

Legislative Council Panel on Housing

New Rent Adjustment Mechanism for Public Rental Housing

Purpose

This paper aims to brief Members on the progress of the first rent review under the new rent adjustment mechanism for public rental housing (PRH).

Background

2. It is a long-established policy of the Hong Kong Housing Authority (HA) to set PRH rent at affordable levels. In November 2006, the HA approved the Report on the Review of Domestic Rent Policy, which recommended the formulation of a new income-based rent adjustment mechanism. The Housing (Amendment) Ordinance 2007 (the Amendment Ordinance) has introduced this new mechanism to provide for upward or downward adjustment of PRH rent according to the changes in the household income of PRH tenants, replacing the previous statutory 10% median rent-to-income ratio cap. Under the new rent adjustment mechanism, tenants' affordability is the direct factor in determining PRH rent. The mechanism provides an objective basis for the HA to determine when and to what extent PRH rent should be adjusted, and a more flexible framework that reflects tenants' affordability. The new rent adjustment mechanism helps promote the long-term sustainability of the PRH programme.

3. The Amendment Ordinance was passed by the Legislative Council in June 2007 and came into operation on 1 January 2008. To provide a fair starting point for the new rent adjustment mechanism to operate effectively, the HA had reduced the PRH rent by 11.6% starting from August 2007.

Rent Review Mechanism

I. Key Features of the Mechanism

4. Under the new PRH rent adjustment mechanism, the HA shall conduct a rent review every two years and vary the PRH rent according to the change in the income index between the first and second periods of the review. As stipulated in the Amendment Ordinance, if the income index for the second period is higher than that for the first period by more than 0.1%, the HA shall increase the PRH rent by the rate of increase of the income index or 10%, whichever is less; if the income index for the second period is lower than that for the first period by more than 0.1%, the HA shall reduce the PRH rent by the rate of the reduction of the income index.

5. For the purpose of the rent review, the HA will use the income data of PRH households collected from the “Survey on Household Income of PRH Tenants” (the Income Survey) as the basis for compiling the income index. The HA collects the income data of the PRH households during the first and second periods for the compilation of the respective income index. In accordance with Section 16A(7)(b) of the Amendment Ordinance, the Commissioner for Census and Statistics (C for C&S) shall compute the index, including the change in the income index between the first and second periods.

6. In relation to the first rent review to be conducted after 1 January 2010, Section 16A(8) of the Amendment Ordinance defines the first period as a period of 12 months expiring on 31 December 2007, and the second period as a period of 12 months expiring on 31 December 2009.

II. Survey on Household Income of PRH Tenants

7. The HA shall collect the income data of PRH households by means of the Income Survey. 2 000 PRH households, randomly selected by the HA each month, will receive a notification letter together with an income declaration form. The declarable income includes remuneration from employment and self-employment and other income (for example, various employment-related allowances and income from investment). To mitigate the burden caused to the selected households, no PRH household will be selected for more than once within a period of 12 months.

8. The income declaration forms are served under Section 25(1) of the Housing Ordinance and declaration is mandatory. The selected households shall, in compliance with the relevant stipulations of the Ordinance, declare truthfully the monthly income of all their family members listed in the tenancy and return the duly completed income declaration forms within the time specified. After submitting the forms, the households may be asked to attend an interview with the staff of the Housing Department (HD), or provide documentary proof of income and other related information for verification of the declared income. Households who knowingly make false statements of their particulars required in the income declaration forms, or refuse or fail to return the forms by the specified time shall be guilty of an offence and liable to prosecution.

III. Computation by the Census and Statistics Department

9. The Census and Statistics Department (C&SD) is responsible for the computation of the income index, including the respective income index of the first and second periods, as well as the change in income index between the two periods.

IV. Ensuring Transparency and Openness Throughout the Process

10. To map out a rent adjustment mechanism that reflects tenants' affordability and provides a flexible framework to help promote the long-term sustainability of the PRH programme, the Ad Hoc Committee on Review of Domestic Rent Policy of HA (the Committee) launched a public consultation between March and June 2006 to gauge the public's views on its findings. The findings and recommendations of the Committee on improving the PRH rent system, including the compilation method of the income index, have been detailed in the Report on the Review of Domestic Rent Policy. The Legislative Council Bills Committee on Housing (Amendment) Bill 2007 also discussed the compilation of the income index at its meetings and agreed with the current compilation method.

11. Since the passage of the Amendment Ordinance, the HA has launched publicity on the new rent adjustment mechanism and on the collection of PRH household income data through various channels such as the Estate Management Advisory Committees (EMAC) newsletters, posters, leaflets and internet, as well as video clips on the HA's website and the Housing Channel.

The HA also explains the purpose of data collection to resident representatives and local District Council members at the meetings of EMAC so as to enhance public awareness. Besides, we have also set up a dedicated team responsible for income data collection of the Income Survey. Sampled households would learn about the details of the Income Survey in the income declaration form and if they have any queries relating to filling of the form, our staff would stand ready to provide assistance.

Progress of the First Domestic Rent Review

I. Response Rate and Quality Control

12. The response rate has stood at around 98% since the launch of the Income Survey. Among the remaining 2% of tenants who were unable to provide the information requested in the declaration form, all but one were verified by the HD to have reasonable grounds such as chronic illness, overseas employment or study, or imprisonment. The only tenant who, without justification, refused to return the income declaration form as required under Section 25(1) of the Housing Ordinance was prosecuted and fined by the Court on conviction.

13. Information provided by tenants will be treated in strict confidence and used by C&SD for computing the income index. C&SD has adopted various quality control measures to ensure impartiality, objectivity and accuracy throughout the process of data collection and data input. The measures include (a) verifying the household size distribution of the samples; (b) selecting some tenants at random and requiring them to submit income documentary proof through the HA so as to check the accuracy of their declared income against their submitted proof; and (c) conducting random checking of the inputted data. These quality control measures are to monitor and assess the representativeness of the sampled PRH households, the truthfulness of the declared income, and the accuracy of data input in a comprehensive manner to ensure that the data used for the compilation of the income index is reflecting accurately the tenants' household income.

II. Collection of Income Data

14. To facilitate the first review on PRH rent, the HA commenced the Income Survey in January 2007. A monthly sample of 2 000 PRH households was drawn to collect data on their income in that month. That is, a sample of 24 000 PRH households were respectively sampled in the first and second periods, and the first rent review would involve the income data of a total of 48 000 PRH households.

15. Income data collection and various quality control and verification processes for the first period have been completed. The data collected have been passed to the C&SD for computation of the income index. Under the new mechanism, as rent adjustment is made with reference to the change in income index between the first and second periods, the first period of the first rent review is taken as the base year and its income index is set at 100.

16. The second period refers to a period of 12 months expiring on 31 December 2009 and the work on income data collection for the second period is still underway. The PRH households sampled for the month of December 2009 are required to declare income and provide documentary proof within one month. HD will serve reminders on tenants who fail to make timely declaration and allow sufficient time for them to make the required declaration. According to the current procedure, we expect that all the income data and the relevant documentary proof will be available by the end of March 2010. Meanwhile, the C&SD will continue to conduct various quality controls and compute the income index in one go with reference to the income data for the first and second periods.

17. The first rent review is expected to be completed around mid-2010. We will brief the HA, the Legislative Council and the general public on the findings.

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