

立法會
Legislative Council

LC Paper No. CB(1)1398/06-07
(These minutes have been seen
by the Administration)

Ref: CB1/BC/1/06

**Bills Committee on
Housing (Amendment) Bill 2007**

**Minutes of third meeting on
Friday, 16 March 2007, at 8:30 am
in the Chamber of the Legislative Council Building**

Members present : Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP (Chairman)
Hon LEE Cheuk-yan
Hon Fred LI Wah-ming, JP
Hon CHAN Yuen-han, JP
Hon CHAN Kam-lam, SBS, JP
Hon Miriam LAU Kin-ye, GBS, JP
Hon Abraham SHEK Lai-him, JP
Hon Tommy CHEUNG Yu-yan, JP
Hon Albert CHAN Wai-yip
Hon Frederick FUNG Kin-kee, SBS, JP
Hon WONG Kwok-hing, MH
Hon LEE Wing-tat
Hon LI Kwok-ying, MH, JP
Dr Hon Joseph LEE Kok-long, JP
Hon LEUNG Kwok-hung
Dr Hon Fernando CHEUNG Chiu-hung
Hon CHEUNG Hok-ming, SBS, JP
Hon WONG Ting-kwong, BBS
Hon Ronny TONG Ka-wah, SC
Prof Hon Patrick LAU Sau-shing, SBS, JP

Members absent : Hon Albert HO Chun-yan
Hon Emily LAU Wai-hing, JP
Hon LEUNG Yiu-chung
Hon WONG Yung-kan, JP
Hon Daniel LAM Wai-keung, SBS, JP
Hon Alan LEONG Kah-kit, SC

Public Officers attending : Miss Mary CHOW Shuk-ching, JP
Deputy Secretary for Housing, Planning and Lands
(Housing)

Mr Raymond WU
Assistant Director of Housing (Strategic Planning)
(Acting)

Mr Francis YIU
Senior Statistician
Housing Department

Mr Lawrence S Y PENG
Senior Assistant Law Draftsman
Department of Justice

Miss Emma WONG
Government Counsel
Department of Justice

Clerk in attendance : Ms Connie SZETO
Chief Council Secretary (1)6

Staff in attendance : Mr Kelvin LEE
Assistant Legal Adviser 1

Ms Debbie YAU
Senior Council Secretary (1)1

Action

- I Confirmation of minutes and matters arising**
(LC Paper No. CB(1)1134/06-07 -- Minutes of the meeting held on
9 February 2007)

The minutes of the meeting held on 9 February 2007 were confirmed

- II Meeting with the Administration on the Bill**
(LC Paper No. CB(1)1153/06-07(01) -- The Administration's responses to
Members' concerns raised at the
meeting on 8 March 2007

- LC Paper No. CB(1)1114/06-07(02) -- List of follow-up actions arising from the discussion on 8 March 2007 prepared by the Legislative Council Secretariat
- LC Paper No. CB(1)1114/06-07(01) -- The Administration's responses to Members' concerns raised at the meeting on 9 February 2007
- LC Paper No. CB(1)1037/06-07(06) -- List of follow-up actions arising from the discussion on 9 February 2007 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)1171/05-06 (02) Presentation materials provided by
(tabled and subsequently issued on 16 March 2007) the Administration

2. The Bills Committee deliberated (Index of proceedings attached at **Appendix**).

Follow-up actions to be taken by the Administration

Increase in the median rent-to-income ratio (MRIR) figures

3. The Administration was of the view that the upsurge in MRIR in recent years had been caused by a host of extraneous factors. At the meeting, the Administration demonstrated three major factors including surge in the number of small households, rise in the number of Comprehensive Social Security Assistance recipients, and increase in the average living space of public rental housing (PRH) households; and their respective impact on MRIR. The Administration was requested to provide details of other extraneous factors, such as increase in the supply of new PRH flats, redevelopment programme of PRH, and their respective impact on MRIR. For instance, newly completed estates had much higher MRIR benchmarks of 15% and 18.5% for rent fixing. The information should include whether changes in these factors would have any impact on MRIR.

4. In relation to paragraph 3 above, concern had been raised that the policy of "well-off" tenants, which to some extent had led to the exit of high income tenants, might attribute to the rise in MRIR. The Administration was requested to provide information on the actual number and percentage changes in "well-off" tenants in the past few years.

5. According to the Administration, the surge in the number of small households had led to the rise in MRIR. In order to illustrate the pure changes of household size on MRIR figures, the Administration was requested to provide information showing respective MRIR figures for PRH households of different sizes, i.e., from 1-person to 10-person.

6. According to the Administration, a 30% reduction in PRH rents would help bring the 14.3% MRIR as at third quarter 2006 down to 10%. The Administration was requested to provide information on the MRIR figures when:

- (a) the extraneous factors except household size were excluded from the calculation; and
- (b) all the extraneous factors were excluded from the calculation.

Rent adjustment mechanism

7. The Administration was requested to provide written responses on views, suggestions, and request for information made by members as follows:

- (a) To retain the 10% MRIR cap in rent adjustment. When adjusting PRH rents, households should be divided into different categories on the basis of their household size, i.e. from 1-person to 10-person. PRH rents for categories of households with MRIR below 10% would be adjusted upward if there was increase in the proposed income index. However, for household categories with MRIRs exceeding the 10% cap, Housing Authority (HA) could not increase rent for the categories. This mechanism would discount the effect of changes in household size on MRIR and better ensure PRH rents were within tenants' affordability;
- (b) The proposed income index aimed to track the changes in income of households over two different periods. Concern was raised about the possibility that the percentage of households with increase in income less than the increase in the income index would be more than the percentage of households with increase in income more than the increase in the income index. Thus, the income index might not reflect the changes of income of PRH households in general. In this regard, the Administration was requested to develop models to illustrate whether the proposed income index would result in such scenario; and if yes, how the concern could be addressed;
- (c) The proposed income index used the mean household income as the basis for computing the index values. The Administration was requested to develop models using median household income in working out the index values; and

- (d) There was concern about the reliability of the household income data for computing the income index, in particular how HA would ensure the accuracy of the data and the representativeness of the samples collected. To ensure that the income data collected would better reflect the changes in household income, a suggestion had been made for HA to conduct a longitudinal survey on the income changes of a selected sample of PRH households in a rent review cycle instead of selecting a sample of 1 500 to 2 000 households every month.

Date of next meeting

8. The Chairman reminded members that the date of next meeting had been scheduled to be held on Thursday, 29 March 2007 at 8:30 am.

III Any other business

9. There being no other business, the meeting ended at 10:30 am.

Council Business Division 1
Legislative Council Secretariat
23 April 2007

**Proceedings of the third meeting of
the Bills Committee on
Housing (Amendment) Bill 2007
on Friday, 16 March 2007, at 8:30 am
in the Chamber of the Legislative Council Building**

Time marker	Speaker	Subject(s)	Action required
000551 – 000610	Chairman	(a) Opening remarks (b) Confirmation of minutes of meeting on 9 February 2007 (LC Paper No. CB(1)1134/06-07)	
000611 – 001720	Chairman Administration	<u>Power-point presentation by the Administration on external factors affecting the upsurge of median rent-to-income ratio (MRIR)</u> (LC Paper Nos. CB(1)1171/06-07(01)(power-point), 1153/06-07(01) and 1114/06-07(01))	
001721 – 002913	Chairman Mr LEE Wing-tat Administration	(a) Mr LEE Wing-tat's query about the reasonableness to freeze external factors at their 1997 levels when assessing the impact of the factors on the median rent-to-income ratio (MRIR) (page 10 of the power-point). The increase in living space for public rental housing (PRH) tenants in recent years was in tandem with improvement in the overall living conditions in Hong Kong and should not be regarded as a factor attributing to the upsurge in MRIR (b) The Administration's response as follows: (i) The information on page 10 of the power-point was to illustrate the impact of changes in extraneous factors, such as the number of PRH households receiving Comprehensive Social Security Assistance (CSSA), changes in household size distribution, and living space per person, on MRIR; and (ii) The information was only meant to show that the upsurge in MRIR over the past years had been brought about by a number of extraneous factors other than changes in income of PRH households and the rent they paid. It was not meant to justify any one particular MRIR figure.	

Time marker	Speaker	Subject(s)	Action required
002914 – 003852	Chairman Mr Ronny TONG Administration	<p>(a) Mr Ronny TONG's enquiries and concern as follows:</p> <ul style="list-style-type: none"> (i) Why a huge increase in the proportion of small households living in PRH had such a great impact on MRIR as claimed by the Administration; (ii) The Housing Authority (HA) should ensure that the living standard of PRH tenants could keep up with the current level instead of being maintained at the 1997 level. Factors like inflation and new expenditure items e.g. children's education had affected tenants' affordability in paying rents; and (iii) The proposed rent reduction of 11.6% would not fully compensate PRH tenants for the amount of rents over-charged by HA in the past ten years. <p>(b) The Administration's response as follows:</p> <ul style="list-style-type: none"> (i) As the income of small households was usually lower than that of large households, their rent-to-income ratios (RIRs) tended to be higher. Moreover, the living space per person of small households would be higher than that of large households since "common amenities" such as the bathroom or kitchen would be shared among members of the same household. Hence, their RIRs would usually be higher. Thus the rise in the number of small households would push up MRIR; (ii) The proposed income index would track the "pure income changes" of PRH tenants. Under the new rent adjustment mechanism, HA would adjust PRH rent strictly in accordance with the movement in the income index. Adjustment in rents would therefore match closely with tenants' affordability; (iii) Between 1996-97 and 2005-06, some 109 200 old PRH units were demolished and replaced by 224 100 new units which were more spacious and with better facilities; (iv) The information on page 10 of the power-point aimed to demonstrate the impact of extraneous factors on MRIR. Adjusting PRH rents on the basis of the movement in MRIR could produce results that were highly distorted and unreasonable; and (v) The proposed rent reduction of 11.6% was not determined on the basis of MRIR but on the change in the income index since 1997. 	

Time marker	Speaker	Subject(s)	Action required
003853–004536	Chairman Mr LEE Cheuk-yan Administration	<p>(a) Mr LEE Cheuk-yan's views as follows:</p> <ul style="list-style-type: none"> (i) While agreeing that the surge in the number of 1-person households had led to the rise in MRIR, upward adjustment in PRH rents would have greater impact on these households as they tended to have lower income. Their RIRs were likely to be higher than the existing MRIR of 14.3%. Hence there was a need to retain the 10% MRIR cap in rent adjustment; and (ii) To illustrate the impact of rent increase on households of different sizes, the Administration was requested to provide information on the respective MRIR figures for 1-person to 10-person households. <p>(b) The Administration's response as follows:</p> <ul style="list-style-type: none"> (i) It was worth noting that small households usually enjoyed a larger per person living space than large households, and hence a higher RIR; and (ii) There were seven different income thresholds below which tenants could apply for the Rent Assistance Scheme (RAS). An individual-based RAS was a more effective measure than an overall rent increase cap in addressing individual tenants' rental affordability. 	The Admin. to take follow-up action under para. 5 of the minutes
004537 – 005002	Chairman Prof LAU Sau-shing Administration	<p>(a) Prof LAU Sau-shing's enquiry about the extent of rent reduction required to bring the 14.3% MRIR as at the third quarter of 2006 down to 10%</p> <p>(b) The Administration's response as follows:</p> <ul style="list-style-type: none"> (i) A 30% reduction in PRH rents would be required to bring the 14.3% MRIR down to 10%; and (ii) After the implementation of such a reduction, 98% PRH households would pay less than \$2,000 rent a month. Such a reduction would have substantial impact on the long-term sustainability of the PRH programme. <p>(c) Prof LAU Sau-shing's request for the Administration to provide information on MRIR figures after rent reduction of 30% when:</p> <ul style="list-style-type: none"> (i) The extraneous factors except household size were excluded from the calculation; and (ii) Extraneous factors were excluded from the calculation. 	The Admin. to take follow-up action under para. 6 of the minutes

Time marker	Speaker	Subject(s)	Action required
005003 – 005553	Chairman Mr WONG Kwok-hing Administration	<p>(a) Mr WONG Kwok-hing's views and request as follows:</p> <ul style="list-style-type: none"> (i) The number of PRH households receiving CSSA had risen from some 60 000 in 1997 to more than 130 000 in 2006, which helped illustrate the poverty problem of PRH households; (ii) The policy of "well-off" tenants had to some extent led to the exit of high income household members from PRH to set up small PRH households, hence attributing to the rise in MRIR; and (iii) The Administration should provide information to reveal the actual situation in item (a) (ii) above. <p>(b) The Administration's response as follow:</p> <ul style="list-style-type: none"> (i) Although households receiving CSSA tended to have higher RIRs, they did not have any affordability problem <i>per se</i> since their rents were fully covered by the CSSA allowances in most cases. The sharp rise in the number CSSA households in PRH however inflated MRIR; and (ii) The increase in the number of small household applicants for PRH was a general trend observed from the Waiting List. 	The Admin. to take follow-up action under para. 4 of the minutes
005554 – 010120	Chairman Mr CHAN Kam-lam Administration	<p>(a) Mr CHAN Kam-lam's views as follows:</p> <ul style="list-style-type: none"> (i) The upsurge in MRIR was also caused by the replacement of old estates and the relatively higher MRIR benchmarks of 15% and 18.5% adopted in rent fixing for newly completed estates. The Administration should provide details of other external factors distorting MRIR; and (ii) As the statutory 10% rent increase cap would be removed, with the implementation of the new rent adjustment mechanism, it was necessary to provide assistance to PRH tenants facing financial difficulties in paying the normal rents. <p>(b) The Administration's response as follows:</p> <ul style="list-style-type: none"> (i) MRIR was not a suitable mechanism for adjusting PRH rents. Providing higher MRIR cap of over 10% could not resolve the problem of distortion in MRIR brought about by the various extraneous factors; and (ii) RAS was available to provide assistance to individual PRH tenants who faced financial 	The Admin. to take follow-up action under para. 3 of the minutes

Time marker	Speaker	Subject(s)	Action required
		difficulties in paying normal rents. Tenants with income below any of the seven prescribed RIR thresholds could apply for RAS.	
010121 – 010658	Chairman Mr Frederick FUNG Administration	<p>(a) Mr Frederick FUNG's enquiries and views as follows:</p> <ul style="list-style-type: none"> (i) Whether a rent increase cap would be introduced under the new rent adjustment mechanism; and (ii) RAS could not act as a rent increase cap. Whether consideration would be given to prescribe the RIR and income thresholds under RAS in law. <p>(b) The Administration's response as follows:</p> <ul style="list-style-type: none"> (i) There were drawbacks in the existing framework for using MRIR in rent adjustment; (ii) The proposed section 16(A)(4) had in effect placed an overall de facto cap on the extent of rent increase in any future rent adjustment; and (iii) RAS was an administrative scheme of HA. Providing RAS details in the statute would reduce HA's flexibility in making timely improvements to the scheme in response to the prevailing economic conditions. There had been two major enhancements on RAS since 2002. 	
010659 – 011232	Chairman Mr LEE Wing-tat Administration	Mr LEE Wing-tat's request for the Administration to provide information on the effect on MRIR due to the increase in supply of new PRH flats as the newly completed estates had much higher MRIR benchmarks of 15% or 18.5% in rent fixing	The Admin. to take follow-up action under para. 3 of the minutes
011233 – 012308	Chairman Administration	<u>Power-point presentation by the Administration on the calculation of the income index</u> (LC Paper No. CB(1)1171/06-07(02)(power-point), 1153/06-07(01), and 1114/06-07(01))	
012309 – 012856	Chairman Mr CHAN Kam-lam Administration	<p>(a) Mr CHAN Kam-lam's views as follows:</p> <ul style="list-style-type: none"> (i) As only selected households would be required to provide their income data during a rent review cycle, the data so collected might not be able to reflect accurately the overall changes in income of PRH households; and (ii) Whether consideration would be given to require the same sample of households to provide income data for the first and second periods in a rent review cycle in order to keep 	The Admin. to take follow-up action under para. 7(d) of the minutes

Time marker	Speaker	Subject(s)	Action required
		<p>track of income changes of these households.</p> <p>(b) The Administration's response as follows:</p> <p>(i) Statistically, a random selection of 24 000 samples in a year would help produce a representative and highly accurate income index for all PRH households, considering that the Census and Statistics Department only collected income data from 6 000 to 7 000 PRH households, which was the basis for computing MRIR at present; and</p> <p>(ii) While longitudinal survey could trace the income changes of a certain group of PRH households, the mobility of households and changes in their household size during the rent review cycle would have a direct bearing on the reliability of the data. The proposed sample size of 1 500 to 2 000 households per month would provide a continuous stream of data to reflect accurately the overall changes in income of PRH households.</p>	
012857 – 013344	Chairman Mr LEE Cheuk-yan Administration	<p>(a) Mr LEE Cheuk-yan's enquiry about the feasibility of retaining the 10% MRIR cap in rent adjustment. His suggestion that in adjusting PRH rents, households should be grouped into different categories according to their household size whereby rent in each category would be reviewed and adjusted subject to the 10% MRIR cap</p> <p>(b) The Administration's response that the suggestion might result in different rent adjustments for different households living in similar flats during the same rent review exercise</p>	The Admin. to take follow-up action under para. 7(a) of the minutes
013344 – 014122	Chairman Mr LEE Wing-tat Administration	<p>(a) Mr LEE Wing-tat's view and request as follows:</p> <p>(i) According to the examples on pages 13 and 14 of the power-point which derived an income index of 103.4, i.e. indicating a need to increase rent by 3.4%, the income increase for most 2-person and 3-person households were lower than 3.4% although that for 1-person households was generally higher than 3.4%. There was concern that the percentage of households with increase in income less than the increase in the income index would be more than the percentage of households with increase in income more than the increase in the income index. Thus, the income index might not truly reflect the changes of income of PRH households in general; and</p> <p>(ii) The Administration was requested to develop models to illustrate whether the proposed</p>	The Admin. to take follow-up action

Time marker	Speaker	Subject(s)	Action required
		<p>income index would result in the scenario in item (a)(i); and if yes, how the concern could be addressed.</p> <p>(b) The Administration's response as follows:</p> <p>(i) As the income index was calculated based on the weighted average household income, there would certainly be some households whose income increases would be higher or lower than the change in the income index values. There was no evidence to suggest a systematic pattern of either group of these households being in the majority. Nevertheless changes in income of PRH households should not differ very significantly given the resemblance of their job nature; and</p> <p>(ii) To achieve higher reliability of the data, the Administration would ensure PRH tenants of different household sizes would have the chance of being sampled. Tenants with approximately the top 1% household income in each household size group would also be excluded when calculating the weighted average household income.</p>	<p>under para. 7(b) of the minutes</p>
<p>014123 – 014602</p>	<p>Chairman Mr WONG Kwok-hing Administration</p>	<p>(a) Mr WONG Kwok-hing's enquiry and concern as follows:</p> <p>(i) The details of the proposed mandatory system for collecting income data; and</p> <p>(ii) The mandatory declaration system was administrated by HA and not subject to monitoring by LegCo.</p> <p>(b) The Administration's response as follows:</p> <p>(i) Sampled households were required to submit their income data to the Housing Department by a specified deadline under section 25 of the Housing Ordinance (HO) HA would make clear that the income information so collected would be used for the sole purpose of conducting statistical analyses; and</p> <p>(ii) To minimize disturbance to PRH tenants, a sample of 2 000 households would be selected each month (i.e. 24 000 households per year) to furnish HA with their household income. HA could then be able to obtain a stream of income data continuously throughout the year. No household would be selected more than once within a period of 12 months.</p>	

Time marker	Speaker	Subject(s)	Action required
014603 – 015309	Chairman Ms CHAN Yuen-han Administration Assistant Legal Adviser (ALA)	<p>(a) Ms CHAN Yuen-han's views as follows:</p> <ul style="list-style-type: none"> (i) The PRH programme was to meet the housing needs of grass-root people. The interests of PRH tenants, in particular those whose RIR fell below 20% and thus were not eligible for RAS, should be safeguarded so that they could continue to enjoy better living condition under the PRH programme; (ii) The increase in average living space per person and changes in household size distribution were reasonable improvements in the PRH programme. They should not be used to argue for the unsustainability of the 10% MRIR cap; and (iii) Currently, a rent adjustment mechanism allowing both upward and downward adjustments in PRH rents was available. <p>(b) The Administration's response as follows:</p> <ul style="list-style-type: none"> (i) Under RAS, there were seven eligibility thresholds catering the needs of various households facing different degree of financial hardship; and (ii) The increase in MRIR was triggered by many extraneous factors not related to changes in household income or rents. The 14.3% MRIR as at the third quarter of 2006 could be brought down to 10% by a reduction of 30% in PRH rents. The extent of the reduction would not be acceptable to the public at large. <p>(c) ALA's advice that according to the Court of Final Appeal's ruling, section 16(1A) of the HO (i.e. MRIR cap) was not applicable to any decision to reduce rent. While HA might remit, in whole or in part and for such period as it thought fit, the payment of any rent etc. under section 17 of the HO, there was no statutory rent reduction mechanism in the ordinance</p>	
015310 – 015827	Chairman Mr Joseph LEE Administration	<p>(a) Mr Joseph LEE's request for the Administration to explore the possibility of using the median household income, instead of the mean household income, as the basis for computing the values of the income index</p> <p>(b) The Administration's response that the "weighted average" approach could not be applied to the median household income to discount the household size distribution effect for working out the income index values</p>	The Admin. to take follow-up action under para. 7(c) of the minutes

Time marker	Speaker	Subject(s)	Action required
015828 – 020445	Chairman Mr LEUNG Kwok-hung Administration	(a) Mr LEUNG Kwok-hung's views that the purpose of the PRH programme was to provide low-income families with subsidized rental housing within their affordability (b) The Administration's response that it remained the Government's policy to provide subsidized housing affordable to those in genuine need. The proposed new rent adjustment mechanism would help sustain the PRH programme in the long run	
020446 – 020517	Chairman	Date of next meeting	

Council Business Division 1
Legislative Council Secretariat
23 April 2007