

Legislative Council Panel on Housing

**Review of the Waiting List
Income and Asset Limits for 2004/05**

Purpose

This paper briefs Members on the proposed Waiting List (WL) income and asset limits for public rental housing (PRH) for 2004/05.

Background

2. The Housing Authority (HA) conducted a comprehensive review of the mechanism and formula for adjusting the WL income and asset limits in 2002. Having carefully considered the views of this Panel and those expressed by various quarters in 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 PRH. These include, amongst others, the use of the higher differential unit rents where applicable to access the housing expenditure, exclusion of the expenditure pattern of the elderly and non-working households when deriving the non-housing expenditure, and 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.

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 2004/05. Details of the review are set out in the Memorandum for the HA's Subsidised Housing Committee (SHC) at ANNEX. 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 4.3% and 8.9% respectively.

Advice Sought

4. Members are invited to comment on the proposed WL income and asset limits for 2004/05. We will reflect Members' views to the SHC when the latter considers the proposals on 11 March 2004.

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THE HONG KONG HOUSING AUTHORITY**Memorandum for the Subsidised Housing Committee****Review of the Waiting List
Income and Asset Limits for 2004/05****PURPOSE**

This paper seeks Members' endorsement of the proposed Waiting List (WL) income and asset limits for public rental housing (PRH) for 2004/05.

BACKGROUND

2. It has been the established policy of the Housing Authority (HA) to review annually the WL income and asset limits. The objective is to ensure that PRH is only available to those in genuine need, i.e. those who cannot afford renting accommodations in the private market. The operation of the existing mechanism for setting the WL income and asset limits, which essentially embraces a "household expenditure" approach, is set out at ----- **Annex A.**

3. Following a comprehensive review, the HA adopted a series of measures to rationalize and relax the mechanism and formula for assessing the WL income and asset limits in 2002. These include, inter alia, adopting differential unit rents to take account of the housing expenditure of small households; discounting the expenditure pattern of households comprising solely elderly or non-working members and including a "contingency allowance" equivalent to 5% of the total household expenditure. Details of ----- the improvement measures are set out at **Annex B.**

4. At the last review conducted in March 2003, the then Rental Housing Committee (RHC) decided (vide paper no. RHC 24/2003) to reduce the income and asset limits for the WL applicants by an average of 3.8% and 5.1% respectively with effect from 1 April 2003. The RHC also decided to exclude all those Home Ownership Scheme (HOS) flats which were converted into PRH and 3-bedroom flats allocated to 4-person households from calculating the "reference" sizes of accommodation. The decision was made having regard to the fact that the "reference" sizes of accommodation for assessing the housing expenditure, which were pegged to the average sizes of

PRH flats allocated to WL applicants in the previous three years, had been distorted by the above two types of flats which were allocated outside the normal PRH standards. Given that the purpose of calculating the sizes of accommodation is to assess the housing expenditure required for renting suitable private flats of standards and sizes comparable to PRH, it was considered necessary to exclude these two types of flats in order not to unjustifiably inflate the housing expenditure so derived.

5. Time is now due for conducting another round of the annual review to draw up the WL income and asset limits for 2004/05.

THE REVIEW

6. The two main variables affecting the limits are the Consumer Price Index and the prevailing rental levels in the private market, which respectively determine the applicants' non-housing expenditure and housing expenditure. Since the last review in March 2003, the movement of these two key variables have continued to adjust downwards, reflecting largely the state of the economy -

	<u>4Q 2002</u>	<u>4Q 2003</u> (% Change)
(a) Differential Unit Rents of Private Flats (per m ² IFA)		
- 1 person	\$153	\$139 (-9.2%)
- 2 persons	\$141	\$127 (-9.9%)
- overall average	\$142	\$126 (-11.3%)
(b) Consumer Price Index (CPI(A)) on non-housing cost (1999/2000=100)	96.1	95.1 (-1.0%)

7. Based on the above statistics in the 4th quarter of 2003, the WL income and asset limits would be reduced by an average of 4.3% and 8.9% respectively. Details are at **Annex C**. Should the proposed reductions be adopted, some 123 100 households or 35.2% of the non-owner occupied households living in the private flats in Hong Kong would be eligible for PRH¹, as opposed to the average of 114 500 households or 33.4% during the 10-year period between 1993/94 and 2002/03.

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. Under the existing WL income limits, some 123 100 households are eligible for PRH under this definition. However, It should be noted that the above figure 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 living in other types of housing could join the WL provided they fulfill the eligibility criteria.

Possible Area for Further Improvement

8. In the course of conducting the annual review over the past few years, a major problem that has been brought to light is the way that the “reference” sizes of accommodation are being derived, which in term affects critically the assessment of housing expenditure. Under the existing formula, the housing expenditure covers rental 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 WL applicants in the past three years, i.e. the “reference” size of accommodation, by a unit rent which is derived from a sample survey on private dwellings conducted by the Census and Statistics Department. The "reference" flat sizes therefore are dependent upon, and vary according to, the average space of PRH flats allocated over the past years rather than any objective criteria. As can be seen from the table at **Annex D**, the average “reference” size of accommodation adopted for calculating the WL income and asset limits has increased by 6.4% in the last seven years. The situation for 3 to 5-person households, for which the “reference” sizes of accommodation have increased on average by 10.3% to 14.3%, is even more alarming.

9. Despite the RHC’s decision in the last review to exclude the HOS-converted flats and 3-bedroom flats allocated to 4-person households from calculating the reference sizes of accommodation, the spillover effect of the increase in the supply of large flats brought about by the large number of HOS-converted flats means that the reference flat sizes are likely to continue to swell in the coming few years. The housing expenditure so calculated would as a result be artificially inflated.

10. To rectify this deficiency, an obvious way out is to base the “reference” flat sizes on fixed standards. One possible option would be to adopt the allocation standards for New Harmony blocks for determining the “reference” flat sizes. The range of allocation standards of New Harmony blocks approved by the then RHC vide RHC paper No. 96/2002 are as follows -

<u>Flat Type</u>	<u>Area (IFA) sq. m.</u>	<u>Allocation Range</u>
Small	17.40 / 17.81	1 to 2 persons
2P/3P	21.69 / 21.96	2 to 3 persons
1-bedroom	30.34	3 to 4 persons
2-bedroom	39.74	4 to 5 persons
3-bedroom	49.06	5 to 7 persons

11. Assuming that for every household size, half of the households would be allocated the lower end of the flat types within the allocation range and the other half the upper end, the resultant reference flat sizes would be as follows -

HH size	Size of Accommodation(m², IFA)
<u>(i.e. average of largest and smallest flats within allocation range)</u>	
1	17.6
2	19.7
3	26.0
4	35.0
5	44.4
6	49.1
7	49.1

Note : In the case of households with eight or more members, more than one flats would need to be allocated to them in order to fulfill the minimum space allocation requirement of 7m² per person. The details are set out in Annex E.

12. The “reference” sizes of accommodation would, depending on household sizes, be relaxed or tightened up to different extent. And so would the WL income and asset limits derived from these revised “reference” flat sizes. Details are at **Annex E**. The overall income and asset limits would on average be reduced by 1.8% and 2.2% respectively. However, those for 2-person and 3-person households would be substantially trimmed, while those for the other household sizes would be moderately reduced or even increased. Given that 2 to 3-person households make up the bulk (some 52.5% as at end January 2004) of our WL applicants, the net result is that a large number of households would be excluded from the PRH eligibility net.

RECOMMENDATIONS

13. There is a clear case to rationalize the current methodology for assessing the “reference” flat sizes and the options set out in paragraphs 10 and 11 could be a possible way out. However, although the average reduction in the income limits under this option is lower than those derived from the existing formula, the substantial tightening up of the limits for 2 to 3 person households, which form the bulk of our WL applicants, is likely to be strongly resisted by the public. We are of the view that it is not opportune to introduce changes to the existing formula when the economy has yet to climb out of deflation which may result in further tightening up of the eligibility net. However, we will keep the matter under review and revert to Members if the situation so warrants. In the meantime, we recommend that the WL income and asset limits be adjusted according to the existing formula as set out at

Annex C.

IMPLEMENTATION

14. Subject to Members' endorsement, the proposed WL income and asset limits should be effective on 1 April 2004. However, to minimize any adverse impact on the existing applicants, we propose to continue to adopt the arrangements agreed in previous reviews, i.e. all WL applicants who have gone through the vetting stage by 31 March 2004 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. For those 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, they could reinstate their original PRH applications within two years.

FINANCIAL AND STAFFING IMPLICATIONS

15. In our forecast of PRH demand and planning of PRH production, we have assumed that the WL income and asset limits would be adjusted annually according to the agreed mechanism. The proposed moderate adjustments to the WL income and asset limits would therefore not have any major impact on the PRH production programme, and hence should not result in any financial savings.

PUBLIC REACTION AND PUBLICITY

16. Notwithstanding the moderate degree of adjustments, we expect that the HA would be criticized for tightening up the WL income and asset limits for four years in a row. Nevertheless, given that the proposed adjustments are based on the existing formula which was relaxed and agreed upon after extensive consultation in 2002, we believe the proposals would be agreeable to most of the fair-minded commentators and the community at large.

17. In our publicity, we would point out 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. Even after the adjustments, some 123 100 households or 35.2% of the non-owner occupied households living in private flats in Hong Kong would continue to be eligible for PRH. The figure is still on the high side when compared with the average of 114 500 households or 33.4% during the 10-year period from 1993/94 to 2002/03.

ADVICE SOUGHT

18. Members are invited to endorse the recommendations and implication details set out in paragraphs 13 and 14 above in the next Subsidised Housing Committee meeting.

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(Strategy Division)
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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 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 Census 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, while all those HOS flats which were transferred to PRH and those 3-bedroom flats allocated to 4-person households are excluded.
 - (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-housing 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.

**Improvements to the mechanism
for setting WL income and asset limits endorsed in 2002**

- (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; and
- (vi) as a standard practice, the income and asset limits so derived from the revised formula should be adopted.

Proposed Waiting List Income Limits for 2004/05
(Existing method - using data as at 4Q 2003)

- A. Rent* - obtained by multiplying average size of accommodation by unit rent*
 - the average size of accommodation is equivalent to the average space allocated to the waiting list applicants in 2000/01 - 2002/03^
 - differential and overall average unit rents of private flats (flat size of 69.9m² SA or below) are derived from the Rent Survey for 4Q 2003 conducted by Census & Statistics Department+

HH size	Unit Rent (\$/m ² IFA)
1	139
2	127
Overall Average	126

B. Average non-housing expenditure :

- based on the expense pattern of tenant households in private permanent housing and those in private temporary housing in the lower half expenditure group in accordance with the 1999/00 Household Expenditure Survey@ and adjusted by CPI(A) (excluding rent & rates & government rent & management fee) to **4th quarter 2003**. Households with all elderly or non-working members have been excluded from the calculation.

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	2,321	3,979	6,300.00	6,600	6,900	-300 -4.3
2	24.8	3,150	6,359	9,509.00	10,000	10,400	-400 -3.8
3	32.8	4,133	7,029	11,162.00	11,700	12,200	-500 -4.1
4	38.4	4,838	8,522	13,360.00	14,000	14,600	-600 -4.1
5	43.0	5,418	9,654	15,072.00	15,800	16,500	-700 -4.2
6	46.3	5,834	10,646	16,480.00	17,300	18,100	-800 -4.4
7	49.9	6,287	11,539	17,826.00	18,700	19,600	-900 -4.6
8	51.7	6,514	12,354	18,868.00	19,800	20,700	-900 -4.3
9	57.0	7,182	13,103	20,285.00	21,300	22,300	-1,000 -4.5
10+	61.2	7,711	13,799	21,510.00	22,600	23,600	-1,000 -4.2
Average	-	-	-	-	-	-	- -4.3

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.

@ latest available source of information.

including 5% contingency provision.

Proposed Waiting List Asset Limits for 2004/05

(Existing method - using data as at 4Q 2003)

Household Size	Rent	Cost to Cover Rent for 6 Years	Proposed WLALs (\$)	Existing WLALs (\$)	Change (%)
1	2,321	167,112	170,000	180,000	-5.6%
2	3,150	226,800	230,000	250,000	-8.0%
3	4,133	297,576	300,000	330,000	-9.1%
4	4,838	348,336	350,000	380,000	-7.9%
5	5,418	390,096	390,000	430,000	-9.3%
6	5,834	420,048	420,000	470,000	-10.6%
7	6,287	452,664	450,000	510,000	-11.8%
8	6,514	469,008	470,000	520,000	-9.6%
9	7,182	517,104	520,000	570,000	-8.8%
10+	7,711	555,192	560,000	610,000	-8.2%
					(Average: -8.9%)

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

Average Space of PRH Flats Allocated to WL Applicants (m² IFA)

Household Size	(A) for WL limits 1998/99 (94/95 to 96/97)	(B) for WL limits 1999/00 (95/96 to 97/98)	(C) for WL limits 2000/01 (96/97 to 98/99)	(D) for WL limits 2001/02 (97/98 to 99/00)	(E) for WL limits 2002/03 (98/99 to 00/01)	(F) for WL limits 2003/04* (99/00 to 01/02)	(G) for WL limits 2004/05* (00/01 to 02/03)	% change c.f. (A) & (G)
1p	16.1	16.0	16.3	16.2	16.4	16.7	16.7	3.7%
2p	24.0	24.3	24.1	23.9	23.9	24.3	24.8	3.3%
3p	28.7	29.3	29.5	29.5	29.9	31.9	32.8	14.3%
4p	34.5	35.1	34.4	34.1	34.5	37.0	38.4	11.3%
5p	39.0	39.2	39.9	40.2	41.1	42.2	43.0	10.3%
6p	44.0	44.0	44.8	44.7	45.6	45.9	46.3	5.2%
7p	48.6	48.8	48.3	47.9	48.9	49.6	49.9	2.7%
8p	52.0	51.8	51.4	50.5	51.0	51.0	51.7	-0.6%
9p	55.2	56.1	59.8	57.4	56.7	56.2	57.0	3.3%
10p+	55.5	57.5	62.0	59.0	62.1	60.0	61.2	10.3%
Overall	-	-	-	-	-	-	-	6.4%

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

Alternative Method - Allocation Standard of New Harmony Blocks

Projected WLILs and WLALs (using data as at 4Q2003)

HH size	New Harmony - Average of Largest and Smallest Flats					
	size of accommodation (m ² , IFA)		WLIL (\$p.m)		WLAL (\$p.m)	
1	17.6	5.4%	6,700	-2.9%	180,000	0.0%
2	19.7	-18.9%	9,300	-10.6%	180,000	-28.0%
3	26.0	-18.5%	10,800	-11.5%	240,000	-27.3%
4	35.0	-5.4%	13,600	-6.8%	320,000	-15.8%
5	44.4	5.2%	16,000	-3.0%	400,000	-7.0%
6	49.1	7.0%	17,700	-2.2%	450,000	-4.3%
7	49.1	-1.0%	18,600	-5.1%	450,000	-11.8%
8	70.1	37.5%	22,200	7.2%	640,000	23.1%
9	77.7	38.3%	24,000	7.6%	700,000	22.8%
10+	84.5	40.8%	25,700	8.9%	770,000	26.2%
Overall	-	9.0%	-	-1.8%	-	-2.2%

Small figures in the margin represent % changes over 2003/04 limits

Derivation of the "reference" sizes of accommodation

<u>HH size</u>	<u>Size of Accommodation(m², IFA)</u> <u>(i.e. average of largest and smallest flats within allocation range)</u>	
1	17.6	(avg. of Small (17.81) & Small (17.40))
2	19.7	(avg. of 2P/3P (21.96) & Small (17.40))
3	26	(avg. of 1-bedroom (30.34) & 2P/3P (21.69))
4	35	(avg. of 2-bedroom (39.74) & 1-bedroom (30.34))
5	44.4	(avg. of 3-bedroom (49.06) & 2-bedroom (39.74))
6	49.1	(avg. of 3-bedroom (49.06) & 3-bedroom (49.06))
7	49.1	(avg. of 3-bedroom (49.06) & 3-bedroom (49.06))
8 [#]	70.1	(avg. of 2-bedroom + 2-bedroom (39.74+39.74) & 1-bedroom + 1-bedroom (30.34+30.34))
9 [#]	77.7	(avg. of 2-bedroom + 3-bedroom (39.74+49.06) & 3-bedroom + Small (49.06+17.40))
10 [#]	84.5	(avg. of 3-bedroom + 3-bedroom (49.06+49.06) & 3-bedroom + 2P/3P (49.06+21.69))

More than one flats needed to be allocated to these families in order to fulfill the minimum space allocation requirement of 7m² per person