

立法會
Legislative Council

LC Paper No. CB(1) 2589/09-10(01)

Ref: CB1/PL/HG

Panel on Housing

Special meeting on 20 July 2010

**Updated background brief on the new rent adjustment mechanism
prepared by the Legislative Council Secretariat
(position as at 19 July 2010)**

Purpose

This paper sets out the background to the new rent adjustment mechanism, and gives a brief account of the views and concerns expressed by the Panel on Housing (the Panel) regarding the progress of the first rent review.

Introduction

2. Under Section 16(1) of the Housing Ordinance (HO) (Cap.283) (the Ordinance), 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 benchmarks² 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

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 m² Internal Floor Area (IFA) per person (in place since 1986), and 18.5% for the higher space allocation standard of 7 m² IFA per person (adopted in 1991).

determination of variation of rent by HA should only take effect at least three years after the preceding rent determination came into effect, and that the rent determined should be of such amount that the MRIR for all public housing estates should not exceed 10%. After the enactment of the Amendment Ordinance 1997, HA had 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 had 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 cap³.

4. 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 which ruled in favour of HA on 21 November 2005⁴. 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 (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.

5. The key recommendations of CDRP included 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 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 tenants⁵.

6. On 31 January 2007, the Administration introduced the Housing (Amendment) Bill 2007 (the Bill) to replace the statutory 10% MRIR cap with a rent adjustment framework that provided for both upward and downward rent adjustments according to changes in PRH tenants' household income. The Bill was passed at the Council meeting on 13 June 2007 and came into operation on 1 January 2008. The report of the Bills Committee on Housing (Amendment) Bill 2007 is hyperlinked below for easy reference.

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.

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.

New rent adjustment mechanism

7. Under the new rent adjustment mechanism, a review of PRH rent will be conducted once every two years. The PRH rent will be either adjusted upward or downward according to changes in the income index, which reflect changes in PRH tenants' household income in the first and second periods of the review. The income index will be computed by the Commissioner for Census and Statistics (C for C&S). For downward rent adjustment, the PRH rent shall be reduced according to the rate of reduction of the income index. In case of upward rent adjustment, the PRH rent shall be increased by the rate of increase of the index or 10%, whichever is less. To provide a new starting point for the income-based rent adjustment mechanism to operate effectively, HA reduced the PRH rent by 11.6% starting from August 2007.

Compilation of income index

8. The compilation of income index involves both "data collection" and "data computation". HA is responsible for the collection, verification and input of PRH households' income data. The quality control procedures involved in the process are drawn up according to the recommendations of the Census and Statistics Department (C&SD). The computation of the income index and of the relevant data, which include the change in income index between the first and second periods of the review cycle, is taken up by C for CS in his independent capacity in accordance with section 16A(7)(b) of the Ordinance.

Data collection

9. The compilation of the income index serves to assess the "pure income change" in the household income of PRH tenants during the rent review cycle with a view to determining the rate of rent adjustment. To assess the overall pure income change of PRH tenants, the household size distribution of PRH tenants in the rent review cycle should remain unchanged so that the impact on household income due to variation of household size distribution could be eliminated in the compilation of income index. In this connection, PRH tenants are divided into five categories according to their household size (i.e. one-person household, two-person household, three-person household, four-person household and households of five persons or more) and samples are drawn accordingly to enhance the accuracy of the income data. Using a probability-based statistical methodology, 2 000 sampled households are selected from each category every month to participate in the Survey of Household Income of PRH Tenants by means of proportionate stratified systematic random sampling. In other words, a sample of 24 000 PRH households are respectively sampled in the first and second periods, and each rent review cycle will involve the income data of a total of 48 000 PRH households. The declarable income includes remuneration from employment and self-employment and other income (such as various employment-related allowances and income from investment). To mitigate the burden caused to the selected households, no household will be selected more than once within a period of 12 months.

Data computation

10. As the income index seeks to reflect change in the household income of PRH tenants, it should cover PRH households with normal income. Hence, “non-representative” households, including “well-off tenants”⁶, other households with high “outlying” income ⁷, and Comprehensive Social Security Assistance (CSSA) households, will be excluded to minimize distortion to the outcome of computation.

First rent review

11. In relation to the first rent review conducted after 1 January 2010, section 16A(8) of HO defines that 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. For compiling the income index, HA commenced the “Survey on Household Income of PRH Tenants” in January 2007. Income data collection and various quality control and verification processes for the first period have been completed. The data collected have been passed to C&SD. Of the 24 000 sampled households, 910 well-off tenants, 513 other households with upper outlying income levels, and 5 640 CSSA households have been respectively excluded from the computation of the income index, accounting for 3.9%, 2.2% and 24% of the completed sample. With the exclusion of these categories of PRH households and subsequent to grossing up, C&SD has computed household size distribution of PRH tenants for the compilation of income index for the rent review. Such distribution forms the set of weights which will remain unchanged over the second period in order to discount the impact due to variation in household size distribution in the rent review cycle. The mean monthly household income of PRH tenants in the first period of the first rent review is given below –

Household Size	Mean monthly household income (\$)	Distribution of household size (%) (weights)
one-person	3,883	10.620%
two-person	7,948	19.443%
three-person	13,340	26.796%
four-person	16,568	28.106%
five-person or more	20,245	15.035%
		100%

⁶ Referring to tenants paying additional rent.

⁷ Referring to those high-income households which are not required to declare income under the so-called “well-off tenants” policy”.

The mean monthly household income over the first period is \$13,233.

12. The work on income data collection for the second period is still underway. According to the current procedure, it is expected that all the income data and the relevant documentary proof will be available by the end of March 2010. The first rent review is expected to be completed around mid 2010.

Major concerns raised by the Panel

13. The progress of the first rent review under the new rent adjustment mechanism for PRH was discussed at the Panel meetings on 7 January and 1 March 2010.

14. Some members were concerned about the reliability of the methodology for computing the income index in the absence of any confirmation from an independent third party, such as academics from the relevant fields. Given that households were selected on the basis of household size distribution, some members queried the reliability of the income index if this was computed without making reference to the income levels of different districts which might vary. Other members however supported the use of household size distribution in computing the income index, but considered it not appropriate to apply one income index to all households since income changes of one-person households (comprising mostly elderly persons) were usually much less than that of three to four-person households. They were of the view that consideration should be given to working out two income indices, one for two-person households and another for households with three or more persons.

15. As regards the exclusion of “non-representative” household from computation of the income index, some members were opposed to the exclusion as this would not only lower the mean monthly household income, but also affect the accuracy of computation of the income index, given that the number of “non-representative” households in the first period would be different from that in the second period. Other members pointed out that the findings, which were based on the income data of past year, would not be able to reflect the current and upcoming economic situation, which was expected to worsen in the next year. To this end, a threshold might need to be set such that HA would automatically review the income index if the economy dropped by 5% to 10% or more. To ensure transparency throughout the process, HA was requested to publish the income data of sampled households collected during the first period so that members could compare these with the data collected during the second period.

16. As HA was expected to suffer a deficit in the financial year 2009/2010, some members were concerned that HA would try to increase rather than decrease the PRH rent in order to cover the deficit despite a negative change in the income index. They called upon HA to re-launch the Home Ownership Scheme (HOS) to provide affordable housing on the one hand and secure stable income for its operation on the

other. Besides, the re-launching of HOS would help dampen the surging property prices.

Latest development

17. The Administration proposes to brief members on the outcome of the first rent review at the Panel special meeting on 20 July 2010.

Relevant papers

Report of the Bills Committee on Housing (Amendment) Bill 2007 to the Council meeting on 13 June 2007

<http://www.legco.gov.hk/yr06-07/english/bc/bc01/reports/bc01cb1-1871-e.pdf>

Information paper provided by the Administration for the meeting of the Panel on Housing on 7 January 2010

<http://www.legco.gov.hk/yr09-10/english/panels/hg/papers/hg0107cb1-796-3-e.pdf>

Minutes of the meeting of the Panel on Housing on 7 January 2010

<http://www.legco.gov.hk/yr09-10/english/panels/hg/minutes/hg20100107.pdf>

Information paper provided by the Administration for the meeting of the Panel on Housing on 1 March 2010

<http://www.legco.gov.hk/yr09-10/english/panels/hg/papers/hg0301cb1-1059-1-e.pdf>

Minutes of the meeting of the Panel on Housing on 1 March 2010

<http://www.legco.gov.hk/yr09-10/english/panels/hg/minutes/hg20100301.pdf>

Council Business Division 1
Legislative Council Secretariat
19 July 2010