

By Fax

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
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29 May 2007

Ms. Connie SZETO
Clerk to Bills Committee
Legislative Council Building
8 Jackson Road, Central
Hong Kong

Dear

A handwritten signature in cursive script that reads 'Connie,'.

**Bills Committee on Housing (Amendment) Bill
Follow-up to meeting of 25 May 2007 and Committee Stage
Amendments proposed by Members**

Please find at **Annex** the Administration's written responses
in connection with issues raised by Members at the meeting of the Bills
Committee on 25 May 2007.

Yours sincerely,

A handwritten signature in cursive script that reads 'Cora Ho'.

(Ms Cora HO)

for Secretary for Housing, Planning and Lands

c.c.

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**The Administration's Responses to Members' Requests
Raised at the Meeting of the Bills Committee on
Housing (Amendment) Bill 2007 on 25 May 2007
and Committee Stage Amendments proposed by Members**

RENT INCREASE CAP

As explained in our reply of 22 May 2007 [CB(1)1700/06-07(02)], section 16A(4) of the Housing (Amendment) Bill 2007 (the Bill) already imposes a statutory obligation on the Housing Authority (HA) to adjust PRH rent strictly in accordance with the rate of increase or decrease in the income index which reflects changes in public rental housing (PRH) tenants' household income. This would provide a de facto cap on rent increase and statutory safeguard for PRH tenants. Furthermore, under the HA's Rent Assistance Scheme (RAS), there are different eligibility criteria to cater for PRH tenants who face temporary financial hardship. Appreciating the concerns that households with income falling below the mean income change might need special financial assistance, the HA has agreed to implement revisions to the RAS after the passage of the Bill to ease tenants' anxieties with the change-over to the new rent adjustment framework.

2. On the median rent-to-income ratio and "average rent to income ratio index", we repeatedly explained that any form of global rent to income ratio (mean or median) would be affected by a number of extraneous factors other than the income of PRH households and the rent they pay. These extraneous factors include household size distribution, number of Comprehensive Social Security Assistance (CSSA) recipients, living space standards, etc.

3. For the "average rent to income ratio index", since it would be compared with a proposed benchmark of 15% set at a particular time period, assessing the index by keeping the household size distribution constant at the first period of each rent review cycle would not be able to discount the household size distribution effect. Apart from household size distribution, other extraneous factors would also affect the "average rent to income ratio index". Besides, it would be difficult to interpret the exact meaning of a "weighted

average” figure of rent to income ratio and justify the use of such figure to set a rent level cap.

RENT REVIEW CYCLE

4. Some Members suggested a rent review cycle of three years. The HA has indeed carefully considered the issue of how frequent PRH rent should be reviewed. It is concerned that the cumulative effects of the changes in the income index, which would be used for rent adjustments, over a relatively longer period, say three years, may result in a larger degree of rent adjustments to which tenants may find it more difficult to adapt. On balance, a shorter rent review cycle of two years is a better choice as it would help achieve a more moderate rent adjustment in every review and allow the HA to react more quickly to changes in socio-economic circumstances.

COMPUTATION OF INCOME INDEX

5. A Member suggested using monthly household income data of PRH households with the lowest 30% to 50% of household income to compute the income index. We are concerned about the representativeness of the index so computed. As explained in our reply of 24 April 2007 [CB(1)1455/06-07(01)], the compilation methodology of the income index would already effectively minimize the potential distortion brought about by tenants with extreme income profile. In calculating the income index, we would exclude additional rent-paying households and households with outlying income levels (estimated to be the top 1% household income in each household size group based on the current profile of PRH tenants’ household income). CSSA households would be excluded from the coverage since their “income” is effectively social security allowance and changes in the CSSA amount might not be in line with changes in normal income received by other tenants.

RENT ASSISTANCE SCHEME

6. Some Members suggested prescribing the details of the RAS in law. As indicated in the reply of [CB(1)1700/06-07(02)], prescribing the RAS in law would limit the flexibility of the HA to further improve the scheme as and when circumstances warrant. Since the RAS were introduced in 1992, it has been reviewed and relaxed four times respectively in 1992, 1995, 2002 and 2005. These timely improvements to the RAS could not have been made so responsively if it were prescribed in law and not operated as a policy of the HA.

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Housing, Planning and Lands Bureau
29 May 2007