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香港特別行政區政府
The Government of the Hong Kong Special Administrative Region

房屋及規劃地政局(房屋)

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9 March 2007

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(Fax no.: 2877 5029)

Dear Mr. Lee,

Housing (Amendment) Bill 2007

Thank you for your letter of 7 February.

Our responses to your questions are as follows –

Mandatory Declaration System

The section 16A(8)(b) proposed by the Housing (Amendment) Bill 2007 (the Bill) seeks to empower the Housing Authority (HA) to appoint a tertiary institution in Hong Kong or a public body to compile the income index. We have put in place the necessary arrangements to enable transfer of PRH households' income data to the concerned tertiary institution or public body such that the transfer is in compliance with the personal data policy. In brief, for those PRH tenants who have been selected to participate in the household income survey, they will be asked to provide the HA with their household

income information by completing an income declaration form. They will be informed through the income declaration form of the purpose for which the data are to be used (i.e. for conducting statistical analyses) and the classes of persons (including a tertiary institution or public body appointed by the HA) to whom their personal data may be transferred. These arrangements are in compliance with the principles concerning collection and use of personal data set out in Schedule 1 to the Personal Data (Privacy) Ordinance.

Income Index

The income index as stipulated in section 16A(8)(a) proposed by the Bill does not create two types of index. It only sets out the framework governing the calculation of the two values of the income index, one covering the first period and the other the second period, of the same income index. The two income index values respectively for the first and second period are specifically stated in section 16A(8)(a)(i) and section 16A(8)(a)(ii). Section 16A(4) further sets out clearly which values of the index are to be used in any particular rent review for the purpose of assessing the rate of change of the income index between the first and second period, and hence the rate of rent adjustment warranted.

The purpose of adding the word “adjusted” before “mean household income” in section 16A(8)(a)(ii) underlines the need to compile the second period value of the income index based on the household size distribution of PRH tenants in the first period. The objective is to discount the potential distortion brought about by a change in the household size distribution between the first and second period. It is not correct to suggest that the income index so compiled for the second period is a new index different from the one compiled for the first period. They actually belong to the same series of the income index, but have different index values.

This methodology for compiling the income index is widely adopted in the construction of statistical indices. In more technical terms, it is often referred to as the Laspeyres index method. The Census and Statistics Department (C&SD) employs this method for compiling, amongst others, the Consumer Price Index (CPI) which measures the changes in general price levels. In the case of CPI, the weightings of expenditure are based on a *fixed* basket of commodities/services. These weightings are updated every five years and different values of the CPI are published regularly. By the same token, the income index introduced under the Bill seeks to measure the “pure” changes in household income that are unaffected by changes in the household size distribution of PRH tenants over a two-year period corresponding to any particular rent review cycle. For the computation of the two income index values in respect of the first and second period, the household size distribution of the PRH tenants is kept constant at the position recorded in the first period.

The weightings of the household size distribution are updated in each rent review which takes place every two years. The series of income index to be used in rent reviews can be regarded as a “chain Laspeyres index” as the values of the index for different reference periods can be “chained up” using statistical method. Details will be provided in our responses to Members’ requests raised at the meeting of the Bills Committee on 9 February 2007, which will be sent to the Clerk to the Bills Committee shortly.

We therefore have reservation regarding the suggestion that section 16A(4)(a) should be written to read “if satisfied on a review of the relevant rent that the adjusted monthly household income index for the second period is higher than the income index for the first period,” We are concerned that doing so would give rise to confusion or misunderstanding that there are two different kinds of income index – one is the “monthly household income index” for the first period and the other is the “adjusted monthly household income index” for the second period. As explained above, the Bill only seeks to introduce one income index, which can have different values for different reference periods, for the purpose of assessing the extent of rent adjustment warranted in a rent review.

Exception to the Application of Section 16A

Adjustments of Rent of “Well-off” Tenants and Low-Income Tenants

Under the Housing Subsidy Policy and Policy on Safeguarding Rational Allocation of Public Housing Resources (i.e. the so-called “well-off tenants” policy), household income and net asset value are the two criteria for determining PRH households’ eligibility to continue to receive public housing subsidies and the level of additional rent they have to pay. Tenants who have resided in PRH for ten years or more are required to declare household income at a biennial cycle. For those with household income exceeding two times the Waiting List income limits, they have to pay 1.5 times net rent plus rates. Those with household income exceeding three times the Waiting List income limits have to pay double net rent plus rates. The rent adjustments applicable to the above categories of tenants are made solely on the basis of their household income.

It is only for those tenants who are already paying double net rent plus rates (i.e. those with household income exceeding three times the Waiting List income limits) that they are required to declare their asset at the next cycle of declaration if they wish to continue to live in PRH. If their total net asset exceeds 84 times the Waiting List income limits, they would be required to vacate their PRH flats. They may apply for a fixed-term licence to stay in PRH for a period of not more than 12 months during which a licence fee equivalent to market rent will be charged. In other words, the adjustment of

rent from double net rent plus rates to market rent is made on the basis of the concerned households' asset. Rent adjustments under the "well-off tenants" policy are therefore made on the basis of either tenants' household income or asset.

As regards rent reduction under the Rent Assistance Scheme (RAS), eligibility is currently determined solely on the basis of tenants' household income. Depending on the applicants' household income, RAS recipients would be granted a rent reduction of either 25% or 50%. Details of the eligibility criteria under the RAS are set out at Appendix V to the submission annexed to the attached letter to the Secretary to the Bills Committee.

We believe section 16A(3) proposed by the Bill, as it is currently drafted, has covered all these adjustments. We are now considering whether it is necessary to make suitable amendment to cover circumstances in which rent adjustments for "well-off tenants" and RAS recipients are made on the basis of both their assets and incomes.

Re-adjustments of Rent of "Well-off Tenants" and RAS Recipients

"Relevant rent" is the rent that is subject to review and variation under section 16A proposed by the Bill. Basically, that is the rent paid by a resident tenant, but excluding the rent paid by –

- (a) someone who pays a higher rent after an adjustment under section 16A(3)(a)(i); or
- (b) someone who pays a lower rent after an adjustment under section 16A(3)(b)(i).

Item (a) covers "well-off tenants" whereas item (b) covers RAS recipients.

Section 16A(3)(a)(ii) and 16A(3)(b)(ii) further provides that a subsequent re-adjustment in the rent of the concerned "well-off tenants" or RAS recipients, like an adjustment, falls outside the rent review and variation under section 16A. For "well-off tenants" and RAS recipients, they have to pay either a higher rent or lower rent after an adjustment under the relevant policies. The rent paid by them is not "relevant rent". If they are no longer deemed "well-off tenants" or eligible for RAS, their rent would be "re-adjusted". After the re-adjustment, in the case of those who were previously caught under the "well-off tenants" policy, they are no longer required to pay a higher rent. As for those who are no longer eligible for RAS, they would not be entitled to rent reduction. The rent paid by these former "well-off tenants" and RAS recipients becomes "relevant rent" again and is subject to review and variation under new section 16A.

It should, however, be noted that under the existing “well-off tenant” policy and RAS, the extent of the additional rent to be charged (apart from those paying market rent) and the extent of rent reduction to be granted are determined with reference to the “relevant rent” payable by other PRH tenants. Any adjustment to the “relevant rent” according to the new mechanism under section 16A(4) will affect the calculation of the amount of additional rent or reduced rent to be paid by “well-off tenants” or tenants eligible for RAS.

Definition of “Insignificant”

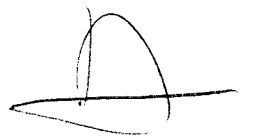
The HA has to form a reasonable opinion in determining whether the variation is “insignificant”. When forming that opinion, the HA will consider the relevant circumstances of the case including, inter alia, the proportion of the variation to individual tenants’ rental payments, the impact on the HA’s rental receipts, etc.

Evidence

The intention of the HA is to ask C&SD to compile the income index on its behalf. In any rent review, the income index covering the first and second period as compiled by C&SD will form part of the paper to be submitted to the HA’s relevant committee setting out the findings of the review. The income index so presented to the HA’s relevant committee will be deemed to be conclusive and official.

Should you require any further clarification, please feel free to contact the undersigned.

Yours sincerely,



(Raymond WU)

for Permanent Secretary for Housing,
Planning and Lands (Housing)

c.c.

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