立法會
Legislative Council

LC Paper No. CB(1)1871/06-07

Ref: CB1/BC/1/06

Report of the Bills Committee on Housing (Amendment) Bill 2007

Purpose

This paper reports on the deliberations of the Bills Committee on Housing (Amendment) Bill 2007 (the Bills Committee).

Background

2. Under Section 16(1) of the Housing Ordinance (HO) (Cap.283), the Housing Authority (HA) may let to any person any residential unit in its estates subject to the payment of such rent as it may determine. In determining the rents of its public housing units, HA makes reference to tenants' affordability. HA has adopted the median rent-to-income ratio (MRIR) [1] as a general affordability indicator. Administratively, HA used two MRIR benchmarks[2] in setting public housing rents based on space allocation standards, and took into account a combination of other factors, such as the comparative values of estates, their locations and transportation, flat size, management and maintenance costs, inflation, wage movement, rates, HA's financial position, etc. Prior to 1998, review of rents of public rental housing (PRH) units was conducted by HA at two-year intervals.

3. On 27 June 1997, the former Legislative Council passed a Private Member's Bill, which was subsequently enacted as Housing (Amendment) Ordinance 1997 (Amendment Ordinance 1997), to amend section 16(1) of HO to the effect that any determination of variation of rent by HA shall only take effect at least three years after the preceding rent determination came into effect, and that the rent determined shall be of such amount that the MRIR for all public housing estates shall not exceed 10%.

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[1] Rent-to-income ratio is the expression of rent as a percentage of household income. MRIR gives the median value of the rent-to-income ratios of all public rental housing households. By definition, 50% of the relevant households' rent-to-income ratios will be below MRIR and the other 50% above it.

[2] The two MRIR benchmarks are 15% for the minimum space allocation standard of 5.5 m^2 Internal Floor Area (IFA) per person (in place since 1986), and 18.5% for the higher space allocation standard of 7 m^2 IFA per person (adopted in 1991).

4. After the enactment of the Amendment Ordinance 1997, HA has frozen the rents of newly completed PRH estates at the 1997 level and deferred rent reviews for existing estates since 1999. However, with the downturn of the economy since 1997, the income of the general public has been decreasing. Even without rental increase, the overall MRIR for the third quarter of 2 000 stood at 10.2%. There were strong calls from PRH tenants for the Administration to review PRH rents to comply with the 10% MRIR cap[3].

5. In October and November 2002, two PRH tenants applied for judicial review in respect of HA's decisions to defer rent reviews. On 11 July 2003, the Court of the First Instance ruled in favour of the appellants. HA appealed to the Court of Appeal which ruled in favour of HA in November 2004. The case was subsequently brought to the Court of Final Appeal (CFA) which ruled in favour of HA on 21 November 2005[4]. The key rulings of CFA are that:

(a) the object of HA is the provision of affordable rental housing to members of the community who, being on low income, are unable to afford private housing. HA is under a statutory duty of balancing its books;

(b) section 16(1A) of HO does not impose any duty on HA to make a determination of variation of rent at three yearly intervals;

(c) the 10% MRIR limitation provided for does not purport to be a statutory definition of affordability;

(d) taking the meaning of the word in their context, the word "variation" in section 16(1A)(a) of HO means "upward variation" only and that "any determination of variation of rent" means any decision to increase the rent and do not extend to a decision to reduce it; and

(e) the problems discussed in the appeal illustrated the desirability of having a long-term and comprehensive review of the whole public housing policy, including the MRIR methodology and its ceiling of 10% which has been criticized by some as arbitrary.

6. The matters examined in the judicial review have raised important questions about HA's existing domestic rent policy and the long-term sustainability of its finances. In November 2006, HA endorsed a report submitted by the Ad Hoc Committee on Review of Domestic Rent Policy (the CDRP) which was set up in 2001 by HA to review its domestic rent policy with the major objective to establish a clear, objective and flexible rent adjustment mechanism to better reflect tenants' affordability and help ensure a sustainable development of the public housing programme.

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[3] The MRIR reached 14.3% in the third quarter of 2006 as compared to 9.1 % when the statutory 10% cap was passed by the former Legislative Council under the Housing (Amendment) (No. 3) Bill 1996 in June 1997.

[4] HO Choi-wan v Hong Kong Housing Authority (2005) 8 HKCFAR 628.

7. The key recommendations of CDRP include amending HO to remove the MRIR cap to enable HA to introduce the new income-based rent adjustment mechanism to determine the extent of rent adjustments according to changes in PRH tenants' household income. To provide a fair starting point for the new adjustment mechanism to operate fairly and effectively, HA has agreed to introduce an across-the-board rent reduction of 11.6% upon passage of the amendment bill and to grant a one-off rent remission for the month of February 2007 to PRH tenants[5].

The Bill

8. On 31 January 2007, the Administration introduced the Housing (Amendment) Bill 2007 (the Bill) into the Legislative Council. The Bill seeks to replace the statutory 10% MRIR cap with a rent adjustment framework that provides for both upward and downward rent adjustments according to changes in PRH tenants' household income.

The Bills Committee

9. The House Committee agreed at its meeting on 2 February 2007 to form a Bills Committee to study the Bill. Hon Mrs Selina CHOW LIANG Shuk-yee was elected Chairman of the Bills Committee. The membership list of the Bills Committee is in **Appendix I**.

10. The Bills Committee has held a total of 12 meetings including two meetings with deputations. It has received a total of 29 submissions from 29 organizations/individuals. The list of the organizations/individuals concerned is in **Appendix II**.

Deliberations of the Bills Committee

11. The Bills Committee notes that the objects of the Bill are to repeal the provisions passed by the former Legislative Council in June 1997 on the 10% MRIR cap and the three-year interval restriction on rent adjustment, and replace such provisions by a new rent adjustment mechanism framework that provides for both upward and downward rent adjustments according to changes in PRH tenants' household income. To track the income movement of PRH tenants, the Census and Statistics Department (C&SD) will use income data collected by HA from sampled households under a mandatory declaration system to compute an income index. A variation of rent may take place not more frequently than every two years.

12. In the light of the grave concern of PRH tenants over the new mechanism, the Bills Committee has conducted a detailed study to compare the current and

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[5] The rent remission has been granted to PRH tenants and Interim Housing licensees with the exception of those paying additional rent or licence fees.

proposed rent adjustment mechanisms and examine the details of the new mechanism, as follows:

(a) The limitations of the current MRIR provisions and how far such limitations can be addressed under the existing mechanism (paragraphs 13 - 21);

(b) The need for the proposed income-based rent adjustment mechanism and how the new mechanism works (paragraphs 22 - 51);

(c) Provision of rent increase cap or a rent-to-income ratio cap under the new rent adjustment mechanism (paragraphs 52 - 61);

(d) Commencement date of the Amendment Ordinance (paragraph 62); and

(e) The rental basis for implementation of the new rent adjustment mechanism (paragraphs 63 - 66).

<u>The current rent adjustment mechanism under HO</u>

<u>The MRIR cap</u>

13. The Bills Committee notes that the Administration has referred to the current MRIR cap of 10% on rent adjustment under HO as seriously flawed. The Bills Committee has therefore invited views from the public and requested the Administration to respond to the views which argue for the retention of the current rent adjustment mechanism.

14. The Bills Committee notes the grave concern expressed by deputations, the majority of which are PRH tenants, about repealing the MRIR provisions to remove the statutory safeguard for checking against excessive rent increases by HA. The deputations have regarded the Amendment Ordinance 1997 as the only means to restrict HA's power to increase rents by putting in place a statutory cap of 10% so as to ensure PRH rents would remain within tenants' affordability.

15. In this respect, the Administration has explained to the Bills Committee that detailed analyses of the past movements in MRIR have clearly shown that the upsurge in the figure is due to a wide range of extraneous factors other than changes in the income of PRH households reflecting their rental affordability, and the rent they pay. These factors include –

(a) A huge surge in the proportion of small and elderly households living in PRH who usually have lower income than large households: Small households comprising one or two persons now account for 35% of the total number of PRH households, while elderly households constitute 14.4%;

(b) Sharp rise in the number of Comprehensive Social Security Assistance (CSSA) recipients: Tenants in receipt of CSSA tend to have higher rent-to-income ratios (RIRs) but their income from social security allowance already includes a rent allowance element. CSSA recipients now account for some 20% of the PRH households;

(c) Exit of high income tenants: Over the past ten years, some 185 100 tenants left PRH and became home owners through various subsidized home ownership programmes. The exit of these tenants, who usually have higher income and hence lower RIRs, has also contributed to the increase in the overall MRIR;

(d) Major improvement in HA's space allocation standard: The average living space per person increased substantially from 9.3 m^2 IFA in 1996 to 12 m^2 IFA as at present; and

(e) Replacement of old estates by new ones: Between 1996-97 and 2005-06, some 109 200 old PRH units were demolished and replaced by 224 100 new units which have relatively higher rents but are more spacious and with better facilities.

16. The Administration has reiterated CFA's ruling in 2005 that the 10% MRIR cap is not a statutory definition of tenants' affordability. The requirement under section 16(1A) of HO that MRIR should not exceed 10% following any rent review would effectively mean that, regardless of the underlying and extraneous factors accounting for the changes in MRIR, PRH rents could only go down but not go up once the statutory MRIR cap has exceeded 10%. Without amending HO to remove the 10% MRIR cap, rent adjustment leading to a rent increase is practically not permissible even if there is an increase in PRH tenants' household income. The existing 10% MRIR cap would prevent reasonable and effective operation of the proposed income-based adjustment mechanism.

17. To understand whether there is fallacy in using median household income as an indicator of tenants' rental affordability, the Bills Committee has examined some hypothetical examples provided by the Administration, as set out at **Appendix III**. The examples have shown how the median household income of PRH tenants is affected by changes in household size distribution. Members note from the examples that even though there is no change in the income of individual households, the median household income may drop due to an increase in the number of small households. On the other hand, with an increase in the income of individual households, the median household income may still decline due to an upsurge in the number of small households.

18. The Bills Committee have also examined the impact of HA's "well-off tenants" policy on the upsurge in MRIR. The Administration has pointed out that the increase in MRIR in recent years is irrelevant to the "well-off tenants" policy and that the sharp rise in the proportion of small households is evident in the new intake families to PRH. At present, about 41% of PRH Waiting List applicants are one-

person households and some 39% new PRH applications are submitted by one-person households. If the above extraneous factors are excluded, the MRIR figure of 14.3% as at the third quarter of 2006 would drop to 10.1% which illustrates the impact of the extraneous factors on MRIR.

Feasibility of applying MRIR cap to individual household size groups

19. Some deputations have maintained the view that the MRIR cap is a better mechanism in guiding rent adjustments. In order to discount the impact of the increase in the number of small households on the upsurge of MRIR, the Bills Committee has examined the feasibility of applying the 10% MRIR cap individually to each household size group in guiding rent adjustments.

20. In this respect, the Administration reiterates that MRIR is subject to influence by extraneous factors unrelated to tenants' affordability. Although the compilation of MRIRs of different household size groups would largely discount the effects of changes in household size distribution, the resultant MRIR of each household size group would still be influenced by other extraneous factors, notably increase in the number of CSSA households and average living space per person.

21. The Administration has also advised that the introduction of a MRIR cap for each household size group might even lead to a situation where two similar PRH units in the same block would attract different rent simply because they are occupied by households from two different household size groups – one from a rent-freezing household size group with MRIR above the prescribed cap, and another from a household size group with MRIR below the cap so that rent increase is allowed. Rent adjustment would become even more complicated when there are changes in the number of members in households and when the same household size group is living in a wide range of PRH flats with different types and sizes following the continuous enhancement in the design and provision of facilities in PRH. At present, there lacks an objective and fair basis to prescribe MRIR caps for different type/size of PRH flats for each household size group. The MRIR of a particular household size group (e.g. two-person households) might continue to rise even if it already exceeds the prescribed cap. This is because a portion of households in the two-person household size group might reside in PRH flats that are "linked" with MRIR of another household size group (e.g. three-person households) which is below the prescribed cap and can undergo a rent increase. Likewise, for rent setting, it would be undesirable and difficult to set different rents for a unit to cater for a household in a rent-freezing household size group and for another household in a household size group with a MRIR below the cap. A rent differential based simply on the household size of the occupying household is unfair and divisive.

Need for the proposed income-based rent adjustment mechanism

22. The Bills Committee notes the deputations' view that the existing HO has already allowed adjustment of rents both upward and downward. Members have questioned the need to introduce the new rent adjustment mechanism. The

Administration's explanation is that ideally the proposed income-based rent adjustment mechanism should be implemented by HA through administrative means to provide it with the flexibility to decide on the exact degree of rent adjustment taking account of the prevailing socio-economic circumstances and other factors. However, there is strong support from the public consultation exercise in 2006 for putting in place a more transparent and well-defined rent adjustment system to give PRH tenants more certainty. In response to the strong demand for statutory control over HA's power to vary rent according to the new mechanism, the Administration has therefore included the basic principles governing the operation of the new mechanism under clause 4 of the Bill. The Administration further advises that findings of HA's telephone survey conducted in December 2006 has indicated that some 77% of the respondents (66% among the respondents living in PRH) supported the proposed income-based rent adjustment mechanism.

23. The Bills Committee however notes PRH tenants' grave concern that introduction of the new rent adjustment mechanism is to pave the way for rent increases, in particular with continuous economic improvements in Hong Kong in the coming years. Tenants are concerned about excessive rent increases by HA which would be inconsistent with the aim of PRH to provide affordable housing for the grass-root people.

24. The Administration explains that the proposed section 16A(4) of the Bill requires HA to adjust PRH rent strictly in accordance with the rate of increase or decrease in the income index reflecting changes in PRH tenants' household income. In other words, PRH rent will be increased only if there is a general increase in PRH tenants' household income, and the extent of any such increase in PRH rent is related to the extent of increase in PRH tenants' household income. Furthermore, section 4(4) of HO obliges HA to direct its policy towards ensuring that the revenue from its estates "shall be sufficient to meet its recurrent expenditure on its estates". The Administration has emphasized that by putting in place the new rent adjustment mechanism, HA will be in a better position to achieve its mission of providing affordable housing to those in genuine need.

25. Some deputations are of the view that with a cash balance of over $50 billion, which is estimated to increase to $70 billion in 2011, there is no need for HA to increase rents to finance its expenditure. Some members have also pointed out that with continued prudent financial management and productivity enhancement targets, HA should be able to balance its income and expenditure thus enabling sustainable development of PRH in the long run without introducing the new rent adjustment mechanism.

26. In this respect, the Administration has drawn the Bills Committee's attention to its aim to maintain an average waiting time for PRH at around three years and HA's needs to build some 72 000 new PRH units over the next five years, incurring an average construction cost of around $6 billion per annum. The recurrent investment income and HA's cash reserve are important sources of capital to sustain the PRH construction programme. As the cash reserve of HA is mainly the result of the proceeds from the listing of Link REIT and sale of surplus Home Ownership Scheme

flats, which are one-off in nature, there is a need to generate recurrent investment income. While there is a moderate surplus of HA's rental operating account in 2004-05 and 2005-06, the rental operation recorded accumulated deficits of $11.9 billion from 1994-95 to 2003-04, and a total deficit of $8.9 billion is forecasted for the five-year period between 2006-07 and 2010-11. HA has continued to control its operating costs through streamlining its operation and enhancing its productivity. For example, HA's staff establishment was scaled down by over 40% from 15 000 in 1997-98 to 8 700 in 2006-07. In addition, the construction cost of new PRH projects has been cut down by some 7% following the adoption of the "Functional and Cost-effective" design approach.

<u>The income index tracking the movement in PRH tenants' household income</u>

27. One of the main features of the proposed rent adjustment mechanism is HA's responsibility to compile an income index based on the income data collected from PRH tenants through a mandatory declaration system. According to the Administration, the income index can discount the effect of household size distribution. This is not possible with other statistical parameters such as median or mode. Besides, by tracking the income change of PRH tenants, the proposed income index is less affected by other extraneous factors. It would track the "pure income change" of PRH tenants, match more closely with tenants' affordability and provide a stronger connection between future rent adjustments and changes in tenants' affordability.

28. On rents adjustment, the Administration has explained that the proposed section 16(A)(4) of the Bill requires HA to adjust PRH rent strictly according to the respective rate of increase or decrease in the income index. In other words, PRH rent increase is allowed only if there is a general increase in PRH tenants' household income. Furthermore, the extent of any such rent increase cannot possibly exceed the extent of increase in tenants' household income as reflected in the change in the income index. This provides clear guidelines for the rate of rent adjustment and acts as a de facto cap on the extent of rent increase in each rent review. To ensure that the resultant PRH rent is within tenants' affordability, affordability indicators based on individual households such as RIRs and income thresholds pitched at different levels of the respective Waiting List Income Limits (WLILs) are adopted under HA's Rent Assistance Scheme (RAS) to cater for the needs of households facing different degree of financial hardship. Currently, there are seven different income thresholds below which tenants could apply for RAS. For instance, tenants with RIRs exceeding 20% and 25% would have their rent reduced by 25% and 50% respectively. For those whose RIRs fall below 20%, they may still be eligible for RAS if their household income is below 60% of WLILs. Details of the eligibility criteria of RAS are provided in **Appendix IV**. Such individual household based indicators are more appropriate and effective than an overall indicator for all PRH tenants such as MRIR.

29. In respect of rents setting, the Bills Committee notes that under the proposed rent adjustment mechanism, rent of the entire PRH stock, including flats in newly completed PRH blocks, would be reviewed and adjusted in one go according to the rate of change of income index. All tenants, regardless of their respective household

size groups, would receive the same treatment and have their rent adjusted by the same rate.

Computation of the income index

30. The Bills Committee notes that in order to assess the "pure income change", the effect of the change in household size distribution on household income should be discounted. This is achieved by keeping the household size distribution of PRH tenants constant in any one particular rent review cycle for the purpose of computing the income index values. For each rent review, the first and second periods have been clearly defined in the proposed section 16A(9) of the Bill. The respective income index value reflecting the weighted mean household income of PRH tenants over these two periods would be computed based on the household size distribution of the first period. The rate of rent adjustment would then be determined according to the rate of changes in the income index values between the first and second periods. Hypothetical examples of income index calculation are set out in **Appendix V**.

31. On the source of income data, the Bills Committee notes that HA has a general power under section 25 of HO to collect data from PRH tenants. Starting from January 2007, a random sample of some 2 000 PRH households was drawn each month (i.e. 24 000 households per year) from all PRH estates using probability-based statistical method. An income declaration form is designed for obtaining the essential information and data from PRH tenants. Although the Administration insists 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 law, the Bills Committee has studied issues related to the computation and data collection of the income index.

32. The Bills Committee notes the objection raised by many deputations to the exclusion of households in receipt of CSSA and those paying additional rent from the coverage of the income index. As these households are also PRH tenants, the exclusion may create divisiveness and distort the affordability of tenants.

33. In this respect, the Administration explains that the purpose of excluding these households in the coverage of the income index is to minimize the potential distortion brought about by tenants with extreme income profile. CSSA households are to be excluded 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 PRH tenants. As for tenants paying additional rents, they are substantially better off than other PRH households. The inclusion of CSSA recipients and tenants paying additional rent in the coverage of the income index may distort the outcome of the computation.

34. Given the proposed income index is used to track the changes in the overall household income of PRH tenants, members have raised concern that the rates of income change for some tenants will be lower than the overall rate of rent adjustment, thus these tenants would be disadvantaged in the rent review. To address the concern, the Bills Committee has requested the Administration to explore the feasibility of

using "median household income" instead of "mean household income" in computing the income index values.

35. The Administration explains that the situation mentioned in the preceding paragraph may be resulted from sampled households with extremely high income, thus distorting the resultant rate of rent adjustment. To this end, the proposed compilation methodology of the income index would effectively minimize possible distortion of this kind by excluding additional rent paying households from the coverage of the income index. In addition, "extreme outliers", i.e. households with top 1% of household income in each household size group, based on the current distribution of household income of PRH tenants, would also be excluded from the calculation of the income index. To address the concern that including "mild outliers" in the calculation may distort the income index, the Administration has agreed to consider members' suggestion to apply more stringent selection rules and exclude the "mild outliers" in each household size group from the coverage of the income index. However, the Administration considers it inappropriate to prescribe fixed percentage of such exclusion in law since the proportion of "mild outliers" in each household size group would have to be assessed in each compilation exercise through a statistical process and would vary depending on the prevailing income distribution of PRH tenants.

36. As regards the suggestion of using "median household income" to compute the income index, the Administration points out that unlike the statistical parameter of mean, median of a particular period cannot be derived by way of the "weighted average" method. In other words, the "weighted average" of median of each household size group is not equal to the overall median of all households. This limitation of median renders it not technically feasible to discount the household size distribution effects and to be adopted as a basis for computing the income index values.

Data collection for computing the income index

37. As the validity of the income index hinges crucially on the reliability of the household income and rental data used for its computation, members are keen to ensure adoption of appropriate data collection method. In this connection, concerns have been raised on the adequacy of the sample size of 24 000 households per year and the appropriateness of collecting income data from PRH tenants through a mandatory declaration system. There is also suggestion for HA to conduct a longitudinal survey on samples of PRH households so as to track their income changes over time.

38. The Administration considers that to ensure the accuracy and reliability of the household income data for computing the income index, instead of relying on the voluntary General Household Survey (GHS) conducted by C&SD, it is appropriate to use income data collected through a mandatory declaration system, which is specifically designed to suit the needs of HA and the circumstances of PRH households. The concept of "household size" is more clearly defined as all the household members on the tenancy record, whereas under GHS, it refers merely to those members who are usually living in the flat. As regards the sample size for the survey, the Administration points out that a sample size of 24 000 PRH households per

year is sufficiently large compared with the sample size of some 6 000 PRH households under GHS. This could help achieve good precision of the income index. As samples would be drawn from a systematic process, this would ensure that the samples are representative of the profile of PRH tenants. Noting deputations' concern about reporting burden on sampled households, the Administration assures that no PRH household would be selected more than once within a period of 12 months. HA's estate offices would also provide assistance to individual households encountering difficulties in completing the income declaration form.

39. On the suggestion of conducting a longitudinal survey (i.e. drawing the same households in the survey sample over time), the Bills Committee notes the Administration's view that the method could not guarantee the assessment of "pure income changes" of selected households as the changes in household size would complicate the assessment of household income changes. Moreover, drawing the same households over time would leave out from the survey sample those new households who move to reside in PRH every month. Furthermore, requesting the same households to repeatedly and regularly report their earnings would cause considerable inconvenience to them.

<u>C&SD as the agent for computing the income index</u>

40. To enhance the impartiality and objectivity of the income index, the proposed section 16A(8)(b) of the Bill provides that HA may appoint a tertiary institution in Hong Kong or a public body to compile the income index. The Bills Committee notes that HA has decided to appoint C&SD as the computation agent. C&SD would also implement measures to ensure the overall statistical integrity of the entire data collection and input process. These measures include checking the list of sampled households, checking the income data and the documentary proof of selected tenants, as well as the accuracy of data input on a random basis.

41. However, members note that the proposed section 16A(8)(b) of the Bill also provides that HA may compile the income index by itself. In order to avoid potential conflict of interests of HA and given that C&SD would be engaged as the computation agent, the Administration has taken on board members' view to specify in the Bill that HA shall appoint C&SD to compute the income index. The Bills Committee supports the proposed Committee Stage amendments (CSAs) to this effect.

<u>Rent review cycle</u>

42. The proposed section 16A(1) of the Bill requires HA to review PRH rents every two years, i.e. adopting a biennial rent review cycle, which would replace the triennial rent review cycle introduced by the Amendment Ordinance 1997. The Bills Committee is aware that the majority of deputations are in support of maintaining a triennial rent review cycle on grounds that a longer rent review cycle would lower administrative costs, avoid causing disturbances to tenants and provide stronger safeguard against frequent rent increases.

43. The Bills Committee notes the Administration's explanation that views from the public consultation on the frequency of rent review were divided. There are both support for a two-year cycle and a longer cycle. After careful consideration of arguments of the both sides, HA considers 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 HA to react more quickly to changes in socio-economic circumstances. There is concern that the cumulative effects of the changes in the income index, 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. As regards concern about administrative costs incurred if a shorter rent review cycle is adopted, the Administration has pointed out that the additional workload generated from the income index calculation and rent review/adjustment would be absorbed by existing staff.

44. Some members remain the view that a longer rent review cycle would help stabilize PRH rent and avoid frequent rent increases. They have indicated intention to move CSAs to adopt a three-year rent review cycle. The proposed CSAs to be moved by members are set out in paragraph 68 of this report.

45. To enhance clarity of the proposed section 16A(1) of the Bill, the Administration has accepted members' suggestion to re-arrange the section to set out clearly when HA shall review PRH rent after the commencement of the Amendment Ordinance, and when it shall conduct subsequent rent reviews. The Bills Committee supports the Administration's proposed CSAs in this regard.

<u>Determination on the rate of rent adjustment and frequency of rent variation</u>

46. The proposed section 16A(4) of the Bill provides that variation in PRH rents must follow the changes in the proposed income index of the two periods in a rent review cycle and section 16A(5) provides that HA shall not vary rent within two years after the commencement of the Amendment Ordinance or after the preceding rent variation. Members have raised concerns about the provisions restricting HA's power in determining the rate of rent adjustment and in varying rents, in particular to address financial hardship of tenants during economic downturn. In this regard, the Bills Committee has considered the need to build into section 16A(4) and 16A(5) providing HA with the discretion to increase or decrease rent by less than the change in the income index, and to vary rent more frequently than every two years. The Administration has explained that the proposed discretion is undesirable as the rate of rent adjustment shall be determined by the rate of change in income index which should have reflected changes in tenants' household income as a result of changes in economic conditions. The shorter two-year rent review cycle would enable HA to react more quickly to changes in socio-economic circumstances. In cases of sudden and drastic changes in socio-economic conditions after rent variation, HA may remit the payment of rent under section 17 of HO.

Determination of rent adjustment of insignificant amount

47. 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, the Bills Committee is concerned that the provision would give HA wide discretionary power and hence suggested the Administration to set out the definition of insignificant amount of variation in the Bill. According to the Administration's analysis, a rent adjustment of 0.1% to the mean rent of the PRH stock after 11.6% rent reduction would entail an adjustment of $1.31 for individual households, which in effect would result in a change of $1 since HA may round down the amount of change to the nearest dollar under the proposed section 16A(7) of the Bill. For HA, assuming an annual rental income of about $10 billion after a rent reduction of 11.6%, a 0.1% change in rent means an annual revenue of about $10 million. Having considered the proportion of the variation to individual households' rental payments and the impact on HA's rental receipts, the Administration will adopt a rate of change of the income index of 0.1% or below as "insignificant". The Bills Committee notes that CSAs will be made to section 16A(4) and 16A(6) so that HA is not required to vary the rent if the rate of change of the income index is 0.1% or below. This rate of change would be carried forward to the next rent review cycle. Members support the CSAs.

Exemption from the application of the new rent adjustment mechanism

48. Members note that the proposed section 16A(3) of the Bill will exclude the application of section 16A to "well-off" tenants and tenants eligible for RAS. They are aware of deputations' concern about different treatment to PRH tenants. In particular, by excluding "well-off" tenants, HA may increase rents on these tenants not subject to the rent adjustment mechanism and rent review cycle prescribed in section 16A.

49. The Administration has explained that under the Housing Subsidy Policy and Policy on Safeguarding Rational Allocation of Public Housing Resources (i.e. so called "well-off tenants" policy), "well-off" tenants are required to pay higher rent. On the other hand, low-income tenants who are unable to afford paying normal rent can apply for a rent reduction under RAS subject to household income threshold determined by HA. Once a tenant is caught under the "well-off tenants" policy or eligible for RAS, his/her rent will have to be increased or decreased immediately by an amount as determined by the relevant policies. Likewise, if the income or asset of the concerned tenant falls below or above the respective thresholds, his/her rent will have to be re-adjusted immediately back to the "normal" level. Both the timing and extent of rent adjustment, or re-adjustment, under the "well-off tenants" policy and RAS are determined administratively under the relevant policies of HA, and should not be subject to the rent review cycle or rent adjustment mechanism. However, under the existing "well-off tenant" policy and policy of 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. Hence, 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. Similar

exclusion for "well-off" tenants and tenants eligible for RAS is provided under the existing section 16(1C) of HO.

50. Nonetheless, members consider it necessary to safeguard the interests of "well-off" tenants by specifying in the Bill the linkage between the level of rent payable by "well-off" tenants with the relevant rent. The Administration has explained that the drafting of section 16A(3) is similar to and in line with the existing section 16(1C) where there is no provision on the calculation of additional rent. Nevertheless, the Administration has agreed to take into account members' suggestion that it should state during the resumption of the Second Reading debate of the Bill that the level of rent payable by "well-off" tenants would be calculated with reference to the relevant rent payable by other PRH tenants under HA's existing Housing Subsidy Policy and Policy on Safeguarding Rational Allocation of Public Housing Resources in order to allay the concerns of "well-off" tenants.

51. With a view to maintaining consistency with the existing section 16(1C) where "well-off" tenants and tenants eligible for RAS are excluded from rent adjustment of other PRH tenants on the basis of their total household income, or total household assets, or both income and assets, the Administration will propose CSAs to amend section 16A(3) to this effect. The Bills Committee supports the concerned CSAs.

Provision of a rent increase cap or a rent-to-income ratio cap under the new rent adjustment mechanism

52. Notwithstanding the Administration's assurance on the provision of a de facto cap on the extent of rent increase under the proposed rent adjustment mechanism and the assistance under RAS to help needy households, with the removal of the MRIR provisions, deputations and members have stressed the need to introduce a RIR cap or a rent increase cap to safeguard the interests of PRH tenants. They consider that the de facto cap and the individually based indicators under RAS are not comparable to an overall rental ceiling for all PRH tenants. Moreover, RAS is only an administrative measure without statutory effect which is subject to changes by HA. The Bills Committee considers that a statutory RIR or a rent increase cap is particularly important for low-income tenants to ensure that the rents they pay are within their affordability. It has therefore invited the Administration to consider a number of proposals for introducing the cap. The deliberations are summarized in the ensuing paragraphs.

Imposing a statutory RIR cap (say 15%) at individual household level so that HA could not increase rents for households with RIRs exceeding the cap

53. On this proposal, the Administration has explained that HA would require information on RIR of each and every PRH household. The amount of work and administrative costs required for collecting such information from some 650 000 PRH households or about two million PRH tenants for the purposes of conducting a rent

review every two years are enormous. Such an arrangement would also create considerable disturbance to all PRH tenants.

Setting a rent level cap with reference to weighted average ratios of rent and income in each household size group

54. The Administration has reiterated that any form of global RIR (mean or median ratio) would be affected by a number of extraneous factors other than the income of PRH households and the rent they pay. Even if the global RIR is broken down to different household size groups, thereby discounting the household size distribution effect, the impact of other extraneous factors cannot be discounted. On the suggestion that a weighting should be applied to the mean/median RIR of each household size group for the purpose of getting an overall mean/median RIR, the Administration considers it difficult to interpret the exact meaning of a "weighted average" figure of mean/median RIRs of each household size group and justify the use of such figures to set a rent level cap.

Including a productivity gain element in rent adjustment by deducting a certain percentage productivity gain from the change in the income index to arrive at the rate of rent increase

55. The Administration has explained that allowance for productivity gain would be relevant only in a cost based adjustment mechanism. As the new rent adjustment mechanism would base purely on PRH tenants' household income, the costs of HA do not constitute a factor in determining the rate of rental change.

Reducing the 20% RIR cap under RAS to 15% RIR and improving RAS

56. The Bills Committee considers it imperative to improve RAS to provide rent reduction to PRH tenants to relieve their financial difficulties. For instance by reducing the existing 20% RIR to 15% and removing harsh requirements such as requiring non-elderly RAS recipients to move to flats with lower rents if they wish to continue to receive rent assistance after a continuous period of three years (the transfer requirement). There is also suggestion to include the RIR cap under RAS in law to provide statutory protection for PRH tenants.

57. To address members' concerns, HA has agreed to relax RAS eligibility criteria. Having regard to the existing MRIR benchmark of 18.5% for new PRH estates, HA would revise the 20% RIR to 18.5% RIR and increase the income threshold from 60% to 70% of the respective WLILs to address the concerns that some low income households currently fall marginally outside the Scheme. The Bills Committee notes that these measures would increase RAS qualifying income level for three-person and four-person families irrespective of their RIR to $8,470 and $10,220 respectively. With the proposed relaxation, it is estimated that the number of household eligible under RAS would increase by 40 400 to a total of about 184 900.

58. As regards the concern about the affordability of tenants in newly completed estates, HA would reduce the residence requirement for households living in newer

blocks, i.e. Harmony block and blocks built in or after 1992 representing about 46% of the PRH stock, from three years to two years. The requirement could be lifted, on a case by case basis, if there are drastic family changes resulting in adverse effect on the tenants' household income during the two-year period. On the concern for non-elderly RAS recipients to move to cheaper flats, under the relaxation measures, HA would only require non-elderly RAS beneficiaries to move to cheaper flats after receiving rent assistance for a continuous period of three years if there are suitable flats available. Non-elderly RAS beneficiaries living in older block types which are already at relatively low rent levels would be exempt from this requirement except for under-occupation cases. The Bills Committee further notes that HA has decided in the context of the Review Report that more detailed guidelines should be prepared on when and how the transfer requirement should be applied. The details of the improvements to RAS and a comparison between the existing and proposed changes to the criteria concerned is in **Appendix VI**. The Bills Committee notes that as a goodwill gesture, HA would implement the improvement measures together with the implementation of the rent reduction proposal after the passage of the Bill. Upon the implementation of the revisions to RAS, the current MRIR benchmarks of 18.5% and 15% will no longer be required for they have already been incorporated into RAS criteria.

59. As regards members' suggestion for the Administration to prescribe RAS in law to provide statutory protection for PRH tenants, the Administration has maintained the view that prescribing RAS in law would limit the flexibility of HA to further improve the Scheme as and when circumstances warrant. The Bills Committee has been advised that since its introduction in 1992, the eligibility criteria of RAS were reviewed four times respectively in 1992, 1995, 2002 and 2005. All of these reviews resulted in a relaxation to the eligibility criteria and requirements. These improvements to RAS could not have been made so responsively if the Scheme were stipulated in law and not operated as a policy of HA.

Introducing a rent increase cap of certain percentage for each rent review

60. In order to prevent excessive rent increases by HA, some members have suggested introducing a rent increase cap. Such a cap may be set at a certain level of the rate of increase of the income index, or with reference to rent adjustments in PRH rents in the past years. The Administration has reiterated its stance that the proposed section 16A(4) of the Bill already imposes a statutory obligation on HA to adjust PRH rent strictly in accordance with the rate of increase or decrease in the income index which reflects changes in PRH tenants' household income. This has provided a de facto cap on rent increase and statutory safeguard for PRH tenants. It would be difficult to justify introducing a fixed cap on the level of rent increase.

Conclusion on the rent increase cap

61. Although the Bills Committee welcomes the Administration's proposal to relax RAS, the majority of members of the Committee are of the view that the Administration should consider introducing a rent increase cap in the Bill so as to provide statutory protection for PRH tenants against excessive rent increases by HA.

After considering the proposed CSAs by members and consultation with HA, the Administration has agreed to move CSAs to the proposed section 16A(4) of the Bill to prescribe that PRH rent shall increase in each two-year rent review cycle by the rate of the increase of the income index or 10%, whichever is less. The Bills Committee supports the CSAs. Nevertheless, some members have indicated that they will consider moving CSAs to retain the 10% MRIR cap. The proposed CSAs to be moved by members are set out in paragraph 68 of this report.

Commencement date of the Amendment Ordinance

62. 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. 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, the Bills Committee notes the Administration's intention to commence the Amendment Ordinance on 1 January 2008 and supports CSAs to specify the date in the Bill as well as the proposed consequential amendments to section 16A(1), 16A(5) and 16A(9).

The rental basis for implementation of the new rent adjustment mechanism

63. The Bills Committee is aware of the strong demand of deputations and PRH tenants that HA should reduce rents to comply with the 10% MRIR cap before putting in place a new rent adjustment mechanism. As HA has deferred rent reviews since 1999 and there has been significant decline in tenants' household income during deflation in the past few years, there are suggestions from political parties and tenants' groups for HA to reduce rent immediately by 15% to 20%, as well as refund over-charged rents to tenants. There is also strong opposition from some deputations towards HA's proposal to reduce PRH rents by 11.6% upon passage of the Bill. Deputations are concerned that the purpose of bundling the two issues is to use rent reduction in exchange for the repeal of the MRIR provisions. To address the concerns of deputations, the Bills Committee has suggested the Administration to consider reducing PRH rent first, or implementing the rent reduction with retrospective effect to the date when the Bill was introduced in the Legislative Council on 31 January 2007 or from 1 January 2007.

64. The Administration has emphasized CFA's ruling that HA is not under a statutory duty to review PRH rent and revise it so as to ensure that the 10% MRIR is not exceeded. To bring down the 14.3% MRIR as at the third quarter of 2006 to 10%, the Administration has advised that a rent reduction of 30% would be required, the magnitude of which would be unreasonable and hardly be acceptable to the community at large. The Administration further explains that the 11.6% rent reduction has been proposed with a view to providing a new rental starting point upon which the new rent adjustment mechanism could operate effectively and fairly. As rent reduction of 11.6% would incur a very substantial revenue loss by HA of $1.41 billion annually, it would be highly imprudent for HA to introduce this rent reduction without having secured an effective legal and administrative framework to enable both

downward and upward rent adjustments according to PRH tenants' household income. Nevertheless, to address the strong demand and expectation among PRH tenants of the need for HA to introduce rent relief measures pending completion of the legislative process, HA has granted a one-off rent remission for the month of February 2007 to all PRH tenants, except for those who are paying additional rent.

65. On the suggestion of implementing the rent reduction with retrospective effect, the Bills Committee notes the Administration's response that while the existing HO does not contain any provision that expressly restricts HA's power to reduce rent retrospectively, it remains HA's decision to introduce rent reduction upon passage of the Bill. It is envisaged that rent reduction would take effect about one month after passage of the Bill as HA needs to give notice to tenants on the new rental level.

66. The Bills Committee is also concerned about how the proposed rent reduction of 11.6% has been worked out. The Administration has explained that in order to ensure the coherence and consistency of the entire rent adjustment framework, the proposed income index has been used to identify the rate of rent adjustment required to provide the new rental basis. The rate of 11.6% has been determined based on the extent of changes in the income index since 1997 because the rent of the largest proportion of the existing PRH flats and that of newly completed flats were last reviewed in 1997. Members note that after the rent reduction, some 70% of PRH units would have a monthly rent less than $1,500 and some 90% less than $2,000. Findings of HA's telephone survey conducted in December 2006 has revealed that some 80% respondents considered the extent of rent reduction appropriate or too much. Moreover, with the rent reduction, MRIR would be brought down to 12.6% as compared to 25% in the private sector.

Committee Stage amendments

67. The Bills Committee has examined the draft CSAs to be moved by the Administration and raised no objection. The Bills Committee will not move CSAs to the Bill.

Committee Stage amendments by members

68. Some members of the Bills Committee have given notice to move amendments to the Bill, as follows:

(a) To introduce a triennial rent review cycle (by Hon LEUNG Yiu-chung);

(b) To introduce a MRIR cap of 12% in respect of increase in PRH rents in each rent review (by Hon WONG Kwok-hing);

(c) To introduce a MRIR cap of 10% in resect of increase in PRH rents in each rent review (by Hon LEUNG Kwok-hung); and

(d) To introduce a triennial rent review cycle, to cap the increase in PRH rents at 10% in each rent review, and to put in place an "average rent to income ratio" cap of 15% in respect of both increase and decrease in PRH rents in each rent review (by Hon Frederick FUNG Kin-kee).

Resumption of Second Reading debate on the Bill

69. The Bills Committee supports the resumption of Second Reading debate on the Bill at the Council meeting on 13 June 2007.

Consultation with the House Committee

70. The Bills Committee consulted the House Committee on 1 June 2007 and obtained its support for the Second Reading debate on the Bill to be resumed at the Council meeting on 13 June 2007.

Council Business Division 1
Legislative Council Secretariat
6 June 2007

Appendix I

Bills Committee on Housing (Amendment) Bill 2007

Membership List

Chairman	Hon Mrs Selina CHOW LIANG Shuk-yee, GBS, JP
Members	Hon Albert HO Chun-yan Hon LEE Cheuk-yan Hon Fred LI Wah-ming, JP Hon CHAN Yuen-han, JP Hon CHAN Kam-lam, SBS, JP Hon LEUNG Yiu-chung Hon WONG Yung-kan, JP Hon Miriam LAU Kin-yee, GBS, JP Hon Emily LAU Wai-hing, 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 Daniel LAM Wai-keung, SBS, JP Hon Alan LEONG Kah-kit, SC 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 (Total : 26 members)
Clerk	Ms Connie SZETO
Legal Adviser	Mr Kelvin LEE

Appendix II

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

List of organizations/individuals submitted views on the Bill
(Position as at 10 May 2007)

1. Alliance for Defending Grassroots Housing Rights
2. Chinese Grey Power
3. Democratic Party
4. Dr HUI Chi-man, Eddie, Professor of the Department of Building and Real Estate of Hong Kong Polytechnic University
5. Dr Jonathan K S CHENG, Honorary Researcher of the Centre of Asia Studies of The University of Hong Kong
6. Dr YIP Ngai-ming, Associate Professor of Department of Public and Social Administration of City University of Hong Kong
7. Hong Kong Association for Democracy and People's Livelihood
8. Hong Kong Owners Club Ltd
9. Hong Kong People's Council on Housing Policy
10. Kai Yip Community Affairs Association
11. Kowloon Choi Hung Estate Residents Association
12. Kwai Chung Estate Housing Problem Concern Group
13. Kwai Chung Estate Resident's Right Concern Group
14. Kwai Fong Residents' Association
15. Lee On Estate Lee Wah House Mutual-Aid Committee
16. Mr CHAN Cheong, Kwun Tong District Councillor
17. Mr CHIU Ka-po, Tsuen Wan District Councillor
18. Mr LAI Wing-ho, Wong Tai Sin District Councillor
19. Neighbourhood and Worker's Service Centre
20. Oi Man Estate Kar Man House Mutual Aid Committee
21. Reasonable Housing Rights Concern Group
22. Sham Shui Po Community Association
23. Shek Lei Estate Resident's Right Concern Group
24. Social Policies Committee of the Hong Kong Federation of Trade Unions
25. The Alliance of Wong Chuk Hang & Shek Pai Wan Concern Review of Domestic Rent Policy
26. The Federation of H.K., KLN. and N.T. Public Housing Estates Resident and Shopowner Organizations
27. Tsz Lok Community Residents' Association
28. Tsz Wan Shan Residents' Association
29. 盧兆華社區服務處

Appendix III

The Fallacy of using Median Household Income as an Indicator for Rent Adjustment

1. Movement in the overall household income of PRH tenants is attributable to, inter alia, two main factors –

   (a) Changes in individual households' income; and

   (b) Changes in the distribution of household size.

2. Income of small households is usually lower than that of large households. Even if the income of individual households remains unchanged, the overall household income of all the PRH tenants may drop simply due to a surge in the number of small households.

3. The following hypothetical examples illustrate how the median income of PRH households is affected by changes in household size distribution –

Example A : *Effects of Changes in Household Size Distribution on Median Household Income (assuming no change in the income of individual households)*

Period (1)				**Period (2)**			
Household Number	Household Size	Household Income ($)	Median Household Income by Household Size ($)	Household Number	Household Size	Household Income ($)	Median Household Income by Household Size ($)
1	1-person (27.3%)	4,000		1	1-person (36.4%)	4,000	
2		5,000		2		5,000	
3		5,500	5,000	3		5,000	
4	2-person (27.3%)	6,500		4		5,500	5,000
5		7,500		5	2-person (36.4%)	6,500	
6		8,000	7,500	6		7,500	
7	3-person or above (45.5%)	8,500		7		7,500	
8		9,000		8		8,000	7,500
9		9,500		9	3-person or above (27.3%)	8,500	
10		10,000		10		9,500	
11		11,000	9,500	11		11,000	9,500
Median household income ($)			8,000	Median household income ($)			7,500

4. As can be seen from the above table, the median household income drops from $8,000 in Period 1 to $7,500 in Period 2 even though there is no change in the income of individual households. The decline in the median household income is primarily due to an increase in the number of 1-person and 2-person households in Period 2 rather than a drop in the income of individual households.

Example B : *Effects of Changes in Household Size Distribution on Median Household Income (assuming an increase of $300 in the monthly income of all households)*

Period (1)				**Period (2)**			
Household Number	Household Size	Household Income ($)	Median Household Income by Household Size ($)	Household Number	Household Size	Household Income ($)	Median Household Income by Household Size ($)
1	1-person (27.3%)	4,000		1	1-person (36.4%)	4,300	
2		5,000		2		5,300	
3		5,500	5,000	3		5,300	
4	2-person (27.3%)	6,500		4		5,800	5,300
5		7,500		5	2-person (36.4%)	6,800	
6		8,000	7,500	6		7,800	
7	3-person or above (45.5%)	8,500		7		7,800	
8		9,000		8		8,300	7,800
9		9,500		9	3-person or above (27.3%)	8,800	
10		10,000		10		9,800	
11		11,000	9,500	11		11,300	9,800
Median household income ($)			8,000	Median household income ($)			7,800

5. Notwithstanding an increase in the income of individual households, the median household income still registers a downward adjustment from $8,000 in Period 1 to $7,800 in Period 2. Again, this is mainly due to an upsurge in the number of small households over the same period.

(Source: Extracts from Appendix 1 to Annex C of the Report on "The Review of Domestic Rent Policy" by the Ad Hoc Committee on Review of Domestic Rent Policy)

Appendix IV

<u>Income Eligibility Criteria under RAS</u>

Income Limits / Household Size	**1 Person Household**	**2 Person Household**	**3 Person Household**	**4 Person Household**	**5 Person Household**	**6 Person Household**	**7 Person Household**	**8 Person Household**	**9 Person Household**	**10 Person or above Household**
For a 50% rent reduction for non-elderly households										
1)	Rent-to-income ratio (RIR) exceeds 25%; **<u>OR</u>**									
2) Household income falls below 50% of the respective Waiting List Income Limit (WLIL) irrespective of RIR; **<u>OR</u>**	Income < $3,400	Income <$ 5,400	Income < $6,050	Income <$7,300	Income <$ 8,450	Income <$ 9,900	Income <$ 10,700	Income <$ 11,450	Income <$ 12,200	Income <$ 13,050
3) Household income lies between 50% and 60% of the respective WLIL and RIR exceeding 15%	Income between $3,400 - $4,080, and RIR > 15%	Income between $ 5,400 - $ 6,480, and RIR > 15%	Income between $6,050 - $7,260, and RIR > 15%	Income between $7,300 - $8,760, and RIR > 15%	Income between $ 8,450 - $ 10,140, and RIR > 15%	Income between $ 9,900 - $ 11,880, and RIR > 15%	Income between $ 10,700 - $ 12,840, and RIR > 15%	Income between $ 11,450 - $ 13,740, and RIR > 15%	Income between $ 12,200 - $ 14,640, and RIR > 15%	Income between $ 13,050 - $ 15,660, and RIR > 15%

Income Limits / Household Size	**1 Person Household**	**2 Person Household**	**3 Person Household**	**4 Person Household**	**5 Person Household**	**6 Person Household**	**7 Person Household**	**8 Person Household**	**9 Person Household**	**10 Person or above Household**
For a 25% rent reduction for non-elderly households										
1)	RIR exceeds 20% but not exceeding 25%; **OR**									
2) Household income falls below 60% but not lower than 50% of the respective WLIL irrespective of RIR	Income ≧$3,400 and <$4,080	Income ≧$ 5,400 and <$ 6,480	Income ≧$6,050 and <$7,260	Income ≧$7,300 and <$8,760	Income ≧$ 8,450 and <$ 10,140	Income ≧$ 9,900 and <$ 11,880	Income ≧$ 10,700 and <$ 12,840	Income ≧$ 11,450 and <$ 13,740	Income ≧$ 12,200 and <$ 14,640	Income ≧$ 13,050 and <$ 15,660
For a 50% rent reduction for elderly households (i.e. households with members all aged 60 or above)										
1)	RIR exceeds 20%; **OR**									
2) Household income falls below 60% of the respective WLIL irrespective of RIR;	Income <$4,080	Income <$ 6,480	Income <$7,260	Income <$8,760	Income <$ 10,140	Income <$ 11,880	Income <$ 12,840	Income <$ 13,740	Income <$ 14,640	Income <$ 15,660

(Source: Information based on Waiting List Income and Asset Limits of the Housing Authority for 2007/08)

Appendix V

How to Calculate the Income Index

The two index values of the income index would be worked out with reference to:

(a) PRH tenants' mean monthly household income over the first period weighted on the basis of the household size distribution over the first period; and

(b) PRH tenants' mean monthly household income over the second period weighted also on the basis of the household size distribution over the first period.

Assuming that the household size distribution in the first and second periods of the first rent review is as follows:

First Rent Review	First Period			Second Period		
Household Number	Household Size	Household Income ($)	Mean Household Income ($)	Household Size	Household Income ($)	Mean Household Income ($)
1	1-person	4,000		1-person	4,300	
2	(27.3%)	5,000		(36.4%)	5,300	
3		5,500	4,833		5,300	
4	2-person	6,500			5,800	5,175
5	(27.3%)	7,500		2-person	6,800	
6		8,000	7,333	(36.4%)	7,800	
7	3-person or above	8,500			7,800	
8	(45.5%)	9,000			8,300	7,675
9		9,500		3-person or above	8,800	
10		10,000		(27.3%)	9,800	
11		11,000	9,600		11,300	9,967
Overall mean household income ($)		7,689		7,398 (-3.8%)		

To discount the effect of changes in household size distribution, the household size distribution in the second period is assumed to be the same as that in the first period for the purpose of calculating the Income Index, i.e. by taking the first period as the "base period".

First Rent Review	Household Distribution (%) (First Period)	Mean Household Income ($) (First Period)	Adjusted Mean Household Income ($) (Second Period)
1-person	27.3%	4,833	5,175
2-person	27.3%	7,333	7,675
3-person or above	45.5%	9,600	9,967
Weighted mean household income based on household size distribution in the first period ($)		7,689	8,043
Income Index (first period as the base period)		100.0	104.6

$$\text{Income Index in the first period (i.e. the base period)}: \frac{\$7{,}689}{\$7{,}689} \times 100 = 100$$

$$\text{Income Index in the second period}: \frac{\$8{,}043}{\$7{,}689} \times 100 = 104.6$$

Change in the Income Index between the first and the second periods:
(104.6 -100.0) / 100.0 × 100% = 4.6%   (change in the Income Index = effect of the pure income change)

Instead of fixing the household size distribution perpetually at one particular period, the pattern of household size distribution of PRH tenants would be updated by making reference to the household size distribution of the corresponding first period of each rent review. This is to strike a balance between the need to exclude the effect of changes in household size distribution and the need to make reference to a more updated household size distribution pattern in PRH.

Assuming that the household size distribution in the first and second periods of the second rent review is as follows:

<table>
<tr><td></td><td colspan="3">First Period of the First Rent Review</td><td colspan="3">Second Period of the First Rent Review</td><td colspan="3"></td></tr>
<tr><td colspan="4"></td><td colspan="3">First Period of the Second Rent Review</td><td colspan="3">Second Period of the Second Rent Review</td></tr>
<tr><td>Household Number</td><td>Household Size</td><td>Household Income ($)</td><td>Mean Household Income ($)</td><td>Household Size</td><td>Household Income ($)</td><td>Mean Household Income ($)</td><td>Household Size</td><td>Household Income ($)</td><td>Mean Household Income ($)</td></tr>
<tr><td>1</td><td rowspan="3">1-person (27.3%)</td><td>4,000</td><td rowspan="3">4,833</td><td rowspan="4">1-person (36.4%)</td><td>4,300</td><td rowspan="4">5,175</td><td rowspan="5">1-person (45.5%)</td><td>4,500</td><td rowspan="5">5,500</td></tr>
<tr><td>2</td><td>5,000</td><td>5,300</td><td>5,500</td></tr>
<tr><td>3</td><td>5,500</td><td>5,300</td><td>5,500</td></tr>
<tr><td>4</td><td rowspan="3">2-person (27.3%)</td><td>6,500</td><td rowspan="3">7,333</td><td>5,800</td><td>6,000</td></tr>
<tr><td>5</td><td>7,500</td><td rowspan="4">2-person (36.4%)</td><td>6,800</td><td rowspan="4">7,675</td><td>6,000</td></tr>
<tr><td>6</td><td>8,000</td><td>7,800</td><td rowspan="4">2-person (36.4%)</td><td>7,000</td><td rowspan="4">7,825</td></tr>
<tr><td>7</td><td rowspan="5">3-person or above (45.5%)</td><td>8,500</td><td rowspan="5">9,600</td><td>7,800</td><td>7,800</td></tr>
<tr><td>8</td><td>9,000</td><td>8,300</td><td>8,000</td></tr>
<tr><td>9</td><td>9,500</td><td rowspan="3">3-person or above (27.3%)</td><td>8,800</td><td rowspan="3">9,967</td><td>8,500</td></tr>
<tr><td>10</td><td>10,000</td><td>9,800</td><td rowspan="2">3-person or above (18.2%)</td><td>9,000</td><td rowspan="2">10,250</td></tr>
<tr><td>11</td><td>11,000</td><td>11,300</td><td>11,500</td></tr>
<tr><td colspan="2">Overall mean household income ($)</td><td colspan="2">7,689</td><td colspan="3">7,398</td><td colspan="3">7,216 (-2.5%)</td></tr>
</table>

Assuming a biennial rent review cycle, in order to make reference to a more updated pattern of household size distribution, "re-basing" would be carried out in assessing the changes in the Income Index in the second rent review.

Second Rent Review	Household Distribution (%) (First Period)	Mean Household Income ($) (First Period)	Adjusted Mean Household Income ($) (Second Period)
1-person	36.4%	5,175	5,500
2-person	36.4%	7,675	7,825
3-person or above	27.3%	9,967	10,250
Weighted mean household income based on household size distribution in the first period ($)		7,398	7,649
Income Index (first period as the base period)		100.0	103.4

By taking the first period as the base period :

Income Index of the first period : $\frac{\$7,398}{\$7,398} \times 100 = 100$

Income Index of the second period : $\frac{\$7,649}{\$7,398} \times 100 = 103.4$

(Source: Extracts from LC Paper No. CB(1)1171/06-07(02))

Appendix VI

<u>Comparison on the Existing and Proposed RAS Eligibility Criteria</u>

Waiting List Income Limits (WLILs) and Rent-to-Income Ratios (RIRs)				
	Existing criteria		**Proposed criteria** **(amended criteria are in bold and italic fonts)**	
	25% rent reduction	**50% rent reduction**	**25% rent reduction**	**50% rent reduction**
Elderly household	---	• Household income falls below 60% of respective WLIL; or • RIR exceeds 20%	---	• Household income falls below ***70%*** of respective WLIL; or • RIR exceeds ***18.5%***
Non-elderly household	• Household income falls below 60% but not lower than 50% of respective WLIL; or • RIR exceeds 20% but not 25%	• Household income falls below 50% of respective WLIL; or • RIR exceeds 25%; or • Household income lies between 50% and 60% of respective WLIL and RIR exceeds 15%	• Household income falls below ***70%*** but not lower than 50% of respective WLIL; or • RIR exceeds ***18.5%*** but not 25%	• Household income falls below 50% of respective WLIL; or • RIR exceeds 25%; or • Household income lies between 50% and ***70%*** of respective WLIL and RIR exceeds 15%

Residence Requirement		
	Existing requirement	**Proposed requirement**
	• Household living in newer block types (Harmony blocks and blocks built in or after 1992) must fulfill the three-year residence requirement before they can apply for rent assistance.	• Households living in newer blocks types (Harmony blocks and blocks built in or after 1992) must fulfill ***the two-year residence requirement*** before they can apply for rent assistance.
Transfer Requirement		
	Existing requirement	**Proposed requirement**
	• After receiving rent assistance for three consecutive years, RAS beneficiaries (except elderly households and households with disabled members) are required to move to cheaper accommodation in older block types	• After receiving rent assistance for three consecutive years, RAS beneficiaries (except elderly households and households with disabled members) ***are required to move to cheaper accommodation if there are suitable flats available. Suitable flats refer to those in the same district council with monthly rent at least 20% less than the full monthly rent (i.e. the rent payable if the rent assistance is unavailable) of units occupied by the RAS beneficiaries. RAS households living in older block types is exempted from the removal requirement except for under-occupation cases.***

(Source: Extracts from LC Paper No. CB(1)1700/06-07(02))