

立法會
Legislative Council

LC Paper No. CB(1)451/06-07
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Panel on Housing

Minutes of special meeting
held on Tuesday, 26 September 2006, at 10:30 am
in the Chamber of the Legislative Council Building

- Members present** : Hon CHAN Kam-lam, SBS, JP (Chairman)
Hon LEE Wing-tat (Deputy Chairman)
Hon Albert HO Chun-yan
Hon James TO Kun-sun
Hon CHAN Yuen-han, JP
Hon LEUNG Yiu-chung
Hon Abraham SHEK Lai-him, JP
Hon Tommy CHEUNG Yu-yan, JP
Hon Frederick FUNG Kin-kee, JP
Hon WONG Kwok-hing, MH
Dr Hon Joseph LEE Kok-long
Hon Alan LEONG Kah-kit, SC
Hon LEUNG Kwok-hung
- Member attending** : Dr Hon Fernando CHEUNG Chiu-hung
- Members absent** : Hon Fred LI Wah-ming, JP
Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP
Dr Hon YEUNG Sum
Hon Albert CHAN Wai-yip
Hon CHEUNG Hok-ming, SBS, JP
Hon Patrick LAU Sau-shing, SBS, JP
Hon Albert Jinghan CHENG

- Public officers attending** : Mr Thomas C Y CHAN, JP
Permanent Secretary for Housing, Planning and Lands (Housing)
- Miss Mary CHOW Shuk-ching, JP
Deputy Secretary for Housing, Planning and Lands (Housing)
- Mr Carlson CHAN
Assistant Director (Strategic Planning)
Housing Department
- Clerk in attendance** : Ms Connie SZETO
Chief Council Secretary (1)6
- Staff in attendance** : Ms Sarah YUEN
Senior Council Secretary (1)6
- Ms Michelle NIEN
Legislative Assistant (1)9
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Action

- I. Review of Domestic Rent Policy**
(LC Paper No. CB(1)2241/05-06(01) — Information paper provided by the Administration
- LC Paper No. CB(1)2241/05-06(02) — Updated Background brief on “review of rent policy of public rental housing” prepared by the Legislative Council Secretariat
- LC Paper No. CB(1)1045/05-06 — Consultation Paper on Review of Domestic Rent Policy and its Executive Summary
- LC Paper No. CB(1)1060/05-06(03) — Information paper provided by the Administration
- LC Paper No. CB(1)1571/05-06(01) — Summary of views presented to the Panel prepared by the Legislative Council Secretariat

LC Paper No. CB(1)1571/05-06(02) — Administration's response to the summary of views presented to the Panel prepared by the Legislative Council Secretariat)

Briefing by the Administration

At the Chairman's invitation, the Permanent Secretary for Housing, Planning and Lands (Housing) (PSH) briefed members on the progress of the review of domestic rent policy (the Review) and the initial recommendations of the Ad Hoc Committee on Review of Domestic Rent Policy (CDRP). He highlighted the salient points as follows:

- (a) CDRP had drawn up a number of initial recommendations to improve the Housing Authority (HA)'s domestic rent policy after careful consideration of the public responses received in the three-month public consultation launched from March to June 2006. Among the most important recommendations was the establishment of a more rational and sustainable rent adjustment mechanism based on the change in household income of public rental housing (PRH) tenants. In this regard, CDRP recommended that HA should develop an income index tracking the movement in the household income of PRH tenants to guide future rent adjustments (the proposed income index);
- (b) CDRP accepted that the implementation of the proposed income-based rent adjustment mechanism needed to be accompanied by the introduction of a new rental basis which was considered suitable and acceptable to the community. To ensure coherence and consistency of the entire rent adjustment framework, CDRP considered that the new starting point should be worked out according to the proposed income index. Given that the rent of the existing PRH units was last adjusted in 1995, 1996 and 1997 (the three reference years) respectively, an objective way to derive the new starting point was to adjust the current PRH rent according to the changes in the income index since the three reference years. Details of the possible rent adjustment options were set out in the Administration's paper (Options A to D in slides no. 3 to 12 of Annex B to LC Paper No. CB(1)2241/05-06(01));
- (c) The existing statutory 10% median rent-to-income ratio (MRIR) cap effectively meant that, regardless of the string of extraneous factors accounting for the changes in the MRIR, PRH rent could only go down once the cap was exceeded. To allow for the proper operation of the proposed income-based rent adjustment mechanism so that PRH rent could move both upwards and downwards when circumstances warranted, it was necessary to amend the Housing Ordinance (HO) (Cap. 283) to remove the statutory MRIR cap; and

- (d) CDRP aimed to submit the review report and its final recommendations to HA for approval before the end of 2006. Subject to HA's approval of CDRP's recommendations, it was the Administration's intention to introduce an amendment bill to the Legislative Council (LegCo) in the first quarter of 2007 with a view to effecting the new rent adjustment mechanism as soon as possible.

2. The Assistant Director of Housing (Strategic Planning) (AD of H (SP)) then briefed members on the details of the proposed income index with the aid of power-point. He explained that MRIR of PRH households was affected by factors other than changes in household income, notably changes in the distribution of household size. This was illustrated by the two hypothetical examples referred to in slides no. 6 and 7 of Annex B to LC Paper No. CB(1)2241/05-06(01). The main advantage of the proposed income index was to capture the "pure income change" of PRH tenants by discounting the effects of household size distribution on income.

Discussion

The parallel introduction of a new rent level and a new rent adjustment mechanism

3. Most members found the proposed parallel introduction of a new rent level and a new rent adjustment mechanism undesirable. In particular, Mr WONG Kwok-hing pointed out that such "bundling" arrangement had ignored PRH tenants' repeated calls upon HA to reduce rent first to keep in line with the decline in tenants' household income resulting from the economic downturn in the past few years before reviewing the rent adjustment mechanism. Given that LegCo would take time to scrutinize the amendment bill to effect the new rent adjustment mechanism, Mr WONG expressed concern that the "bundling" arrangement could mean further delay to rent reduction. If LegCo Members did not support the amendment bill, they would be blamed for blocking the way to rent reduction. In this regard, Mr WONG voiced his dissatisfaction that by adopting the "bundling" approach, the Administration was in effect threatening LegCo Members to pass the bill in exchange for an early rent reduction. He re-iterated his demand that rent reduction be introduced prior to the implementation of the new rent adjustment mechanism. He also expressed concern about the sincerity of HA in consulting the public. In his view, the consultation was only a cosmetic exercise.

4. PSH stressed that it would be highly imprudent for HA to introduce long-term rent reduction without having put in place an effective administrative and legal framework that provided for both upward and downward rent adjustments as and when circumstances justified. It was therefore necessary for the introduction of the new rental basis to be accompanied by the implementation of the new rent adjustment mechanism. He emphasized that the Administration had no intention whatsoever to threaten LegCo Members for passing the amendment bill. The Administration would

relay to HA Members' suggestion for introducing some form of short-term rent remission prior to the enactment of the necessary legislative amendments.

5. While acknowledging the need to put in place a proper rent adjustment mechanism, Dr Joseph LEE saw a need for the Administration to indicate the likely level of rent adjustment under the new mechanism so as to assure tenants that rent would at the end be adjusted to an acceptable level. In response, AD of H (SP) referred members to slide no. 10 of Annex B to LC Paper No. CB(1)2241/05-06(01) and said that according to changes of PRH household income since the reference years, there should be increase of rent by 2.8%, reduction of rent by 5.2% and 11.6% for units with rent last reviewed in 1995, 1996 and 1997 respectively. If the weighted average household income was adopted, there would be rent reduction by 5.1% for all PRH units across the board.

6. Mr LEUNG Yiu-chung pointed out that the "bundling" approach was unfair to PRH tenants. He considered that there were full justifications for HA to reduce rent without further delay. In his view, HA should consider other proposals on rent adjustment mechanisms and allow ample time for LegCo Members and the community to thoroughly discuss the new mechanisms, instead of pushing through the bill hastily.

7. PSH re-iterated the need to introduce the new rent level and the new rent adjustment mechanism in parallel. He pointed out that there were diverse views on the extent of rent reduction. At the recent brain-storming session held by HA, some HA members considered it appropriate to operate the new rent adjustment mechanism at the current rent level, while there were views supporting reducing rent. CDRP considered that the most objective, logical and coherent approach was to determine the new rent level based on the future rent adjustment mechanism. CDRP welcomed proposals from the community on the new rent adjustment mechanism and the new rental basis. To facilitate consideration by HA, it was important for the proposals to be accompanied with detailed justifications.

8. Mr Tommy CHEUNG confirmed that HA had not yet reached any consensus on the new rent level. Given that almost all political parties were represented on HA, their views would be taken into account. He opined that HA should formulate viable options on rent reduction and new rent adjustment mechanism as soon as possible. As scrutiny of the bill would take time, the Administration should introduce the bill to LegCo as early as possible.

9. Mr Albert HO said that the public had expressed grave concern and grievances about the "bundling" arrangement and delay in rent reduction. He pointed out that although MRIR stood over 14% for some years, HA had repeatedly deferred rent reviews under various pretexts. PRH rent should have been reduced to keep in line with the deflation over the past few years.

10. Mr Alan LEONG said that the Civic Party did not support the "bundling" approach. He pointed out that although one of the rent adjustment options referred to in the Administration's paper (slide no. 10 of Annex B to LC Paper No. CB(1)2241/05-06(01)) indicated a rent increase by 2.8%, it was apparent that a decision to increase rent would be politically unwise and would hence unlikely be taken. As such, Mr LEONG was of the view that the Administration should consider reducing rent in the first place to show its sincerity. He further opined that in order to assure PRH tenants that rent would eventually be reduced, the Administration might consider reducing rent by phases starting with a 5% cut. In response, PSH re-iterated that the Administration would relay to the HA Members' suggestion for introducing short-term rentremission pending completion of the legislative process.

11. Miss CHAN Yuen-han considered the "bundling" arrangement an irresponsible and undesirable move of the Administration to threaten LegCo Members and cautioned about the negative impact on the relationship between the legislature and the executive authorities. She highlighted the consensus among LegCo Members that PRH rent should be reduced first before reviewing the rent adjustment mechanism. It was essential for the Administration to acknowledge that the existing MRIR was well above the statutory 10% MRIR cap and to take immediate action to reduce rent. She further supported that rent reduction could be implemented in phases.

12. PSH re-iterated that the Administration had no intention whatsoever to threaten LegCo Members. He said that whether and how PRH rent should be reduced were controversial issues and diverse views had been expressed by different parties. Miss CHAN Yuen-han remained unconvinced and opined that HA's stance might be attributed to its composition and the lobbying work done by the Administration. To enable the Panel to better understand the views of HA members, Miss CHAN opined that consideration might be given to invite HA members to a closed meeting of the Panel.

13. Echoing the concern about the "bundling" arrangement, Mr LEUNG Kwok-hung stressed the need for the Administration to address issues about rent reduction and repayment of rent charged in excess of the statutory MRIR cap over the past few years. He emphasized that it was the consensus of all PRH tenants that HA should reduce rent immediately. In this connection, he questioned the effectiveness of HA in representing the interests of PRH tenants and criticized that the public consultation was just a window dressing exercise, pointing out that he had been repeatedly denied access to the relevant public forums.

14. PSH re-iterated that the Administration had clearly stated its position on rent reduction. It had also explained the various rent adjustment options via the information paper submitted for the present meeting. The initial recommendation of CDRP was to implement the new rent level upon the introduction of the new rent adjustment mechanism. PSH stressed that HA members came from different sectors of the society. CDRP had collected views from a wide cross-section of the

community through various channels, including public forums, District Councils and meetings of the Panel. He assured members that all views received had been considered carefully by CDRP.

Rent waiver and other interim measures that could be introduced

15. Recognizing HA's reluctance to introduce long-term rent reduction before putting in place the new rent adjustment mechanism and the tenants' strong demand for rent reduction to take place first, Mr LEE Wing-tat proposed that consideration should be given to implement rent waiver of one month. The proposal would be tantamount to some 8% reduction in rent to provide timely relief to tenants. Mr Tommy CHEUNG supported the proposal and added that rent waiver should have been implemented long before if not for the judicial review on HA's decisions to defer rent reviews which took place in 2002 (the JR).

16. Mr LEUNG Yiu-chung stressed the need to introduce interim rent relief measures to uphold the spirit of the Housing (Amendment) Ordinance 1997 of maintaining PRH rent at a level affordable by tenants. Given that the Secretary for Housing, Planning and Lands (SHPL) had undertaken to implement measures to relieve the financial pressure of tenants irrespective of the outcome of the JR (SHPL's undertaking), Mr LEUNG Kwok-hung concurred that there was a need to introduce relief measures as early as possible.

17. Mr Frederick FUNG considered it imperative for HA to implement interim measures, including reducing rent or waiving rent for two months, before putting in place the new rent adjustment mechanism. He pointed out that a two-month rent waiver would be tantamount to about 16% to 17% reduction in rent and was necessary to compensate the overcharging in rent since 1998. He added that according to statistics released by the Census and Statistics Department, the median wage had decreased by 20% between 1998 to 2005. There was also significant rent reduction in residential and commercial premises in the private market over the same period. However, apart from the rent waiver introduced in December 2001, PRH rent had remained unchanged since 1998. In a period of deflation over the past few years, the freezing of PRH rent would in effect mean increase in rent. On SHPL's undertaking to introduce relief measures, Mr FUNG was disappointed that the measures were limited to relaxation of the Rent Assistance Scheme (RAS), which had only benefited 30 000 households. The relief measures had fallen short of tenants' expectation that all of them would be benefited, and had led to mistrust between HA and tenants and lack of support for the new rent adjustment mechanism.

18. PSH said that HA was aware of some tenants' views on introducing suitable rent remission measures in the interim. He could not rule out such a possibility and undertook to reflect members' views to HA for consideration. On the concern about relief measures implemented after the conclusion of the JR, PSH clarified that the measures implemented were not limited to enhancement of RAS, but also included

measures to improve the living environment of PRH estates which had benefited a large number of PRH tenants.

The new rent adjustment mechanism

A tier system vis-à-vis the proposed income index

19. Mr LEE Wing-tat urged the Administration to consider the proposal put forward by Democratic Party (DP) to introduce a tier system in adjusting PRH rent. He explained that under the proposal, the levels of rent payable by tenants would be determined according to their actual income and affordability, so that less well-off tenants would pay lower rent, whereas higher-income tenants would pay higher rent. He pointed out that the drawback of the proposed income index was its failure to address the problem that PRH tenants, who were marginally ineligible for either rent assistance or Comprehensive Social Security Assistance, would always be the worst-off having to pay rent amounting to a very high proportion of their incomes. To facilitate members in understanding the proposed rent adjustment mechanism, Mr LEE requested the Administration to take the following actions:

- (a) To elaborate in writing the details of the proposed mechanism covering the following aspects -
 - (i) The operation of the proposed mechanism, including the development of the proposed income index based on the two examples referred to in the Administration's paper (slides no. 6 and 7 of Annex B to LC Paper No. CB(1)2241/05-06(01)); and
 - (ii) The possible downsides of the proposed mechanism. For instance, how the mechanism could tackle the problem highlighted above.
- (b) To provide the relevant information on the proposed mechanism submitted by CDRP to HA.

(Post-meeting note: The information provided by the Administration was circulated to members vide LC Paper No. CB(1)144/06-07(01) on 23 October 2006.)

20. On the “tier rent adjustment system” proposed by DP, PSH remarked that implementation of the proposal would involve huge administrative resources and have grave implications for flat allocation. AD of H (SP) pointed out that compilation of the proposed income index would be far more straight-forward than the “tier system”. While the former would be derived from a sample of about 1500 to 2000 households through random selection each month, the latter would entail individual assessment of the household income of all PRH tenants at regular intervals. As regards concerns about RAS, PSH pointed out that the present income eligibility

criterion of 20%-25% rent-to-income ratio (RIR) for RAS compared very favourably with other housing affordability benchmarks in overseas jurisdictions, which were usually pitched at a RIR of 30%. AD of H (SP) supplemented that apart from providing rent assistance to PRH households with RIR reaching 20%-25%, rent reduction of 50% was also available for households who met the following eligibility criteria:

- (a) The household income fell below 50% of the prescribed Waiting List Income Limit; or
- (b) The household income was between 50% to 60% of the respective Waiting List Income Limits and the household's RIR exceeded 15%.

21. Mr LEE Wing-tat disagreed that implementation of the tier system would involve huge resources, adding that the merits of the proposal would well justify the costs. He said that DP would forward a paper on the proposal for HA's consideration.

The need to retain the MRIR in the rent adjustment mechanism

22. Mr Tommy CHEUNG advised that while the Liberal Party had yet to finalize its position on the new rent adjustment mechanism, it supported introducing legislative amendments to HO to replace the statutory MRIR cap with a clear, objective and flexible rent adjustment mechanism in the long run because MRIR cap was not conducive to the long-term sustainability of PRH programme. In this connection, Miss CHAN Yuen-han pointed out that the Hong Kong Federation of Trade Unions did not support removing the statutory 10% MRIR cap as it was a suitable indicator of tenants' affordability.

23. Mr Albert HO stated the view of DP that the new rent adjustment mechanism should continue to take into account tenants' affordability to ensure the social function of PRH of providing affordable housing to low-income households. He opined that HA should consider resuming the sale of Home Ownership Scheme (HOS) flats and continue to implement the Tenants Purchase Scheme in order to ensure its financial sustainability instead of seeking to increase rent through introducing a new rent adjustment mechanism. On the amendment bill to effect the new rent adjustment mechanism, Mr HO said that DP considered it important to incorporate the new mechanism in the law. Moreover, details of the application of the proposed income index should be thoroughly discussed.

24. PSH emphasized that the Review aimed to strike the best balance between interests of various stakeholders. He stressed the need to formulate a suitable new rental basis and rent adjustment mechanism taking into account tenants' affordability and acceptability to the community at large. In the process, HA would also have to give due regard to its financial situation.

25. In response to Mr Albert HO's enquiry on the MRIR level aimed to be

achieved under the new rent adjustment mechanism, AD of H (SP) said that if the proposed income index was adopted to guide future rent adjustments, it would be unnecessary to take into account MRIR in adjusting PRH rent. Indeed, MRIR had been contrived as a general measure of tenants' affordability rather than a mechanism for rent adjustments. The surge in MRIR was attributed to a host of interwoven and complicated factors other than changes in rent levels and tenants' incomes. These included supply of new PRH estates, redevelopment of older estates, etc. He added that the current MRIR benchmarks of 15% for an allocation standard of 5.5 square metres Internal Floor Area (IFA) per person (set in 1986) and 18.5% for an allocation standard of 7 square metres IFA per person (set in 1991) would only serve as general affordability indicators. For newly rehoused PRH tenants, the IFA per person had already significantly improved to 12.3 square metres. In this connection, Mr Albert HO opined that to facilitate members' consideration of the proposed new mechanism, the Administration should explain the background leading to the rise of MRIR. Mr HO considered it necessary to establish an objective indicator showing the proportion of rent to the total household incomes to guide future rent adjustment. It was also important to ensure tenants who could not afford to pay higher rent would have the option to move to a smaller flat with lower rent.

The new rental basis

26. Mr Albert HO commented that how the new rental basis should be derived was essential for implementing the new rent adjustment mechanism. On the operation of the new rent adjustment mechanism, PSH elaborated that the current PRH rent would be adjusted to a new starting point according to the changes in the proposed income index since the three reference years. Depending on which option would be adopted, the rate of rent adjustments would range from an increase of 2.8% to a reduction of 11.6% as shown in the Administration's paper (slide no. 9 -12 of Annex B to LC Paper No. CB(1)2241/05-06(01)). Rent adjustments in future would then operate on the new rental basis so derived. AD of H (SP) explained that if option D referred to in the Administration's paper was adopted (slide no. 12 of Annex B to LC Paper No. CB(1)2241/05-06(01)), under which 1997 would be taken as the reference year, PRH rent could be reduced by 11.6% across the board. This would have the effect of lowering MRIR, presently at 14.4%, to about 13%.

27. Mr Frederick FUNG highlighted that the intention of the Housing (Amendment) Ordinance 1997 was to restrain rent increases to within the affordability of tenants. To uphold the intention, instead of working out the new rental basis by tracking the changes in the income index since 1995, 1996 and 1997, the median wage of 1998 should be used as the reference point in consideration of the then high RIR of PRH households and HA had not effected any rent adjustment since 1998. If this calculation method was adopted, PRH rent should be reduced by around 20%. If the proposed income index was adopted and 1998 was taken as the reference year, the current rent level should be reduced by 15%.

28. AD of H (SP) explained that 1995, 1996 and 1997 had been selected as the reference years for deriving the new rental basis because HA had waived the rent increases approved in 1998 and 1999 and deferred all rent reviews since 1999. As such, approximately one-third each of PRH units had their rent last reviewed in 1995, 1996 and 1997 respectively. Adopting 1998 as the reference year could be a possible alternative, but the rationale behind this suggestion had to be fully explained and justified. PSH supplemented that 1995, 1996 and 1997 had been taken as the reference years to take into account changes in PRH tenants' affordability since these years.

29. Noting the Administration's explanation, Mr LEE Wing-tat said that some PRH tenants might raise concern about compiling the new rental basis by comparing changes in household incomes of the three reference years with the period of April 2005 to March 2006, when the economy was recovering. There would also be concern about compensation to tenants for excessive rent they had paid in previous years.

The amendment bill to effect the new rent adjustment mechanism

30. Mr Alan LEONG enquired about the details of proposed amendments to HO to put in place the new rent adjustment mechanism. PSH said that the most important task was to work out a sustainable rent adjustment mechanism that was acceptable to the community. The next step would then be to examine how the mechanism could be incorporated in HO. He assured that there would be ample opportunities for LegCo Members to examine the legislative amendments during the bills committee stage. As regards the legislative timetable, PSH said that subject to HA's approval of CDRP's recommendations, it was the Administration's intention to introduce the relevant amendment bill to LegCo in the first quarter of 2007.

31. Mr Frederick FUNG opined that the Administration should seek the support of PRH tenants by addressing their grievances, in order to secure LegCo's support for the amendment bill, which in turn would facilitate its enactment and enable the early implementation of the new rent adjustment mechanism. In response, PSH assured members that HA was well aware of the need to address tenants' expectations and requests. The Administration could not rule out the possibility of HA introducing short-term rent remission measures pending the completion of the legislative process. Nevertheless, the final decision would rest with HA.

Conclusion

32. Summing up, the Chairman urged the Administration to take into account members' views expressed in the meeting, in particular, their concern about the "bundling" approach to link the introduction of a new rental basis with the new rent adjustment mechanism and call for interim rent relief measures. He called upon the Administration to introduce the relevant amendment bill to LegCo as soon as possible.

33. Mr WONG Kwok-hing re-iterated the need for HA to reduce PRH rent first, which was the majority view of members. In response, PSH re-assured Members that their views were well noted, and that he would convey them to HA.

II. Any other business

34. There being no other business, the meeting ended at 12:25 pm.

Council Business Division 1
Legislative Council Secretariat
7 December 2006