Report No. 53 of the Director of Audit — Chapter 2

ASSESSMENT AND COLLECTION OF RATES AND GOVERNMENT RENT

Summary

1. Properties in Hong Kong are chargeable to rates at 5% of the rateable value in accordance with the Rating Ordinance (Cap. 116). Government rent is payable for applicable land leases at 3% of the rateable value in accordance with the Government Rent (Assessment and Collection) Ordinance (Cap. 515). The Rating and Valuation Department (RVD) is responsible for the assessment and collection of rates and government rent. In 2008-09, the rates and government rent collected were $7.18 billion and $5.94 billion respectively. The Audit Commission (Audit) has recently conducted a review of the RVD's assessment and collection of rates and government rent.

General Revaluations

2. The RVD's General Revaluation (GR) Division conducts annually GRs of all properties. After each GR, the RVD's Internal Audit Unit (IAU) conducts a post-GR statistical audit to assess the valuation accuracy by analysing the mean ratio of rateable value to rent (RV/Rent ratio). The IAU also reviews the adequacy of rental information obtained by analysing the rental evidence ratios (i.e. number of properties without rental information to number of properties with rental information).

3. ***Need to ensure valuation accuracy standards are met.*** The overall mean RV/Rent ratio for the 2009-10 GR was below the acceptable range specified by the International Association of Assessing Officers valuation accuracy standards. Analyses at property group level indicate that the valuation levels were low for 16 of the 18 property groups. *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; and (b) take improvement measures to ensure that the valuation accuracy standards are met in future GRs.*

4. ***Need to follow up IAU findings effectively.*** 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. *Audit has recommended that the Commissioner of Rating and Valuation should 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.*

5. ***More timely report needed.*** The IAU issued its report on the 2008-09 GR to the GR Division in October 2008. By that time, the GR Division could not correct any major valuation inaccuracies identified, because the GR had already been completed in March 2008. *Audit has recommended that the Commissioner of Rating and Valuation should 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.*

6. ***Need to improve rental evidence ratios.*** The overall rental evidence ratio and the rental evidence ratios for 14 of the 18 property groups deteriorated in the 2009-10 GR as compared to the 2008-09 GR. *Audit has recommended that the Commissioner of Rating and Valuation should take further actions to improve the ratios.*

Interim valuations

7. The RVD may at any time make an interim valuation of a property liable for assessment to rates and/or government rent and not already assessed. This applies mainly to newly constructed properties and newly granted land leases.

8. ***Interim valuations of rural properties.*** As at 31 March 2009, there was a backlog of 22,000 unassessed rural lots. *In view of the revenue implications, Audit has recommended that the Commissioner of Rating and Valuation should take additional measures to complete the interim valuations of the unassessed rural properties as soon as possible.*

9. ***Interim valuations of development sites.*** Audit examination of ten cases of interim valuation of development site revealed that in four cases, the RVD took 29 to 77 months to complete the interim valuations. In three cases, as at 30 June 2009, the RVD had not completed the interim valuations, although 43 to 114 months had passed since the land grant document was received. *Audit has recommended that the Commissioner of Rating and Valuation should: (a) take measures to ensure that interim valuations of development sites are promptly made; and (b) consider setting performance targets for making interim valuations of development sites.*

Collection of rates and government rent

10. ***Need to obtain charging orders promptly.*** Audit examination of 20 collection cases revealed that in five cases, the defaulters 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. *Audit has recommended that the Commissioner of Rating and Valuation should obtain charging orders on defaulters' properties promptly to secure the payment of the judgement debts.*

11. ***Need to check whether defaulters own other properties.*** In 11 cases, the defaulters had sold the properties in respect of which rates and/or government rent had been charged. In three of these 11 cases, the RVD omitted to conduct searches of the Land Registry records to check whether the defaulters owned other properties. *Audit has recommended that the Commissioner of Rating and Valuation should implement control procedures to ensure that searches are conducted to check whether defaulters own other properties against which recovery actions can be taken.*

12. ***Need to expedite action to follow up long outstanding cases.*** In four cases, the RVD obtained charging orders on the defaulters' properties. In these cases, the rates and/or government rent had been long outstanding. In particular, one case had been outstanding for 20 years. *Audit has recommended that the Commissioner of Rating and Valuation should, in consultation with the Department of Justice, expedite action to follow up these four cases and other similar long outstanding cases.*

13. ***Need to expedite action to deal with bona vacantia cases.*** In three cases, the defaulting companies were dissolved and their properties were vested in the Government many years ago (e.g. since 1996 for one case). However, the RVD did not refer these cases to the Lands Department for taking appropriate actions until October 2005. Up to August 2009, the Lands Department had not completed taking possession of the properties and the rates and/or government rent remained outstanding. *Audit has recommended that the Director of Lands and the Commissioner of Rating and Valuation should review the bona vacantia cases, with a view to expediting actions on the properties and the outstanding rates and/or government rent.*

14. ***Need to explore whether rates can be deducted from tenants' deposits.*** In one case, rates were overdue in respect of a refreshment kiosk let by the Leisure and Cultural Services Department (LCSD). 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. *Audit has recommended that the Commissioner of Rating and Valuation should, 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.*

De-designation of designated village areas

15. Village houses within designated village areas (DVAs) are exempted from assessment to rates. In 1992, the Executive Council endorsed the Government policy that DVAs 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. However, rates exemption en bloc is still being granted to village houses within the remaining 106 DVAs. In January 2008, the RVD commenced a fresh de-designation review, originally targeted for completion by December 2009. The target completion date was later revised to February 2010. *Audit has recommended that the Commissioner of Rating and Valuation should: (a) closely monitor the progress of the current de-designation review; 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

16. The Administration accepts the audit recommendations.

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