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Panel on Housing

Meeting on 29 June 2016

**Updated background brief on rent review for public rental housing
prepared by the Legislative Council Secretariat**

Purpose

This paper provides updated background information on the public rental housing ("PRH") rent adjustment mechanism of the Hong Kong Housing Authority ("HA"), and gives a brief account of the views and concerns expressed by members on the subject.

Background

2. The existing mechanism to provide for upward or downward adjustment of PRH rent according to the changes in the household income of PRH tenants is stipulated in the Housing Ordinance (Cap. 283), which came into operation on 1 January 2008. Under the 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. Under section 16A(7)(b) of the Housing Ordinance, the income index will be computed by the Commissioner for Census and Statistics ("C for C&S"). Section 16A(4) of the Housing Ordinance provides that if the income index for the second period is higher than that of the first period by more than 0.1%, 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 of the first period by more than 0.1%, HA shall reduce the PRH rent by the rate of reduction of the income index.

3. To compile the income index, a sample of 2 000 PRH households is randomly selected by HA every month and each sampled household receives a notification letter together with an income declaration form. The income declaration forms are served under the Housing Ordinance and declaration is mandatory. Compilation of the income index includes the computation of the

change in the income index between the first and second periods. The methodology for data collection and computation under the new rent adjustment mechanism is set out in Annex A to LC Paper No. CB(1) 2038/11-12(03), which is hyperlinked in the **Appendix**.

4. HA has since conducted three reviews of PRH rent in 2010, 2012 and 2014 under the current rent adjustment mechanism. The table below sets out the rate of rent adjustment in the respective review exercise and rent relief, if any, provided to PRH tenants in relevant year –

Rent review/ year	Change in income index	Rate of rent adjustment implemented (effective date)	Rent waiver granted by HA, if any	Rent relief provided in the Budget, if any
First review in 2010	+4.68%	+4.68% (effective 1 September 2010)	One-month rent waiver for September 2010	Nil
Second review in 2012	+16.24%	+10% (effective 1 September 2012)	One-month rent waiver for September 2012	Two-month rent relief for July and August 2012
Third review in 2014	+19.27%	+10% (effective 1 September 2014)	Nil	One-month rent relief for August 2014

Deliberations by the Panel on Housing

5. The rent adjustment mechanism for PRH, and the first, second and third rent review outcomes were discussed by the Panel on Housing ("the Panel") at its meetings on 7 January, 1 March and 20 July 2010, 4 June 2012, and 7 July 2014. The major views and concerns expressed by members are summarized in the ensuing paragraphs.

6. Panel members generally considered that the rent adjustments in the second and the third rent reviews which were both +10% were unacceptably high. Some members expressed grave concern that many of the price adjustment mechanisms affecting people's livelihood, though purportedly allowed for upward or downward adjustment, would invariably result in upward adjustment. These members urged for the reinstatement of the obsolete rent review system adopted in 1997 under which any determination of variation of

rent by HA should only take effect at least three years after the preceding rent determination came into effect, and the rent so determined should be subject to a cap of 10% of the median rent-to-income ratio.

7. Some Panel members also observed that the adjustment mechanisms which provided for upward and downward adjustments of bus fares, train fares and PRH rents had not been well received by the general public. Despite nominal increases in household income, the standard of living of the general public had not correspondingly risen as a result of the increases in transport fares, rents and inflation. Panel members therefore considered it necessary for the Administration to adopt a holistic approach in reviewing these adjustment mechanisms.

8. Some members opined that the rent adjustment mechanism was inadequate and undesirable as it only took account of increase in household income (which was mainly attributable to the implementation of the Statutory Minimum Wage) but not inflation or rise in household expenses. There was a need for HA to work out a new mechanism based on tenants' financial ability, to ensure that any rent adjustments in the future would not result in a lower living standard for PRH tenants.

9. When discussing the third review, some members also expressed doubts on the accuracy of the income indices compiled by the C for C&S, and contended that such figures did not reflect the real situation and the actual rises in PRH tenants' household income were lower. Some other members however considered it necessary to respect the outcome of the rent review which was based on an established rent adjustment mechanism. Nevertheless, most members shared the view that assistance or relief measures should be put in place to either help ease the pressure on the community in economic downturn or to alleviate the burden of grassroots during economic growth, and called on HA to maintain the provision of one-month rent waiver to all PRH tenants. These members also considered that enhancements to the Rent Assistance Scheme were needed to better assist needy tenants, such as allowing persons with disabilities to apply with the same status as elderly households.

10. At the meeting on 7 July 2014, in response to the decision by SHC not to grant a one-month rent waiver to PRH tenants, the Panel carried the motion "That, in view of the endorsement of a 10% rent increase from September this year by HA, this Panel requests HA to make reference to the past practice and grant a one-month rent waiver to tenants of PRH to relieve their burden, and to expeditiously conduct a comprehensive review of the rent adjustment mechanism for PRH."

Latest development

11. The Administration will brief members on the result of the fourth rent review for PRH at the Panel meeting on 29 June 2016.

Relevant papers

12. A list of relevant papers is in the **Appendix**.

Council Business Division 1
Legislative Council Secretariat
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Appendix

List of relevant papers

Council/ Committee	Date of meeting	Paper
Bills Committee	---	Report of the Bills Committee on Housing (Amendment) Bill 2007 to the Council meeting on 13 June 2007 (LC Paper No. CB(1)1871/06-07)
Panel on Housing	7 January 2010	Administration's paper on "New Rent Adjustment Mechanism for Public Rental Housing" (LC Paper No. CB(1)796/09-10(03)) Minutes of meeting (LC Paper No. CB(1)1208/09-10)
Panel on Housing	1 March 2010	Administration's paper on "New Rent Adjustment Mechanism for Public Rental Housing" (LC Paper No. CB(1)1059/09-10(01)) Updated background brief on the new rent adjustment mechanism prepared by the Legislative Council Secretariat (LC Paper No. CB(1)1210/09-10(05)) Minutes of meeting (LC Paper No. CB(1)1744/09-10)
Panel on Housing	20 July 2010	Administration's paper on "New Rent Adjustment Mechanism for Public Rental Housing" (LC Paper No. CB(1)2600/09-10(01)) Updated background brief on the new rent adjustment mechanism prepared by the Legislative Council Secretariat (LC Paper No. CB(1)2589/09-10(01)) Minutes of special meeting (LC Paper No. CB(1)2873/09-10)

Council/ Committee	Date of meeting	Paper
Panel on Housing	4 June 2012	<p>Administration's paper on "Second Rent Review for Public Rental Housing" (LC Paper No. CB(1)2038/11-12(03))</p> <p>Updated background brief on the new rent adjustment mechanism for public rental housing prepared by the Legislative Council Secretariat (LC Paper No. CB(1)2038/11-12(04))</p> <p>Minutes of meeting (LC Paper No. CB(1)2557/11-12)</p>
Panel on Housing	7 July 2014	<p>Administration's paper on "Third Rent Review for Public Rental Housing" (LC Paper No. CB(1)1742/13-14(01))</p> <p>Updated background brief on the new rent adjustment mechanism for public rental housing prepared by the Legislative Council Secretariat (LC Paper No. CB(1)1742/13-14(02))</p> <p>Minutes of meeting (LC Paper No. CB(1)43/14-15)</p>