFAS exercise, the Allocation Section extracted from the ISHM and listed out those vacant flats reserved for the exercise based on the established criteria. The Allocation Section issued memos to PRH estate offices together with a list of vacant flats under their purview requesting them to check and confirm all the information on the list (such as the environmental factors and lift services). Estate offices were also requested to provide information on the unpleasant events or unfavourable factors which made such flats less popular. Nil returns from the estate offices were required. Starting from the tenth EFAS exercise in May 2005, before the Allocation Section issued the memos, estate offices were required to complete the standard forms on “Disposal of vacant flats with unfavourable factors” and return them to the Allocation Section for inclusion of such flats for disposal. Audit reviewed the confirmation and standard forms returned by estate offices in the tenth EFAS exercise and found that:

- (a) not all estate offices had returned the standard forms to the Allocation Section;
- (b) estate offices were not required to submit a nil return on the standard form “Disposal of vacant flats with unfavourable factors”; and
- (c) no follow-up action had been taken by the Allocation Section to ensure that the estate offices returned the standard forms.

6.11 Estate offices know the less popular flats best because of their day-to-day management role. **Audit considers that the HD should ensure that all estate offices return promptly the necessary confirmation, standard forms and information about less popular flats to the Allocation Section.**

Acceptance of less popular flats by applicants

6.12 Audit noted that in the first ten EFAS exercises, the acceptance rates of less popular flats ranged from 14.1% to 41%, with an average acceptance rate of 33.7% (see Appendix G). The average acceptance rate was low. As each applicant was only given one chance to select a flat and the selection was irrevocable, he could not select another flat from the pool. Although the choice of flats was not subject to the location restriction, all applicants were required to meet the allocation standard on flat size. **In view of the low acceptance rate of flats offered in these EFAS exercises, the HD needs to consider offering more chances to applicants for them to select less popular flats from the pool, and relaxing the allocation standard on flat size in warranted cases.**

6.13 Since 1999-2000, the HD has conducted annual surveys of applicants on the WL to collect information on their socio-economic background and their views on housing matters so as to facilitate the formulation and review of policy. One of the objectives of these surveys is to collect views on the EFAS exercise. In each survey, a number of applicants were asked to indicate whether they were interested in the EFAS exercise and their reasons. Audit noted that, in 2004 and 2005, the shortened waiting time for the allocation of PRH flats was the main reason for joining the EFAS exercise. For those applicants who were not interested in the EFAS exercise, the location of PRH flats in remote area was the main reason. **To improve the acceptance rate of less popular flats offered in the EFAS exercises, Audit considers that the HD needs to introduce more incentive schemes to attract applicants on the WL to select less popular flats and step up publicity efforts on the benefits of obtaining a flat.**

Remedial actions to improve the conditions of less popular flats

6.14 ***Analysis of the main categories of less popular flats.*** Audit analysed the types of PRH flats pooled and selected by applicants in the tenth EFAS exercise. Details are shown in Appendix H. Audit noted that:

- (a) the selection rates of PRH flats converted from IH flats in Po Tin Estate, and the less popular flats with no abnormal environmental indicator were 99.9% and 98.9% respectively. However, over 44% of applicants finally did not take up their selected flats;
- (b) the selection rate of less popular flats with unpleasant incidents was 96.8% and the acceptance rate of these flats was 65.4% (i.e. the highest acceptance rate among the different types of less popular flats);
- (c) the selection rates of the PRH flats in the Islands District and Tung Chung, and Tuen Mun (other than Po Tin Estate) were 61.2% and 49.5% respectively; and

- (d) the selection rate of the HSC units was 23.5% (i.e. the lowest selection rate among the different types of less popular flats).

6.15 ***PRH flats converted from IH flats.*** For the PRH flats converted from IH flats in Po Tin Estate, all but one of the 1,374 flats pooled for the EFAS exercise were selected by the applicants. However, 675 (49.1%) selected flats were finally rejected by them. As mentioned in paragraph 5.9, there was a decrease in the demand for IH flats because of the relaxation of rehousing criteria for squatter clearerees and the expeditious rehousing of families in IH flats to PRH flats in recent years. In June 2004, the HA decided to convert the IH flats in Po Tin Estate into PRH flats after implementing some enhancement programmes. However, it was reported that the toilets of the PRH flats in Po Tin Estate were very small. It was difficult for obese persons, pregnant women and disabled persons to move inside. This could be one of the reasons for rejecting the selected flats in Po Tin Estate. In June 2006, the HD decided to modify the toilets of one-person units in Po Tin Estate, at an estimated cost of \$1,000 a unit. However, the HD had not taken any action to modify the toilets of other units in Po Tin Estate. **Audit considers that the HD needs to examine the feasibility of improving the toilets of other less popular flats in Po Tin Estate so as to increase the chances of letting them.**

6.16 ***Flats in the Islands District and Tung Chung, and Tuen Mun.*** There were 286 unselected flats which were mainly in Lung Tin Estate in Tai O (Islands District) and Yat Tung Estate in Tung Chung, and 195 (68.2%) of them were flats of 6-person to 10-person types. Audit also noted that 147 (72.1%) out of the 204 unselected flats in Tuen Mun were flats of 7-person to 9-person types in Yau Oi Estate. **The HD needs to review the demand for large-sized PRH flats and consider converting large-sized less popular PRH flats into smaller flats for allocation.**

6.17 ***HSC units.*** Audit noted that 1,041 (76.5%) out of 1,360 HSC units pooled in the tenth EFAS exercise were not selected by applicants. As mentioned in paragraphs 4.2 and 4.3, the HSC units were originally designed to accommodate elderly tenants. These units were not popular because tenants had to share toilet and kitchen facilities with other tenants in nearby units. In November 2001, the HA decided to remove the age requirement for access to HSC units. However, the letting of HSC units was still unsatisfactory. Apparently, the main reason for applicants not selecting HSC units was that they were not self-contained. **The HD needs to expedite actions to convert vacant HSC units into self-contained flats.**

6.18 ***Survey on applicants in the EFAS exercises.*** In the tenth EFAS exercise, 4,059 (71.9%) out of 5,645 pooled flats were selected by applicants. However, only 2,305 (56.8%) out of the 4,059 selected flats were accepted by applicants and 1,754 (43.2%) selected flats were rejected. The acceptance rate of less popular flats was only 40.8%. **To**

facilitate a policy review of the EFAS exercises, Audit considers that the HD needs to conduct surveys to find out why applicants accept or reject less popular flats, after each EFAS exercise.

6.19 **Ageing analysis of unselected flats.** Audit conducted an ageing analysis of those less popular flats not selected by applicants in the tenth EFAS exercise. The results are shown in Table 13.

Table 13

Ageing analysis of unselected flats in the tenth EFAS exercise

Vacant period	Number of unselected flats	Percentage
6 months to 12 months	372	23%
Over 12 months to 24 months	324	20%
Over 24 months to 36 months	405	26%
Over 36 months to 48 months	187	12%
Over 48 months to 60 months	130	8%
Over 60 months	168	11%
	} 485	} 31%
Total	1,586	100%

Source: HD records

Audit noted that out of the 1,586 unselected flats, 1,214 (77%) flats had remained vacant for over one year, including 485 (31%) flats vacant for over three years, with 168 (11%) flats vacant for over five years. **In view of the long vacant period of these less popular flats, the HD needs to expedite its remedial actions on improving the conditions of these flats and explore the feasibility of converting them into other beneficial uses. This would improve the utilisation of PRH flats.**

Audit recommendations

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

Identification of less popular flats

- (a) **introduce control measures to ensure that, before the launching of an EFAS exercise, all estate offices provide the necessary information about less popular flats for the Allocation Section, in particular those flats with unpleasant incidents or environmental factors or flats situated in less desirable locations;**
- (b) **ensure that all estate offices promptly submit to the Allocation Section the confirmation and standard forms on vacant flats with unfavourable factors to be allocated through the EFAS exercises, including nil returns;**

Acceptance of less popular flats by applicants

- (c) **consider offering more chances to applicants for them to select less popular flats pooled in the EFAS exercises;**
- (d) **consider relaxing the allocation standard on flat size in the EFAS exercises in warranted cases;**
- (e) **introduce incentive schemes to attract applicants on the WL to select less popular flats (e.g. a longer rent-free period);**
- (f) **step up publicity efforts on the benefits of obtaining a less popular flat;**

Remedial actions to improve the conditions of less popular flats

- (g) **take prompt remedial actions to increase the chances of letting less popular flats, including:**
 - (i) **carrying out of modification works (e.g. toilets) in warranted cases;**
 - (ii) **conversion of large-sized flats into smaller flats; and**
 - (iii) **conversion of vacant HSC units into self-contained flats;**
- (h) **conduct a survey, after each EFAS exercise, to find out why applicants accept or reject the flats offered to them;**

- (i) **based on the survey results, take action to improve future EFAS exercises; and**
- (j) **explore the possibility of converting vacant less popular flats into other beneficial uses.**

Response from the Administration

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

Identification of less popular flats

- (a) starting from the tenth EFAS exercise in 2005, the Allocation Section requested 181 estate offices to suggest less popular flats to be included in the exercise. Returns from 152 estate offices were received. Verbal confirmation of nil return was made with the remaining 29 estate offices. As a result, 14 more flats falling outside the EFAS criteria (e.g. traffic inconvenience) were identified for inclusion on the flat selection list;
- (b) in the eleventh EFAS exercise, similar requests were made in July 2006 to 191 estate offices asking them to suggest less popular flats to be included in the exercise. Nil returns were required. Replies from all the 191 estate offices were received and 6 more flats were identified;

Acceptance of less popular flats by applicants

- (c) the HD has planned that, in the next EFAS exercise scheduled in mid-2007, applicants who fail to select a flat in the first round may make another selection in the second round from those flats rejected by applicants in the first round;
- (d) to accelerate the disposal of less popular flats in Lung Tin Estate, the Allocation Section has relaxed the allocation standard in the ninth and tenth EFAS exercises;
- (e) to increase the chances of accepting less popular flats, the HD will step up housekeeping measures (such as tidying up less popular flats properly) to improve their attractiveness and the overall letting position. A proposal of granting a rent-free period ranging from four to six months for the letting of less popular flats is being explored;
- (f) the HD will consider introducing more incentive schemes to attract applicants on the WL to select less popular flats in the EFAS exercises;

- (g) the HD will step up publicity efforts in the EFAS exercises;

Remedial actions to improve the conditions of less popular flats

- (h) the HD has implemented the improvement plan for one-person units in Po Tin Estate. The scheme will be extended to flats of other types in Po Tin Estate and Tin Yan Estate if it is proved to be a popular choice among the prospective applicants. Sample flats to show the features of the improvement works have been set up in both estates;
- (i) a territory-wide transfer exercise was conducted in July 2006 inviting tenants in all estates to transfer to large-sized flats in Yat Tung Estates I and II. For 780 available vacant flats, about 400 applications were received. Over 300 flats were selected by applicants pending the completion of intake formalities. Further rounds of transfer exercises will be arranged to let the remaining flats if deemed necessary. Transfer exercises will also be arranged later in 2006 for letting of large-sized flats in Tuen Mun and Yuen Long to existing tenants in the region. For Lung Tin Estate, the HD will examine the possibility of converting the vacant flats into other uses;
- (j) in the past EFAS exercises, vacant flats in Lung Tin Estate, Yat Tung Estate and Tuen Mun were put up for flat selection but these flats were not attractive to applicants. Continuous efforts to let these flats in the next EFAS exercise will be made;
- (k) in July 2006, the Subsidised Housing Committee endorsed the conversion of vacant HSC units into self-contained flats;
- (l) starting from the eleventh EFAS exercise, surveys will be conducted so as to take into account applicants' preference in the formulation of future strategy to dispose of the less popular flats. In the eleventh EFAS exercise, applicants who decline offers of their selected flats will be asked the reasons. This would facilitate the analysis of refusal reasons so as to provide reference in the formulation of future strategy; and
- (m) Lung Tin Estate has very low demand. The possibility of converting the vacant flats into other uses is being examined.

**Number of public rental housing flats
and number of people living in public rental housing estates
(1996-97 to 2005-06)**

As at 31 March	Number of PRH flats	Number of people living in PRH estates
1997	665,027	2,327,199
1998	669,634	2,278,967
1999	645,329	2,175,659
2000	650,759	2,108,495
2001	652,936	2,013,198
2002	639,594	2,002,862
2003	634,209	1,981,895
2004	648,444	2,018,624
2005	668,630	2,030,270
2006	682,316	2,022,618

Source: HD records

**Number of applicants on the Waiting List
for the allocation of public rental housing flats
(1996-97 to 2005-06)**

As at 31 March	Number of applicants
1997	144,660
1998	150,266
1999	121,074
2000	108,345
2001	108,433
2002	86,359
2003	91,921
2004	90,955
2005	91,415
2006	97,402

Source: HD records

**Number of applicants found to have given
false statements and number of prosecution cases
(2000-01 to 2004-05)**

Year	Number of applicants found to have given false statements	Number of false statement cases referred to the Prosecutions Section	Number of cases not prosecuted	Number of prosecution cases	Prosecution rate
	(a)	(b)	(c)	(d) = (b) - (c)	(e) = $\frac{(d)}{(b)} \cdot 100\%$
2000-01	266	152	39	113	74%
2001-02	387	206	54	152	74%
2002-03	199	68	17	51	75%
2003-04	325	58	23	35	60%
2004-05	256	87	53	34	39%
Total	<u>1,433</u>	<u>571</u>	<u>186</u>	<u>385</u>	67%

Source: HD records

**Conviction rates of prosecution cases
(2000-01 to 2004-05)**

Year	Number of prosecution cases	Number of convicted cases	Conviction rate
	(a)	(b)	(c) = $\frac{(b)}{(a)} \cdot 100\%$
2000-01	113	111	98%
2001-02	152	152	100%
2002-03	51	51	100%
2003-04	35	33	94%
2004-05	34	32	94%
Total	<u>385</u>	<u>379</u>	98%

Source: HD records

**Provision of housing for senior citizens units
(31 March 2006)**

District	Number of HSC units	Number of vacant HSC units	Vacancy rate
	(a)	(b)	(c) = $\frac{(b)}{(a)} \cdot 100\%$
Urban	5,401	1,189	22%
Extended Urban	2,794	749	27%
New Territories	1,722	500	29%
Total	<u>9,917</u>	<u>2,438</u>	25%

Source: HD records

**Interim housing flats
(31 March 2006)**

IH estate	Type	Number of flats
Kwai Shing East (Kwai Chung)	IH flats refurbished from evacuated comprehensive redevelopment PRH flats	824
Long Bin (Yuen Long)	Low-rise blocks built by proprietary prefabricated building system	840
Po Tin (Tuen Mun)	High-rise reinforced concrete building	2,564
Sha Kok Mei (Sai Kung)	Low-rise blocks built by proprietary prefabricated building system	144
Shek Lei (II) (Kwai Chung)	IH flats refurbished from evacuated comprehensive redevelopment PRH flats	1,928
	Total	6,300

Source: HD records

Remarks: The demolition works of Sha Kok Mei IH Estate commenced in July 2006.

**Ten Express Flat Allocation Scheme exercises
(1997 – 2005)**

EFAS exercise	Number of flats pooled for selection	Number of invitation letters sent to applicants on the WL	Number of applications received	Number of flats accepted by applicants	Acceptance rate
	(a)			(b)	(c) = $\frac{(b)}{(a)} \times 100\%$
First (October 1997)	124	3,698	490	36	29.0%
Second (May 1998)	179	1,048	357	48	26.8%
Third (June 1999)	310	9,471	1,371	127	41.0%
Fourth (April 2000)	346	5,376	1,613	124	35.8%
Fifth (September 2001)	1,016	1,196	299	143	14.1%
Sixth (December 2001)	4,065	59,507	12,689	1,282	31.5%
Seventh (June 2002)	3,692	56,658	19,464	1,258	34.1%
Eighth (February 2003)	3,232	40,986	9,896	962	29.8%
Ninth (April 2004)	4,088	42,268	15,060	1,363	33.3%
Tenth (May 2005)	5,645	46,193	16,486	2,305	40.8%
Total	22,697	266,401	77,725	7,648	33.7%

Source: HD records

**Types of less popular flats pooled and selected by
applicants in the tenth Express Flat Allocation Scheme exercise
(May 2005)**

Type of less popular PRH flats	Number of flats pooled		Number of flats selected and accepted by applicants		Number of flats selected but rejected by applicants		Number of flats not selected by applicants	
	(a) = (b) + (c) + (d)		(b)		(c)		(d)	
(A) HSC units	1,360	(100%)	163	(12.0%)	156	(11.5%)	1,041	(76.5%)
(B) Flats converted from IH flats in Po Tin Estate in Tuen Mun	1,374	(100%)	698	(50.8%)	675	(49.1%)	1	(0.1%)
(C) Less popular flats with no abnormal environmental indicator	1,066	(100%)	582	(54.6%)	472	(44.3%)	12	(1.1%)
(D) Flats in the Islands District and Tung Chung	737	(100%)	302	(41.0%)	149	(20.2%)	286	(38.8%)
(E) Flats in Tuen Mun (other than Po Tin Estate)	404	(100%)	102	(25.2%)	98	(24.3%)	204	(50.5%)
(F) Less popular flats with unpleasant incidents	315	(100%)	206	(65.4%)	99	(31.4%)	10	(3.2%)
(G) Others (e.g. flats without lift services)	389	(100%)	252	(64.8%)	105	(27.0%)	32	(8.2%)
Total	5,645	(100%)	2,305	(40.8%)	1,754	(31.1%)	1,586	(28.1%)

Source: Audit analysis of HD records

Acronyms and abbreviations

Audit	Audit Commission
EFAS	Express Flat Allocation Scheme
EPPS	Elderly Persons Priority Scheme
FEPPS	Families with Elderly Persons Priority Scheme
HA	Hong Kong Housing Authority
HD	Housing Department
HSC	Housing for senior citizens
IH	Interim housing
ISHM	Integrated System for Housing Management
LU	Lettings Unit
PRH	Public rental housing
RCSU	Registration and Civil Service Unit
SWD	Social Welfare Department
TC	Transit centre
URA	Urban Renewal Authority
WL	Waiting List
WLU	Waiting List Unit