

Bills Committee on Housing (Amendment) Bill 2007

**Summary of views/concerns raised by the Bills Committee
(as at 23 May 2007)**

| Item | Issues of views/concern | Administration's responses and follow-up actions |
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| 1. | <i>Removal of the 10% median rent-to-income ratio (MRIR) cap (Long title, clause 3)</i> | |
| 1.1 | <p>The existing Housing Ordinance (HO) (Cap. 283) already allows adjustment of rents both upward and downward. The 10% MRIR cap is to restrain rent increases to ensure public rental housing (PRH) rents are within the affordability of tenants. Section 17 of the HO already provides that the Housing Authority (HA) may remit PRH rents. As such, it would be unnecessary to amend the HO to put in place the proposed rent adjustment mechanism. The Administration should explain the feasibility of implementing the proposed rent adjustment mechanism without amending the HO. It should also provide concrete examples to justify its view that the 10% MRIR provisions are not conducive to the long term sustainability of PRH development and the reasons for repealing the MRIR provisions.</p> <p>(LC Paper No. CB(1)1037/06-07(06))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1114/06-07(01) para. 6-10 and LC Paper No. CB(1)1153/06-07(01) para. 1-2.</p> |
| 1.2 | <p>The Administration is requested to provide details of other extraneous factors, such as increase in supply of new PRH flats and redevelopment programme of PRH, and their respective impact on MRIR. For instance, newly completed estates have much higher MRIR benchmarks of 15% and 18.5%. The information should highlight whether changes in these factors would result in distortions in MRIR.</p> <p>(LC Paper No. CB(1)1234/06-07(02))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1234/06-07(01) para. 1, 4, 5.</p> |

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| 1.3 | <p>Concern has been raised that the policy of "well-off" tenants, which to some extent has led to the exit of high income tenants, may attribute to the rise in MRIR. The Administration is requested to provide information on the actual number and percentage changes in "well-off" tenants in the past few years.</p> <p>(LC Paper No. CB(1)1234/06-07(02))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1234/06-07(01) para. 2.</p> |
| 1.4 | <p>According to the Administration, the surge in the number of small households has led to the rise in MRIR. In order to illustrate the pure changes of household size on MRIR figures, the Administration is requested to provide information showing respective MRIR figures for PRH households of different sizes, i.e., from 1-person to 10-person.</p> <p>(LC Paper No. CB(1)1234/06-07(02))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1234/06-07(01) para. 3.</p> |
| 1.5 | <p>While some members are of the view that the upsurge in MRIR since 1997 was mainly attributed to the significant decline in PRH households' income, the Administration indicates that the upsurge in MRIR was largely due to extraneous factors including, inter alia, increase in the number of PRH tenants receiving Comprehensive Social Security Assistance and increase in the number of elderly or small households who tend to have lower income etc. In this connection, the Administration is requested to provide information to justify its findings.</p> <p>(LC Paper No. CB(1)1114/06-07(02))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1153/06-07(01) para. 8.</p> |

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| 2. | <i>New rent adjustment mechanism (Long title, clause 4)</i> | |
| 2.1 | <p>To facilitate members' understanding of the impacts of different rent adjustment proposals on PRH rents, the Administration is requested to provide the following information:</p> <ul style="list-style-type: none">(a) Breakdown by year on the accumulative changes in PRH rents since 1997 if rent adjustment were to be introduced in accordance with movements in each of the following indicators-<ul style="list-style-type: none">(i) Consumer price index;(ii) The 10% MRIR cap; and(iii) The proposed income-based index tracking the movement in PRH tenants' household income;(b) In relation to item (a), the information should cover the implication of rent increase waivers and rent remission implemented by HA during the period; and(c) The details for working out the proposed 11.6% across-the-board reduction in PRH rents, including factors taken into account and details of the calculation. <p>(LC Paper No. CB(1)1037/06-07(06))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1114/06-07(01) para. 1-3.</p> |
| 2.2 | <p>To reflect the actual rental affordability of PRH tenants, the Administration is requested to provide the following information to the table listing the re-scaled series of income index for 1996-2006 (section E to Appendix II of the Administration's paper (LC Paper No CB(1)1114/06-07(01)) for members' reference:</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1570/06-07(02) para. 1-2.</p> |

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| | <p>(a) Consumer Price Index;</p> <p>(b) Nominal wage; and</p> <p>(c) Real wage.</p> <p>(LC Paper No. CB(1)1508/06-07(02))</p> | |
| 2.3 | <p>With continued prudent financial management, HA will be able to balance its income and expenditure thus enabling sustainable development of PRH in the long run. HA should work out productivity enhancement targets to achieve savings in operating costs. The Administration should explain why given the current financial position of HA, it cannot maintain sustainability in its finance in the long run. In this connection, the Administration is requested to provide information on HA's investment income and rental operating account in the past ten years and their projections in the next five years. The information on HA's rental operating account should cover summary explanation on the itemized breakdown including salaries and depreciations.</p> <p>(LC Paper No. CB(1)1037/06-07(06))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1114/06-07(01) para. 11-14.</p> |
| 2.4 | <p>The purposes for and operation of excluding rent adjustments paid by "well-off tenants" and tenants eligible for the Rent Assistance Scheme (RAS) from the application of the proposed new rent adjustment mechanism are unclear. The drafting of the new subsection 16A(3) under clause 4 should be improved to properly reflect the policy intent.</p> <p>(LC Paper No. CB(1)1037/06-07(06))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1114/06-07(01) para. 19-23.</p> |

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| 2.5 | <p>The policy intent of the proposed section 16A(3) is to exclude the application of the new rent adjustment mechanism to "well-off" tenants and tenants receiving assistance under RAS. The Administration has explained that under the existing policies of "well-off" tenant and RAS, the extent of the additional rent (apart from market rent) to be charged and the extent of rent reduction to be granted are determined with reference to the relevant rent payable by other PRH tenants. Hence, any adjustment to the relevant rent according to the new mechanism will affect the calculation of the amount of rents payable by "well-off" tenants or tenants under RAS.</p> <p>In order to safeguard the interests of "well-off" tenants and tenants under RAS, the Administration is requested to consider specifying in the Bill the linkage between the level of rent payable by these tenants with the relevant rent.</p> <p>(LC Paper No. CB(1)1570/06-07(01))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1580/06-07(02) para. 4 and 5.</p> |
| | <p>While members notes the Administration's view that there is no provision under the existing section 16(1C) on the calculation of rents paid by "well-off" tenants, in order to allay the concerns of these tenants, the Administration is requested to give a statement during the resumption of the Second Reading debate of the Bill that under the HA's existing Housing Subsidy Policy and Policy on Safeguarding Rational Allocation of Public Housing Resources, the level of rent payable by these tenants is calculated with reference to the relevant rent payable by other PRH tenants.</p> <p>(LC Paper No. CB(1)1700/06-07(01))</p> | <p>Administration's responses awaited.</p> |
| 2.6 | <p>The proposed section 16A(4) provides that variation in public rental housing (PRH) rents must follow the changes in the proposed income index of the two periods in a rent review cycle. While some members support the provision as it provides certainty, some members have raised concern about the provision restricting the</p> | <p>Administration's responses awaited.</p> |

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| | <p>Housing Authority (HA)'s power in determining the rate of rent adjustment, in particular to address financial problem of tenants at times of economic downturn. The Administration is requested to consider the following views/ suggestions and provide written responses to the Bills Committee:</p> <ul style="list-style-type: none"> (a) To examine the need and feasibility of providing HA with the flexibility in determining the rate of rent adjustment with reference to the changes in the proposed income index; and (b) If it is considered necessary to provide HA with the discretionary power in (a) above, to consider how HA shall exercise such power, and whether any parameters should be prescribed to ensure HA would exercise the power in a transparent and fair manner. <p>(LC Paper No. CB(1)1700/06-07(01))</p> | |
| 2.7 | <p>The Administration is requested to consider the proposal 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 the MRIR below 10% will be adjusted upward if there is increase in the proposed income index. However, for household categories with MRIRs exceeding the 10% cap, 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 are within tenants' affordability.</p> <p>(LC Paper No. CB(1)1234/06-07(02))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1234/06-07(01) para. 7.</p> |

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| 2.8 | <p>To facilitate members' consideration of the different proposals for adjusting PRH rents, the Administration is requested to compare the pros and cons of the various proposals, inter alia:</p> <ul style="list-style-type: none"> (a) Retaining the 10% MRIR cap in rent adjustment; (b) The proposed income index tracking the movement in PRH tenants' household income; and (c) Adopting the 10% MRIR cap for each household size group in guiding rent adjustments. To address the concern arising from this proposal where similar PRH units would attract different rent level, a modified version is to link rent adjustment with the type of PRH flat occupied by the household and the prevailing MRIR of the particular household size group occupying the unit. <p>(LC Paper No. CB(1)1341/06-07(02))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1341/06-07(01) para. 1-15.</p> |
| 2.9 | <p>The rents of PRH units within the same district are fixed mainly with reference to the size of the units. Some members have expressed concern that if a one-person household is allocated to a unit catering for two persons, or a three-person household is offered with a two-person unit, the rents paid by the households may not be directly related to their income, thus affordability. To illustrate the possible impact of the allocation situation on the rent adjustment mechanism, the Administration is requested to provide information on the distribution of PRH households by different flat types/sizes. In this connection, the Administration is also requested to provide information on the number in respect of over-crowded and under-occupied households in PRH in recent years.</p> <p>(LC Paper No. CB(1)1341/06-07(02))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1341/06-07(01) para. 13-14.</p> |

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| 2.10 | <p>To facilitate smooth implementation of the new rent adjustment mechanism and instill PRH tenants' confidence in the mechanism, the Administration should organize suitable publicity programmes to explain the operation of the new mechanism and promote tenants' awareness. It should also consider commencing the Amendment Ordinance one year after its enactment.</p> <p>(LC Paper No. CB(1)1037/06-07(06))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1114/06-07(01) para. 24-25.</p> |
| <p>3. <i>Provision of a rent increase cap or a rent level cap (clause 4)</i></p> | | |
| 3.1 | <p>The Administration is requested to consider:</p> <p>(a) the feasibility of introducing a statutory rent increase cap under the new rent adjustment mechanism to ensure PRH rents would be affordable to tenants; and</p> <p>(b) whether the proposed rent adjustment mechanism would provide a ceiling on rent increases; and if yes; how the cap will operate.</p> <p>(LC Paper No. CB(1)1037/06-07(06)) (LC Paper No. CB(1)1114/06-07(02))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1114/06-07(01) para. 15-17 and LC Paper No. CB(1)1153/06-07(01) para. 1-3</p> |
| 3.2 | <p>The 10% MRIR cap is a statutory safeguard for PRH tenants against excessive rent increases by the HA. As the Bill seek to remove this cap, members consider it imperative to introduce a rent increase cap or rent level cap under the proposed rent adjustment mechanism. The Administration is invited to consider and consult HA on the following proposals put forward by members, and report the outcomes to the Bills Committee as soon as possible:</p> | <p>Administration's responses awaited.</p> |

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| | <p>(a) To impose a 15% rent-to-income ratio (RIR) cap at individual household level, i.e. when adjusting PRH rents, HA could not increase rents for households with RIRs exceeding 15%;</p> <p>(b) To reduce the income limit of 20% RIR under the RAS to 15% RIR. The cap is to be prescribed in law in order to provide statutory safeguard for PRH tenants. Other conditions such as the requirement for tenants to move to PRH flats with lower rents should be relaxed;</p> <p>(c) To set a rent level cap with reference to ratios of rent and income in each household size group. "Weighted average" ratios of rent and income in each household size group would form the basis for working out the rent level cap; and</p> <p>(d) To include a productivity gain element in rent adjustment by deducting the percentage productivity gain achieved by HA from the rent increase as compiled by the changes in the income index.</p> <p>(LC Paper No. CB(1)1508/06-07(01))</p> | |
| 3.3 | <p>The 10% MRIR cap is a statutory safeguard, in particular, for the low-income tenants ensuring that the rents they pay are within their affordability. The Administration is requested to consider the following views/proposals:</p> <p>(a) To introduce a rent level cap for all PRH tenants in law so that HA could not increase rents for those PRH tenants whose rents, after rent adjustment, have exceeded a certain percentage of their income. The level of the cap could be further discussed; and</p> <p>(b) To improve the Rent Assistance Scheme by relaxing the eligibility criteria</p> | Administration's responses awaited. |

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| | <p>and requirements so that tenants with genuine needs could benefit from the Scheme.</p> <p>(LC Paper No. CB(1)1580/06-07(01))</p> | |
| 4. | <i>The proposed income index and its computation (clause 4)</i> | |
| 4.1 | <p>The proposed income index aims to track the changes in income of households over two different periods. Concern is 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 may not reflect the changes of income of PRH households in general. In this regard, the Administration is 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.</p> <p>(LC Paper No. CB(1)1234/06-07(02))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1234/06-07(01) para. 9 and LC Paper No. CB(1)1455/06-07(01).</p> |
| 4.2 | <p>The proposed income index uses the mean household income as the basis for computing the index values. The Administration is requested to develop models using median household income in working out the index values.</p> <p>(LC Paper No. CB(1)1234/06-07(02))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1234/06-07(01) para. 9-12 and LC Paper No. CB(1)1455/06-07(01).</p> |
| 4.3 | <p>There is 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 the samples collected. To ensure that the income data collected would better reflect the changes in household income, a suggestion has been made for HA to conduct a longitudinal survey on the income changes of a</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1234/06-07(01) para. 9-12 and LC Paper No. CB(1)1455/06-07(01).</p> |

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| | <p>selected sample of PRH households in a rent review cycle instead of selecting a sample of 1 500 to 2 000 households every month.</p> <p>(LC Paper No. CB(1)1234/06-07(02))</p> | |
| 4.4 | <p>The proposed section 16A(6) of the Bill provides that HA is not required to vary the relevant rent if, in its opinion, the amount of the variation is insignificant. As what constitutes "insignificant variation" is not defined in the Bill, concern is raised about the provision giving HA wide discretionary power. There are suggestions for the Administration:</p> <ul style="list-style-type: none"> (a) To set out clearly in the provision the circumstances and factors to be considered by HA in determining the matter so as to enhance transparency of the process; and (b) To prescribe an appropriate amount/threshold of which variation in the relevant rent will be considered insignificant. For instance, consideration could be given to adopting a certain rate of change in the income index (either increase or decrease) as the amount/threshold. <p>(LC Paper No. CB(1)1570/06-07(01))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1580/06-07(02) para. 6.</p> |
| 4.5 | <p>The proposed section 16A(8)(b) provides that HA may compile the income index by itself, or appoint a tertiary institution or a public body in Hong Kong to compile the index. In order to prevent potential conflict of interests of HA compiling the index, and to enhance the credibility of the index, the Administration is requested to consider specifying that the income index is not to be compiled by HA, which shall appoint a tertiary institution or a public body to compile the income index.</p> <p>(LC Paper No. CB(1)1570/06-07(01))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1580/06-07(02) para. 7.</p> |

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| 4.6 | <p>Notwithstanding that the Administration's proposed CSA to section 16A(8)(b) specifies that HA shall appoint a tertiary institution or a public body to compute the income index, members note that HA could determine how to compile the index. While the Administration is of the view that given the technical complexity involved it is both impractical and undesirable to spell out the details of data collection and computing methodology of the income index in the law, members have raised concern about lack of statutory safeguard against HA's power in determining the details for compiling the index including the coverage of the index, survey method and sample size. The Administration is requested to consider the following views/suggestions and provide written responses to the Bills Committee:</p> <ul style="list-style-type: none"> (a) To explore the feasibility of prescribing the details for compiling the income index, or setting out important parameters in the Bill; and (b) To put in place measures to prevent HA's undue influence on the computation agent during compilation of the income index. A possible option is to delete "in accordance with a determination by the Authority on how to compute the index" in proposed section 16A(8)(b). <p>(LC Paper No. CB(1)1700/06-07(01))</p> | Administration's responses awaited. |
| 5. | <i>Commencement date (clause 2)</i> | |
| 5.1 | <p>Clause 2 provides that the Amendment Ordinance shall come into operation on a day to be appointed by the Secretary for Housing, Planning and Lands by notice published in the Gazette.</p> <p>In order to provide certainty to PRH tenants on the implementation of the new rent adjustment mechanism and to facilitate the collection of income data and computation of the income index, it is the Administration's intention to commence</p> | The Administration's responses are set out in LC Paper No. CB(1)1580/06-07(02) para. 2. |

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| | <p>the Amendment Ordinance as soon as possible.</p> <p>(LC Paper No. CB(1)1570/06-07(01))</p> | |
| 6. | <i>Rent review cycle (clause 4)</i> | |
| 6.1 | <p>The Administration is requested to review the drafting of the proposed CSA for section 16A(1) to address members' concerns. Given that the policy intention is to require HA to review PRH rent at a two-year cycle, there are suggestions for the Administration:</p> <p>(a) To set out clearly in separate sub-paragraphs under section 16A(1) when HA shall review the relevant rent after the commencement of the Amendment Ordinance, and when it shall conduct subsequent rent reviews; and</p> <p>(b) HA shall review the relevant rent as soon as practicable every two years. The drafting of the proposed CSA to section 16A(1) should be improved by deleting the words "當日" in the Chinese text and "on or" in the English text.</p> <p>(LC Paper No. CB(1)1570/06-07(01))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1580/06-07(02) para. 3.</p> |
| | <p>Members consider the purposes of Administration's proposed Committee Stage amendment (CSA) to add the new section 16A(1)(b) (LC Paper No. CB(1)1580/06-07(02)) unclear. The Administration is requested to consider the following views/suggestions and provide written responses to the Bills Committee:</p> <p>(a) The Administration should clarify the policy intent of the new paragraph (b) of section 16A(1) and improve the drafting to enhance the clarity;</p> | <p>Administration's responses awaited.</p> |

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| | <p>(b) In connection with (a) above, the Administration may consider recasting the new paragraph (b) as "(The Authority) may, from time to time, review the relevant rent for the purpose of";</p> <p>(c) As the new paragraph (b) of section 16A(1) does not require HA to review PRH rents other than as provided by paragraph (a), i.e. every two years, the provision could prevent HA from conducting more frequent rent reviews, in particular at times of economic difficulties with a view to addressing financial hardship of tenants; and</p> <p>(d) Given that HA has implicit power under the Housing Ordinance to review PRH rent, and would not be restricted from conducting more frequent rent reviews, to avoid possible misunderstanding by and confusion to tenants, the Administration should consider deleting the new paragraph (b).</p> <p>(LC Paper No. CB(1)1700/06-07(01))</p> | |
| | <p>There is concern that section 16A(5), which provides that HA shall not vary PRH rent within two years after the commencement of the Amendment Ordinance or after the preceding rent variation, may restrict HA's power to vary rents to address financial difficulties of tenants. The Administration is requested to consider whether HA should be given flexibility in variation of rent to cater for unforeseeable circumstances.</p> <p>(LC Paper No. CB(1)1700/06-07(01))</p> | <p>Administration's responses awaited.</p> |

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| 7. | <i>Rent reduction to provide for the new rental basis for implementation of the new rent adjustment mechanism</i> | |
| 7.1 | <p>The Administration is requested to consider:</p> <ul style="list-style-type: none"> (a) the feasibility of reducing PRH rents first before putting in place the proposed rent adjustment mechanism prescribed in the Bill; and (b) the feasibility of implementing the proposed rent reduction for PRH estates with retrospective effect to the date when the Bill was introduced in the Legislative Council on 31 January 2007, or from 1 January 2007. <p>(LC Paper No. CB(1)1037/06-07(06))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1114/06-07(01) para. 4-5, 18.</p> |
| 7.2 | <p>The Administration is requested to consider members' suggestion of adjusting the current rent level downwards to bring MRIR down to 10% so as to provide a fairer starting point for the operation of the new rent adjustment mechanism.</p> <p>(LC Paper No. CB(1)1114/06-07(02))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1153/06-07(01) para. 4-7 and LC Paper No. CB(1)1341/06-07(01) para. 16-19.</p> |
| 7.3 | <p>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 is requested to provide information on the MRIR figures when:</p> <ul style="list-style-type: none"> (a) the extraneous factors except household size are excluded from the calculation; and (b) all the extraneous factors are excluded from the calculation. <p>(LC Paper No. CB(1)1234/06-07(02))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1234/06-07(01) para. 6.</p> |

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| 8. | <i>Rent Assistance Scheme</i> | |
| 8.1 | <p>The Administration is requested to provide details on relief measures for needy tenants, including possible measures to address needs of tenants who fall marginally outside the RAS.</p> <p>(LC Paper No. CB(1)1037/06-07(06))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1114/06-07(01) para. 15-17.</p> |
| 8.2 | <p>To enable members to have a better understanding of the rent assistance available to tenants facing financial hardship, the Administration is requested to provide information on RAS since 1997, as follows:</p> <ul style="list-style-type: none">(a) A breakdown by various household size groups on the number of RAS applications, the number of applications approved and rejected; and(b) A breakdown by various household size groups on the number of existing RAS recipients, and the number of households which have received RAS. <p>(LC Paper No. CB(1)1508/06-07(01))</p> | <p>The Administration's responses are set out in LC Paper No. CB(1)1570/06-07(02) para. 3.</p> |