

## **Legislative Council Panel on Housing**

### **Review of Waiting List Income and Asset Limits for 2011/12**

#### **PURPOSE**

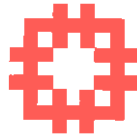
This paper briefs Members on the findings of the review of the Waiting List (WL) income and asset limits for 2011/12.

#### **THE REVIEW**

2. The findings of the review are set out in the Memorandum for the Housing Authority's Subsidised Housing Committee (SHC) as attached. We propose to increase the contingency provision under the current review methodology from the existing 5% to 15% to provide a bigger buffer. If the proposed increase in contingency provision is adopted, the income and asset limits for 2011/12 would increase by an average of 15.6% and 3.3% respectively over those for 2010/11. Some 131 100 non-owner occupied households in the private sector would be eligible for public rental housing.

3. Members are invited to note the findings of the review, which will be considered by the SHC on 15 March 2011.

**Transport and Housing Bureau**  
**February 2011**



## **Memorandum for the Subsidised Housing Committee of the Hong Kong Housing Authority**

### **Review of Waiting List Income and Asset Limits for 2011/12**

#### **PURPOSE**

This paper seeks Members' endorsement to the proposed Waiting List (WL) income and asset limits for 2011/12.

#### **BACKGROUND**

2. The Housing Authority (HA) has a WL system through which low-income families who cannot afford to rent private accommodation may apply for public rental housing (PRH). The eligibility of PRH applicants is determined by way of the WL income and asset limits, which measure the total household income required to rent private accommodation comparable to PRH while also meeting other non-housing expenditure. Households with income and asset below the prescribed limits, which are assessed annually to keep abreast with the prevailing socio-economic circumstances, are deemed to be unable to afford to rent private accommodation, and hence are eligible for PRH.

3. The current methodology for assessing the WL income and asset limits was developed in 2002 following a comprehensive review. In 2005, the Subsidised Housing Committee (SHC) agreed to set the asset limits for elderly households at two times the limits for non-elderly applicants. The SHC decided in 2006 that the asset limits for 2005/06 should be adopted as the basis for future annual adjustments with reference to the movements in Consumer Price Index (A) (CPI(A)). **Annex A** sets out the operation of the methodology for setting the WL income and asset limits.

#### **THE REVIEW**

4. The WL income limits are derived using a "household expenditure" approach, which consists of housing costs and non-housing costs, plus 5% of the household expenditure as "contingency provision". Housing cost, which

measures the rent for renting a private flat comparable to PRH, depends on the differential unit rent of private accommodation and reference flat size. The non-housing cost is determined with reference to the latest Household Expenditure Survey (HES), with adjustment according to the latest movement in CPI(A) (excluding housing cost). The asset limits are adjusted with reference to the movements in CPI(A) over the year. The prevailing position of differential unit rent, reference flat size and CPI(A) is set out below -

(a) Differential Unit Rents of Private Flats (per m <sup>2</sup> IFA)	<u>4Q 2009</u>	<u>4Q 2010</u> (% Change)
- 1-person	\$168	\$186 (+ 10.7%)
- 2-person	\$159	\$172 (+8.2%)
- overall*	\$157	\$170 (+8.3%)
 (b) Reference Flat Size (IFA)	 <u>2006/07 – 2008/09</u>	 <u>2007/08 – 2009/10</u> (% Change)
- 1-person	15.3m <sup>2</sup>	15.7m <sup>2</sup> (+2.6%)
- 2-person	22.8m <sup>2</sup>	22.7m <sup>2</sup> (-0.4%)
- 3-person	30.1m <sup>2</sup>	30.6m <sup>2</sup> (+1.7%)
- 4-person	37.6m <sup>2</sup>	37.6m <sup>2</sup> (0%)
 (c) CPI(A) (2004/2005 = 100)	 <u>4Q 2009</u>	 <u>4Q 2010</u> (% Change)
- overall**	109.2	112.8 (+3.3%)
- excluding housing cost***	108.9	112.9 (+3.7%)

\* Overall average unit rent will be adopted for assessing the housing expenditure of households comprising three or more members.

\*\* The overall CPI(A) will be used to adjust the asset limits.

\*\*\* The CPI(A) (excluding housing cost) will be used to adjust the non-housing expenditure.

## CONSIDERATIONS AND PROPOSED INCOME AND ASSET LIMITS

5. The statutory minimum wage (SMW) rate at \$28 per hour will come into force on 1 May 2011. With the introduction of the SMW, we expect the wages of a number of low income workers to increase. Changes in the income level are catered for in our established mechanism. This is because an increase of income will bring about changes in the expenditure level, which will be reflected in the existing expenditure-based methodology in setting the WL income limits. That said, for the current review, we have continued to use the

2004/05 HES findings<sup>1</sup> (as they are the latest available data), and adjusted by movement in CPI(A) (excluding housing cost). The 2004/05 HES (as adjusted by movement in CPI(A) (excluding housing cost)) has not yet captured the effect of SMW which comes into effect in May 2011.

6. We consider our well-established “expenditure-based” and “household-based” mechanism an objective measurement of affordability and hence sustainable, and it should continue to be used, but at the same time, we acknowledge that a certain lead time is required for it to reflect changes in the expenditure pattern following implementation of SMW.

7. For this year’s review, we propose to increase the contingency provision from the current 5% to 15%. Taking into account the uncertainties arising from possible changes in the economic environment including fluctuations in price levels and with the implementation of SMW, we consider that this higher contingency provision can provide a bigger buffer for low income families. With the changes in the key parameters under the established methodology and the proposed 15% contingency, the proposed WL income and asset limits are as follows:

<b>Household Size</b>	<b>Existing Income Limits for 2010/11</b>	<b>Existing Asset Limits for 2010/11</b>	<b>Proposed Income Limits for 2011/12</b>	<b>Proposed Asset Limits for 2011/12</b>
1	\$7,440	\$187,000 [\$374,000]	\$8,740	\$193,000 [\$386,000]
2	\$11,660	\$252,000 [\$504,000]	\$13,410	\$260,000 [\$520,000]
3	\$13,130	\$330,000 [\$660,000]	\$15,260	\$341,000 [\$682,000]
4	\$16,070	\$384,000 [\$768,000]	\$18,560	\$397,000 [\$794,000]
<b>No. of non-owner occupied households in the private sector eligible for PRH</b>				
		105 700 (26.2% <sup>#</sup> )		131 100 (32.5% <sup>#</sup> )

<sup>#</sup> As a percentage of the total number of non-owner occupied households in the private sector.

**Note :** Figures in [ ] brackets denote asset limits for elderly households (including both nuclear and non-nuclear households comprising solely elderly members, the latter means households of unrelated elderly members).

<sup>1</sup> An HES is conducted every 5 years. This is in line with international practice as the expenditure patterns of households generally change over time gradually due to changes in the income level and socio-economic characteristics of the population.

8. Details of the proposed income and asset limits are set out in **Annex B**. Detailed calculation of the WL income limits is at **Annex C**. On the whole, the income and asset limits for 2011/12 would increase by an average of 15.6% and 3.3% respectively over those for 2010/11. If the proposed limits are adopted, some 131 100 non-owner occupied households in the private sector<sup>2</sup> (32.5% of the total number of non-owner occupied households in the private sector) would be eligible for PRH. Under the proposed limits, number of eligible households would increase. We would monitor the number of applications on the WL, as well as closely monitor the impact on the average waiting time.

9. As stated above, in arriving at the proposed 15% contingency provision, we have taken into account the possible changes in the economic environment including fluctuations in price levels and with the introduction of SMW, there would be positive changes to the income of a number of low income households and a higher contingency provision can provide a bigger buffer to low-income households.

## **RECOMMENDATION**

10. Subject to Members' decision on the proposed enhancement in contingency provision (paragraphs 5 to 9), it is recommended that the new income and asset limits (as set out in paragraph 7 and **Annex B**) be adopted for 2011/12.

## **FINANCIAL AND STAFFING IMPLICATIONS**

11. The review itself does not have any financial and staffing implications.

## **PUBLIC REACTION AND PUBLICITY**

12. Similar to previous years, it is expected that the review of WL income and asset limits will attract media and public attention. This year, many would be concerned about the impact of SMW on the WL income limits.

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<sup>2</sup> This figure only gives a "snapshot" of the position as of 4Q 2010. The number of non-owner occupied households in the private sector will change over time, so will the proportion of them eligible for PRH. The total number of households eligible for PRH is greater than that suggested by this figure as existing households from PRH, owner-occupier households of Home Ownership Scheme/Private Sector Participation Scheme or owner-occupier households in the private sector may also form new households. The new households may apply for PRH.

Our proposal to review the WL income and asset limits in accordance with the established review methodology with an enhanced contingency provision is expected to be welcomed by the public at large, especially as we have provided a bigger buffer in the form of enhanced contingency provision. A press release will be issued to announce the outcome of this review.

## **DISCUSSION**

13. At the Subsidised Housing Committee meeting to be held on 15 March 2011, Members will be invited to endorse the recommendations set out in paragraph 10.

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## Mechanism for Setting of the Waiting List (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 WL applicants in the past three years by a unit rent derived from a sample survey on private dwellings conducted by the Census and Statistics Department (C&SD). For households of 1-person and 2-person, the respective differential unit rent or the overall average unit rent, whichever is higher, is adopted in the calculation; for households of 3-person or above, the overall average unit rent is adopted. All HOS flats which were transferred to PRH and 3-bedroom flats allocated to 4-person households are excluded from the calculation.
  - (b) *Non-housing costs*: The average non-housing expenditure of the lower half expenditure group amongst tenant households in the private sector. The statistics are obtained from the latest Household Expenditure Survey (HES) conducted by C&SD and adjusted annually according to the movement in CPI(A) (excluding housing cost). The expenditure patterns and levels of those households comprising solely elderly or non-working members are excluded from the calculation in deriving the amount of non-housing expenditure. The present review has been based on data from the 2004/05 HES.
- The WL income limits for different household sizes are the respective sums of the above two major cost items, plus a 5% “contingency” provision.
- SHC meeting on 26 March 2010 decided that the income limits should be rounded to the nearest ten.

**WL Asset Limits**

- The WL asset limits for 2005/06 are adopted as the basis for future annual adjustments with reference to the movements in CPI(A). The asset limits for elderly households are set at two times of the limits for non-elderly applicants. Asset limits are rounded to the nearest thousand.

**Annual Adjustment**

- The WL income and asset limits are reviewed annually at the beginning of each year using latest available statistics as of the last quarter as compared to the corresponding 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 WL Income and Asset Limits for 2011/12

Household Size	Existing WL Income Limits for 2010/11	Existing WL Asset Limits for 2010/11*	Proposed WL Income Limits for 2011/12	Proposed WL Asset Limits for 2011/12*
1-Person	\$7,440 (\$7,832)	\$187,000	\$8,740 (\$9,200)	\$193,000
2-Person	\$11,660 (\$12,274)	\$252,000	\$13,410 (\$14,116)	\$260,000
3-Person	\$13,130 (\$13,821)	\$330,000	\$15,260 (\$16,063)	\$341,000
4-Person	\$16,070 (\$16,916)	\$384,000	\$18,560 (\$19,537)	\$397,000
5-Person	\$18,700 (\$19,684)	\$428,000	\$21,520 (\$22,653)	\$442,000
6-Person	\$21,910 (\$23,063)	\$463,000	\$25,040 (\$26,358)	\$478,000
7-Person	\$23,680 (\$24,926)	\$494,000	\$27,340 (\$28,779)	\$510,000
8-Person	\$25,090 (\$26,411)	\$518,000	\$28,950 (\$30,474)	\$535,000
9-Person	\$27,900 (\$29,368)	\$572,000	\$32,230 (\$33,926)	\$591,000
10-Person and above	\$29,080 (\$30,611)	\$616,000	\$33,590 (\$35,358)	\$636,000

\* Asset limits for elderly households (including both nuclear and non-nuclear households comprising solely elderly members) are set at two times of the limits for non-elderly applicants.

Figures in ( ) denote the effective income limits should a household be contributing 5% of its income under the MPF Scheme as required by the law.

### Proposed Waiting List Income Limits (WLILs) for 2011/12

#### A. Housing expenditure :

- derived by multiplying average reference flat size by the corresponding average unit rent
- the average reference flat sizes refer to the average space (in terms of Internal Floor Area (IFA)) of the flats allocated to the WL applicants from 2007/08 - 2009/10 <sup>(a)</sup>
- average unit rents are derived from the data of C&SD's Rent Survey 4Q 2010, covering those private flats with flat size of 69.9m<sup>2</sup> Saleable Area (SA) or below, with adjustment to unit rent per IFA

Household Size	Average Unit Rent (\$/m <sup>2</sup> IFA) <sup>(b)</sup>
1	186
2	172
<b>Overall Average</b>	<b>170</b>

#### B. Non-housing expenditure :

- based on the expenditure patterns and levels of tenant households in private housing in the lower half expenditure group from the 2004/05 Household Expenditure Survey <sup>(c)</sup> and adjusted by the rate of change of CPI(A) (excluding housing cost ) between 4Q 2009 and 4Q 2010

Household size	Average reference flat sizes <sup>(a)</sup> (m <sup>2</sup> , IFA)	Housing expenditure (\$)	Non-housing expenditure (\$)	Total household expenditure (\$)	Plus 15% contingency provision (\$)	Proposed income limits (\$)	Existing income limits		
							(\$)	(\$)	(%)
1	15.7	2,920	4,680	7,600	8,740	8,740	7,440	1,300	17.5
2	22.7	3,904	7,757	11,661	13,410	13,410	11,660	1,750	15.0
3	30.6	5,202	8,071	13,273	15,264	15,260	13,130	2,130	16.2
4	37.6	6,392	9,747	16,139	18,560	18,560	16,070	2,490	15.5
5	40.8	6,936	11,776	18,712	21,519	21,520	18,700	2,820	15.1
6	46.9	7,973	13,802	21,775	25,041	25,040	21,910	3,130	14.3
7	51.3	8,721	15,049	23,770	27,336	27,340	23,680	3,660	15.5
8	52.9	8,993	16,180	25,173	28,949	28,950	25,090	3,860	15.4
9	63.6	10,812	17,216	28,028	32,232	32,230	27,900	4,330	15.5
10+	64.9	11,033	18,173	29,206	33,587	33,590	29,080	4,510	15.5
<b>Average</b>	-	-	-	-	-	-	-	-	<b>15.6</b>
Number of non-owner occupied households in private sector within WLILs <sup>(d)</sup>									
1p						43 400	34 500	8 900	25.8%
2p+						87 700	71 200	16 500	23.2%
<b>Total</b>						<b>131 100</b>	<b>105 700</b>	<b>25 400</b>	<b>24.0%</b>
As a % of total number of non-owner occupied households in private sector in Hong Kong <sup>(e)</sup>						32.5%	26.2%		

- Notes : (a) Excluding HOS transferred flats and 3-bedroom flats allocated to 4-person households in calculating the average size of accommodation.
- (b) Allocation of PRH is based on IFA. To calculate the housing cost needed for comparable private rental accommodation, we need to convert the average unit rent data (in terms of SA) from C&SD's Rent Survey into unit rent data in terms of IFA.
- (c) Latest source of information available. The result of the 2009/10 Household Expenditure Survey will be available in mid-2011.
- (d) Matching the proposed waiting list income limits with the household income distribution of the non-owner occupied households in the private sector from C&SD's General Household Survey, those households with household income equal or below the income limits would be regarded as being eligible for PRH.
- (e) According to the C&SD's General Household Survey, the total number of non-owner occupied households (including those whose accommodation is provided by employers/ relatives/ friends) in private sector is estimated to be around 403 300 in 4Q 2010.