

CHAPTER 2

Rating and Valuation Department

Assessment and collection of rates and government rent

**Audit Commission
Hong Kong
27 October 2009**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 53 of the Director of Audit contains 11 Chapters which are available on our website at <http://www.aud.gov.hk>.

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ASSESSMENT AND COLLECTION OF RATES AND GOVERNMENT RENT

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PART 1: INTRODUCTION

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

Background

1.2 **Rates.** Rates are a tax on property charged in accordance with the Rating Ordinance (Cap. 116). Properties in all parts of Hong Kong are chargeable to rates at a prescribed percentage (Note 1) of their rateable values. The rateable value of a property is the estimated annual open market rental value at a designated valuation reference date (Note 2), assuming that the property was then vacant and was to let. The owner and the occupier are both liable for rates. However, in the absence of any agreement to the contrary, rates shall be paid by the occupier.

1.3 **Government rent.** According to the Government Rent (Assessment and Collection) Ordinance (Cap. 515) (Rent Ordinance), government rent is payable for the following:

- (a) land leases in the New Territories and New Kowloon north of Boundary Street granted before the coming into force of the Sino-British Joint Declaration on 27 May 1985. Such leases expired on 27 June 1997 and have been extended by section 6 of the New Territories Leases (Extension) Ordinance (Cap. 150);
- (b) non-renewable land leases in Hong Kong Island and Kowloon south of Boundary Street granted before 27 May 1985 which expired on or after 27 May 1985 and which have been extended by way of individual lease extension (Note 3); and
- (c) all land leases granted since 27 May 1985.

Government rent is charged at 3% of the rateable value of the land, which is the aggregate of the rateable values of the properties situated on the land. The basis of assessment of the rateable value for government rent is the same as that for rates. The owner (i.e. the lessee of the land) is liable for government rent. However, the Government may demand government rent from the owner or the ratepayer of a property. If the person who pays government rent is not the owner, the government rent paid is a debt due to the person by the owner, unless there is an express agreement requiring otherwise.

Note 1: *Since 1999-2000, the prescribed percentage has been 5%.*

Note 2: *Since 1999, the designated valuation reference date has been the 1 October preceding the financial year concerned. For example, the designated valuation reference date for 2009-10 is 1 October 2008.*

Note 3: *For renewable leases, the Director of Lands is responsible for collecting the government rent in accordance with the Government Leases Ordinance (Cap. 40). The scope of this audit does not include the government rent for such leases.*

1.4 The Rating and Valuation Department (RVD) is responsible for the assessment and collection of rates and government rent, as follows:

- (a) **Assessment of rates.** In accordance with the Rating Ordinance, the RVD assesses rates by:
 - (i) conducting General Revaluations (GRs) annually to prepare a new Valuation List for each financial year. The Valuation List is a list of all properties assessed to rates with their corresponding rateable values. The Valuation List as at 1 April 2009 contained 2.33 million assessments, with a total rateable value of \$369 billion; and
 - (ii) making interim valuations and deletions from time to time to maintain the Valuation List. The RVD makes interim valuations to add properties assessable to rates. It makes deletions to remove properties which have ceased to be assessable. In 2008-09, 31,400 interim valuations and 9,000 deletions were made;

- (b) **Assessment of government rent.** In accordance with the Rent Ordinance, the RVD assesses government rent by:
 - (i) conducting GRs annually to prepare a new Government Rent Roll for each financial year. The Government Rent Roll contains the rateable values of all properties assessed to government rent. As at 1 April 2009, the Government Rent Roll contained 1.63 million assessments with a total rateable value of \$199 billion; and
 - (ii) making interim valuations of properties assessable to government rent and deleting properties no longer assessable from time to time to maintain the Government Rent Roll. In 2008-09, 10,600 interim valuations and 2,800 deletions were made; and

- (c) **Collection of rates and government rent.** In accordance with the Rating Ordinance and the Rent Ordinance, in general the RVD collects rates and government rent quarterly in advance. Where a property is assessable to both rates and government rent, the RVD issues a combined demand note. As at 1 April 2009, the RVD maintained 2.43 million rates and government rent accounts. In 2008-09, the rates and government rent collected were \$7.18 billion and \$5.94 billion respectively (Note 4).

Note 4: *In 2008-09, rates concession was given to ratepayers to offset the rates payable for each quarter, subject to a ceiling of \$5,000 per quarter for a property. The concession resulted in a reduction of \$11.26 billion in rates revenue.*

1.5 As at 31 March 2009, the RVD had an establishment of 851 staff. A total of 697 staff, comprising 644 staff in the establishment and 53 non-civil service contract staff, were responsible for the assessment and collection of rates and government rent. An organisation chart of the RVD is at Appendix A.

Audit review

1.6 In 2003, the Audit Commission (Audit) completed a review of the RVD's assessment of rates and government rent. The review examined the RVD's efforts in rating valuations and assessments, including issues relating to GRs, interim valuations, performance indicators, outsourcing and exemptions. The results were included in Chapter 2 of the Director of Audit's Report No. 40 of March 2003. Audit found that there was room for improvement and made a number of recommendations. The RVD agreed with the audit recommendations and took action to implement them.

1.7 Following the 2003 audit review, Audit has recently conducted a review of the RVD's assessment and collection of rates and government rent. The review focused on the following areas:

- (a) General Revaluations (PART 2);
- (b) interim valuations (PART 3);
- (c) collection of rates and government rent (PART 4); and
- (d) de-designation of designated village areas (PART 5).

1.8 Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

Acknowledgement

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

PART 2: GENERAL REVALUATIONS

2.1 This PART examines issues relating to GRs.

Provisions of the Rating Ordinance and the Rent Ordinance

2.2 The Chief Executive may at any time direct the Commissioner of Rating and Valuation to prepare a new Valuation List and a new Government Rent Roll, and designate a date by reference to which the rateable values of properties shall be ascertained. Since 1999, the Commissioner has been directed to prepare a new Valuation List and a new Government Rent Roll for each financial year, and the designated valuation reference date has been the 1 October preceding the financial year concerned. To meet the requirements, the RVD conducts annually GRs of all properties as at 1 October, with the new rateable values taking effect on the following 1 April (Note 5).

Procedures for conducting General Revaluations

2.3 The RVD's GR Division is responsible for conducting GRs. The main procedures for conducting a GR are summarised as follows:

- (a) ***Issuing requisition forms.*** In August each year, the RVD issues requisition forms (Form R1As) in bulk to owners or occupiers of selected properties (about 378,000 forms issued in August 2008). The owners or occupiers are required to report the use of the properties (i.e. owner-occupied, vacant, wholly let or partly let). If the properties are let, they are also required to report the tenancy period, the rent amount and other tenancy particulars;
- (b) ***Analysing rental information.*** The RVD analyses the rents reported in the returned Form R1As before using them for valuation purposes. Where the reported rents include other charges (e.g. rates, management fee and air-conditioning charge), the RVD excludes such charges to derive the net rent (Note 6). The RVD also adjusts the reported rents to account for the difference

Note 5: *In this audit report, a GR for a particular financial year refers to the exercise, conducted in the preceding financial year, for preparing a new Valuation List and a new Government Rent Roll for the financial year.*

Note 6: *Section 7(2) of the Rating Ordinance provides that the rateable value of a tenement shall be an amount equal to the rent at which the tenement might reasonably be expected to let if the tenant undertook to pay all usual tenant's rates and taxes and the landlord undertook to pay the Government rent, the costs of repairs and insurance and any other expenses.*

in time between the rent commencement date and the designated valuation reference date and to reflect any rent-free period. In addition, rents arising from lettings between related parties or which are substantially below or above market levels are treated as “outliers” and will not be used;

(c) ***Updating rateable values.*** The RVD mainly uses the rental information collected from the owners or occupiers of the selected properties to revalue all properties. It conducts the revaluations mainly by applying computer-assisted mass appraisal (Note 7) techniques and the reference assessment approach, as illustrated below:

- (i) a typical property unit in a building is selected as the reference unit;
- (ii) for each of the other units in the building, a mathematical equation is established for computing its rateable value with reference to the rateable value of the reference unit. The mathematical equation reflects differences in qualitative and quantitative factors (e.g. view, floor level and floor area) between the reference unit and the unit concerned;
- (iii) the rateable value of the reference unit is determined through valuation models specified in multiple regression analysis (Note 8);
- (iv) the rateable values of the other units are generated automatically by the computer based on the established mathematical equations; and
- (v) the computer-generated rateable values are reviewed by the RVD’s professional valuation staff to ensure that they can be supported by the rental evidence and are reasonable and correct estimates of the open market rental value as at 1 October. General changes in rental levels after 1 October do not affect the current GR. Such changes will be reflected in the next GR (e.g. the decline in rental levels after 1 October 2008 due to the financial tsunami did not affect the 2009-10 GR and will be reflected in the 2010-11 GR); and

Note 7: *Mass appraisal is the process of valuing a group of properties as of a given date using common data, standardised methods and statistical testing. Properties which are occupied by owners, vacant or let are all valued in the same manner.*

Note 8: *Multiple regression analysis is a statistical technique. For that used by the RVD, it involves the specification of valuation models to predict rateable values by analysing the effects of property attributes and characteristics (e.g. floor area, location, building age and grade) on rental values.*

- (d) ***Issuing new Valuation List and Government Rent Roll.*** Upon completing the revaluation exercise in March each year, the RVD issues a new Valuation List and a new Government Rent Roll, which will take effect on 1 April. The new rateable values will also be shown in the demand notes for the quarter beginning 1 April. Any person may raise a proposal for altering the new rateable value of a property.

Post-General Revaluation statistical audit

Valuation accuracy standards

2.4 After each GR, the RVD's Internal Audit Unit (IAU) conducts a post-GR statistical audit to assess the valuation accuracy. The IAU conducts the statistical audit in accordance with the assessment standards issued by the International Association of Assessing Officers (IAAO — Note 9). According to the IAAO standards, a major aspect of valuation accuracy is the valuation level, which refers to the degree to which properties are valued at market value. For the RVD, the legal requirement is to value properties at their open market rental values (see Note 6 to para. 2.3(b)). As such, the valuation level is measured by analysing the mean ratio of rateable value to rent (RV/Rent ratio), which is the average of the RV/Rent ratios for the individual properties selected for the post-GR statistical audit. The IAAO valuation accuracy standards are as follows:

- (a) the goal is to achieve an overall valuation level equal to 100% of the legal requirement (i.e. a mean RV/Rent ratio of 1); and
- (b) a mean RV/Rent ratio between 0.9 and 1.1 is considered acceptable. This is to recognise uncontrollable sampling error and the limiting conditions that may constrain the degree of accuracy.

IAU procedures

2.5 The IAU usually commences the post-GR statistical audit around April or May each year. Its main procedures for assessing the valuation level are summarised as follows:

- (a) wholly let properties with a tenancy period commencing between the preceding July and the preceding January (i.e. the core period close to the designated valuation reference date of 1 October) are selected for analysis. However, renewal cases and properties with rents regarded as outliers are excluded;
- (b) the selected properties are classified by property groups according to type;

Note 9: *The IAAO is a professional membership organisation of government assessment officials and others interested in the administration of the property tax. Its assessment standards represent a consensus in the assessing profession.*

- (c) for each selected property, the RV/Rent ratio is calculated; and
- (d) the overall mean RV/Rent ratio and the mean RV/Rent ratio for each property group are computed and compared with the IAAO valuation accuracy standards.

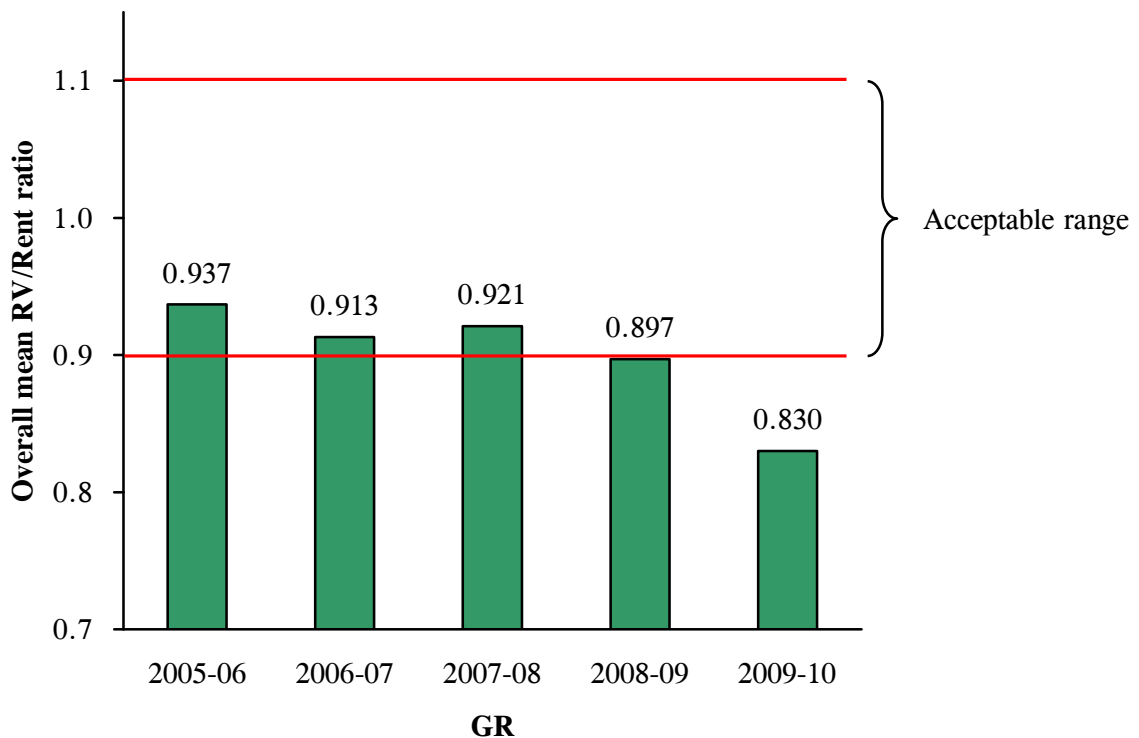
The IAU submits its report to the Deputy Commissioner of Rating and Valuation for review before issuing it to the GR Division for taking necessary action.

Overall mean RV/Rent ratios

2.6 Details of the mean RV/Rent ratios for the past five GRs are at Appendix B. Figure 1 shows the overall ratios.

Figure 1

Overall mean RV/Rent ratios for the past five GRs



Source: RVD records

Remarks: The overall mean RV/Rent ratio for a GR was the average of the RV/Rent ratios for the individual properties selected for the post-GR statistical audit.

2.7 Figure 1 shows that:

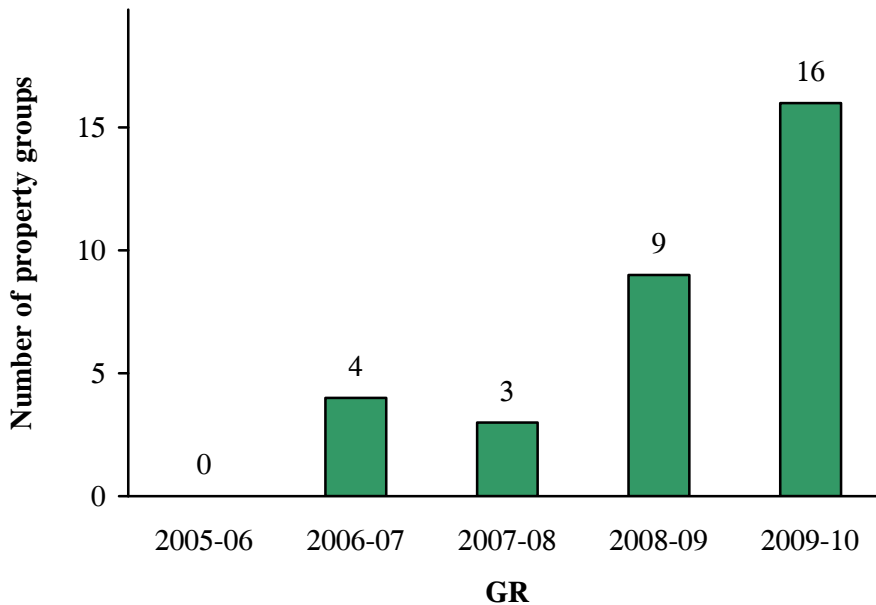
- (a) for the 2005-06 to 2007-08 GRs, the overall mean RV/Rent ratios were within the acceptable range of 0.9 to 1.1 specified by the IAAO valuation accuracy standards; and
- (b) for the 2008-09 and 2009-10 GRs, the overall mean RV/Rent ratios were below the acceptable range. The ratio of 0.897 for the 2008-09 GR was close to the acceptable range. However, the ratio of 0.83 for the 2009-10 GR was 7.8% below the lower end of 0.9 of the acceptable range.

Mean RV/Rent ratios for property groups

2.8 The mean RV/Rent ratios for the 18 property groups give a more complete and detailed picture of the valuation level. Details of the ratios for the past five GRs are at Appendix B. Figure 2 shows the number of property groups with mean RV/Rent ratios below the acceptable range.

Figure 2

Number of property groups with mean RV/Rent ratios below the acceptable range



Source: RVD records

- Remarks:
- 1. The mean RV/Rent ratio for a property group for a GR was the average of the RV/Rent ratios for the individual properties selected for the post-GR statistical audit.
 - 2. In total, there were 18 property groups. For each GR, the mean RV/Rent ratios for the other property groups were within the acceptable range.

2.9 Figure 2 shows that, for the 2009-10 GR, the mean RV/Rent ratios for 16 of the 18 property groups were below the acceptable range. It can be seen from Appendix B that the mean RV/Rent ratios for these 16 groups, ranging from 0.77 to 0.88, were 2.2% to 14.4% below the lower end of 0.9 of the acceptable range. For 9 of these 16 property groups, their mean RV/Rent ratios for the 2008-09 GR were also below the acceptable range. These 9 property groups included:

- (a) “Small house”, whose mean RV/Rent ratios for four consecutive GRs (2006-07 to 2009-10) were below the acceptable range; and
- (b) “Tenement” and “Flatted factory — Grade C, D and E”, whose mean RV/Rent ratios for three consecutive GRs (2007-08 to 2009-10) were below the acceptable range.

Audit observations and recommendations

Valuation accuracy is crucial

2.10 As mentioned in paragraph 1.4(a)(i) and (b)(i), the Valuation List and the Government Rent Roll as at 1 April 2009 contained assessments with a total rateable value of \$369 billion and \$199 billion respectively. Given these figures, an under-assessment of the rateable values by a small percentage could result in a large revenue loss. Therefore, it is crucial for the RVD to ensure that the valuation accuracy standards are met in conducting annual GRs.

Valuation accuracy standards not met

2.11 Audit is concerned that the overall mean RV/Rent ratio of 0.83 for the 2009-10 GR was 7.8% below the lower end of 0.9 of the acceptable range specified by the IAAO valuation accuracy standards (see para. 2.7(b)). According to the IAAO, jurisdictions that follow the IAAO assessment standards should be able to develop mass appraisal valuation models that maintain an overall ratio of 1 or very near thereto. Analyses at property group level indicate that the valuation levels were low for 16 of the 18 property groups (see para. 2.9). Audit considers that the RVD needs to review the process of valuing the properties in these 16 property groups to identify deficiencies and to take improvement measures so that the valuation accuracy standards are met in future GRs.

IAU findings not effectively followed up

2.12 In each of the past five post-GR statistical audits, the IAU found areas requiring improvements, including the property groups with mean RV/Rent ratios below the acceptable range. The IAU included details of the findings in its report issued to the GR

Division. However, the GR Division was not required to give response or report any follow-up actions. Audit noted that the mean RV/Rent ratios for three property groups were below the acceptable range for three to four consecutive GRs (see para. 2.9(a) and (b)). The lack of improvement over the years suggested that the IAU findings had not been effectively followed up. In Audit's view, the RVD needs to establish procedures to require the GR Division to give response to the IAU findings and to report its follow-up actions to the senior management. This will help ensure that improvements are made where necessary.

More timely report needed

2.13 Table 1 shows the dates of issue of the IAU report to the GR Division for the past five post-GR statistical audits.

Table 1

Dates of issue of the IAU report to the GR Division

GR	Date of issue
2005-06	14 July 2005
2006-07	17 June 2006
2007-08	16 August 2007
2008-09	30 October 2008
2009-10	Not yet issued (Note)

Source: RVD records

Note: Up to 31 July 2009, the IAU had not issued its report on the 2009-10 GR.

2.14 As shown in Table 1, the IAU issued its report on the 2008-09 GR to the GR Division on 30 October 2008. Such belated issue of the IAU report is unsatisfactory for the following reasons:

- (a) the GR Division has to complete preparing a new Valuation List and a new Government Rent Roll around March each year. It will not be able to correct any major valuation inaccuracies subsequently reported by the IAU; and
- (b) to follow up the IAU findings, the GR Division may need to revise the criteria used for selecting properties for issuing Form R1As for the ensuing GR. Since the GR Division issues Form R1As in August each year, the IAU report needs to be issued well before August to enable the GR Division to take timely action.

In Audit's view, the RVD needs to consider requiring the IAU to conduct a preliminary statistical audit during a GR so that any major valuation inaccuracies identified can be corrected in time. The RVD also needs to set a target date for the issue of the IAU post-GR statistical audit report in order that the IAU findings can be followed up in the ensuing GR.

Audit recommendations

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

- (a) **review the process of valuing the properties in the 16 property groups with mean RV/Rent ratios for the 2009-10 GR below the acceptable range to identify deficiencies;**
- (b) **based on the review results, take improvement measures to ensure that the valuation accuracy standards are met in future GRs;**
- (c) **establish procedures to require the GR Division to give response to the IAU findings and to report its follow-up actions to the senior management;**
- (d) **consider requiring the IAU to conduct a preliminary statistical audit during a GR so that any major valuation inaccuracies identified can be corrected in time; and**
- (e) **set a target date for the issue of the IAU post-GR statistical audit report in order that the IAU findings can be followed up in the ensuing GR.**

Response from the Administration

2.16 The Commissioner of Rating and Valuation accepts the audit recommendations. She has said that:

- (a) the RVD fully recognises that valuation accuracy is crucial and notes that the overall mean RV/Rent ratio of 0.83 for the 2009-10 GR was 7.8% below the lower end of 0.9 of the acceptable range. The particular circumstances surrounding the conduct of the GR were as follows:
 - (i) the global financial tsunami at around September 2008 caused market instability. Valuers had taken a more prudent approach in setting the valuation levels given the uncertain and pessimistic sentiments; and
 - (ii) following the financial tsunami, the property market had experienced a sudden change, with the market sentiment becoming very negative. Since then property prices and rents had dropped considerably. Including the earlier rents (i.e. from July to September 2008) agreed before the outbreak of the financial tsunami in calculating the RV/Rent ratio would inevitably inflate the “Rent” element to a level which does not reflect the level around the valuation reference date of 1 October 2008. Using the mean RV/Rent ratios so produced in gauging the overall valuation accuracy may not be appropriate. On the other hand, the overall mean RV/Rent ratio, if computed on lettings with commencement date from October 2008 to January 2009, is about 0.88, which is very close to 0.9;
- (b) the situation during the 2009-10 GR was unprecedented. The RVD does not consider that there is an overall under-assessment of rateable values. In fact, the RVD has received 51,000 proposals in 2009, which is more than 30% above the 2008 figure; and
- (c) the RVD will continue to explore improvement measures to ensure that the valuation accuracy standards are met in future GRs.

Rental information

Sources of rental information

2.17 The RVD obtains rental information for GR purposes mainly by issuing Form R1As to owners or occupiers of selected properties (see para. 2.3(a)). In addition, as an on-going process, the RVD also obtains rental information from the following sources:

- (a) **Form CR109s.** The Landlord and Tenant (Consolidation) Ordinance (Cap. 7) requires the landlord of a domestic property to lodge with the RVD a Form CR109 notice in respect of any new letting or renewal agreement. The information required to be provided in Form CR109 is largely the same as that in Form R1A; and

- (b) **Stamped tenancy agreements.** The Stamp Duty Ordinance (Cap. 117) requires executed tenancy agreements to be stamped. The RVD has made the following arrangements with the Inland Revenue Department (IRD):
- (i) **Conventional stamping.** The stamp duty applicants present the original tenancy agreements to the IRD's Stamp Office. As arranged with the IRD, an RVD contract staff takes photocopies of some tenancy agreements at the Stamp Office before the IRD returns them to the stamp duty applicants. The RVD then extracts useful rental data from the tenancy agreement copies; and
 - (ii) **E-stamping.** For an applicant using the IRD's e-stamping service via the Internet, after completing the stamping process, he is provided with a link to the RVD website for submitting Form CR109 (for domestic properties) or Form R1A (for non-domestic properties) electronically.

According to the RVD, although rental information on properties with a tenancy period commencing during the GR core period from July to next January is most relevant, rental information for other tenancy periods is also useful for establishing the rental trend and the mass appraisal valuation models.

Rental evidence ratios

2.18 In a post-GR statistical audit, in addition to assessing the valuation accuracy, the IAU also reviews the adequacy of rental information obtained during the GR core period. The IAU conducts the review by analysing the rental evidence ratios (Note 10). Appendix C shows the details of the rental evidence ratios for the past five GRs. A higher ratio indicates a lower level of adequacy of rental information obtained. It can be seen that:

- (a) the overall rental evidence ratios for the past five GRs ranged from 25 to 32. The overall rental evidence ratio for the 2009-10 GR was 27, indicating that, on average, the rental information on one property was used for assessing the rateable values of 28 properties. The ratio was somewhat worse than that of 25 for the 2008-09 GR;

Note 10: *The rental evidence ratio is computed as follows:*

$$\text{Rental evidence ratio} = \frac{\text{Number of properties without rental information}}{\text{Number of properties with rental information}}$$

- (b) the rental evidence ratios for the 18 property groups differed significantly, ranging from 9 to 148 for the 2009-10 GR. For 14 of the 18 property groups, the rental evidence ratio for the 2009-10 GR was worse than that for the 2008-09 GR; and
- (c) the rental evidence ratios for “Small house” for the past five GRs, ranging from 127 to 181, were the worst among the 18 property groups.

Audit observations and recommendations

Adequate rental information is important

2.19 Collecting rental information is an important part of a GR. A higher rental evidence ratio means that the assessments of the rateable values are supported by less rental information, thus giving rise to a higher risk of inaccurate assessments. The RVD senior management has consistently referred to the need to obtain adequate rental information. For example, in reviewing the IAU report for the 2007-08 GR, the Commissioner of Rating and Valuation expressed concern about the gradual deterioration of the rental evidence ratios for certain property groups. Also, in reviewing the IAU report for the 2008-09 GR, the Deputy Commissioner of Rating and Valuation expressed similar concern. Both the Commissioner and the Deputy Commissioner asked the IAU to consider ways to boost up the number of useful rents available for future GRs.

Need to improve rental evidence ratios

2.20 Although the RVD senior management had repeatedly expressed concern and asked for actions, the overall rental evidence ratio and the rental evidence ratios for 14 property groups deteriorated in the 2009-10 GR as compared to the 2008-09 GR (see para. 2.18(a) and (b)). In particular, the rental evidence ratios for “Small house”, the property group with mean RV/Rent ratios for four consecutive GRs below the acceptable range (see para. 2.9(a)), had remained exceptionally high for the past five GRs (see para. 2.18(c)). Audit considers that the RVD needs to take further actions to improve the rental evidence ratios. The following are some measures that the RVD needs to consider:

- (a) ***Improving the selection criteria for issuing Form R1As.*** In the 2009-10 GR, the RVD issued 378,000 Form R1As to the owners or occupiers of the selected properties. The selection criteria included whether a Form R1A was issued to the owner or occupier in the past two GRs and whether the property was vacant, let or owner-occupied based on the RVD records. In Audit’s view, the RVD needs to consider including the rental evidence ratios for the previous GR in the selection criteria so as to select relatively more properties from property groups with less satisfactory rental evidence ratios. This will help the RVD obtain more rental information on such property groups;

- (b) ***Improving the return rate of Form R1As.*** The return of Form R1A is a requirement of the Rating Ordinance and the Rent Ordinance. Persons not returning the form are liable on conviction to a maximum fine of \$10,000. To remind owners and occupiers of their statutory obligation of returning the form, the RVD has stepped up publicity efforts, included a penalty warning message in the form and issued reminders when the form was not returned. However, in the past five GRs, there were still 17% to 21% of the issued forms unreturned. The RVD has taken limited prosecution action against the persons not returning the form (about 20 cases a year). In Audit's view, the RVD needs to consider stepping up prosecution action to deter non-compliance and achieve a higher return rate; and
- (c) ***Photocopying more tenancy agreements.*** In 2008-09, the RVD contract staff at the IRD's Stamp Office made copies of about 18,000 tenancy agreements, representing some 10% of the total tenancy agreements submitted to the Stamp Office. In order to obtain more rental information, the RVD needs to consider making arrangements to photocopy more tenancy agreements, particularly during the GR core period from July to next January.

Audit recommendations

2.21 **Audit has recommended that the Commissioner of Rating and Valuation should, in view of the deterioration of the overall rental evidence ratio and the rental evidence ratios for 14 property groups in the 2009-10 GR, take further actions to improve the ratios. In particular, the Commissioner should consider:**

- (a) **in selecting properties for issuing Form R1As for a GR, including the rental evidence ratios for the previous GR in the selection criteria so as to select relatively more properties from property groups with less satisfactory rental evidence ratios;**
- (b) **stepping up prosecution action to deter non-compliance and achieve a higher return rate of Form R1As; and**
- (c) **making arrangements to photocopy more tenancy agreements at the IRD's Stamp Office, particularly during the GR core period from July to the ensuing January.**

Response from the Administration

2.22 The **Commissioner of Rating and Valuation** accepts the audit recommendations. She has said that:

- (a) the rental evidence ratio is a broad measure on the adequacy of rental information. It is very much affected by the nature of tenements within each group, the percentage of such tenements which are owner-occupied, and the availability of up-to-date rental information. Fluctuations between years in rental evidence ratios are unavoidable as each year a large proportion of the requisition forms are sent to different payers or tenements. The RVD will include the rental evidence ratios for the previous GR in the selection criteria for issuing requisition forms in future exercises; and
- (b) the RVD will consider stepping up prosecution action and liaise with the IRD for the copying of more tenancy agreements.

PART 3: INTERIM VALUATIONS

3.1 This PART examines issues relating to the interim valuations of rural properties, development sites and advertising signs.

Provisions of the Rating Ordinance and the Rent Ordinance

3.2 *Interim valuations.* The RVD may at any time make an interim valuation of a property not included in the Valuation List and/or Government Rent Roll and liable for assessment to rates and/or government rent, and amend the Valuation List and/or Government Rent Roll accordingly. This applies mainly to newly constructed properties, properties which have undergone structural alterations and newly granted land leases.

3.3 *Notification of interim valuations.* The RVD is required to serve a notice in the specified form on the owner or occupier of the property subject to an interim valuation. The notice should specify the effective date of the interim valuation. The owner or occupier may raise objections to the interim valuation by submitting a specified form to the RVD.

3.4 *Payment of rates and government rent under an interim valuation.* Section 29(1) of the Rating Ordinance provides that any rates due on an interim valuation shall be payable from the date when the interim valuation became effective (Note 11), or 24 months before the date of the issue of the first demand note, whichever is the later. This means that the RVD cannot backdate the rates demand for more than 24 months. For government rent, the Rent Ordinance does not specify any time-bar for backdating government rent demand. Government rent due on an interim valuation is payable from the effective date of the interim valuation.

Note 11: *Generally, for properties in a newly constructed building, the effective date of an interim valuation is:*

- (a) for domestic properties, 90 days from the issue of the relevant document (whichever is applicable): Occupation Permit, Certificate of Compliance, Consent to Assign or Consent to Lease; or*
- (b) for non-domestic properties, 180 days after the issue of the relevant document, or the date of first occupation, whichever is the earlier.*

For other properties, the effective date of an interim valuation is the date of first occupation.

Interim valuations of rural properties

Backlog of unassessed rural properties

3.5 According to the Rent Ordinance, government rent is payable from 28 June 1997 for land leases in the New Territories extended by the New Territories Leases (Extension) Ordinance (see para. 1.3(a)). It is therefore necessary for the RVD to assess all rural properties to government rent. Since October 2004, the RVD has been conducting an exercise to identify unassessed rural properties for making interim valuations, mainly by cross-checking to the Lands Department records on rural lots. Up to 31 March 2009, of the 45,000 unassessed rural lots identified, the RVD had completed the interim valuations of the properties in 23,000 lots. The RVD planned to complete the interim valuations of the properties in the remaining 22,000 lots by the end of 2014.

Audit observations and recommendations

Revenue losses

3.6 According to the RVD, most of the properties in the 23,000 rural lots with interim valuations already completed were low-value properties (e.g. agricultural land) that were not assessable to rates or government rent (Note 12). For the remaining properties, the RVD assessed them to government rent, and rates if they were not exempted properties. For the rates assessments, due to the 24-month time-bar, the RVD only backdated the rates demand for at most 24 months and could not recover the rates for earlier periods, thus resulting in revenue losses. The RVD could not estimate the total revenue losses relating to the rural properties because it was difficult to verify the dates of their first occupation as reported to the RVD (Note 13).

3.7 Audit is concerned that as at 31 March 2009 there were still 22,000 unassessed rural lots. As a result, the RVD has not collected the government rent in respect of the properties in these 22,000 lots, although such rent is payable from 28 June 1997 (i.e. 12 years ago). Apart from interest losses, the delay in assessment increases the

Note 12: *Section 36(1)(l) of the Rating Ordinance states that properties with an estimated rateable value not exceeding \$3,000 are exempted from assessment to rates. According to section 8(3) of the Rent Ordinance, for government rent purposes, such properties are deemed to have a rateable value of \$1. In practice, the RVD does not issue rent demands for such properties.*

Note 13: *According to the RVD, for the unassessed rural properties without an Occupation Permit or Certificate of Compliance, the effective date of interim valuation should have been the date of first occupation. However, the RVD did not have any records or documents of these properties. Prior to site inspection, the RVD did not know whether they were occupied.*

collection risk (e.g. the owners might have sold the properties and become untraceable). For properties which are also assessable to rates, any further delay may increase the revenue losses, given the 24-month time-bar for backdating purposes. Audit noted that the RVD had taken measures to clear the backlog, including engaging contract staff and outsourcing the interim valuations of the properties in 340 unassessed lots. In Audit's view, the RVD needs to closely monitor the progress and take additional measures to complete the interim valuations as soon as possible.

Audit recommendations

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

- (a) **closely monitor the progress of clearing the backlog of unassessed rural properties; and**
- (b) **take additional measures to complete the interim valuations of the unassessed rural properties as soon as possible.**

Response from the Administration

3.9 The **Commissioner of Rating and Valuation** accepts the audit recommendations. She has said that:

- (a) ***Backlog of unassessed rural properties.*** The RVD has an on-going programme to take interim actions on all the unassessed rural lots, which are liable for government rent and should have been assessed. The RVD aims to complete assessing all the remaining lots by 2014; and
- (b) ***Revenue losses.*** Among the assessed rural lots so far, over 90% (i.e. about 21,000 lots) do not have rates revenue implication as they are agricultural lots and open land lots, the rateable value of which did not exceed \$3,000.

Interim valuations of development sites

3.10 A development site (i.e. leased land before development) is not subject to rates. However, a development site is assessable to government rent in accordance with the Rent Ordinance. For land leases granted on or after 1 July 1997, government rent is payable from the commencement date of the lease. The Lands Department forwards a copy of each executed land grant document to the RVD for assessing government rent. After making interim valuation, the RVD issues a notice of interim valuation and a government rent demand note to the lessee. As at 31 March 2009, according to the RVD records, there were 335 development sites for which interim valuations had not been made.

Audit examination of development site cases

3.11 Audit examined ten cases of interim valuation of development site (Cases 1 to 10) to ascertain whether there was room for improvement in the RVD procedures. These comprised seven cases with interim valuation completed in the period 2006-07 to 2008-09, and three cases with interim valuation outstanding as at 30 June 2009. Appendix D shows the details of the cases. The audit findings are reported in paragraphs 3.12 and 3.13.

Audit observations and recommendations

Delay in making interim valuations

3.12 Audit noted that:

- (a) in Cases 1 to 3, the RVD completed the interim valuations of the development sites within one year after receiving the land grant document from the Lands Department;
- (b) in Cases 4 to 7, the RVD took much more time (29 to 77 months) to complete the interim valuations; and
- (c) in Cases 8 to 10, as at 30 June 2009, the RVD had not completed the interim valuations of the development sites, although 43 to 114 months had passed since the land grant document was received. In all the three cases, the developments had been completed.

3.13 Although the Rent Ordinance has not specified any time-bar requirement, it is important to make interim valuations of development sites promptly for the following reasons:

- (a) ***Interest loss.*** As the government rent in respect of a large development site is of substantial amount, its belated collection may result in a significant interest loss; and
- (b) ***Collection risk.*** Delay in issuing a government rent demand note may increase the collection risk and decrease the effectiveness of recovery actions. For example, the developer concerned may have sold the site and left no assets against which recovery actions can be taken (see paras. 4.11 and 4.12 for audit findings on this aspect).

Audit considers that the RVD needs to investigate the causes of the delay in making interim valuations in Cases 4 to 10 and in other similar cases, and take measures to ensure that interim valuations are promptly made. For performance monitoring purposes, the RVD also needs to consider setting targets for making interim valuations of development sites.

Audit recommendations

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

- (a) **investigate the causes of the delay in making interim valuations of the development sites in Cases 4 to 10 and in other similar cases;**
- (b) **based on the results of investigation, take measures to ensure that interim valuations of development sites are promptly made;**
- (c) **consider setting performance targets for making interim valuations of development sites; and**
- (d) **expedite action to complete the interim valuations for Cases 8 to 10 and other similar long outstanding cases.**

Response from the Administration

3.15 The **Commissioner of Rating and Valuation** accepts the audit recommendations. She has said that:

- (a) of the 335 development sites that have not been assessed to government rent (see para. 3.10), 208 are lots in the New Territories granted for the construction of village-type house. It is quite common that such lots are granted to indigenous villagers who are entitled to rent concession. Therefore, interim valuations of these lots for government rent purposes may not be required. Whether interim valuation of such a lot is required can only be ascertained after site inspection, search of land records and the Lands Department's confirmation or otherwise of the rent concession status of the grantee; and
- (b) apart from this, the assessment and the collection of government rent in respect of development sites since 1997 have been hampered by the protracted litigation with developers on a variety of issues including the legality of the assessment, the method of valuation and the level of assessment. Now that the litigation has been settled substantially, the RVD has been stepping up its efforts in assessing development sites to government rent.

Interim valuations of advertising signs

RVD's practice for assessing advertising signs

3.16 **Low-value signs.** The majority of advertising signs are of small size, advertising the name, or type of business carried on, or products sold in respect of a street shop in a building. The RVD normally treats such signs as the tenant's improvements. Their value is deemed to be included in the value of the host property. In addition, any signs with an estimated rateable value not exceeding \$3,000 are exempted from assessment to rates (see Note 12 to para. 3.6).

3.17 **Assessable signs.** Section 9 of the Rating Ordinance specifies circumstances under which advertising signs shall be assessed to rates separately (e.g. signs that are let). In addition, the RVD normally assesses the following signs to rates, and government rent if applicable, either separately or as additions to the value of the host property:

- (a) signs advertising a product, trade or service which are erected on top of the property/building or its side roof or attached to, or painted on, or project from building walls;
- (b) video walls; and
- (c) signs designed in the form of stand-alone light boxes or light panels. These are usually located in groups in the internal common areas or affixed to the external walls of shopping malls or office blocks.

Special exercises in 2006 and 2007

3.18 During June to August 2006, the RVD employed temporary staff to carry out a special exercise for identifying unassessed advertising signs. The temporary staff conducted systematic surveys of certain urban districts. They submitted reports of possible unassessed signs to the RVD supervising staff for review. The RVD staff found that there were 743 possible unassessed signs requiring interim valuations. During June to August 2007, the RVD conducted another similar exercise and identified 813 possible unassessed signs in some other urban districts.

Outsourcing of interim valuations of advertising signs

3.19 In May 2007, the RVD awarded a \$168,000 contract to Contractor A for performing the interim valuations of the 743 possible unassessed advertising signs identified in the 2006 special exercise. For each sign, Contractor A was required to collect data on the physical attributes and occupation details, and to assess the rateable value with reference

to the rental information obtained. Similarly, the RVD awarded a \$250,000 contract to Contractor B in October 2007, and another \$200,000 contract to Contractor C in August 2008 for performing the interim valuations of the 813 possible unassessed advertising signs identified in the 2007 special exercise. Contractor B was required to work on 320 signs of relatively large size. Contractor C was required to work on the remaining 493 signs. The contracts have been completed.

3.20 Appendix E shows the results of outsourcing of the interim valuations of the advertising signs to the three contractors. It can be seen that 803 signs, or 52% of the total 1,559 signs, were not assessed to rates and government rent. Of the 803 signs, 177 signs were not assessed because their estimated rateable value did not exceed \$3,000. Also, 275 signs were not assessed because their value was small and deemed to be included in the value of the host property. The audit findings on the remaining 351 signs, which were not assessed, are reported in paragraphs 3.21 to 3.23.

Audit observations and recommendations

3.21 *Signs assessed previously.* 79 advertising signs were not assessed to rates and government rent because the RVD subsequently found that they had been assessed previously. The RVD needs to take effective measures to ensure that advertising signs selected for making interim valuations have not been assessed previously.

3.22 *Signs removed or abandoned.* 194 signs were not assessed because the contractors found that the signs had been removed or abandoned. This was because the contractors performed the interim valuation work many months or over a year after the temporary staff identified the signs. The RVD needs to engage contractors promptly to perform the interim valuation work. This will help reduce the risk of revenue loss arising from the removal or abandonment of the identified advertising signs.

3.23 *Vacant signs.* 78 signs were not assessed because the contractors found that they were vacant. According to the RVD, these signs would be re-inspected at a later time. The RVD needs to take regular follow-up action on these signs to ascertain whether any advertisement has been displayed thus requiring them to be assessed.

Audit recommendations

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

- (a) **take effective measures to ensure that advertising signs selected for making interim valuations have not been assessed previously;**
- (b) **perform the interim valuation work promptly so as to reduce the risk of revenue loss arising from the removal or abandonment of the identified advertising signs; and**
- (c) **take regular follow-up action on advertising signs previously found vacant to find out whether any advertisement has been displayed thus requiring them to be assessed.**

Response from the Administration

3.25 The **Commissioner of Rating and Valuation** agrees with the audit recommendations.

PART 4: COLLECTION OF RATES AND GOVERNMENT RENT

4.1 This PART examines the RVD's procedures for collecting rates and government rent.

Provisions of the Rating Ordinance and the Rent Ordinance

4.2 *Payment of rates and government rent.* Rates and government rent due on an interim valuation shall be payable on a date specified in the demand note. Thereafter, rates and government rent shall be payable quarterly in advance. Any rates and government rent not paid on or before the due date specified in the RVD's demand note shall be deemed to be in default.

4.3 *Surcharge.* Where any rates and government rent are in default, the RVD may impose a surcharge of up to 5%. Where any amount remains unpaid on the expiry of six months from the due date, the RVD may impose a further surcharge of up to 10% on the unpaid amount.

4.4 *Recovery proceedings.* Any rates and government rent in default, and any surcharge, shall be recoverable as a debt due to the Government. The RVD may institute recovery proceedings in the Small Claims Tribunal (for arrears not exceeding \$50,000) or the District Court (for arrears exceeding \$50,000). Upon entry of judgement, the defaulter will be liable for the costs of proceedings and interest on the judgement debt from the date of commencement of proceedings to the date of full settlement. If the judgement debt is not settled, the RVD may apply to the District Court for a charging order on any property belonging to the defaulter. The defaulter cannot sell the charged property unless the judgement debt has been satisfied and the charging order has been discharged. The RVD may also apply for an order for sale of the charged property and use the sale proceeds to satisfy the judgement debt.

4.5 *Re-entry or vesting.* Section 14(2) of the Rent Ordinance provides that the Director of Lands may take proceedings to re-enter land if the government rent for the land has been demanded and remains unpaid. Section 36 of the Rent Ordinance also provides that the Government has a right of re-entry of a lot in an applicable lease and a right to vest an undivided share in a lot in The Financial Secretary Incorporated if the lessee, owner or other person liable fails to pay the government rent. The Rating Ordinance does not have similar provisions for recovering unpaid rates.

Procedures for collecting rates and government rent

4.6 *Recovering rates and government rent.* Where rates and government rent are in default, the RVD imposes a 5% surcharge immediately after the due date and a further 10% surcharge six months after. If the rates and government rent remain unsettled, the RVD institutes legal proceedings in the Small Claims Tribunal or the District Court, with the

Department of Justice providing the necessary legal services. Where the amount of outstanding judgement debt exceeds a predetermined amount, the RVD applies to the District Court for a charging order on the defaulter's property. In warranted circumstances, the RVD will consider applying for an order for sale of the charged property or, where government rent is involved, referring the case to the Director of Lands for considering taking re-entry or vesting action.

4.7 **Writing off rates and government rent.** Where all recovery actions have proved fruitless, the outstanding amount is written off. The RVD must make applications for write-offs to the Secretary for Financial Services and the Treasury for cases involving losses exceeding \$500,000 and cases involving fraud or negligence on the part of a public officer. Authorised RVD officers may approve other write-off cases. However, the RVD is required to submit a half-yearly return of such cases to the Secretary for Financial Services and the Treasury stating briefly the recovery actions taken.

Write-offs of rates and government rent

4.8 Table 2 shows the write-offs of rates and government rent from 2004-05 to 2008-09.

Table 2
Write-offs of rates and government rent
(2004-05 to 2008-09)

Year	Number of cases	Amount written off (\$ million)
2004-05	161	1.67
2005-06	69	0.52
2006-07	34	1.46
2007-08	39	1.04
2008-09	120	1.04

Source: RVD records

Remarks: Write-off cases of immaterial amount (e.g. write-offs of odd dollars, balances of less than \$10 in inactive accounts) are not included in this table.

Outstanding rates and government rent

4.9 Table 3 shows an ageing analysis of the outstanding rates and government rent as at 31 March 2009.

Table 3
Ageing analysis of outstanding rates and government rent
(31 March 2009)

Number of years past due date of demand note	Amount outstanding (\$ million)
1 or less	80
Over 1 to 2	16
Over 2 (Note 1)	87
Total	183 (Note 2)

Source: RVD records

Note 1: The RVD has no readily available records showing further analyses of amounts outstanding for over two years.

Note 2: The outstanding amount of \$183 million involved about 54,000 default accounts.

Audit examination of collection cases

4.10 Audit selected 20 collection cases (Cases 11 to 30) for detailed examination to ascertain whether there were areas for improvement in the RVD assessment and collection procedures. They included cases written off in 2007-08 or 2008-09, and cases with rates and/or government rent outstanding as at 31 March 2009. Appendix F shows an analysis of the cases. The audit findings are reported in paragraphs 4.11 to 4.29.

Audit observations and recommendations

Need to make interim valuations promptly

4.11 In Cases 11, 14 and 15, the defaulters were companies. They had owned certain development sites with government rent payable from July 1997. The RVD did not make interim valuations of the sites until December 2001 in Case 11, and January 2002 in Cases 14 and 15. However, the defaulters had sold the sites, or completed the development and sold the property units. In Cases 11 and 14, the defaulters had no other assets against which recovery actions could be taken. In Case 15, the RVD obtained a charging order on a car parking space owned by the defaulter. Following the dissolution of the defaulter in February 2008, the car parking space was deemed to be bona vacantia and vested in the Government (see also paras. 4.18 to 4.20).

4.12 According to the RVD, during 1999 to 2001, the progress of the interim valuation of development sites was affected by a large number of appeals to the government rent assessments, as explained below:

- (a) in November 1999, the issue on the preliminary points of law in assessing development sites to government rent was heard in the Court of Appeal. The Court of Appeal ruled in favour of the developers and decided that the RVD's valuation approach was inconsistent with the Rating Ordinance. Although the RVD had appealed to the Court of Final Appeal, the Department of Justice advised that the Court of Appeal's judgement was good law unless and until it was overturned by the Court of Final Appeal;
- (b) given the Department of Justice's advice, the RVD made an administrative decision to exclude all existing site assessments from the Government Rent Roll from 1 April 2000 and to suspend interim valuations of development sites pending the decision of the Court of Final Appeal; and
- (c) in March 2001, the Court of Final Appeal handed down its judgement in favour of the RVD on all preliminary points of law concerning the assessment of development sites. In the following month, the RVD commenced reassessing some 520 excluded sites for insertion back into the Government Rent Roll and to reactivate the interim valuation of some 380 unassessed sites.

However, as reported in paragraphs 3.12 and 3.13, Audit found cases of delay in making interim valuations of development sites after 2001. Cases 11, 14 and 15 above highlighted the collection risk arising from such delays and the need to make interim valuations promptly. See paragraph 3.14 for the audit recommendations.

Need to obtain charging orders promptly

4.13 In Cases 12 and 19 to 22, the defaulters sold the properties after the RVD had obtained judgement, because the RVD had not obtained charging orders before the sales. Table 4 shows an analysis of these five cases.

Table 4**Sale of properties after RVD had obtained judgement**

Case no.	Judgement date (Note 1) (a)	Property sale date (b)	Time between judgement date and property sale date (c) = (b) – (a) (Month)	Amount written off or outstanding at 31 March 2009 (d) (\$'000)
12	6 July 1999	18 January 2000	6	20
19	4 October 2002	31 January 2007	52	15
20	15 March 2004	3 March 2008	48	15 (Note 2)
21	6 January 2006	9 May 2008	28	11
22	4 August 2000	7 November 2002	27	14

Source: RVD records

Note 1: This was the date of the judgement that resulted in the total amount of the judgement debts reaching the predetermined amount mentioned in paragraph 4.6.

Note 2: In Case 20, the RVD found that the defaulter owned another property and applied for a charging order on it. In July 2009, the defaulter settled the outstanding debt.

4.14 As shown in Table 4, the defaulters in Cases 12 and 19 to 22 sold the properties 6 to 52 months after the RVD had obtained judgement. If charging orders had been promptly obtained on the properties, the defaulters would not have been able to sell them. In Audit's view, the RVD needs to obtain charging orders on defaulters' properties promptly to secure the payment of the judgement debts.

Need to check whether defaulters own other properties

4.15 If the RVD has obtained judgement on the outstanding rates and/or government rent in respect of a property, it may apply to the District Court for a charging order on the property or on any other properties belonging to the defaulter. In Cases 11, 12 and 14 to 22, the defaulters had sold the relevant properties, in respect of which rates and/or government rent had been charged. In all these cases except Cases 16 to 18, the RVD conducted searches of the Land Registry records to check whether the defaulters owned other properties (Note 14). In response to Audit's enquiry, the RVD staff said that they had omitted to conduct the searches for Cases 16 to 18 (Note 15). In Audit's review, the RVD needs to implement control procedures to ensure that in cases where the defaulters have sold the relevant properties, searches are conducted to check whether they own other properties against which recovery actions can be taken.

Need to expedite action to follow up long outstanding cases

4.16 In Cases 23 to 26, the RVD obtained charging orders on the defaulters' properties. Table 5 summarises the progress of recovering the rates and/or government rent as at 31 March 2009.

Note 14: *The RVD found that the defaulters in Cases 15 and 20 owned other properties. In Case 15, the RVD obtained a charging order (see para. 4.11). In Case 20, the defaulter settled the outstanding debt after the RVD had applied for a charging order (see Note 2 to Table 4 in para. 4.13).*

Note 15: *In July 2009, the RVD conducted searches of the Land Registry records and found that the defaulters in Cases 16 to 18 owned no other properties.*

Table 5

Four cases in which RVD obtained charging orders on defaulters' properties

Case no.	Progress of recovering rates and/or government rent as at 31 March 2009	Amount outstanding (\$'000)	Outstanding period (Note) (Year)
23	The defaulter was a company. In September 2007, the RVD instructed the Department of Justice to proceed to apply for an order for sale of the charged property, whose estimated market value was \$2,150,000. No further progress was made.	797	12
24	The defaulter died in December 1993. There was no executor or administrator of the estate. In September 2005, in response to the Department of Justice's enquiry, the RVD stated that it would not apply for an order for sale of the charged property because the defaulter died.	283	20
25	The defaulter was the administrator of the estate of a deceased, who died in June 1992. In December 2008, the Department of Justice issued a warning letter on behalf of the RVD to the administrator stating that if the judgement debt was not paid within 14 days, the charged property would be sold to satisfy the debt. No further progress was made.	291	14
26	The defaulter was the executor of the estate of a deceased, who died in January 1987. In February 2009, the responsible RVD staff suggested referring the case to the Lands Department for vesting action.	37	11

Source: RVD records

Note: The outstanding period refers to the time between the beginning of the period covered by the earliest unpaid demand note and 31 March 2009.

4.17 Audit noted that in Cases 23 to 26, the rates and/or government rent had been long outstanding. In particular, Case 24 had been outstanding for 20 years and the RVD had been entering a caveat in the estate of the deceased for over 9 years (Note 16). In consultation with the Department of Justice, the RVD needs to expedite action to follow up these and other similar long outstanding cases.

Need to expedite action to deal with bona vacantia cases

4.18 In Cases 27 to 29, the defaulters were companies. They had owned the properties in respect of which rates and/or government rent had been charged. Since the defaulters were dissolved in April 1996, December 1991 and September 1995 respectively, the properties should be deemed to be bona vacantia and belong to the Government (Note 17). In October 2005, the RVD referred the cases to the Lands Department for taking appropriate actions. Up to 31 March 2009, the Lands Department had not indicated that it had taken possession of the properties. Accordingly, the RVD had not deleted the properties from the Valuation List and/or Government Rent Roll, and had been issuing rates and/or government rent demand notes quarterly in respect of the properties.

4.19 According to the RVD records, as at 31 March 2009, there were 14 bona vacantia cases (including Cases 27 to 29) which were referred to the Lands Department in October 2005 for taking appropriate actions (Note 18). In August 2009, in response to Audit's enquiry, the Lands Department indicated that it had considered them on a case-by-case basis to see what could be the best follow-up actions, as follows:

- (a) **Cases 27 and 29.** The properties were occupied by unknown parties. Since the Lands Department had not obtained peaceful surrender of the properties, it was considering referring the cases to the Department of Justice to determine if legal proceedings to recover possession should be instituted;

Note 16: *In Case 24, in May 2000, the Department of Justice, on behalf of the RVD, first entered a caveat in the estate of the deceased in the Probate Registry. After entering a caveat, no grant will be sealed in the estate of the deceased without notice to the Department of Justice. As a caveat shall remain in force for six months from the date on which it is entered, the Department of Justice has been entering a further caveat every six months. The last caveat was entered in February 2009.*

Note 17: *Section 292 of the Companies Ordinance (Cap. 32) states that, where a company is dissolved, all property vested in the company immediately before its dissolution shall be deemed to be bona vacantia and shall accordingly belong to the Government, and shall vest and may be dealt with in the same manner as other bona vacantia accruing to the Government.*

Note 18: *Case 15 became a bona vacantia case in February 2008 (see para. 4.11). As at 31 July 2009, the RVD had not referred the case to the Lands Department.*

- (b) **Case 28.** The properties included a roof and portion of a basement, the latter being physically unidentifiable on site. Neither the Incorporated Owners of the building nor the top floor flat owner was interested in acquiring the properties from the Government. Hence, the Lands Department had to hold on to the properties; and
- (c) **Remaining 11 cases.** The Lands Department was also handling the properties having regard to individual circumstances. Many of them were of low value and involved complicated legal issues. The Lands Department had sold one property and was planning to sell another property by tender in late 2009.

4.20 Audit noted that the properties in Cases 27 to 29 and the other 11 bona vacantia cases were vested in the Government many years ago (e.g. since 1996 for Case 27). However, the RVD did not refer the cases to the Lands Department for taking appropriate actions until October 2005. Up to August 2009, the Lands Department had not completed its actions on most of the properties and the rates and/or government rent remained outstanding. In Audit's view, the Lands Department and the RVD need to review Cases 27 to 29 and the other bona vacantia cases, with a view to expediting actions on the properties and the outstanding rates and/or government rent.

Need to seek clarification on the Lands Department's advice

4.21 In Cases 11, 12 and 14 to 22, rates and/or government rent were written off or long outstanding because the defaulters had sold the relevant properties without settling their liabilities for rates and/or government rent. In such change of ownership cases, the RVD's practice was to apportion the rates and/or government rent between the vendor (i.e. ex-owner) and the purchaser (i.e. current owner) and charge them separately. Where an ex-owner did not settle the rates and/or government rent charged to him, the RVD took recovery actions against the ex-owner only.

4.22 In April 2008, the RVD commenced a review of its practice for recovering government rent arrears owed by ex-owners. In May 2009, the RVD sought the Lands Department's advice on the option of recovering government rent arrears owed by ex-owners from current owners. The option would involve issuing letters to current owners to request them to pay up the government rent arrears owed by ex-owners and referring the cases to the Lands Department for re-entry or vesting action if the current owners refuse to settle any arrears exceeding \$10,000. According to the RVD:

- (a) section 6(2) of the Rent Ordinance provides that an applicable lease is deemed to contain a covenant that the lessee is required to pay the government rent. As the covenant runs with the land, the current owner is liable for a past breach of such a covenant committed before he became the lessee (Note 19); and

Note 19: *Since the Rating Ordinance does not have a similar provision, the option cannot cover rates arrears owed by ex-owners.*

- (b) non-payment of the government rent is a breach of a covenant of the lease. The Government is entitled to take re-entry or vesting action.

As at 31 July 2009, the RVD had not yet received the Lands Department's advice (see para. 4.33(b)).

4.23 Audit noted that, in Case 11 (see para. 4.11), the RVD could not recover the government rent in respect of a development site owned by the developer (i.e. ex-owner). In August 2008, the RVD sought the Lands Department's advice as to whether it would consider taking re-entry or vesting action on the land, which was then owned by the individual owners (i.e. current owners) of the property units in the buildings constructed on the land. In October 2008, the Lands Department advised the RVD that:

- (a) it appeared that the individual owners were not the parties concerned with the RVD's action; and
- (b) it was considered not appropriate to take re-entry or vesting action.

As a result, the RVD wrote off the government rent arrears of \$169,000.

4.24 The option under consideration by the RVD appears to be inconsistent with the Lands Department's advice on Case 11. In Audit's view, the RVD needs to clarify with the Lands Department as to the basis of its advice on Case 11 and the implications of that advice on the option.

Need to obtain prompt notifications of letting of government properties

4.25 In Case 13, the Government Property Agency did not notify the RVD of the letting of a property to a company until March 1999, which was 19 months after the commencement of the tenancy in August 1997 and four months before its expiry in July 1999. It transpired that the RVD could not recover the outstanding rates of \$402,000 in respect of the property from the company, which had been wound up subsequently without payment of dividend (Note 20).

Note 20: *In August 2009, the Government Property Agency indicated to Audit that Case 13 was an isolated case. In recent years, it had established a mechanism to notify the RVD of all new tenancies created once the tenancy agreement was executed and stamped. Its action officers were reminded of such requirements vide a worksheet which set out the actions that had to be taken during the tendering exercise. Its professional officers were also required to confirm the issuance of such notification by signing a standard control sheet.*

4.26 For government-let properties, the RVD cannot recover any rates arrears by means of obtaining a charging order. It is therefore of particular importance that the RVD makes interim valuations promptly to enable it to take timely actions to recover any rates arrears by other means. Audit notes that the RVD has implemented improvement measures regarding obtaining information on the letting of government properties. These include regularly reminding six departments (Note 21) to notify the RVD when they let a property and requiring them to submit an up-to-date schedule of let properties periodically. Audit considers that, apart from the six departments, other departments may also have let properties to tenants who are liable for rates. The RVD needs to consider extending the notification requirements to cover all departments.

Need to explore whether rates can be deducted from tenants' deposits

4.27 In Case 30, the Leisure and Cultural Services Department (LCSD) let a light refreshment kiosk to a tenant for the period April 2006 to January 2009 (Note 22). Before the commencement of the tenancy, the tenant placed a deposit of \$24,400 with the LCSD. According to the tenancy agreement:

- (a) the Government shall have the right to deduct from the deposit in order to pay the Government in relation to any losses suffered by the Government as a result of any breach of the agreement by the tenant; and
- (b) upon the expiry or sooner termination of the agreement, the Government will return to the tenant the balance of the deposit when:
 - (i) all of the tenant's obligations under the agreement have been observed and complied with; and
 - (ii) the receipted bills in respect of outstanding payment of all fees and charges including rates and utility charges are provided to the Government.

Note 21: *The six departments are the Government Property Agency, the Leisure and Cultural Services Department, the Food and Environmental Hygiene Department, the Lands Department, the Home Affairs Department and the Education Bureau.*

Note 22: *The operation of the kiosk was subject to a permit granted by the LCSD. For simplicity, the permit agreement is referred to as a tenancy agreement in this report.*

4.28 In October 2008, upon the early termination of the tenancy agreement, the LCSD deducted the outstanding rents of \$19,200 from the tenant's deposit, leaving a balance of \$5,200. In December 2008, in response to the RVD's enquiry, the LCSD stated that it was not appropriate for the LCSD to deduct the overdue amount of rates from the tenant's deposit, as advised by the Department of Justice. As at 30 June 2009, rates of \$4,700 payable by the tenant remained outstanding.

4.29 Audit considers that, for government-let properties, it will facilitate recovery actions if rates arrears could be deducted from the tenants' deposits. In consultation with the Department of Justice, the RVD needs to consider the need to liaise with the LCSD and other departments with let properties to explore whether it is feasible to revise their tenancy agreements in future to allow for such deductions.

Audit recommendations

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

- (a) **obtain charging orders on defaulters' properties promptly to secure the payment of the judgement debts;**
- (b) **implement control procedures to ensure that in cases where the defaulters have sold the properties in respect of which rates and/or government rent were charged, searches are conducted to check whether they own other properties against which recovery actions can be taken;**
- (c) **in consultation with the Department of Justice, expedite action to follow up Cases 23 to 26 and other similar long outstanding cases;**
- (d) **clarify with the Lands Department as to the basis of its advice on Case 11 and the implications of that advice on the option of recovering the government rent arrears owed by ex-owners from current owners;**
- (e) **consider requiring all departments to give prompt notifications of letting of government properties; and**
- (f) **in consultation with the Department of Justice, consider the need to liaise with the LCSD and other departments with let properties to explore whether it is feasible to revise their tenancy agreements in future to allow for deduction of rates arrears from the tenants' deposits.**

4.31 **Audit has recommended that the Director of Lands and the Commissioner of Rating and Valuation should review Cases 27 to 29 and the other bona vacantia cases, with a view to expediting actions on the properties and the outstanding rates and/or government rent.**

Response from the Administration

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

- (a) ***Obtaining charging orders.*** The RVD agrees that charging orders on defaulters' properties should be obtained promptly to secure the payment of judgement debts. The particulars of Cases 12, 19 and 21 were as follows:
 - (i) ***Case 12.*** The action for applying charging order was deferred on the basis that the first judgement debt did not exceed the predetermined amount mentioned in paragraph 4.6. Unfortunately, when the total judgement debt exceeded the predetermined amount, the RVD found that the owner had sold his property;
 - (ii) ***Case 19.*** In cases where the defaulters have approached the RVD for partial payment and/or payment by instalments due to financial difficulty, it is the RVD practice not to apply for a charging order. Case 19 is an example of such cases. Unfortunately, there was still unsettled sum when the property was sold although the RVD had closely monitored the recovery actions; and
 - (iii) ***Case 21.*** The case involved only government rent arrears. For such cases, the RVD would usually refer them to the Lands Department for re-entry or vesting action rather than applying for charging order as the former approach is considered more effective. In Case 21, the owner sold the property before the judgement debts accumulated to the threshold for referring a case to the Lands Department; and
- (b) ***Deduction of rates arrears from tenants' deposits.*** In the RVD's view, in Case 30 the existing tenancy agreement allows the LCSD to deduct fees and charges, including rates, incurred on the tenant's behalf. The RVD plans to demand the outstanding rates from the LCSD, the landlord. After the LCSD has paid the rates, it can then deduct the rates from the deposit held before returning the balance, if any, to the tenant. The LCSD is seeking the Department of Justice's advice on the RVD's proposed course of action. The necessity of amending the tenancy agreement will be considered later.

4.33 The **Director of Lands** has said that:

- (a) ***Bona vacantia cases.*** Of the 14 cases mentioned in paragraph 4.19, the Lands Department has disposed of one property in March 2009, and intends to put one or two properties to sale by tender in late 2009 or 2010, subject to achieving successful repossession without invoking legal actions. For nine other cases (including Cases 27 and 29), the Lands Department cannot gain possession through peaceful means and has referred them to the Department of Justice for its consideration of initiating action for possession. In one other case, the dissolved company is in the process of applying for restoration of the company and therefore no action is due for the time being. The Lands Department is clarifying the details of the property involved in the remaining case (Case 28) with the RVD; and
- (b) ***Re-entry or vesting action.*** The Lands Department's advice on Case 11 was given having regard to the circumstances surrounding this case based on the information provided by the RVD. The Lands Department does not recommend applying the advice on this particular case for general application, without having carefully examined all the relevant factors and the circumstances involved. These include whether the RVD has exhausted all possible means or remedies available before approaching the Lands Department for consideration of taking re-entry or vesting action. Re-entry or vesting action involving taking away the land ownership of the current owner because of rent arrears owed by the ex-owners is a drastic action. The Lands Department doubts if a rent arrear of \$10,000 should be relied on as the sole criterion for taking such drastic action. The Lands Department has explained its advice to the RVD and suggests that the Department of Justice should be consulted.

4.34 The **Government Property Administrator** agrees that the RVD should be notified promptly of new tenancies created so as to enable it to proceed with interim valuations in a timely manner. He has said that:

- (a) ***Notifications of letting of government properties.*** The Government Property Agency will continue to adhere to the existing practice and will at suitable intervals remind its staff of the need to give prompt notifications of new tenancies created to the RVD; and
- (b) ***Deduction of rates arrears from tenants' deposits.*** The Government Property Agency requires the tenant to place a deposit as security for the due payment of the rental, the rates and other outgoings. Upon the expiry of a tenancy, it will check the rates payment status with the RVD and will only refund the deposit to the tenant provided that his obligations under the tenancy agreement have been duly performed. It will cooperate with the RVD in exploring, in consultation with the Department of Justice, the feasibility of revising the tenancy agreements, if necessary, in future to address the rates arrears issue.

4.35 The **Director of Leisure and Cultural Services** has said that, subject to legal advice and policy directive on the deduction of rates arrears from the tenants' deposits among government departments, the LCSD would be pleased to offer assistance to the RVD to devise suitable arrangements.

4.36 The **Director of Administration and Development, Department of Justice** has said that:

- (a) ***Long outstanding cases.*** In general, a charging order provides adequate protection to the interest of the Government. The Department of Justice will proceed with an application for an order for sale of the charged property on instructions and upon consideration of the merits of the individual cases, including the cost-effectiveness of such application. Regarding Cases 23 to 26, the progress of recovery actions is as follows:
 - (i) ***Case 23.*** The Department of Justice is taking actions to apply for an order for sale;
 - (ii) ***Case 24.*** The charging orders will be enforced upon the sale of the property by the defaulter's estate. The Department of Justice will re-register the charging order and renew the caveat entered against the defaulter's estate as required to safeguard the Government's interest;
 - (iii) ***Case 25.*** Subject to the instructions of the RVD, the Department of Justice will take actions to apply for an order for sale in view of the relatively substantial sum involved; and
 - (iv) ***Case 26.*** The Department of Justice will await instructions from the RVD on whether to apply for an order for sale, noting that it may not be cost-effective to do so in view of the relatively small amount involved; and
- (b) ***Deduction of rates arrears from tenants' deposits.*** The Department of Justice will continue to provide legal support to the RVD, the LCSD and other departments.

PART 5: DE-DESIGNATION OF DESIGNATED VILLAGE AREAS

5.1 This PART examines the progress of the RVD's de-designation of designated village areas (DVAs).

Background

5.2 According to section 36(1)(c) of the Rating Ordinance, any village house within such areas of the New Territories as designated by the Chief Executive (referred to as the DVAs) and complying with the prescribed size, height and type criteria is exempted from assessment to rates. The first exercise for the designation of DVAs was completed in 1976. A few hundred DVAs were added in subsequent years.

5.3 With the passage of time, the redevelopment of old village houses and the urbanisation of much of the New Territories, the residents within many of the DVAs changed. Consequently, by 1980s, it was quite common to find non-indigenous villagers (Note 23) enjoying exemption benefits not intended for them.

5.4 In 1992, the Executive Council endorsed the policy decision that designation of DVAs should be restricted to village areas which retain the essential character of New Territories villages. In general terms, the Government policy in regard to DVAs is that they should be kept under constant review so that the village houses occupied by non-indigenous villagers would be liable for rates.

De-designation reviews

5.5 The RVD has established an on-going programme to review all DVAs and to cancel the designation or amend the boundaries of those DVAs where it is evident that many non-indigenous villagers are enjoying exemption benefits. During 1993 to 1998, the RVD completed four de-designation reviews, resulting in the de-designation of 225 DVAs. In 2005, the RVD completed another review, resulting in the de-designation of 11 DVAs and the re-designation (due to changes of boundaries) of 10 DVAs.

Note 23: *An indigenous villager is a person descended through the male line from a person who was, in 1898, a resident of an established village in the New Territories.*

5.6 In January 2008, the RVD commenced a fresh de-designation review of the remaining 106 DVAs. The review was originally targeted for completion by December 2009. In July 2009, the RVD changed the target completion date to February 2010.

Latest position of designated village areas

5.7 As at 30 June 2009, there were 106 DVAs with 15,925 village houses. Table 6 shows an analysis of these DVAs by districts.

Table 6

**Analysis of the 106 DVAs by districts
(30 June 2009)**

District	Number of DVAs	Number of village houses
Yuen Long	48	13,943
North	14	796
Tai Po	14	483
Lantau	10	271
Sai Kung	14	248
Ma Wan	2	103
Shatin	4	81
Total	106	15,925

Source: RVD records

Audit observations and recommendations

5.8 The Government policy in regard to DVAs is that they should be kept under constant review so that the village houses occupied by non-indigenous villagers would be liable for rates. De-designation of DVAs is an effective way of implementing the policy. This is because, following a de-designation of a DVA, only village houses occupied by indigenous villagers or their immediate family members may be exempted from rates on a

case-by-case basis upon application. Although the RVD had de-designated over 200 DVAs since the Executive Council endorsed the policy in 1992, some 17 years later, rates exemption en bloc is still being granted to village houses within the remaining 106 DVAs. Audit noted that the RVD had deferred the target date for completing the current de-designation review to February 2010 (see para. 5.6). In Audit's view, the RVD needs to closely monitor the progress of the review to ensure that the revised target completion date is met.

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

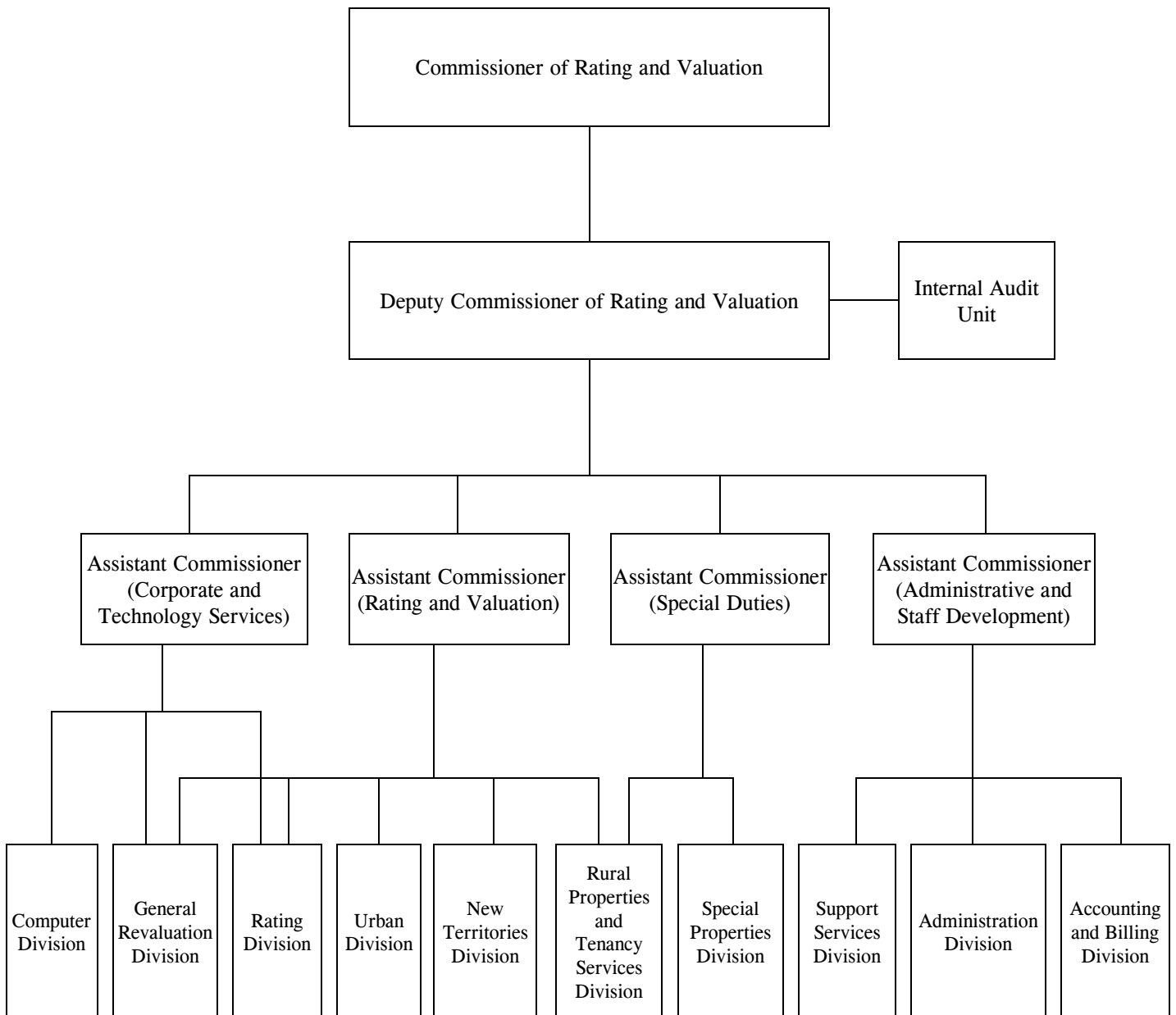
- (a) **closely monitor the progress of the current de-designation review of the remaining 106 DVAs to ensure that the revised target completion date of February 2010 is met; and**
- (b) **keep under constant review any DVAs that are not de-designated in the current exercise for taking de-designation action once rates exemption en bloc is found unjustified.**

Response from the Administration

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

- (a) the RVD has an on-going programme to review all DVAs. The last de-designation took effect on 30 December 2005. The RVD then carried out the referencing and valuation work to assess the affected houses; and
- (b) following the completion of the assessment work in 2006, the RVD started the planning work for the new de-designation phase and commenced the actual site inspection of the DVAs in 2008 to ascertain if the areas no longer retain the essential character of New Territories villages. The RVD slightly adjusts the completion date by two months from December 2009 to February 2010 to allow adequate time to examine the inspection results which cover the majority of the 106 DVAs.

**Rating and Valuation Department
Organisation chart
(31 March 2009)**



Source: RVD records

Appendix B
(paras. 2.6, 2.8
and 2.9 refer)

Mean ratios of rateable value to rent for the past five General Revaluations

Property group	Mean RV/Rent ratio				
	2005-06 GR	2006-07 GR	2007-08 GR	2008-09 GR	2009-10 GR
<i>Domestic</i>					
1. Small house	0.904	0.890	0.864	0.785	0.790
2. Tenement	0.924	0.906	0.897	0.844	0.770
3. Small flat	0.929	0.900	0.912	0.884	0.820
4. Domestic unit in village type house	0.934	0.922	0.905	0.876	0.800
5. Large flat	0.921	0.893	0.916	0.889	0.810
6. House	0.910	0.892	0.925	0.899	0.810
<i>Non-domestic</i>					
7. Office — Grade A and B	0.959	0.926	0.919	0.939	0.800
8. Office — Grade C and D	0.946	0.937	0.923	0.916	0.790
9. Flatted factory — Grade A and B	0.952	0.915	0.918	0.915	0.850
10. Flatted factory — Grade C, D and E	0.962	0.914	0.874	0.876	0.790
11. Industrial/Office building	0.953	0.934	0.929	0.948	0.880
12. Ground floor shop	0.910	0.899	0.930	0.913	0.870
13. Ground floor shop in village type house	0.966	0.985	0.979	0.967	0.870
14. Arcade shop	0.918	0.918	0.950	0.928	0.880
15. Multiple commercial/Upper floor commercial	0.975	0.942	0.940	0.889	0.850
16. Basement shop/Upper floor shop	0.942	0.939	0.910	0.881	0.870
<i>Parking</i>					
17. Parking (Domestic)	1.007	0.997	0.993	0.983	0.940
18. Parking (Non-domestic)	0.970	0.954	0.951	1.001	0.980
Overall	0.937	0.913	0.921	0.897	0.830

Legend: The mean RV/Rent ratio was below the acceptable range of 0.9 to 1.1 specified by the IAAO valuation accuracy standards.

Source: RVD records

Appendix C
(para. 2.18 refers)

Rental evidence ratios for the past five General Revaluations

Property group	Rental evidence ratio				
	2005-06 GR	2006-07 GR	2007-08 GR	2008-09 GR	2009-10 GR
<i>Domestic</i>					
1. Small house	181	154	145	127	148
2. Tenement	37	33	34	30	31
3. Small flat	60	53	48	44	45
4. Domestic unit in village type house	39	34	33	32	33
5. Large flat	23	22	19	20	20
6. House	23	22	20	22	23
<i>Non-domestic</i>					
7. Office — Grade A and B	12	10	13	10	11
8. Office — Grade C and D	13	11	13	11	12
9. Flatted factory — Grade A and B	18	16	16	15	16
10. Flatted factory — Grade C, D and E	24	20	18	17	19
11. Industrial/Office building	12	10	13	11	11
12. Ground floor shop	11	10	10	9	11
13. Ground floor shop in village type house	15	14	14	16	14
14. Arcade shop	10	10	11	11	12
15. Multiple commercial/Upper floor commercial	22	19	19	19	20
16. Basement shop/Upper floor shop	15	15	12	17	16
<i>Parking</i>					
17. Parking (Domestic)	20	18	17	15	16
18. Parking (Non-domestic)	9	8	8	8	9
Overall	32	28	27	25	27

Legend: The rental evidence ratio for the 2009-10 GR was worse than that for the 2008-09 GR.

Source: RVD records

Appendix D
(para. 3.11 refers)

Ten development site cases examined by Audit

Case no.	Commencement date of land lease (a)	Date land grant document forwarded to RVD (b)	Date of notice of interim valuation (c)	Last assessed rateable value (d) (\$ million)	Time taken to make interim valuation (e) = (c) – (b) (Month)
1	8 May 2007	7 June 2007	13 August 2007	96	2
2	27 September 2005	9 November 2005	16 August 2006	63	9
3	15 October 2007	22 November 2007	21 October 2008	89	11
4	26 April 2006	26 May 2006	21 October 2008	20	29
5	14 April 2005	23 May 2005	22 May 2008	9	36
6	4 December 2002	21 January 2003	13 June 2006	67	41
7	16 May 2002	7 November 2002	23 March 2009	59	77
8	6 October 2005	21 November 2005	Not yet issued	Not applicable	Over 43 (Note)
9	9 July 2003	11 August 2003	Not yet issued	Not applicable	Over 70 (Note)
10	24 September 1999	15 December 1999	Not yet issued	Not applicable	Over 114 (Note)

Source: RVD records

Note: In Cases 8 to 10, as at 30 June 2009, the RVD had not made interim valuations of the development sites, after a lapse of 43 to 114 months since the Lands Department forwarded the land grant document to the RVD.

Appendix E
(para. 3.20 refers)

Results of outsourcing of interim valuations of advertising signs

Result	Number of advertising signs			
	Contractor A	Contractor B	Contractor C	Total
<i>Assessment made</i>				
Sign separately assessed	140 (19%)	249 (78%)	275 (55%)	664 (42%)
Value of sign added to the value of the host property	81 (11%)	1 (0%)	10 (2%)	92 (6%)
Sub-total	221 (30%)	250 (78%)	285 (57%)	756 (48%)
<i>No assessment made</i>				
Value of sign did not exceed \$3,000	80 (11%)	3 (1%)	94 (19%)	177 (11%)
Value of sign deemed to be included in the value of the host property	234 (31%)	5 (2%)	36 (7%)	275 (18%)
Sign assessed previously	77 (10%)	– (0%)	2 (1%)	79 (5%)
Sign removed or abandoned	110 (15%)	46 (14%)	38 (8%)	194 (13%)
Sign was vacant	21 (3%)	16 (5%)	41 (8%)	78 (5%)
Sub-total	522 (70%)	70 (22%)	211 (43%)	803 (52%)
Total	743 (100%)	320 (100%)	496 (100%) (Note)	1,559 (100%)

Source: RVD records

Note: In addition to the 493 advertising signs specified in the contract, Contractor C worked on 3 more advertising signs.

20 collection cases examined by Audit

Case no.	Status of properties in respect of which rates and/or government rent had been charged	Amount written off or outstanding (\$'000)
<i>Cases written off in 2007-08 or 2008-09</i>		
11	The defaulter had sold the property before the RVD made interim valuation.	169
12	The defaulter sold the property after the RVD had obtained judgement.	20
13	The Government owned the property let to the defaulter.	402
<i>Cases with rates and/or government rent outstanding as at 31 March 2009 (Note)</i>		
14 and 15	The defaulters had sold the properties before the RVD made interim valuation.	313
16 to 18	The defaulters had sold the properties before the RVD obtained judgement.	31
19 to 22	The defaulters sold the properties after the RVD had obtained judgement.	55
23 to 26	The RVD obtained charging orders on the defaulters' properties.	1,408
27 to 29	The defaulters were dissolved and the properties were vested in the Government.	353
30	The Government owned the property let to the defaulter.	5
	Total	2,756

Source: RVD records

Note: As at 31 March 2009, counting from the beginning of the period covered by the earliest unpaid demand note, rates and/or government rent had been outstanding for 7 to 24 years in Cases 14 to 29, and 3 years in Case 30.

Acronyms and abbreviations

Audit	Audit Commission
DVA	Designated village area
GR	General Revaluation
IAAO	International Association of Assessing Officers
IAU	Internal Audit Unit
IRD	Inland Revenue Department
LCSD	Leisure and Cultural Services Department
Rent Ordinance	Government Rent (Assessment and Collection) Ordinance
RVD	Rating and Valuation Department
RV/Rent ratio	Ratio of rateable value to rent