

Legislative Council Panel on Housing

Review of the Waiting List Income and Asset Limits for 2003/04

Purpose

This paper briefs Members on the proposed Waiting List (WL) income and asset limits for public rental housing (PRH) for 2003/04.

Background

2. The Housing Authority (HA) conducted a comprehensive review of the mechanism and formula for adjusting the WL income and asset limits last year. Having carefully considered the views of this Panel and those expressed by various quarters of the community, the HA decided to adopt a series of measures to relax and rationalize the formula for calculating the income and asset limits for public housing. These include, amongst others, the use of the higher differential unit rents where applicable to access the housing expenditure, the exclusion of the expenditure pattern of the elderly and non-working households when deriving the non-housing expenditure, and the provision of a 5% contingency allowance in calculating the WL income limits. The HA further decided that a tighter discipline should be introduced in following strictly the outcome of the review of income and asset limits based on the agreed formula. The relevant improvement measures are summed up at **ANNEX A**. The existing limits for 2002/03 derived from the revised formula are at **ANNEX B**.

Review This Year

3. Time is now due for conducting another round of the annual review to decide on the WL income and asset limits for 2003/04. Details of the review are set out in the Memorandum for the HA's Rental Housing Committee (RHC) at **ANNEX C**. In brief, based on the latest statistics of the Consumer Price Index and the prevailing rental levels in the private market, it is proposed that the WL income and asset limits be reduced by an average of 3.8% and 5.1% respectively.

Advice Sought

4. Members are invited to comment on the proposed WL income and asset limits for 2003/04. We will reflect Members' views to the RHC when the latter considers the proposals on 20 March 2003.

Housing Department
March 2003

**Improvements to the mechanism
for setting WL income and asset limits
as endorsed by the HA last year**

- (i) including all private flats below 70 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 a contingency provision in the calculation of income limits for WL applicants;
- (v) using data from the fourth quarter of the previous year for conducting the annual review;
- (vi) as a standard practice, the income and asset limits so derived from the revised formula should be adopted.

ANNEX B

Waiting List Income and 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 or 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.

THE HONG KONG HOUSING AUTHORITY

Memorandum for the Rental Housing Committee

**Review of the Waiting List
Income and Asset Limits for 2003/04**

PURPOSE

This paper seeks Members' endorsement of the proposed Waiting List (WL) income and asset limits for public rental housing (PRH) for 2003/04.

BACKGROUND

2. At its meeting on 28 February 2002, the joint Rental Housing Committee (RHC) and Home Ownership Committee (HOC) of the Housing Authority (HA) decided (vide paper no. RHC 19/2002) to adopt a series of measures to improve the mechanism and formula for adjusting the income and asset limits. These include, amongst others, the use of the higher differential unit rents where applicable to access the housing expenditure, the exclusion of the expenditure pattern of the elderly and non-working households when deriving the non-housing expenditure, and the provision of a 5% contingency allowance in calculating the WL income limits. The joint committee meeting further decided that a tighter discipline should be introduced in following strictly the outcome of the review of income and asset limits based on the agreed formula. The relevant measures for improving the review mechanism for WL income and asset limit are set out in **Annex A**.

3. In accordance with the improved formula, the joint committee decided to reduce the income and asset limits for WL applicants by 5.1% and 9.7% respectively, and those for Home Ownership Scheme (HOS) applicants by 16% and 20% with effect from 1 April 2002. Time is now due for conducting another round of the annual review to decide on the WL income and asset limits for 2003/04.

Latest Assessment

4. The operation of the existing mechanism for setting the WL income and asset limits, which essentially embraces a “household expenditure” approach, is summed up at **Annex B**.

5. The two main variables determining the limits are the Consumer Price Index, which is used to adjust the applicants’ non-housing expenditure, and the prevailing rental levels in the private market. Since the last review in February 2002, the movement of these two key variables have continued to show a downward trend reflecting largely the state of the economy-

	<u>4Q 2001[#]</u>	<u>4Q 2002</u> (% Change)
(a) Differential Unit Rents of Private Flats (per m ² IFA)		
- 1 person	\$164	\$153 (-6.7%)
- 2 persons	\$153	\$141 (-7.8%)*
- overall average	\$153	\$142 (-7.2%)
(b) Consumer Price Index (CPI(A)) on non-housing cost (1999/2000=100)	98.6	96.1 (-2.5%)

In the last review in February 2002, the position of these variables as at 4Q 2001 were taken for calculating the income and asset limits.

* According to the revised mechanism endorsed last year vide paper no. RHC 19/2002, the overall average unit rent should be used when it is higher than the differential unit rent of the respective household size. Hence, \$142/m² IFA, instead of \$141, will be used to calculate the housing expenditure for 2-person households.

Assessment of Housing Expenditure

6. While there is a general decrease in the Consumer Price Index and market rentals, it is observed that, when compared with the last review, there is a sharp rise in the average “reference” size of accommodation for assessing the housing expenditure. Under the current formula, the average “reference” size of accommodation is equivalent to the average space of PRH flats allocated to WL applicants in the past three years. The housing expenditure of the applicants is derived by multiplying the average “reference” flat size by the average unit rents of private flats. A comparison of the relevant figures on the average space of PRH flats allocated to WL applicants for deriving the WL income and asset limits last year and this year under the existing formula is set out below-

Average Space of PRH Flats Allocated to WL Applicants

<u>Household Size</u>	<u>98/99 to 00/01*</u>	<u>99/00 to 01/02[@]</u> (% Change)
1 person	16.4	16.7 (+1.8%)
2 persons	23.9	24.3 (+1.7%)
3 persons	29.9	32.0 (+7.0%)
4 persons	34.5	37.8 (+9.6%)
5 persons	41.1	42.7 (+3.9%)
6 persons	45.6	46.2 (+1.3%)
7 persons	48.9	49.8 (+1.8%)
8 persons	51.0	51.1 (+0.2%)
9 persons	56.7	56.0 (-1.2%)
10 persons or above	62.1	60.0 (-3.4%)

* Figures used in February 2002 to derive the WL income and asset limits for 2002/03.

[@] Figures that would be used to derive the WL income and asset limits for 2003/04 according to the existing formula.

7. It is noted that amongst the various household sizes, there has been a sharp rise in the average “reference” size of accommodation for 3-person and 4-person households. This could be attributed to the following three major factors-

- (a) the principal underlying factor was the record high number of new PRH flats allocated to WL applicants in 2001/02 brought about by the production peak in the preceding year. Some 28,300 new PRH flats were allocated to the WL applicants, far exceeding the level of about 4,000 to 15,000 flats a year in the previous four years. Given the generally higher allocation standard of new flats when compared with refurbished flats, this has led to an increase in the average size of accommodation for assessing the housing expenditure of the WL applicants;
- (b) amongst the 28,300 new PRH flats allocated to WL applicants, some 5,300 were in fact converted HOS flats. These comprised predominantly two and three-bedroom flats. They were generally much more spacious as they were not built according to PRH standards. The allocation of these HOS-designed flats to WL applicants had further raised the average size of accommodation, particularly for households with three or more members; and
- (c) in view of a surplus supply of large flats in Tung Chung and Tin Shui Wai, the RHC endorsed in February 2002 (vide paper no. RHC 16/2002) a temporary relaxation of the allocation standard which allowed the allocation of 3-bedroom flats to 4-person households. A total of some 240 3-bedroom flats were allocated to 4-person households amongst the WL applicants in 2001/02.

8. Under the existing formula, the basis for assessing the housing expenditure is to assess the costs for renting suitable private flats of standard and size comparable to PRH. It is therefore not appropriate to include those flats transferred from HOS into PRH and the 3-bedroom flats allocated to 4-person households into our calculation of the average size of accommodation, taking account of the fact that these flats were not designed and allocated

according to the normal PRH standards. If these flats are taken out, the average space allocated to WL applicants from 1999/00 to 2001/02 is as follows-

<u>Household Size</u>	<u>Average Space Allocated to WL Applicants During 99/00 to 01/02 (excluding HOS converted flats and 3-bedroom flats allocated to 4-person households)</u>
1 person	16.7
2 persons	24.3
3 persons	31.9
4 persons	37.0
5 persons	42.2
6 persons	45.9
7 persons	49.6
8 persons	51.0
9 persons	56.2
10 persons or above	60.0

9. Compared with the table under para. 6, the reduction in the average allocated space shown above is marginal, reflecting in part the fact that the three-year average space of PRH flats allocated to WL applicants is taken into account. Nevertheless, we believe it remains important to rationalize the way that the average allocated space is calculated, taking account of the fact that another 23,300 flats originally designed for HOS purpose will be transferred to rental use in the five-year period from 2002/03 to 2006/07 as previously agreed by the HA.

10. The proposed WL income and asset limits for 2003/04 based on the above space allocation provision are set out at **Annex C**. The WL income and asset limits will be reduced by an average of 3.8% and 5.1% respectively.

It is estimated that some 3,100 households would be excluded from the WL eligibility net¹ under the revised limits.

IMPLEMENTATION

11. Subject to Members' endorsement, the proposed WL income and asset limits should be effective on 1 April 2003. However, to minimize any adverse impact on the existing applicants, we propose to adopt the arrangements similar to those adopted in previous reviews, i.e. all WL applicants who have gone through the vetting stage by 31 March 2003 would be exempted from the application of the reduced WL income and asset limits. In other words, their eligibility will be vetted according to the existing income and asset limits. Members also approved last year to extend the period with which WL applicants who fail in the income/asset test but subsequently become qualified under the prevailing eligibility rules as a result of income/asset limits revision or substantiated changes in family circumstances could reinstate their original PRH applications from one to two years. This relaxed arrangement will continue to be applied.

RECOMMENDATIONS

12. Members are invited to endorse the following-
- (a) excluding all those HOS flats which were transferred to PRH and those 3-bedroom flats allocated to 4-person households from calculating the housing expenditure (para. 8);
 - (b) the revised WL income and asset limits for 2003/04 at **Annex C**; and
 - (c) the implementation details as set out in para. 11.

¹ For analysis purpose, the WL eligibility net is defined as those non-owner occupied households living in private flats with income at or below the WL income limits. As of the fourth quarter of 2002, there were a total of 374,200 non-owner occupied households living in private flats in Hong Kong. Under the existing WL income limits, some 137,100 households, or 36.6% of the total, are eligible for PRH under the above definition. However, It should be noted that the above figure is a snapshot taken at a fixed period of time, and the size of the eligibility net (as well as the total number of private sector non-owner occupiers in Hong Kong) will change over time due to changes in household income, formation of new households and rehousing to public housing, etc. Besides, it only represents part of the **potential** WL demand for PRH since apart from non-owner occupied households in private flats, newly formed households splitting from existing households of different housing types could join the WL provided they fulfill the eligibility criteria.

FINANCIAL AND STAFFING IMPLICATIONS

13. As noted in para. 10 above, the proposed moderate adjustments to the WL income and asset limits would exclude some 3,100 households from the WL eligibility net. In theory, this would reduce the demand for PRH. However, whether the actual impact on the overall demand for PRH is significant enough to warrant any changes to our PRH production programme will have to be monitored closely in conjunction with other factors affecting the PRH demand. Over the short term, we do not expect that there will be any major financial savings arising from the current review exercise.

PUBLIC REACTION AND PUBLICITY

14. Notwithstanding the moderate degree of adjustments, we expect that the HA would be criticized for tightening up the WL income and asset limits for three years in a row. Nevertheless, given that the proposed adjustments are based largely on the existing formula which was drawn up and agreed upon after extensive consultation last year, we believe the proposals would be agreeable to most of the fair-minded commentators.

15. In our publicity, we would stress that there is a need to adjust the income and asset limits for WL applicants in tandem with changes in market situation to ensure that limited housing resources are only provided to those in genuine need.

ADVICE SOUGHT

16. Members are invited to endorse the recommendations set out in para. 11 above.

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**Improvements to the mechanism
for setting WL income and asset limits
as endorsed last year**

- (i) including all private flats below 70 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 a contingency provision in the calculation of income limits for WL applicants;
- (v) using data from the fourth quarter of the previous year for conducting the annual review;
- (vi) as a standard practice, the income and asset limits so derived from the revised formula should be adopted.

**The Existing Mechanism for
Setting of the WL Income and Asset Limits**

WL Income Limits

- The WL income limits are derived from a “household expenditure” approach which consists of housing costs and non-housing costs-
 - (a) *Housing costs*: the rent payment, rates and management fees required for a household to rent a private flat of comparable size to PRH. The exact figure is obtained by multiplying the average space of PRH flats allocated to Waiting List applicants in the past three years by a unit rent which is derived from a sample survey on private dwellings conducted by the Censuses and Statistics Department. In the calculation, the differential unit rent for the respective household size or the overall average unit rent, whichever is higher, is adopted.
 - (b) *Non-housing costs*: The average household expenditure of the lower half expenditure group amongst tenant households in the private sector. The expenditure pattern of those households comprising solely elderly or non-working members are excluded in deriving the non-household expenditure.
- The WL income limits for different household sizes are the respective sums of the above two major cost items, plus a 5% “contingency” provision.

WL Asset Limits

- The WL asset limits are set at levels for households to finance the housing cost of renting private flats for six years.

Annual Adjustment

- The WL income and asset limits are reviewed annually at the beginning of each year using latest available statistics as of the fourth quarter of the previous year.

MPF Contributions

- Statutory contributions under the Mandatory Provident Fund (MPF) Scheme are deductible from a household's income when it applies for PRH. In other words, for households contributing 5% of their income under the MPF, the effective WL income limits applicable to them are about 5.26% higher than the prescribed limits.

Proposed Waiting List Income Limits for 2003/04

(using data as at 4Q 2002)

- A. Rent* - obtained by the multiplication of the average size of accommodation and the unit rent*
 - the average size of accommodation is equivalent to the average space allocated to the waiting list applicants in 1999/00 - 2001/02^
 - differential and overall average unit rents of private flats as at 4th quarter 2002 (covered flat size: 0 - 69.9m² SA) derived from the Rent Survey conducted by Census & Statistics Department

HH size	Unit Rent (\$/m ² IFA)
1	153
2	141**
Overall Average	142

B. Average non-housing expenditure :

- based on the lower half total expenditure group of tenants in private permanent and all households in private temporary housing of the 1999/00 Household Expenditure Survey@ and adjusted by CPI(A) (excluding rent & rates & government rent & management fee) to 4th quarter 2002. Households with all elderly or non-working members have been excluded from the samples.

HH size	Average size of accommodation ^ (m ² , IFA)	Housing Expenditure* (\$p.m.)	Non-housing expenditure (\$p.m.)	Total household expenditure (\$p.m.)	Proposed income limit [†] (\$p.m.)	Existing income limits (\$p.m.)	Change	
							(\$p.m.)	(%)
1	16.7	2,555	4,024	6 579	6,900	7,200	-300	-4.2
2	24.3	3,451	6,431	9 882	10,400	10,800	-400	-3.7
3	31.9	4,530	7,108	11 638	12,200	12,500	-300	-2.4
4	37.0	5,254	8,617	13 871	14,600	14,800	-200	-1.4
5	42.2	5,992	9,762	15 754	16,500	17,100	-600	-3.5
6	45.9	6,518	10,766	17 284	18,100	18,900	-800	-4.2
7	49.6	7,043	11,669	18 712	19,600	20,400	-800	-3.9
8	51.0	7,242	12,493	19 735	20,700	21,600	-900	-4.2
9	56.2	7,980	13,251	21 231	22,300	23,400	-1,100	-4.7
10+	60.0	8,520	13,954	22 474	23,600	25,000	-1,400	-5.6
Average	-	-	-	-	-	-	-	-3.8
No. of private non-owner occupied households within WLILs ~								
1p					45,900	46,600	-700	-1.5%
2p+					88,100	90,500	-2,400	-2.7%
Total					134,000	137,100	-3,100	-2.3%
% over total no. of private non-owners in HK *					35.8%	36.6%		

Notes : * includes rent, rates and management fees of private flats below 70m² SA.

^ excludes HOS transferred flats and 3-bedroom flats allocated to 4-person households in calculating the average size of accommodation.

+ includes households renting individual flats, rooms & bedspaces, etc.

** According to the revised mechanism endorsed last year vide paper no. RHC 19/2002, the overall average unit rent should be used when it is higher than the differential unit rent of the respective household size. Hence, \$142/m² IFA, instead of \$141, will be used to calculate the housing expenditure for 2-person households.

@ latest available source of information.

including 5% contingency provision.

~ derived by matching the proposed income limits with the income data captured by the General Household Survey conducted by the Census & Statistics Department.

✱ according to the Census & Statistics Department, as at 4Q2002 the total no. of private non-owners in HK is estimated to be around 374,200 households.

ment+

Proposed Waiting List Asset Limits for 2003/04

(using data as at 4Q 2002)

Household Size	Rent	Cost to Cover Rent for 6 Years	Proposed WLALs (\$)	Existing WLALs (\$)	Change (%)
1	2,555	183,960	180,000	190,000	-5.3%
2	3,451	248,472	250,000	260,000	-3.8%
3	4,530	326,160	330,000	330,000	0.0%
4	5,254	378,288	380,000	380,000	0.0%
5	5,992	431,424	430,000	450,000	-4.4%
6	6,518	469,296	470,000	500,000	-6.0%
7	7,043	507,096	510,000	540,000	-5.6%
8	7,242	521,424	520,000	560,000	-7.1%
9	7,980	574,560	570,000	620,000	-8.1%
10	8,520	613,440	610,000	680,000	-10.3%
					(Average: -5.1%)

Note : excludes HOS transferred flats and 3-bedroom flats allocated to 4-person households in calculating the average size of accommodation.