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27 March 2002

Miss Becky Yu
Clerk to Panel on Housing
Legislative Council
Legislative Council Building,
8 Jackson Road,
Central,
Hong Kong.

Dear Miss Yu

LegCo Panel on Housing
Follow-up to special meeting on 25 February 2002

Thank you for your letter of 27 February 2002 relaying the two motions passed by the LegCo Panel on Housing on 25 February 2002 concerning the review of the income and asset limits for public housing applicants.

We duly conveyed the motions to Members of the Rental Housing Committee (RHC) and Home Ownership Committee (HOC) of the Housing Authority for consideration at their Joint Committee meeting held on 28 February 2002. Having carefully considered the views of the Panel and those expressed by various quarters of the community, the Joint Committee decided to adopt a series of measures to relax and rationalize the formula for calculating the income and asset limits for public housing. These improvement measures are summed up at **Annex A**. The new

limits derived from the revised formulae, which will be effective on 1 April 2002, are at **Annex B**.

As can be seen from Annex A, the Joint Committee indeed took on board quite a number of the proposals from the Panel -

- (a) the revised method for deriving the unit rents are in line with the first two proposals set out in the motion;
- (b) as regards the third proposal, the Joint Committee also agreed to include a "contingency allowance" in the calculation of the income limits for both WL and HOS applicants. However, the Committee considered it more appropriate to set the level of the contingency allowance at 5% of the total household expenditure, instead of 10% as proposed by the Panel. This is to take account of the other improvements to the calculation of the income limits and the fact that the revised WL income limits are 12% - 28% higher than the actual household expenditure derived from the Household Expenditure Survey (HES). A comparison between the revised WL income limits and the actual household expenditure is at **Annex C**; and
- (c) regarding the fourth proposal for removing the lowest 25% expenditure group from calculating the non-housing expenditure, the Joint Committee accepted that there was a need to refine the current formula to avoid possible distortion of the expenditure pattern of the potential PRH applicants. It decided, therefore, to adopt a more targeted and structured approach to exclude the non-working and elderly households from calculating the household expenditure as these households' expenditure pattern may be very different from households comprising working and non-elderly members.

The Joint Committee also thoroughly considered the second motion passed by the Panel that any decision to lower the income and asset limits should only apply to applications submitted after the promulgation of the new policy. The Committee did not accept this request as it runs against the principle of rational allocation of public housing resources. Nevertheless, the Committee decided to adopt the following special arrangements to minimize the impact of the reduction of the income and asset limits on the existing WL applicants -

- (a) exempting applicants on the WL who have gone through the vetting stage by 31 March 2002 from the application of the new limits. Of the existing 74,000 family applicants, some 22,000 applicants will benefit from this measure; and
- (b) extending the period of reinstatement of the original WL applications from one year to two years for those applicants who fail in the income/asset test on or after 1 April 2002 but subsequently become qualified under the then prevailing income/asset limits.

I should be grateful if you would convey the above to Members of the Panel.

Yours sincerely

(Marco Wu)
for Director of Housing

c.c. Secretary for Housing

**Improvements to the Mechanism
for setting WL and HOS income and asset limits**

Improving formula for deriving WL income and asset limits

- (i) including all private flats below 69.9 m² SA for deriving the unit rents;
- (ii) adopting the differential unit rents for the respective household size in assessing the housing expenditure should these be higher than the overall average unit rent;
- (iii) excluding the expenditure pattern of those households comprising solely elderly or non-working members in deriving the non-housing expenditure;
- (iv) providing an allowance equivalent to 5% of the total household expenditure as "savings" in the calculation of income limits for WL applicants;

Improving formula for deriving HOS income and asset limits

- (v) adopting the higher rate of the average mortgage rate of the past 12 months or the prevailing rate;
- (vi) reducing the mortgage term from 25 years to 20 years for calculating the monthly mortgage payment;
- (vii) as in the case of the WL income limits, providing a 5% allowance in the calculation of the HOS income limits;

Enhancing flexibility of the review mechanism

- (viii) annual review on WL and HOS income and asset limits, using data from the fourth quarter of the previous year, be conducted in around February each year for agreement by the HOC/RHC;
- (ix) a mid-year review of the HOS income and asset limits be conducted in around September each year using the latest data from the second quarter, and the revised HOS limits to take effect on 1 October subject to HOC's agreement by presumption;
- (x) HOS income and/or asset limits be adjusted only if the adjustments warranted under the mid-year review are greater or smaller than the prevailing limits by 5% or above.

Tightening Discipline

- (xi) as a standard practice, the income and asset limits derived from the revised formula be adopted in future review exercises (including mid-year reviews of the HOS income and asset limits).

ANNEX B

Waiting List Income/Asset Limits for 2002/03

<u>Household Size</u>	<u>Income Limit</u>	<u>Asset Limit</u>
1-Person	\$ 7,200 (\$7,579)	\$190,000
2-Person	\$10,800 (\$11,368)	\$260,000
3-Person	\$12,500 (\$13,158)	\$330,000
4-Person	\$14,800 (\$15,579)	\$380,000
5-Person	\$17,100 (\$18,000)	\$450,000
6-Person	\$18,900 (\$19,895)	\$500,000
7-Person	\$20,400 (\$21,474)	\$540,000
8-Person	\$21,600 (\$22,737)	\$560,000
9-Person	\$23,400 (\$24,632)	\$620,000
10-Person and above	\$25,000 (\$26,316)	\$680,000

HOS Income/Asset Limits for 2002/03

<u>Household Size</u>	<u>Income Limit</u>	<u>Asset Limit</u>
1-Person	\$10,500 (\$11,053)	\$240,000
2-5 Person	\$21,000 (\$22,105)	\$480,000
6-Person	\$21,000 (\$22,105)	\$500,000
7-Person	\$21,000 (\$22,105)	\$540,000
8-Person	\$21,600 (\$22,737)	\$560,000
9-Person	\$23,400 (\$24,632)	\$620,000
10-Person and above	\$25,000 (\$26,316)	\$680,000

Figures in () denotes the effective income limits should a household be making 5% of its income under the Mandatory Provident Fund (MPF) Scheme as required by the law.

Comparison between WL Income Limits and Actual Household Expenditure

HH size	WLILs using Proposed Method (exclude elderly & non-working hhs)			Total household expenditure for lower 1/2 reference group from HES survey projected to 4Q 2001			Difference between WLILs and actual household expenditure
	Housing expenditure	Non-housing expenditure	WLILs	Housing expenditure	Non-housing expenditure	Total household expenditure	
1p	\$2,690	\$4,128	\$7,200	\$1,957	\$3,668	\$5,625	28.0%
2p	\$3,657	\$6,597	\$10,800	\$3,257	\$6,413	\$9,670	11.7%
3p	\$4,575	\$7,292	\$12,500	\$3,667	\$7,062	\$10,729	16.5%
4p	\$5,279	\$8,840	\$14,800	\$3,845	\$8,840	\$12,685	16.7%
5p+	\$6,288 - \$9,501	\$10,015 - \$14,315	\$17,100 - \$25,000	\$4,559 - \$6,044	\$10,015 - \$14,315	\$14,574 - \$20,359	17.3% - 22.8%