

SAFEGUARDING RATIONAL ALLOCATION OF PUBLIC HOUSING RESOURCES

REPORT ON FINAL RECOMMENDATIONS

April 1996

HONG KONG HOUSING AUTHORITY

AD Hoc Committee on Private Domestic Property Ownership by Public Rental Housing Tenants

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Table of Contents

[Chapter 1 BACKGROUND](#)

[Chapter 2 PUBLIC RESPONSE](#)

[Chapter 3 AD HOC COMMITTEE'S RESPONSE ON ISSUES OF PUBLIC CONCERN](#)

[Chapter 4 KEY ISSUES OF DEBATE](#)

[Chapter 5 ALTERNATIVE PROPOSALS BY POLITICAL PARTIES](#)

[Chapter 6 OTHER VIEWS](#)

[Chapter 7 THE FINAL PACKAGE OF RECOMMENDATIONS](#)

[Chapter 8 CONCLUSION](#)

[Annex A Membership of the Ad Hoc Committee](#)

[Annex B Terms of Reference of the Ad Hoc Committee](#)

[Annex C Main Recommendations of the Consultation Document](#)

[Annex D Proposed Income/Net Asset Limits](#)

Chapter 1

BACKGROUND

1.1 As part of the mid-term review of the Long Term Housing Strategy (LTHS) in 1992 and 1993 by the Housing Authority (HA), a survey was conducted and 13% of public rental housing (PRH) households were found to be owners of private domestic properties. In view of strong public reactions, the HA set up an Ad Hoc Committee on Private

Domestic Property Ownership by Public Rental Housing Tenants (the Ad Hoc Committee) in August 1994. The membership and terms of reference of the Ad Hoc Committee are at **Annexes A** and **B** respectively.

1.2. The Ad Hoc Committee published a Consultation Document entitled "Safeguarding Rational Allocation of Public Housing Resources" on 6 December 1995. The main purpose of the recommendations in the document is to reaffirm two basic principles -

1. PRH is not personal property but a public asset; and
2. public housing subsidy must be allocated in relation to need and hence, PRH tenants who can afford to take care of their own housing needs should not continue to enjoy PRH subsidy on a permanent and unconditional basis.

To safeguard rational allocation of public housing resources, the Ad Hoc Committee emphasizes that PRH tenants who can look after their own housing needs should voluntarily vacate from PRH so that the flats can be reallocated to those in need. Should they choose to remain in PRH, they should cease to receive PRH subsidy. The main recommendations of the Consultation Document are at **Annex C**.

Chapter 2

PUBLIC RESPONSE

2.1 During the consultation period between 6 December 1995 and 6 March 1996, there was widespread public support for the basic principles underlying the Ad Hoc Committee's recommendations. According to the two public opinion surveys [Note 1] commissioned by the Ad Hoc Committee, support for introducing a new policy to deal with the issue of whether better-off tenants should continue to receive public housing subsidy was in the range of 70% to 80%; support for the principle that public housing should be allocated in relation to need exceeded 90%; support for the proposal that double rent (DR) paying households should be required to declare assets approached 70%. Public views, however, were more varied on the implementation details of the proposals. A report analyzing public opinions expressed has been published for public reference.

2.2 The Ad Hoc Committee was reconvened in March 1996 to consider whether its recommendations should be modified in the light of public opinion. This Report summarizes the Ad Hoc Committee's response to public opinions expressed, the revised recommendations and the rationale underlying the revisions.

2.3 During the consultation period, there were heated discussions on the following issues -

1. should very well-off tenants be required to move out of PRH by way of compulsory termination of tenancy;
2. scope of asset declaration;
3. should asset checking cover domestic property ownership only;
4. the asset limits, particularly in respect of small households-
5. declaration procedure and form; and
6. determination of public housing market rent (MR).

2.4 The Ad Hoc Committee's response to the views expressed on these issues is set out in Chapter 3..

Chapter 3

AD HOC COMMITTEE'S RESPONSE ON ISSUES OF PUBLIC CONCERN

Should Very Well-off Tenants Be Required To Move Out Of PRH By Way Of Compulsory Termination Of Tenancy

3.1 In the Consultation Document (paragraphs 2.12 and 2.13), the Ad Hoc Committee made clear that it did not favour compulsory termination of tenancy of well-off tenants because it was not compatible with the underlying spirit of the

overall package of recommendations i.e. to give tenants the freedom of choice. Nevertheless, in view of public opinions expressed, the Ad Hoc Committee again thoroughly debated the relative merits of eviction and MR.

3.2 During the consultation period, some commentators argued that charging very well-off tenants MR would not be sufficient to achieve the objective of recovering PRH flats for reallocation. Public housing MR, at an average of a few thousand dollars a month might be regarded as too small an amount to induce very well-off tenants to give up PRH. Recovery of flats could be achieved more effectively by compulsory termination of tenancy.

3.3 The Ad Hoc Committee endorses this point of view. We agree in principle that since entry to PRH is subject to eligibility criteria, there should also be clearly defined exit criteria based on the financial position of the PRH tenant.

3.4 Nevertheless, after repeated discussions subsequent to the conclusion of the public consultation period, the Ad Hoc Committee maintains that there should not be compulsory termination of tenancy at this point in time. First, to do so would require more DR paying tenants to declare assets, including those who are prepared to pay MR. Second, the issue is highly controversial. Although slightly more than half of the respondents supported termination of tenancy, more than 30% raised objection. Compared with the Ad Hoc Committee's other recommendations, the margin of support is smaller. In the interest of maintaining social stability at this sensitive time in Hong Kong, the Ad Hoc Committee does not recommend introduction of compulsory termination of tenancy at this time. It considers the market rent approach a more moderate and pragmatic way to induce better-off tenants to give up PRH.

Scope Of Asset Declaration

3.5 During the consultation period, various comments were received on the scope of asset declaration. One view was that the proposal was not comprehensive enough as it did not cover valuables, such as solid gold and jewellery. On the other hand, a view was expressed that the coverage of the Ad Hoc Committee's proposal was too extensive, particularly in two regards. First, assets in China and overseas are difficult to check and should not be included. Second, public light bus (PLB) and taxi franchises should be excluded as they are the means of livelihood for PLB and taxi owner/drivers and as such, cannot be sold for cash.

3.6 The scope of asset declaration as proposed by the Ad Hoc Committee covers mainly income generating assets, e.g. bank deposits, landed properties, stocks and shares, and businesses. As an income generating asset, there is no material difference between PLB and taxi franchises on the one hand, and landed properties and businesses on the other. There is therefore insufficient justification to exclude PLB and taxi franchises from the asset declaration. At any rate, the average income of PLB and taxi drivers is way below the proposed income limits at three times the Waiting List Income Limits (WLIL). The Ad Hoc Committee believes that most PLB and taxi drivers would not be affected by the new policy, unless their households have other sources of income of a significant amount. As regards solid gold and jewellery as well as overseas properties, no new arguments have been put forward during the consultation period which justify a change in the Ad Hoc Committee's position as explained in the Consultation Document.

3.7 After careful deliberations, the Ad Hoc Committee maintains that the scope of asset declaration as described in paragraphs 3.12 to 3.14 of the Consultation Document should remain unchanged.

3.8 During the consultation period, it has been suggested that compensation for loss of earning power due to injuries sustained in industrial, traffic or other accidents should be excluded from the asset assessment. The Ad Hoc Committee agrees with this view. Any PRH tenant in such situation may make an application to the Housing Department (HD) to exclude from assessment the amount of compensation received.

Should Asset Checking Cover Domestic Property Ownership Only

3.9 During the consultation period, a view was put forward that the "inconvenience" to tenants caused by asset declaration could be removed if only domestic property ownership was counted. Instead of requiring tenants to make a declaration, HD could check tenants' domestic property ownership directly with the Land Registry (LR) and make a valuation. The rationale behind this view is that, since HA's main task is to provide subsidized housing to those in need, domestic property ownership by PRH tenant should be the only criterion in assessing housing need.

3.10 As explained in the Consultation Document, the Ad Hoc Committee considers it unfair to use domestic property ownership as the sole criterion in determining whether a PRH tenant should be eligible to continue to receive PRH subsidy.

It is HA's long standing policy to encourage PRH tenants to become home-owners and vacate from PRH. If the new policy in any way adversely affects PRH tenants' propensity to become home-owners even if they can afford to do so, it would contradict this policy objective.

Asset Limits

(I) Asset Limits In General

3.11 During the consultation, some Legislative Councillors and members of public advocated that the asset limits should be set at higher levels. Having regard to private property prices, it was argued by some that the asset limits should be set at 220 times the WLIL. After careful consideration, the Ad Hoc Committee maintains that it is reasonable to set asset limits having regard to Home Ownership Scheme (HOS) prices, since DR paying households who do not already own domestic property will be granted second priority in HOS purchase. In fact, a 4-person DR paying household with net asset worth of \$1.5 million definitely can afford to buy a three-bedroom HOS flat in the urban area. A family with an income exceeding three times the WLIL can comfortably afford to buy a HOS flat by making a small downpayment of 5% and repay a mortgage loan on a monthly basis.

3.12 The Ad Hoc Committee wishes to emphasize that it must strike a balance between the public interest and the practical needs of PRH tenants when setting asset limits. The cost-effectiveness of the new policy would be compromised if the asset limits were too high. It should be noted that a 4-person household with a monthly income exceeding \$44,100 [Note 2] is already within the top 15% of Hong Kong's household income distribution [Note 3]. Such a household in possession of assets of a net worth exceeding \$1.496 million [Note 4] would be even better-off and should undoubtedly be able to look after its own housing needs. To many low or middle income families, such income and asset levels are targets to which they are still striving hard to achieve. The Ad Hoc Committee therefore has decided to maintain its recommendations on asset limits as set out in the Consultation Document. The Ad Hoc Committee has also considered whether to adjust the asset limits in line with the adjustments to the WLIL on 1 April 1996. However, as HOS prices have remained stable, the Ad Hoc Committee considers it unnecessary to review the asset limits at this juncture. A review can be conducted next year, having regard to HOS prices then.

(II) Asset Limits For Small Households

3.13 Some people suggested that the asset limits for small households whose members are nearing retirement should be increased. As many employees in Hong Kong still do not enjoy the benefit of a pension on retirement, many retirees would have to rely on savings and income generated from assets for their post-retirement living.

The Ad Hoc Committee sympathizes with this view and recommends that the asset limit for small households of three persons or less whose members are all aged over 55 should be raised to the same level as that of a 4-person household. Any PRH household which encounters special personal or family difficulties and wishes to seek exemption or exception may apply to the HD for special consideration. The Department would consider compassionate concession on the merits of individual cases.

Declaration Procedure

(I) Simple Declaration

3.14 During the consultation, many who raised objection to the requirement to declare assets criticized the proposal as causing inconvenience to PRH tenants. Even many who were in support of the proposal in principle suggested that the declaration procedure and the requisite form should be made as simple as possible to enhance public acceptance of the proposal. Taking into account public views, the Ad Hoc Committee recommends that DR paying households should be required to make a declaration in a simple form to provide information on the following - (1) type and total net value of assets owned; (2) number and address of properties owned; (3) vehicle ownership, including private and commercial vehicles, and relating franchises; and (4) business ownership. This simple asset declaration arrangement will save tenants' time and efforts, but, on the other hand, provide useful information to the HD in obtaining an understanding of

the financial position of the PRH households. However, in doubtful cases, the HD will require the households concerned to make a full declaration with detailed breakdown on all asset items as per paragraphs 3.13 to 3.14 of the Consultation Document.

(II) Separate Declaration By Household Members

3.15 Some commentators criticized the asset declaration requirement as divisive because household members do not necessarily want to disclose their asset ownership to each other. They advocated that household members should be allowed to make separate asset declarations. The Ad Hoc Committee sees no strong objection to the proposal of separate declaration as it would not impede successful implementation of the new policy. In handling separate declarations, the HD would add up the total net asset value for the entire household and determine whether the household should be required to pay MR. If any member of a household refuses to make a declaration on assets, the household will be required to pay MR. If any household member furnishes inaccurate information in his declaration, the tenancy will be terminated and the entire household will be required to move out. The particular household member who furnishes the inaccurate information will have to face prosecution and the consequential criminal liabilities on conviction.

Determination Of Public Housing Market Rent

3.16 Some people queried the concept of public housing MR as the facilities, management arrangement, and state of repair of public housing are different from private sector housing.

3.17 The MR for public housing units will be determined on the basis of valuation provided by the Commissioner of Rating and Valuation. The Commissioner will take into account all relevant factors, such as location and transportation network, age and design of building, facilities and standard of finishes, etc, when determining the MR of PRH units.

3.18 In general, the Commissioner will determine the MR of an estate on a per square meter (floor area) basis. The MR of a PRH unit will be obtained by applying the floor area unit rent to the size of the flat. In an estate where the design and age of different blocks vary significantly (e.g. due to phased redevelopment), different floor area unit rents will be set for different blocks.

Concluding Remark

3.19 The final recommendations of the Ad Hoc Committee, as revised above, are summarized in Chapter 7 of this Report.

Chapter 4

KEY ISSUES OF DEBATE

4.1 During the consultation period a number of points were raised and the Ad Hoc Committee would like to offer its views and clarify its position as follows.

Rational Allocation Of Community Resources

4.2 Some criticized that the Ad Hoc Committee's proposals were about "horizontal reallocation of resources", and that they were equivalent to "robbing the poor to pay the poor". They considered that to achieve the objective to safeguard the rational allocation of public resources, there should be a thorough and comprehensive review of government's policies on income and corporate tax, social welfare and medical services, etc. These critics basically agreed to the principle that those who are better-off should contribute more to public expenditure, which was in line with the underlying spirit and principles of the Ad Hoc Committee's proposals.

4.3 However, the Ad Hoc Committee does not agree to the suggestion that the proposed policy is horizontal reallocation of resources. If a household whose income and assets exceed our proposed limits, it is already quite well-

off: as mentioned in paragraph 3.12 above, this household already belongs to the top 15% of the highest income-earning households in the community. It is only fair and equitable to stop giving public housing subsidy to such a household, or even make it surrender its flat for reallocation to the needy. To describe this as "robbing the poor to pay the poor" is not only inappropriate, but fundamentally wrong.

4.4 On the other hand, some people argued that unless the allocation of all public resources were brought under review, we should not focus on public housing resources alone and the present proposals should be shelved. We cannot agree to this approach: public policies cover a wide range of issues and, as a responsible public body, the HA should tackle problems as they are and resolve them individually.

Land Resumption And Rehousing Upon Clearance

4.5 Some PRH tenants maintained that PRH flats were offered to them as compensation by government on clearance. They argued that they were admitted to PRH with a substantial amount of assets, and it was therefore unreasonable for them to declare income and assets or pay MR after admission to PRH. This argument was ill-founded. From a legal and public policy points of view, compensation for land resumption and rehousing upon clearance are two different matters. According to the Crown Lands Resumption Ordinance, when government resumes land or properties, it has an obligation to ensure that the legal owners of the land and properties affected are fully compensated in cash. At the same time, it is government policy to ensure that nobody will be made homeless as a result of public clearances, and that all those affected, be they owners or occupiers, will be offered PRH if they meet the prevailing rehousing criteria, or units in Temporary Housing Area if they do not meet the rehousing criteria. Therefore, rehousing and compensation are two entirely different matters.

4.6 Moreover, most people affected by past clearances were unauthorized occupiers of illegal structures on government land. Compensation is not an issue when illegal structures are cleared. These people were rehoused to PRH because of their need for a shelter at the time of clearance. On rehousing to PRH, their rights and obligations were set out in a tenancy agreement which was the same as those between the HA and other tenants. There is no justification for granting these tenants any special treatment under the proposed policy.

4.7 During the consultation period, a concern group quoted the clearance in Sai Lau Kok as a case in point where PRH was taken as "compensation" upon clearance. The Ad Hoc Committee would like to clarify this case as follows. In 1978, Sai Lau Kok had to be cleared for the development of the Tsuen Wan Mass Transit Railway depot. The clearance affected four buildings comprising 338 domestic flats each with an average area of 30 to 32 square metres. The affected owners received compensation calculated on the basis of the prevailing market price of their properties, averaging at about \$100,000 per flat. As there were no new flats comparable in size to those to be cleared in the same district at that time, it was believed that even with full statutory compensation, the flat owners might have difficulties in acquiring replacement flats in the same district. Based on this consideration, the government agreed to give the owners an additional allowance of up to around \$50,000 on compassionate grounds, and the allowance was meant to cover the interest incurred as a result of obtaining additional loan required for buying a larger flat, while repayment of principal was still the clearerees' responsibility. In addition, the clearerees were granted a removal allowance. Both allowances were of an ex-gratia nature and were not part of the statutory compensation.

4.8 As the situation developed, some clearerees did acquire alternative accommodation using the allowances given by government, while some refused to acquire alternative accommodation even though they had obtained full cash compensation and allowances. Subsequently, property prices increased and it became more difficult for the clearerees to acquire properties in the same district. In order to ensure that nobody was made homeless on clearance of Sai Lau Kok, PRH flats were offered to the clearerees provided that they met the prevailing admission criteria on clearance (i.e. being a resident of Sai Lau Kok and having no alternative accommodation). The offer of PRH in this case was not a statutory compensation arrangement.

4.9 During the consultation period, there were others who cited the clearance of King's Park Cottage Area in Homantin and queried whether PRH flats had been offered as compensation. King's Park Cottage Area was cleared in 1969 and the residents thereon did not have any title to the land. The residents had a temporary permit which allowed them to erect structures on the site as living quarters. It was clearly stated in the permit that government could at any time

cancel the permit by giving a three months' notice, and that the residents be asked to move out without any compensation. Therefore, the allocation of public housing to the residents of this cottage area was merely government's usual rehousing arrangement, not compensation.

Cost-effectiveness

4.10 Many expressed concern over the cost-effectiveness of the proposed policy, and criticisms focused particularly on the heavy manpower requirement for verifying information declared and slim chances of flat recovery.

4.11 We consider that the checking of income and asset declarations and investigations into tenancy abuse are all related, and the operation can be made more cost effective by combining the existing Housing Subsidy Unit and the four Special Investigation Teams (SITs) into a Central Investigation Team (CIT). This arrangement would ensure greater flexibility in deployment of existing staff resources and result in greater economy of scale. With the setting up of a CIT, the net additional cost for implementing new policy is estimated to be about \$3 million annually. This is less than the cost of building ten PRH flats based on the current construction costs.

4.12 On the point about flat recovery, the Ad Hoc Committee considers it inappropriate and short-sighted to evaluate the effectiveness of the new policy solely on the results of flat recovery within a specific period. If the public accept the message brought out by the new policy, i.e. households which are financially capable should give up their flats for reallocation, we are set to achieve a long-term rational allocation of limited public housing resources. The Ad Hoc Committee is also optimistic about the number of PRH flats to be recovered after implementation of the new policy.

4.13 Using the existing Housing Subsidy Policy (HSP) as an illustration, since 1993, 4,000 to 5,000 additional rent (AR) payers applied to purchase HOS flats every year, and the quota of 500 flats earmarked for them in each phase of sale was exhausted every time. PRH flats surrendered by AR payers having joined HOS amounted to 2,000 a year. The Ad Hoc Committee believes that making well-off tenants pay MR is an effective measure to induce them to move out of PRH and acquire a home of their own. With the introduction of the new policy, it is expected that the number of DR or MR payers switching to HOS will increase significantly.

HA's Responsibility For Housing Production

4.14 During the consultation period, some commentators attributed the short supply of PRH flats to inadequate production in recent years and commented that HA should not shirk form its responsibility to build public housing for Hong Kong. They commented that the government should be urged to allocate more land to HA for construction of public housing, and that the proposed policy could not resolve the problem of flat shortage.

4.15 In considering the above point, we should note that over the years, HA has been positively fulfilling its mission of providing public housing, and PRH in particular, for the needy. In the past five years, we built an average of 40,000 PRH and HOS flats annually. We have been persistent in pressing government for more land. [Note 5]. We plan to build, from now to 2001, 300,000 additional domestic flats, i.e. an average of 50,000 flats per year. At the turn of the century, our housing production will reach 60,000 flats annually, which will be record high.

4.16 It has to be stressed that the primary objective of the Ad Hoc Committee is to ensure that the large existing PRH stock held by HA is utilized in accordance with our clients' needs. The Ad Hoc Committee's work will complement, rather than undermine, HA's commitment and determination to meet the needs of the lower income families.

Dealing With Tenancy Abuse

4.17 During the consultation period, some critics said that HA might recover flats more effectively if it stepped up its efforts to investigate into cases of misusing PRH flats.

4.18 In fact, to tackle the misuse of PRH flats, the HD has established four SITs since 1994. In 1995, the SITs dealt with more than 2,000 cases and successfully recovered about 600 flats. We recognized that the SITs require substantial manpower resources because of their nature of work : evidence-gathering, investigation and handling appeal cases are naturally labour-intensive and time-consuming. The Ad Hoc Committee believes that the new policy will be more

cost-effective, though with or without the new policy, HA is still determined to continue its efforts to investigate into misuse of PRH flats.

Providing Safety Net For PRH Tenants Turned HOS Flat Owners

4.19 There were views that after a PRH tenant bought a HOS flat, he might not be able to afford mortgage repayment due to sudden changes in family or financial circumstances and, in these circumstances, HA should provide these households with a safety net by granting them priority for rehousing to PRH.

4.20 The Ad Hoc Committee considers purchasing a property a major decision which should be based on careful evaluation of one's financial ability and other factors. Indeed, any person who acquires a flat, be he a PRH tenant or private flat resident, must face up to the consequences of his own choice.

4.21 Nevertheless, under the current policy, an HOS flat owner who has financial difficulties and can no longer afford mortgage repayment can apply for PRH through compassionate rehousing, and the HD will consider each application on its own merits. This arrangement will continue after the introduction of the new policy.

Chapter 5

ALTERNATIVE PROPOSALS BY POLITICAL PARTIES

5.1 During the consultation period, two political parties, namely, the Liberal Party (LP) and the Hong Kong Association for Democracy and People's Livelihood (ADPL) put forward alternative proposals to the Ad Hoc Committee. The Ad Hoc Committee appreciates the efforts made by these two Parties in formulating more concrete counter proposals. After careful consideration, the Ad Hoc Committee has the following comments on the two proposals.

LP's Cumulative Points System

5.2 The LP supported the basic principles underlying the Ad Hoc Committee's recommendations. However, to counter-balance the criticism of HA profiteering from charging MR, the LP suggested that a MR paying household should be allowed to accumulate the AR paid and deduct the same amount from the sale price when they eventually buy an HOS flat. Also the relative priority in flat selection should relate to the cumulative amount of AR paid.

5.3 This is an innovative idea. However, after careful consideration, the Ad Hoc Committee has reservations about the proposal. A PRH tenant whose standard of living has improved does not necessarily have to wait until it is required to pay DR or MR before considering buying an HOS flat. As we explained on numerous occasions during the consultation period, the main purpose of the Ad Hoc Committee's recommendations is not to generate additional revenue. It is to encourage better-off tenants to move out of PRH as early as possible. It would be in the interest of all concerned if better-off tenants would move out of PRH well before they are required to declare income and assets. The proposed points system would reduce the urgency on the part of DR paying households to give up PRH as soon as possible.

ADPL's Proposals

5.4 The ADPL also supported the basic principle of safeguarding rational allocation of public housing resources. Nevertheless, they regarded the requirement for DR paying households to declare asset as imposing and intrusive; and inclusion of PLB and taxi franchises in the declaration as unreasonable. They proposed to focus on the domestic properties only instead of a general asset declaration. They also preferred compulsory termination of tenancy to the payment of MR.

5.5 The ADPL also proposed to set the asset limits with reference to private domestic property prices. On this basis, they proposed that the prescribed asset limits for a 4-person household should be set at \$2.929 million which, according to their calculations, is the average amount required to buy a private flat of reasonable size. To minimize

inconvenience to tenants, ADPL also proposed that the HD should check property ownership with the LR directly and not require tenants to declare.

5.6 The Ad Hoc Committee disagrees to the underlying premise of ADPL's proposal. On the question of domestic property ownership only versus other forms of assets, the Ad Hoc Committee's views are set out in paragraphs 3.9 and 3.10 of this Report. Paragraphs 3.11 to 3.13 of this Report explain the basis on which asset limits are set having regard to HOS prices. As regards the criticism at the requirement for asset declaration, the Ad Hoc Committee must emphasize that anyone who wishes to apply for public subsidy should expect to provide information on the financial position of the family in order to demonstrate the need for subsidy. This is a widely accepted practice and there are similar requirements in other schemes involving public subsidy. As regards the relative merit of compulsory termination of tenancy versus payment of MR, the Ad Hoc Committee's views are set out in paragraphs 3.1 to 3.4 of this Report.

5.7 Although the Ad Hoc Committee cannot accept ADPL's proposal, it would like to express its gratitude to the ADPL for the positive attitude in the discussion.

Chapter 6

OTHER VIEWS

Sale Of Flats To Sitting Tenants

6.1 Legislative Councillors and some members of the public suggested that to safeguard rational allocation of public housing resources, the long term solution should be to sell off PRH flats to sitting tenants. They argued that this would increase the home-ownership rate in the public housing sector and progressively reduce the recurrent burden on the HA. However, to sell PRH flats at very low prices to well-off tenants who can look after their own housing needs raises questions as to whether this represents rational allocation of limited public housing resources. In February 1996, the LegCo passed a motion urging the HA to "..... proceed with the sale of PRH flats to sitting tenants as soon as possible, and to use the sales proceeds to expedite the public housing production and redevelopment of old public housing estates". The HA is following up the suggestion to consider the appropriate opportunity and the best arrangement for reviving the sale of flats to sitting tenants scheme. This is being pursued separately.

HOS Prices

6.2 There was a body of opinion which advocated selling HOS flats to DR/MR paying households at higher prices (i.e. a lower discount rate) so as to reduce the amount of subsidy to such households. The Ad Hoc Committee supports the spirit of this suggestion and proposes that it should be referred to the Home Ownership Committee for consideration.

Chapter 7

THE FINAL PACKAGE OF RECOMMENDATIONS

7.1 The final package of recommendations of the Ad Hoc Committee is summarized below -

- (1) household income and net asset value should be the two criteria used for determining PRH household's eligibility to continue to receive public housing subsidy;
- (2) households paying DR under the current HSP (i.e. tenants whose household income exceeds three times the WLIL) will be required to declare assets if they wish to continue to live in PRH;
- (3) having regard to the prices of three-bedroom HOS flats in the urban area and allowing variations with household sizes, the asset limits are initially set at 110 times the 1995/96 WLIL. They will be reviewed annually having regard to the prevailing HOS prices;

- (4) PRH tenants whose household income and net asset value both exceed the prescribed limits (**Annex D**), or who choose not to make a declaration, will have to pay MR;
- (5) DR/MR paying tenants not in possession of private domestic properties should be given second priority in the purchase of HOS flats, without quota restriction;
- (6) the asset limits for 1-person, 2-person or 3-person households, whose members are all aged over 55, should be the same as that of a 4-person household;
- (7) assets required to be declared include -
 - (i) cash in hand, and bank savings and fixed deposits;
 - (ii) landed properties, including both domestic and non-domestic properties in respect of which sale and purchase agreements have been concluded;
 - (iii) land, including lease agreements and Letters A or B entitlements;
 - (iv) vehicles, including private and commercial vehicles etc;
 - (v) transferable vehicle licences, including taxi and public light bus licences etc;
 - (vi) other investment assets, including mutual funds, unit trust funds, listed shares, deposits with brokers, commodities futures, paper gold, certificates of deposits and bonds; and
 - (vii) for those engaged in business, all categories of asset owned by the companies will need to be declared.
- Apart from local assets, assets in China and overseas are also required to be declared;
- (8) compensation for loss of earning power due to injuries sustained at work, traffic and other accidents may be exempted from assessment of asset value;
- (9) DR paying tenants will only be required to fill in a simple asset declaration form to specify (a) the type and total net value of assets owned; (b) the number and address of the private properties owned; (c) vehicle ownership, including private cars, commercial vehicles and relevant commercial vehicle licenses; and (d) business ownership;
- (10) on request, household members may make separate asset declarations, but the total net asset value will be assessed on a household basis;
- (11) MR paying tenants can revert to paying a lower rent or normal rent if either their household income or net asset value falls below the prescribed limits for a continuous period of three months;
- (12) upon implementation of the new policy, tenants affected by HA's non-voluntary transfers (such as the Comprehensive Redevelopment Programmes) will continue to be required to declare income and pay the appropriate rent under HSP. DR paying tenants will be required to declare assets, and if their net asset worth exceeds the limits, will be required to pay MR.
- (13) tenants who are affected by non-voluntary transfers and who have received formal written notification for transfer will continue to enjoy first priority status in buying HOS flat, irrespective of whether they own private domestic properties;
- (14) Comprehensive Social Security Assistance recipients, households on shared tenancies and households whose members are all aged -sixty or above will be exempted from income and asset declarations;
- (15) a CIT will be set up to conduct vigorous checks on income/asset declarations, and to step up investigation into tenancy abuses;
- (16) the Housing Ordinance should be amended to provide for a fine, at three times the rent undercharged, to be imposed upon tenants who make a false declaration;
- (17) the HA should, in exercise of the powers granted by the Housing Ordinance, terminate the tenancy of households

who have either made a false declaration or abused a PRH tenancy. Any tenant whose tenancy is terminated may appeal against the decision to the Appeal Panel, which is established independently of HA; and

(18) PRH tenants who require compassionate consideration of special family or personal circumstances, may apply to the HD for special consideration of their cases on individual merits. Any complaint about the amount of rent charged can be lodged with the HA's Complaints Committee.

Chapter 8

CONCLUSION

8.1 In response to public opinion, the Ad Hoc Committee has modified the original proposals in the Consultation Document. For example, a higher asset limit is proposed for small households whose members are all nearing retirement; tenants may apply for exemption from asset assessment the cash compensation received for injuries sustained at work, traffic or other accidents; family members may apply for separate asset declarations and DR paying tenants will only be required to make simple asset declarations. The modified package of recommendations is pragmatic and should be generally acceptable. With the introduction of the new policy, it is expected that more PRH tenants who have the financial means to take care of their own housing needs will be encouraged to give up their PRH flats. This will help to achieve the objective of more rational allocation of public housing resources.

Notes

- 1.The first opinion survey was conducted between 20 November 1995 and 4 December 1995, i.e. prior to the public consultation period. The second opinion survey was conducted between 29 January 1996 and 14 February 1996, in the later part of the consultation period.
- 2.Calculated at three times the WLIL effective on 1 April 1996.
- 3.According to the Government's General Household Survey.
- 4.Calculated at 110 times the WLIL for Year 1995/96
- 5.For instance, in December 1995, the Government allocated an additional 30 hectares of land to the HA to increase public housing production in the next six years.

Annex A MEMBERSHIP OF THE AD HOC COMMITTEE

Chairman

Professor YEUNG Yue-man

- Professor of Geography, The Chinese University of Hong Kong
- Member, Hong Kong Housing Authority

Members

Hon Edward HO Sing-tin,

- Member, Legislative Council
- Member, Hong Kong Housing Authority

Hon LEE Wing-tat

- Member, Legislative Council

Member, Hong Kong Housing Authority

Mr YEUNG Ka-sing

- Personnel Manager, The Hong Kong & China Gas Co. Ltd.
- Member, Hong Kong Housing Authority

Dr Joseph LIAN Yi-zheng

- Associate Dean, Office of Undergraduate Programmes, School of Business and Management, The Hong Kong University of Science & Technology
- Member, Hong Kong Housing Authority

Mr Walter CHAN Kar-lok

- Lawyer, & Part-time Lecturer of Journalism Department of The Chinese University of Hong Kong
- Member, Management and Operations Committee, Hong Kong Housing Authority

Mr WAN Man-yee

- Surveyor, & Real Estate Practitioner
- Member, Building Committee, Hong Kong Housing Authority

Mr LAU Kwok-yu

- Associate Professor, Department of Public and Social Administration, City University of Hong Kong
- Member, Home Ownership Committee, Hong Kong Housing Authority

Mr CHAN Foo-chi

- Mutual Aid Committee Chairman, Public Housing Estate

Ex-officio

Mr LIM Yew-guan

- Members Deputy Director of Housing, Housing Department [before 18.1.1995]

Mrs Fanny LAW FAN Chiu-fun

- Deputy Director of Housing, Housing Department [after 18.1.1995]

Mr. Simon LI Pak-ho

- Senior Assistant Director (Estate Management), Housing Department

Mr Marco WU Moon-hoi

- Senior Assistant Director (Housing Administration), Housing Department [before 2.10.1995]

Mr CHAN Yui-loon

- Senior Assistant Director (Housing Administration)(Acting), Housing Department [after 2.10.1995]

Mr HO Wing-him

Assistant Director (Policy), Housing Department

Mr William SHIU Wai-chuen

- Principal Assistant Secretary (Housing Policy), Planning, Environment and Lands Branch [before December 1994]

Mr Peter MANN

- Principal Assistant Secretary (Housing 2), Housing Branch [between December 1994 and January 1996]

Miss Diane WONG

- Principal Assistant Secretary (Housing 2), Housing Branch [after January 1996]

Mr LAM Yiu-tong

- Principal Assistant Secretary (New Territories), City and New Territories Administration [before January 1995]

Mr Victor NG Hon-wing

- Assistant Director (1), Home Affairs Department [after January 1995]

Secretary

Ms Mimi LEE Mei-rnei

- Senior Administrative Officer (Administration), Housing Department

Annex B TERMS OF REFERENCE OF THE AD HOC COMMITTEE

Having regard to the overall objective of providing subsidized housing to those in need -

1. to ascertain the extent of private domestic property ownership among public rental housing tenants;
2. to recommend to the Housing Authority whether any policies should be introduced and, if so, whether they should also take account of other forms of asset, and be applicable equally to sitting and new tenants; and
3. to recommend how the policies, if any, should be implemented and coordinated with other existing policies of the Authority.

Annex C MAIN RECOMMENDATIONS OF THE CONSULTATION DOCUMENT

"SAFEGUARDING RATIONAL ALLOCATION OF PUBLIC HOUSING RESOURCES"

Removal of PRH subsidy

* Better-off tenants are encouraged to filter up to Home Ownership Scheme (HOS) or private sector flats through their own volition by imposing MR and removing PRH subsidy. In the interest of social stability, the option of forced eviction is not recommended.

Priority to purchase HOS flat

* Tenants paying DR or MR and are not in possession of domestic property should enjoy second priority status in the purchase of HOS flat. Those own domestic property will continue to enjoy ordinary Green Form status.

Declaration of income/assets and payment of MR

- * PRH tenants should be able to enjoy rental housing for ten years. Thereafter, they should declare income under the HSP and pay the determined rent.
- * Households paying DR under the HSP will be required, at the next declaration cycle, to declare assets.
- * Declarable assets include cash in hand, bank deposits, land and landed properties, vehicles, taxi and public light bus licences, mutual funds, unit trust funds, listed shares, deposits with brokers, paper gold, commodities future, certificates of deposits and bonds, as well as assets owned in the name of business companies. Assets held outside the territory are also required to be declared.
- * Tenants with household income exceeding 3 times the WLIL and net asset value exceeding 110 times the WLIL, or those who choose not to make a declaration, would have to pay MR.
- * Tenants paying MR can revert to paying normal rent or the determined rent under the HSP if their income or net asset value falls below the rescribed limits for a continuous period of 3 months.

Tenants on non-voluntary transfers

*Upon implementation of the new policy, tenants affected by nonvoluntary transfers (such as the Comprehensive Redevelopment Programmes) would have to declare income under the HSP and to declare assets under the new policy after rehousing. However, tenants who have received formal written notification for transfer before the new policy comes into effect would continue to be exempted from HSP for 10 years after rehousing.

Tenants exempted from the new policy

*Comprehensive Social Security Assistance recipients, households on shared tenancies and households whose members are all at age sixty or above are exempted.

Central Investigation Team

* A Central Investigation Team should be set up to conduct comprehensive checks on selected income/asset declarations, and to step up investigation into abusive use of PRH flats.

Penalty for making a false declaration

* The Housing Ordinance should be amended to provide for a fine, at 3 times the rent undercharged for the relevant period, to be imposed upon tenants who make a false declaration. Moreover, the Housing Authority should terminate the tenancy of households who are found to have made a false statement when declaring income or assets under the HSP and the new policy.

Annex D PROPOSED INCOME/NET ASSET LIMITS

(Upon First Year of Implementation)

	Income Limits	Net Asset Limits
Household Size	Income exceeding 3 x 1996/97 WLIL (Equivalent to \$)	Net asset value exceeding 110 x 1995/96 WLIL (Equivalent to \$)
1	18,000	605,000}
2	29,700	1,001,000} ^[Note]

3	36,000	1,221,000}
4	44,100	1,496,000
5	47,700	1,617,000
6	54,300	1,848,000
7	59,400	2,013,000
8	67,200	2,277,000
9	72,000	2,442,000
10 and above	77,400	2,629,000

[Note] For 1-person, 2 person and 3-person households whose members all aged over 55, their asset limits will be the same as that of a 4-person household.