

Your ref. : CB(4)/PAC/R61
Our Ref. : L/M in HD 3-8/EM3/4-35/1

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Date : 12 December 2013

Clerk
Public Accounts Committee
Legislative Council
Legislative Council Complex
1 Legislative Council Road
Central
HONG KONG
(Attn.: Ms Mary SO)

Dear Mary,

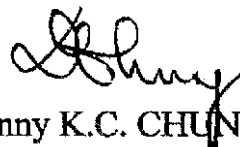
Public Accounts Committee

Consideration of Chapter 3 of the Director of Audit's Report No. 61

Allocation and utilization of public rental housing flats

With reference to your letter dated 4 December 2013 addressed to Secretary for Transport and Housing on the subject issue, I set out the Administration's bilingual response at the **Annex** for your reference, please.

Yours sincerely,


(Danny K.C. CHUNG)

for Secretary for Transport and Housing

Encl.

c.c Secretary for Transport and Housing
Secretary for Financial Services and the Treasury
Director of Audit

Allocation of public rental housing (“PRH”) flats

- (a) total cost of a PRH flat including the costs for the construction, repair and maintenance, staff cost, etc;***

The average one-off construction cost for a PRH flat (not including the land cost) is about \$700,000. For the management of rental flats after in-take, the average operating cost, including staff cost, maintenance and improvements, Government rent and rates and other operating costs, for 2013/14 is about \$16,000 per PRH flat per annum.

- (b) why PRH applicants are not required to submit supporting documents for investments and deposits at the date of application for preliminary vetting;***

To expedite the pre-registration vetting to allow applicants to be registered on the Waiting List (WL) within a pledged time of three months and considering the fact that the value of investment and bank deposits will change over time, at present, we do not require PRH applicants to submit supporting documents on investments and bank deposits at the time of application. Instead, we rely on an honour system and request the applicant to declare their asset amount at the time of application and for them to notify us of any changes in the information after registration. The applicant is requested to submit all supporting documents at the detailed vetting stage, which is closer to the time of flat allocation, to determine his eligibility for PRH. To maintain the integrity of the system, the Public Housing Resources Management Sub-section (PHRM) of the Housing Department (HD) will conduct detailed investigations through random selection of the WL applicants both at the initial vetting stage and at the detailed vetting stage. The current system strikes an appropriate balance between asking the applicant to submit too many supporting documents at the application stage hence delaying the application process on the one hand, and guarding against the false submission of information on the other.

We will keep in view the possibility to require the submission of documentation relating to investments and bank deposits at the application stage.

- (c) timetable for publicizing on the Hong Kong Housing Authority ("HA")'s website, PRH pamphlets, brochures and application forms the definition and computation method of average waiting time ("AWT") for family applicants, single elderly applicants as well as non-elderly one-person applicants placed under the Quota and Points System ("QPS");*

We will incorporate the ‘definition and computation method of average waiting time’ for applicants, together with other information recommended by Audit to include for applicants’ reference into the brochure on ‘Waiting List for Public Rental Housing - Information for Applicants’ and into the application form. As we target to complete the editing and printing of the documents by April 2014, our plan is to publicize all such information on the HA/HD’s website at the same time when the new brochure and the new application form are available for use in April 2014.

- (d) whether information on the average of waiting times from the confirmed receipt of the applicant's application to the registration date on the Waiting List ("WL"), from the first offer to the second offer, and from the second offer to the third offer as well as between acceptance of offer and commencement of tenancy for different types of PRH applicants would be publicized on the HA's website; and if so, the timetable;*

The waiting time starts when it is established that the applicant is eligible for PRH. The receipt of an application does not necessarily mean that the applicant concerned fulfills the eligibility criteria and can be registered on the WL. The application must be vetted to ensure that the applicant is eligible. Sometimes, the applicant needs to submit

further documents in support of the application. Hence, the waiting time starts when the HD has vetted the application and considered the applicant eligible for PRH.

While eligible applicants are given three flat offers, the applicants are provided with a housing opportunity at the first offer. In other words, an applicant will be rehoused if he accepts the first offer. It is a matter of personal decision if the applicant declines the first offer to wait for subsequent offers. Hence, the waiting time will only be counted up to the first offer. The decision as to whether or not to accept the first, second or third offer rests entirely with the applicant and is NOT under the control of the HA. It is therefore not appropriate for the HA to publish information regarding aspects of waiting time over which it has no control.

In any case, the past trend of time between offers does not reflect the situation in the future since it depends on the supply and demand circumstances at that particular time. Therefore, publishing past figures on the waiting time, say from the first offer to the second offer or from the second offer to the third offer as suggested may actually be misleading and would not help applicants in making informed decisions.

Nonetheless, we will consider making available additional statistics of WL applicants when the HA conducts the next special analysis of the housing situation of the WL applicants in 2014.

(e) information on the age and occupation of non-elderly one-person applicants over the years;

Based on HA's administrative records, the number of non-elderly one-person applicants under the Quota and Points System (QPS) by age over the past five years are tabulated below-

Age	Non-elderly one-person applicants under the QPS (as at end-March of each year)				
	2009	2010	2011	2012	2013
Below 30	16 400	21 000	29 100	45 600	60 300
30-39	10 600	12 600	14 700	18 400	22 300
40-49	9 700	10 800	11 700	14 100	17 200
50 or above	6 000	6 900	7 900	9 700	11 800
Total	42 700	51 300	63 400	87 800	111 500

Note: Figures may not add up to total due to rounding.

We do not have information in our administrative records about the occupation of non-elderly one-person applicants. For reference, HD conducts the Survey on WL Applicants for PRH each year to collect updated information of WL applicants, which includes the employment/activity status of non-elderly one-person applicants at the time of registration. According to the findings of the surveys, the employment/activity status of non-elderly one-person applicants at the time of registration are tabulated below.

Activity status at registration	Non-elderly one-person applicants		
	WL survey 2010	WL survey 2011	WL survey 2012
Employee / Employer / Self-employed	72%	62%	67%
Unemployed	8%	12%	9%
Student	18%	23%	23%
Others (Homemaker / Housewife / Retiree / Awaiting for employment)	2%	3%	2%
Total	100%	100%	100%

Note: (1) Figures may not add up to total due to rounding.
(2) Activity status at registration for the non-elderly one-person applicants is only available since the 2010 Survey.

- (f) reasons for the 7% of general applicants on the WL (as at 31 March 2013) having waited for 5 years or more for the allocation of PRH referred to in paragraph 2.24 of the Audit Report, and measures that had been/would be taken to address the issues identified;***

In view of the increasing number of PRH applicants and the public concern over the waiting time of WL applicants, HA has been conducting a special analysis of the housing situation of WL applicants every year since 2011. The relevant work includes manually going through individual file records in detail and verifying the information in the file records in order to examine the distribution of waiting time and ascertain the reasons for the long waiting time of individual cases.

Our analysis of the housing situation of the general applicants in the past three years shows that applicants with longer waiting times are in general those opting for flats in the Urban or the Extended Urban Districts. The Urban and the Extended Urban Districts are more popular, and thus applicants opting for flats in these two Districts are more likely to have longer waiting time than in other Districts. Households on the WL with bigger families also tend to have longer waiting time.

As at end-June 2013, there were a total of 2 100 cases on the WL with a waiting time of five years or above and without any flat offer. HA has carried out a special exercise to study those 2 100 cases. Results show that many of the cases involve special circumstances of various kinds, including change of household particulars (33%); refusal to accept housing offer(s) with reasons (13%), as well as other circumstances such as cancellation periods, location preference on social/medical grounds and applications for Green Form Certificate for purchasing Home Ownership Scheme (HOS) units (8%).

There will be a steady supply of newly completed flats in the Urban and Extended Urban Districts in the next few years. Also, among the new production from 2013-14 to 2016-17, about 19% would be one/two-person units, 25% would be two/three-person units, 39% would

be one-bedroom units (for three to four persons) and 16% would be two-bedroom units (for four persons or above). The new supply should help meet the demand for PRH in the Urban and Extended Urban Districts and for three to four person households.

Apart from new PRH production, HA will also strive to address the demand through recovery of PRH flats. Based on HA's experience, there is a net gain of an average of about 7 000 flats recovered from surrender of flats by sitting tenants as well as enforcement actions against abuse of PRH resources, which could be made available for allocation to WL applicants every year.

To rationalize the use of public housing resources, HA has recently reviewed the under-occupation (UO) policy and endorsed a series of revised measures which took effect from 1 October 2013. According to HA's experience, units recovered from UO cases were mostly one-bedroom units suitable for re-allocation to three to four-person households. This latest measure should help increase the supply of PRH flats, especially for households of three to four persons.

HA will also strengthen action in tackling abuse of PRH resources through carrying out rigorous investigations into occupancy-related cases randomly selected from PRH tenancies and suspected abuse cases referred by frontline management and the public. In 2012/13, HD proactively investigated some 8 700 cases, and some 490 PRH flats were recovered on grounds of tenancy abuse. Furthermore, to detect suspected non-occupation cases, HD completed an 18-month "Taking Water Meter Readings Operation" in all PRH flats in July 2012, and in view of its effectiveness in recovering PRH flats, HD will launch similar operations again in the future.

- (g) whether consideration would be given to making "3 offers in one go" to an applicant in the allocation of PRH flats with a view to shortening the AWT; if not, why not;***

The '3 offers in one go' approach was introduced in April 1999 but this was not welcomed by WL Applicants. The HA thus reverted to the single-offer allocation methodology in April 2001. Our experience indicates that the '3 offers in one go' method will largely reduce the availability of housing resources for allocation and prolong the processing time since three flats will have to be frozen simultaneously for the applicant to make his decision, instead of allowing three applicants to consider their respective offers at the same time. Besides, when housing resources are in short supply, it is possible that all three offers being generated through random computer batching may fall within the same sub-district, which may not meet the special circumstances of individual applicant. On balance, we consider it more appropriate to maintain the current approach of making three separate offers to an applicant. The fact is that if the applicant takes up the first offer, he will be rehoused at that point of time. This method offers better options for applicants and allows for more efficient deployment of available units.

(h) breakdown by reasons of PRH applications put on hold or frozen due to failure to fulfil residence requirement, imprisonment of applicants, or pending arrival of applicants' family member(s) for family reunion;

As at end-June 2013, among the 118 700 general applications on the WL, 5 590 were frozen cases pending fulfillment of residence requirement, 60 were frozen cases owing to imprisonment of applicants, and 130 cases were frozen as requested by the applicants, e.g. pending arrival of applicants' family member(s) for family reunion or provision of divorce document.

(i) reasons for the increased average case investigation time by the Public Housing Resources Management Sub-section ("PHRM") for the period 2008-2009 to 2012-2013 (up to July 2013);

Under the existing mechanism, the staff of the Applications Sub-Section

of HD will interview the applicants and check their household income and assets with supporting documents provided by them at the initial stage. PHRM is required to complete the income and assets investigation of randomly selected PRH applications in around three months. However, for uncooperative applicants who do not follow the schedule date to attend the interview or do not produce supporting documents such as the employment certificates, the investigation time would be extended. In addition, PHRM has redeployed their existing manpower resources to focus on tackling tenancy abuse in the past two years.

- (j) internal guidelines issued to deal with the unduly long time taken by PHRM for the random checking of applicants' income and assets in the past few years referred to in paragraph 2.74 of the Director of Audit's Report ("Audit Report");***

In view of the Audit findings, we have strengthened our guidelines and reminded investigators to follow the timeframe established in checking the income and assets of PRH applications. To tighten monitoring and supervision, investigators are required to report to their supervisors for cases that cannot be completed within the prescribed timeframe (i.e. 3 months) whereas supervisors are required to review the investigation progress regularly to ensure timely completion of all investigations.

- (k) whether consideration would be given to reinstating the revalidation check system to screen out ineligible PRH applicants on a regular basis; and if so, the timetable;***

In light of the recommendation of the Long Term Housing Strategy (LTHS) Steering Committee and the Director of Audit, and taking into account resource constraint, our priority will be to map out a mechanism to conduct regular revalidation check on the QPS applicants to screen out applications which are no longer eligible. We will put the relevant proposals to HA for consideration in early 2014.

(l) timetable for implementing the audit recommendations referred to in paragraph 2.79 of the Audit Report;

For (a), we will provide more guidance to the applicants by revising the application form, the brochure on ‘Waiting List for Public Rental Housing - Information for Applicants’ and the video clip to advise applicants where to obtain the declaration forms and the proper use of the forms. They will be ready in April 2014.

For (b), for resubmitted applications, we have already included in our reply letter to the applicants the list of outstanding information which he needs to supplement, together with the applicant’s submission for the applicant to follow up.

For items (c) to (e), the names of the deceased persons on WL have been deleted. We have already put in place measures to conduct random checking of outstanding deceased person records on a periodic basis. In addition, we have also adopted a risk-based approach in selecting all long outstanding cases of deceased persons’ record for checking.

For items (f) & (g), the investigation was completed in September 2013 for the reasons for unduly long time taken by PHRM for the random checking of income and assets. Relevant guidelines have been revised in August 2013 to expedite PHRM’s efforts to conduct the checking.

Maximising the rational utilisation of PRH flats

(m) breakdown by reasons of reservation of unlettable flats withheld from allocation referred to in Table 16 of the Audit Report;

These 4 370 unlettable flats include :

- (1) 1 867 flats which are Housing for Senior Citizen Type 1 (HS1)

units; 807 flats which are Converted 1-person (C1P) units. Pending departure of sharing occupants of these flats, they will be recovered and converted to normal rental flats;

- (2) 135 flats are occupied as quarters by warden and Estate Assistants grade staff;
- (3) 689 flats cannot be re-let because some of them are awaiting demolition (those affected by Pak Tin Estate Clearance) and some of them are in Tin Lee House, Lung Tin Estate in Tai O pending conversion to Home Ownership Scheme (HOS) flats for sale;
- (4) 252 flats are reserved by the Urban Renewal Authority for rehousing residents affected by their redevelopment projects; and
- (5) 620 flats are reserved by estates for management or operational usages such as structural repairs; conversion works; sample flats; rewiring works ; temporary office; flats with tenancy terminated pending appeal hearing from applicants, etc.

Reservation of these flats is regularly reviewed by the Regional Chief Managers (RCMs). In light of Audit findings, we have shortened the review interval from bi-monthly basis to 1.5 months basis.

(n) ageing analysis of "under offer" flats referred to in Table 16 of the Audit Report;

As mentioned in Part 3, paragraph 3.6 of the Audit Report, the majority of these “under offer” flats have now been let out. As a result, their last tenancy termination dates can no longer be retrieved from the computer system and an ageing analysis of these flats cannot be performed.

(o) any improvement measures that had been/would be put in place to tackle the issue of those unpopular flats with adverse "Environmental

Indicator'' referred to in paragraph 3.9 of the Audit Report;

Flats which failed to let out for more than nine months; flats with high refusal rates; Housing for Senior Citizen Type II units; Converted Interim Housing units; or flats with adverse 'Environmental Indicator' will be pooled under the Express Flat Allocation Scheme (EFAS). The following measures have already been put in place to help boost the acceptance rates of these flats-

- 1) For flats which fail to be let out for more than 12 months, tenants taking up such flats are entitled to half rent reduction for 8 to 12 months upon acceptance of the offer;
- 2) There are four rounds of flats pooling conducted every year (i.e. two rounds for family flats and two rounds for 1-person flats). For flats which are selected in the first round flat selection of an EFAS exercise but subsequently rejected by applicants, they will be pooled for the second round flat selection under the same exercise; and
- 3) For flats which cannot be let out despite repeated attempts, we will explore alternative usage. Example includes the conversion of rental flats at Tin Lee House, Lung Tin Estate into HOS flats for sale.

(p) an account of the progress made in the letting of those flats pooled for the Express Flat Allocation Scheme ("EFAS") in 2013 and the number of EFAS flats taken up each year by family applicants, single elderly applicants and applicants placed under QPS respectively from 2010 to 2012;

The current phase of EFAS was launched in July 2013. The first round flat selection for family applicants was completed on 28 November 2013. 991 households selected their flats, with 500 accepting our offer as at 30 November 2013. First round flat selection

for 1-person applicants commenced on 5 December 2013.

Regarding the number of flats taken up by different types of applicants from 2010 to 2012, the analysis is as follows :

No. of Flats Taken up by Various Types of Applicants through EFAS				
Year (Phase no.)	Family applicants	Elderly 1-person applicant	Non-Elderly 1-person applicant	Total
2010 (Ph. 15)	996	171	702	1,869
2011 (Ph. 16)	898	489	383	1,770
2012 (Ph. 17)	1,237	664	188	2,089
Total	3,131	1,324	1,273	5,728

(q) why 470 (53%) out of 4 137 vacant flats available for letting referred to in paragraph 3.10 of the Audit Report had not been included in previous EFAS exercises;

The reasons why these 470 flats were not included in previous EFAS exercises are summarized in the following table :

No of Flats	Reasons for not included under EFAS
203	These vacant but not let out flats were not classified as 'less popular flats' because they have been reserved under various rehousing categories such as government clearance projects, estate clearances, etc.

150	These flats were either under offer at the time of flat pooling with offer rejected after finalization of the flat list ; or failed to let out for not more than 9 months at the time of flat pooling. Hence, they did not meet the flat pooling criteria.
116	These flats were reserved by estates or Lettings Unit for various types of transfer use.
1	This flat is a former C1P flat and was only available for letting on 19.3.2013.

(r) why 46 out of 4 137 vacant flats available for letting referred to in Table 17 of the Audit Report had remained vacant for 10 years or more, and measures that had been/would be taken to expedite the letting of these 46 vacant flats;

These 46 flats comprises:

- 1) 42 flats in Lung Tin Estate, Tai O. The HA has already endorsed to convert the rental units in Tin Lee House of this estate to HOS flats for sale;
- 2) one C1P flat in Tsui Ping (North) Estate. The vacant period includes the waiting period for departure of the sharing occupant in order to convert the flat back to an independent one; the time required for the flat conversion works and for carrying out structural repairs work at the external wall of the building;
- 3) the remaining three flats include one flat in Apleichau Estate which has been offered for 42 times; one flat in Cheung Hong Estate and one flat in Shan King Estate, both offered for 38 times. They had also been pooled for EFAS exercises previously. Those who were willing to take up the offer were entitled to 12 months half rent reduction,. These flats were still not let out as at 31.3.2013.

However, the flats in Shan King Estate and Cheung Hong Estate were successfully let out on 20.5.2013 and 6.12.2013 respectively.

(s) reasons for the long refurbishment period for the five vacant flats referred to in Table 18 of the Audit Report;

For the past 3 years up to March 2013, there were about 43,500 vacant flat refurbishment works orders completed and the average turnaround time was 43.87, 43.55, and 43.85 days in 2010/11, 2011/12 and 2012/13 respectively, which all met the HA's performance pledge of not exceeding 44 days. The flats mentioned in Table 18 are very special and isolated cases where longer processing time is justified.

For **Flat 1** and **Flat 2**, they are flats at the top floor of the same block in an estate involving structural roof slab recasting and/or re-roofing works. In performing recasting works, submission, approval and consent from the Independent Checking Unit of the HD were required before commencement of works, thereby resulting in a lengthy works processing time. In fact, immediately after completion of the recasting works in Flat 1 and flat recovery of Flat 2, refurbishment works orders were issued in March and May 2010 with works completed in 42 and 41 days in April and June 2010 respectively but water seepage was then found in the units. As the defect involved roof warranty, the roofing contractor had taken several months to verify the cause of damage before it disclaimed the liability. Though works orders were then issued to the Term Maintenance Contractor in July 2011 to carry out partial re-roofing works, due to unsatisfactory performance of the maintenance contractor, the repair works had taken several months to complete with a total of 4 warning letters issued to the contractor.

As for the remaining 3 flats, they were all Converted-One-Person flats of which complicated works procedures were involved in the conversion process. These procedures include, but not limited to, housing stock maintenance, system updating, rent fixing, approval for installation of water meter by the Water Supplies Department and dismantle of fire

services installation approved by the Fire Services Department. **Flat 3** was purposely reserved for temporary storage and gaining access to the external wall while performing the comprehensive concrete repair from February 2012 to May 2013 in this Tenants Purchase Scheme Estate where the Incorporated Owners had declined to provide storage area for the equipment and materials required for the said repair. As for **Flat 4** which was recovered in January 2013, additional processing time was required to prepare the plumbing design. While the submission to the Water Supplies Department for installation of water meter was made in March 2013 and approval received in May, refurbishment works together with the installation of water meter was completed in July 2013. **Flat 5** was recovered in late February 2013. As mentioned above, conversion works of C1P flats is different from normal refurbishment involving complicated working procedures.

- (t) why 171 Housing for Senior Citizens Type 1 flats and 367 Converted One Person flats referred to in Table 19 of the Audit Report had remained vacant for 10 years or more pending conversion to ordinary PRH;*

In Table 19 of the Audit Report, there were 171 HS1 units and 367 C1P units which had remained vacant for 10 years or more pending conversion to ordinary PRH flats. These flats had been sub-divided previously into two to four units with shared kitchen and toilet. Conversion works can only be carried out upon the recovery of the last occupied unit in the flat.

- (u) why the vacancy period of 598 unlettable flats referred to in Table 19 of the Audit Report was unknown;*

Audit requested the last tenancy termination date for the concerned 598 unlettable flats to determine the vacancy period. Given these units (including 463 vacant flats which have never been let out before, 73 staff quarters and 62 cases involved backdated cases and termination of

additional room tenancies) did not have a termination date as at 31 March 2013, they were classified as “vacancy period unknown”. In fact, except the 73 staff quarters which are still being occupied, the vacancy period for all the remaining vacant flats has been confirmed upon the retrieval of relevant housefiles.

(v) checkings involved in the vetting and investigation of income and asset declarations submitted by PRH tenants under the "Well-off Tenants Policies";

Checkings involve obtaining information on property search, rateable value and size of landed properties, vehicle ownership and business registration from relevant departments as well as enquiries from banks and employers.

(w) any improvement measures that had been/would be put in place to address the high rates of false declarations by PRH tenants under the "Well-off Tenants Policies";

To deter and detect false declarations, we have adopted a three-pronged approach viz. detection and prevention, in-depth investigation and operation as well as publicity and education. HD’s frontline management staff conduct initial checking on the income and assets declarations from all PRH tenants and refer doubtful/marginal cases to PHRM for in-depth investigation. In addition, PHRM also carries out in-depth investigations to randomly-selected cases and all double rent cases.

The management will review and revise as appropriate the current guidelines for conducting in-depth checking and remind staff for compliance. Supervisors will also closely monitor the investigation and offer advice to investigators in doubtful cases.

- (x) *any improvement measures that had been/would be put in place to prevent the recurrence of incorrect input of the exemption indicator in the Domestic Tenancy Management Sub-system referred to in paragraph 3.34 of the Audit Report;*

Periodic memos and Email message had been issued to remind estate staff to counter check the tenants' record so as to purify any irregularities in the Domestic Tenancy Management Sub-system.

Each year well before the commencement of the Housing Subsidy Policy (HSP) cycle, exception reports containing irregular cases are forwarded by PHRM to Housing Managers (HMs)/Domestic Tenancy Management Office (DTMO)/Estate for prompt rectification so as to ensure an accurate retrieval of the HSP cases for income declaration. Commencing from the April HSP cycle, other than forwarding exception reports to HMs/DTMO/Estate for prompt verification and rectification, a progress report showing those unresolved cases will be delivered to all concerned HMs/DTMO/Estate by PHRM in mid February. Respective District Senior Housing Managers (DSHMs) would be informed upon completion of the rectification of those outstanding cases by end February.

- (y) *money spent on implementing the "Well-off Tenants Policies" in the past two years and amount of rent plus rates received from well-off tenants over the same period;*

Under PHRM existing manpower structure, approximately two-fifth of a Senior Housing Manager, 2 Housing Managers, 5 Assistant Housing Managers, 34 Housing Officers, 5 Assistant Clerical Officers, 1 Contract General Clerk, 1 Clerical Assistant and 1 Office Assistant were involved in implementing the "Well-off Tenants Policies" for 2011/12 and 2012/13 at HQs level, the staff cost is about \$27M and \$29M respectively. For those workload incurred by the frontline estate staff, the portion of time spent on this task is not significant.

Public housing subsidy saved, i.e. additional rent received from well-off tenants in 2011/12 and 2012/13 are \$263M and \$245.6M respectively.

- (z) *rationale/consideration(s) behind the requirement laid down under the "Well-off Tenants Policies" for households whose total household income and net asset value both exceed the prescribed limits, or those who choose not to declare their assets, to vacate their PRH flats;*

When formulating the “Well-off Tenants Policies”, HA adopted both “income” and “assets” as the two factors in determining the subsidy for PRH tenants since it was considered that tenants with only an increase in income might not be able to afford the downpayment required for the purchase of a private property. Moreover, the total household income might be affected by changes in the overall economic situation of society, individual trades or an individual’s health condition. If there was only an increase in assets but not in income, the tenants might not be able to afford the monthly mortgage payment or the rent for private flats. On the other hand, if both of their household income and assets had exceeded the respective limits, they should be able to afford to purchase or rent an appropriate accommodation in the HOS or private property markets.

The LTHS Steering Committee has taken note of the divergent views on the policies in the community. The public consultation document on LTHS further invited public’s views on the policies and the collected views would be passed to HA for consideration.

- (aa) *any improvement measures that had been/would be put in place to tackle the well-off tenants issue;*

The “Well-off Tenants Policies” are always contentious and is one of the discussion items of the LTHS Steering Committee. The LTHS Steering Committee has taken note that there are divergent views on the policies in the community. The public consultation document on

LTHS further invited public's views on the policies and the collected views would be passed to the HA for consideration.

(bb) measures in place to identify those under-occupied ("UO") households, number of Housing Department ("HD") staff deployed and annual expenditure on paying home visit to PRH tenants for this purpose;

The main reason for PRH tenants becoming UO households is because of having family members who departed from their PRH flats or died, leading to their deletion from the PRH tenancy. Very often, by conducting the biennial flat inspection, we could obtain the information about the departure of the concerned authorized persons. For detection of deceased family members, the Registrar of Births and Deaths has been providing HD with monthly reports of deceased person records. By carrying out record matching, we could have updated information on deceased person records who are residing in PRH units.

At present, we have about 970 staff working in frontline estate offices and DTMO who are required to conduct the biennial flat inspection (BI). Assuming an Housing Officer to take 10 minutes to complete a BI, it is estimated that about \$17 million staff cost incurred annually for conducting the biennial inspection for detecting the UO households.

(cc)an account of the progress made in dealing with the transfer priority list over the past years and reasons for the 749 most serious cases of UO households that had remained outstanding for two years or more referred to in paragraph 3.52 of the Audit Report;

Over the past 6 years, we have resolved about 21 000 UO cases, as compared against the increase of about 40 000 new UO cases. The number of Prioritised Under-occupation (PUO) cases with living density per person greater than 34m² has been reduced from 4 400 to 1 700 in the corresponding period, i.e. a net decrease of 2 700 (60%) in

spite of the addition of about 2 900 new PUO cases during the corresponding period.

With regards to the 749 PUO cases remaining outstanding for two years or more as stated in paragraph 3.52, some 20 cases, such as staff quarters, estates under estate clearance project, etc. are exempted from UO transfer. Moreover, some of the cases, such as pending family reunion or on other medical or social grounds, have been approved for temporary stay. Also, the delay for some cases is due to the limited supply of small flats within the same estate or the same District Council (DC) constituency of the households residing. Up to 30 November 2013, the number of outstanding PUO cases has further been reduced to 486.

(dd) why six housing offers had been given to the tenant referred to in Case 7 of paragraph 3.56 of the Audit Report from July 2011 to March 2013;

PUO households would be given a maximum of 4 housing offers within the same DC constituency. Upon unreasonable refusal of all 4 offers, the tenancy will be terminated. However, for cases with special grounds meriting discretion, RCM would consider approving an additional housing offer. With regards to Case 7, one of the offers was counted as reasonable refusal. Having examined the case, the RCM exercised discretion to allow the sixth housing offer on compassionate grounds. The tenant eventually accepted a small flat with tenancy commenced in mid August 2013, facilitating HD to recover the 1B flat early without under-going the lengthy appeal mechanism.

(ee) challenges facing the HD in the transfer of UO households;

Taking into consideration the keen demand from applicants of other rehousing categories and the limited supply of small flats, HA could only allocate some 1 000 units for UO transfer in the year 2013/2014. Moreover, the shortage of small flats within the residing DC

constituency of the PUO households may also prolong the handling time for arranging housing offers.

The negative reaction of PUO tenants being required to move to smaller flats is one of the challenges we have to face. During the implementation of the UO policy, the HA has all along adopted a pragmatic, reasonable and considerate approach to handle every case, particularly those with family changes due to decease of members. As for cases with medical and social grounds meriting special discretion, estate staff would seek the special approval of RCMs or DSHMs to grant additional offers or temporary stayput at the present flats on individual merits. We adopt a caring yet persistent approach to persuade those concerned to move. Such an approach inevitably takes time but has proved to be effective.

(ff) any improvement measures that had been/would be put in place to tackle the UO issue in order to avail more PRH flats for the needy families and ensure equitable allocation of PRH resources;

HA had reviewed the UO policy and endorsed revised measures to tackle UO cases in June 2013. Upon implementation of the revised measures in October 2013, the threshold of PUO has been tightened leading to more families becoming PUO households that required for transfer to smaller flats. We will review the policy after 3 years of implementation.

(gg) whether consideration would be given to offering a higher level of Domestic Removal Allowance in order to encourage UO households' transfer to smaller flats;

The granting of Domestic Removal Allowance (DRA) to tenants is intended to meet part of the costs of removal and basic fitting-out works. Our DRA rates are pegged with those adopted by the Government which are reviewed annually by an inter-departmental Compensation

Review Committee in accordance with the basis approved by the Finance Committee of the Legislative Council, and approved by the Secretary for Financial Services and the Treasury under the delegated authority. The same set of DRA rates is applicable to all HA's clearance projects as well as UO and management transfers.

Tackling abuse of PRH

(hh) whether in view of the high rates of detected false declarations, consideration would be given to conducting more in-depth checking on new applications; if not, why not;

Any in-depth and detailed checking before the applicant is registered on the WL will inevitably consume more vetting resources and lengthen the pre-registration period. This is contrary to the original intent of expediting the process to ascertain the eligibility of applicant to be registered into the WL. We will keep in view the possibility to require the submission of documentation relating to investments and bank deposits at the application stage.

(ii) internal guidelines for the alignment of practices within the Applications Sub-section between the Registration and Civil Service Unit (RCSU) and the Waiting List Unit (WLU) in handling false declaration cases identified by PHRM;

An internal guideline to align the practices of both RCSU and WLU in handling false declaration cases was issued on 21 October 2013. In response to PAC's request, a copy of the Internal Guideline is at Appendix for Members' reference. **Since the Guideline is for internal reference only, we would be grateful if it is not included in any report to be issued to the public.**

***Note by Clerk, PAC: Appendix not attached.**

(jj) why the prosecution rate of WL applicants making false declarations referred to in Table 33 of the Audit Report had decreased over the past five years, from 48% in 2008-2009 to 14% in 2012-2013;

Prosecution rate is calculated on the basis of the number of cases going to the Prosecutions Section for consideration of prosecution action as against the number of cases in respect of which prosecution action was ultimately taken. As a decision whether or not to prosecute depends on the sufficiency of available evidence in satisfying the relevant burden of proof for a conviction, the fact that the prosecution rate is low may simply mean that the available evidence in many of the cases submitted to the Prosecutions Section was not sufficient or was not yet sufficient to secure a conviction.

The most important principle is that the departmental prosecutors have to strictly follow the Code for Prosecutors issued by the Prosecution Division of the Department of Justice (DoJ) and they prosecute only when all the elements of an offence are present and in an admissible form.

In our analysis, there are various reasons for the decrease in prosecution rate.

(1) DoJ's Code for Prosecutors - Prosecution cannot direct investigation

DoJ's Code for Prosecutors stipulates that the prosecutor cannot direct investigations, i.e. investigators and prosecutors should take different roles though they are interdependent. In accordance with the DoJ's Code for Prosecutors, the Prosecutions Section ceased to offer any directions for obtaining evidence or setting questions for taking cautioned statements since early 2010. The quality of evidence might have been affected if the investigators were not familiar with the admissibility of evidence.

(2) A change in the nature of false statement cases

False statements may occur in different forms. They include concealment of income and properties which could be proved easily by the production of employer's certificates and land search records. In 2008-09, the majority of false statement cases are concealment of income and properties cases which accounted for over 50% of the total number of false statement cases referred to the Prosecutions Section. However, these cases dropped to less than 33% in 2012-13.

False statement cases also include more difficult cases like concealment of insurance policy, securities (like trust funds) and business ownership and these cases increased substantially from 14% in 2008-09 to 30% in 2012-13. When proving these false statement cases, the prosecution has to prove the asset value and the interest income **at the material time**, i.e. when the statement was made. However, it was difficult to obtain admissible evidence to prove this.

As regards false statements relating to balances of bank deposits, the prosecution could usually seek the bank's confirmation on the balances of bank deposits with the suspect's consent given in the application form or declaration form. However, the banks could refuse to provide any information if the signatures on the forms were different from those with the bank.

(3) A drop of cases with cautioned statement or interviewing officer

In order to prove an offence of false statement under section 26(1)(c) of the Housing Ordinance, the prosecution shall prove beyond reasonable doubt the following elements:-

- (a) a person signed an application for lease;
- (b) he/she had made a statement on the application;
- (c) the statement was false; and
- (d) the false statement was made knowingly.

In most cases referred to the Prosecutions Section, the evidence, which should be admissible, substantial and reliable, merely could prove falsity of the statement made.

The remaining elements of the offence i.e. (a), (b) and (d) mentioned above, could not be established unless in the presence of either an interviewing officer or cautioned statement of the suspect.

Based on the data base of the Prosecutions Section, in 2008-09, **71.3%** of the cases referred to the Prosecutions Section managed to provide cautioned statements from the suspects as evidence while the figure has dropped to **27.7%** in 2011-12 and **30.8%** in 2012-13.

Besides, the proportion of cases without any interviewing officer and/or cautioned statement increased significantly from 22.0% in 2008-09 to 49.7% in 2011-12 and 53.3% in 2012-2013. In other words, about half of the cases did not have admissible evidence to prove the knowingly element required under the Housing Ordinance in 2011-12 and 2012-13.

Without cautioned statement or interviewing officer, it would be difficult for the prosecution to prove beyond reasonable doubt that the suspect made the false statement knowingly at the material time, i.e. offence elements (a), (b) and (d).

Conclusion

It would be fundamentally wrong to treat prosecution rate as a benchmark or target for the prosecution's performance as the rate itself depends on the quality of evidence of the incoming cases. As stated above, the departmental prosecutors have to follow the DoJ's Code for Prosecutors, i.e. the prosecution should be satisfied with the sufficiency of evidence and the prospect of securing a conviction before making the decision to prosecute. **In each and every case**, tremendous care must be taken in the interests of the community at large and the suspect to ensure that a right decision to prosecute or not is made.

(kk) what follow-up actions had been taken against the 1 117 false declaration cases with no prosecution action referred to in paragraph 4.64(b) of the Audit Report;

For false declaration cases with no prosecution action, frontline staff will interview the individual offenders and serve a warning letter to remind them not to commit the misdeed again.

For cases of understating income, thus rendering the household eligible for paying less rent, the frontline staff would ask the tenant/licensee, in writing, to pay the new rent derived from the accurate information with immediate effect and to recover the total amount of rent undercharged. As for those not eligible for allocation of PRH, we would terminate the tenancy and recover the flat.

The 1 117 false declaration cases without prosecution action were largely due to insufficient admissible evidence. Their PRH applications were cancelled on grounds of submission of false information.

(ll) any improvement measures that had been/would be put in place to ensure that HD staff are aware of and observe the requirements to submit relevant files and documents to the Prosecutions Section for taking prosecution action at least two months before the time bar;

Staff are reminded to observe the time-frame for prosecution action. For offences discovered and handled by Estate Office, the housefiles should be forwarded to the Cautioned Statement Team of PHRM for collection of cautioned/witness statements before passing to the Prosecutions Section in accordance with the action time frame. For normal case, the action time is within 14 working days from the date of discovery; while for urgent case, the action time is shortened to within 2 working days. Furthermore, estate staff are reminded to use the Checklist during initial investigation for the establishment of the knowingly element and recording interview / statements.

HD will issue instruction in December 2013 reminding frontline staff to observe the requirement for submission of the relevant files and documents to the Prosecutions Section in accordance with the action time frame.

Others

(mm) timetable for implementing the audit recommendations in the short- and medium-term;

On Audit's recommendation for HD to conduct investigations periodically to identify long-outstanding cases on the WL (para. 2.31(b)), we have in fact conducted an analysis of the housing situation of WL applicants in 2011, 2012 and 2013 to study, amongst other things, those cases on the WL with longer waiting times. The reports of the analysis have been uploaded to the HA/HD website for public's reference. We have also briefed the Legislative Council Housing Panel at the meeting on 4 November 2013 about the analysis of the WL position as at end-June 2013. We will continue with the special analyses on an annual basis.

On Audit's recommendation that HD should conduct a comprehensive review of the QPS and consider the need to screen out ineligible QPS applicants periodically (para. 2.50), the LTHS Steering Committee has, in reviewing the LTHS, examined the position of non-elderly one-person applicants on the WL, and considered options for enhancing the QPS. The LTHS Steering Committee has recently completed a three-month public consultation on the LTHS, including the various enhancement recommendations of QPS. HA will consider the LTHS Steering Committee's recommendations, views gathered during the three-month public consultation as well as Director of Audit's report and the comments received during the Public Accounts Committee's hearings, before deciding whether and how to refine the QPS.

We will, on an on-going basis, enhance legal training for staff working in the Applications Sub-section and estate offices. Plans in hand include organizing more experience sharing seminars (starting from May 2014), with role-play exercises, with the aim of further strengthening their repertoire of knowledge, skills and abilities required to gather sufficient evidence for handling false declaration cases.

With regard to other recommendations accepted by the Administration, actions required are either completed or on-going. Where policy clearance is required for the follow-up action and implementation, they would be referred to the HA or its committees for discussion and endorsement.