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Legislative Council Panel on Housing

Review of the Waiting List Income and Asset Limits for 2005/06

PURPOSE

This paper sets out in broad terms how the Housing Authority (HA) intends to take forward the annual review of the Waiting List (WL) Income and Asset Limits for 2005/06.

BACKGROUND

2. It has been the established policy of the HA to review annually the WL income and asset limits. The objective is to ensure that public rental housing (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 limits, which essentially embraces a "household expenditure" approach, is set out at **Annex A**.

3. The HA conducted a comprehensive review of the mechanism and formula for determining the limits in 2002. In the course of the review, we consulted extensively various sectors of the community, including Members of this Panel, on different ways to improve on the formula. Having considered carefully the views and suggestions received, the HA adopted a series of measures to rationalize and relax the mechanism for assessing the limits in 2002. Details of these measures, which result in the lifting of the limits by an average of 10% as compared to those derived under the previous methodology, are set out at **Annex B**.

4. Since 2002, we have been adopting the improved methodology for reviewing the limits. In the 2004/05 review conducted in early 2004, we undertook to revisit the methodology when reviewing the limits for 2005/06.

KEY AREAS FOR CONSDIERATION

5. Taking account of the comments made by this Panel and other stakeholders, we have initially identified the following possible areas for examination -

(a) increasing the contingency provision from 5% to 10% of the total expenditure of the households;

(b) taking the non-housing expenditure of the second lowest quarter (i.e., 26% - 50%) expenditure group for the purpose of calculating the average non-housing expenditure;

(c) adopting the allocation standards for New Harmony blocks in determining the "reference" flat sizes for the purpose of calculating the housing expenditure; and

(d) raising the assets limits for elderly households.

6. We have conducted a preliminary assessment of the implications of taking on board the above suggestions. The findings are set out in the powerpoint slides at **Annex C**, which will be presented to Members at the Panel meeting scheduled for 7 February 2005.

7. This paper is issued for Members' information and comments. We will revert to this Panel in March to consult Members further on the recommendations of this year's review.

Housing Department
January 2005

Annex A

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.

Annex B

Improvements to the mechanism
<u>for setting WL income and asset limits endorsed in 2002</u>

(i) including all private flats below 70 m^2 Saleable Area 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.

Review of the Waiting List (WL) Income and Asset Limits for 2005/06

January 2005

Briefing Highlights

(I) Background

(II) Latest assessments

(III) Suggestions to modify the formula for calculating the limits

(IV) Conclusion

(I) Background

- Following a comprehensive review in 2002, the methodology and formula for setting the income and asset limits were improved and relaxed
- The Housing Authority (HA) also decided to strictly adopt the income and asset limits derived from the formula in the annual reviews
- In considering the income and asset limits for 2004/05 in March 2004, both Legislative Council Panel on Housing and the HA's Subsidised Housing Committee asked that the mechanism for setting the limits be revisited

WL Income Limits

- Based on 'household expenditure' of households living in private sector :

Income Limit = Housing Expenditure

\+ Non-housing Expenditure

\+ 5% Contingency Provision

Housing Expenditure

Definition

- Total payment required for renting a private flat of comparable size to PRH, including rental, rates and management fees

Calculation

The average space allocated to WL applicants in the past 3 years	x	Differential unit rent for the respective household size derived from a sample survey on private dwellings conducted by the Census and Statistics Department (C&SD)

Non-housing Expenditure

Definition

- **The average household expenditure of the lower half expenditure group amongst tenant households living in the private sector**

Calculation

- **Based on the findings of the 'Household Expenditure Survey' conducted by C&SD and adjusted by Consumer Price Index (A) on non-housing expenditure to the fourth quarter of last year**

WL Asset Limits

Definition

- **The housing cost of renting a private flat of comparable size to PRH for 6 years**

Calculation

- **Based on the rental statistics used in deriving the income limits**

Improvement and Relaxation Measures Implemented in 2002

- Including all private flats below $70m^2$ in saleable area for deriving the unit rents
- 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
- Excluding the expenditure pattern of those households comprising solely elderly or non-working members in deriving the non-housing expenditure
- Introducing an allowance equivalent to 5% of the total household expenditure as a ‘contingency provision’ in the calculation of income limits for WL applicants
- Using the data from the fourth quarter of the previous year for conducting the annual review
- As a standard practice, the income and asset limits so derived from the revised formula should be adopted
- The above improvement and relaxation measures lift the WL income limits by an average of about 10%

(II) Latest Assessments

	4Q 2003	3Q 2004
Differential unit rents of private flats (per m^2 IFA)		
– 1-person	$139	$132 (-5.0%)
– 2-person	$127	$131 (+3.1%)
– Overall average	$126	$126 (0%)
CPI(A) on non-housing expenditure (1999/2000 = 100)	95.1	96.5 (+1.5%)

New Limits Derived from the Existing Mechanism

Household Size	Existing Limits: Income Limits ($)	Existing Limits: Asset Limits ($)	New Limits: Income Limits ($)	New Limits: Asset Limits ($)
1	6,600	170,000	6,600 (0%)	160,000 (-5.9%)
2	10,000	230,000	10,200 (+2.0%)	230,000 (0%)
3	11,700	300,000	11,900 (+1.7%)	300,000 (0%)
4	14,000	350,000	14,300 (+2.1%)	360,000 (+2.9%)
⋮	⋮	⋮	⋮	⋮
10+	22,600	560,000	23,000 (+1.8%)	570,000 (+1.8%)
		Average	+1.7%	+0.7%

Changes

- The WL income limits will increase by an average of 1.7%, asset limits by 0.7%
- Non-owner occupied households living in private flats eligible for PRH will increase by about 2,700 households to 119,100 households:

	Under Existing Limits	Under New Limits (% Change)
Number of eligible non-owner occupied households living in private flats	116,400	119,100 (+2.3%)
As percentage of the total number of corresponding households in HK (%)	33.3%	34.1% (+2.3%)

- The above income limits and their implications are assessed based on the data in the third quarter of 2004. HA will further adjust the limits based on the data in the fourth quarter

(III) Suggestions to Modify the Formula for Calculating the Limits

1) To increase the 'contingency provision' from the current 5% to 10% of the total household expenditure

2) To make reference to the average non-housing expenditure of the 'second lowest quarter expenditure group' amongst tenant households living in the private sector for the purpose of calculating the non-housing expenditure

3) To adopt the allocation standards for New Harmony blocks in determining the 'reference' flat sizes for the purpose of calculating the housing expenditure

4) To raise the asset limits for elderly households

1) Increasing the Contingency Provision from 5% to 10%

- In the course of the comprehensive review of the methodology conducted in 2002, the LegCo Panel on Housing passed a motion asking the HA 'to include an element of contingency money equivalent to 10% of the household income in the calculation of non-housing expenditure' so that applicants might reserve part of their income to cater for contingencies

- In last year's annual review, some LegCo and SHC Members again asked the HA to raise the contingency provision to 10%

Increasing the Contingency Provision from 5% to 10% – Implications

- WL income limits will increase by an average of 6.5%

Household Size	Existing Income Limits ($)	New Income Limits if the Proposed Change is Adopted ($)
1	6,600	6,900 (+4.5%)
2	10,000	10,700 (+7.0%)
3	11,700	12,400 (+6.0%)
4	14,000	15,000 (+7.1%)
•	•	•
•	•	•
10+	22,600	24,100 (+6.6%)
	Average	+6.5%

- The number of non-owner occupied households living in private sector eligible for PRH will increase by 7% from 116,400 (33.3% of the total number of corresponding households in HK) to 124,600 (35.7% of the total number of corresponding households in HK)

Increasing the contingency provision from 5% to 10% – Factors to be considered

- Current method for calculating household expenditure has already built in certain elements of savings. For instance, the non-housing expenditure covers various kinds of 'non-essential' items such as wine, cigarette, jewellery and package tour, etc., which are usually paid by household savings
- The housing expenditure is calculated with reference to the private sector rentals for units comparable to PRH, which are substantially larger than what the households would normally rent in reality
- Contributions under the Mandatory Provident Fund (MPF) are deductible from household income
- There is no objective benchmark for reasonable saving rate. Increasing the contingency provision will not help enhance the saving rate for households eligible for PRH

Comparison Between WL Income Limits and Actual Household Expenditure

Household Size	WL Income Limits			Actual Household Expenditure (Lower half expenditure group based on findings of the Household Expenditure Survey)			(C)/(F)
	(A) Housing Expenditure ($)	(B) Non-housing Expenditure ($)*	(C) Income Limits ($)	(D) Housing Expenditure ($)	(E) Non-housing Expenditure ($)	(F) Total Household Expenditure ($)	
1	2,218	4,040	6,600	1,641	3,590	5,231	126.2%
2	3,249	6,456	10,200	2,731	6,276	9,007	113.2%
3	4,158	7,137	11,900	3,075	6,912	9,987	119.2%
4	4,977	8,652	14,300	3,224	8,652	11,876	120.4%
5+	5,456 to 7,938	9,801 to 14,010	16,000 to 23,000	3,823 to 5,068	9,801 to 14,010	13,624 to 19,078	117.4% to 120.6%

* Excluding households comprising solely elderly or non-working members

2) Calculating the Non-housing Expenditure Based on the Average Household Expenditure of the Second Lowest Quarter Expenditure Group

- During the review of the methodology in 2002, the LegCo Panel on Housing passed a motion asking the HA ‘to calculate the non-housing expenditure using the average of the second lowest quarter expenditure group, i.e. only the 26% - 50% of the expenditure group should be used as the basis for calculation’
- In last year’s annual review, some LegCo and SHC Members made the same suggestion again

Calculating the Non-housing Expenditure Based on the Average Household Expenditure of the Second Lowest Quarter Expenditure Group – Implications

- **WL income limits will rise by an average of 11.5%**

Household Size	Existing Income Limits ($)	New Income Limits if the Proposed Change is adopted ($)
1	6,600	7,500 (+13.6%)
2	10,000	11,600 (+16.0%)
3	11,700	13,200 (+12.8%)
4	14,000	16,300 (+16.4%)
•	•	•
•	•	•
10+	22,600	24,200 (+7.1%)
	Average	+11.5%

- **The number of non-owner occupied households living in private sector eligible for PRH will increase by 15.1% from 116,400 (33.3% of the total number of corresponding households in HK) to 134,000 (38.4% of the total number of corresponding households in HK)**

Calculating the Non-housing Expenditure Based on the Average Household Expenditure of the Second Lowest Quarter Expenditure Group – Factors to be considered

- HA relaxed the methodology only in 1997 by adopting the average household expenditure of the lower half expenditure group, instead of that of the lowest one-third expenditure group, in the calculation of non-housing expenditure

- Instead of removing the lowest 25% of the expenditure group from the calculation across the board, HA adopted a more targeted approach to discount the non-working and elderly households whose expenditure pattern may be very different from that of households with non-elderly and working members. This approach should be able to ensure that the non-housing expenditure so derived will not be unreasonably deflated

Comparison of WL Income Limits with CSSA Payments

Household Size	Private Rental Housing and Other Types of Housing @			Income Limits under Existing Mechanism ($) (B)	(B)/(A)
	Rent Allowance* ($)	Other Recognised Needs # ($)	Total CSSA Payments ($) (A)		
1	770	2,938	3,708	6,600	178%
2	1,742	4,354	6,096	10,200	167%
3	2,445	5,631	8,076	11,900	147%
4	2,464	6,795	9,259	14,300	154%
5	2,333	8,267	10,600	16,000	151%
6+	2,673	10,308	12,981	N.A.	N.A.

@ Including private housing, residential/medical institutions, village houses, temporary housing areas, HOS flats and those under Portable CSSA Scheme for Elderly Persons Retiring to Guangdong

* Rent allowance covers monthly rental, government rent, licence fee, land tax, land rent, property tax, rates, management fee, and mortgage repayment in exceptional situation

Including standard rates, supplements and special grants (e.g. school grants, medical and rehabilitation grants and child-care grants etc.)

Calculating the Non-housing Expenditure Based on the Average Household Expenditure of the Second Lowest Quarter Expenditure Group and Increasing the Contingency Provision to 10% – Implications

- **WL income limits will rise by an average of 16.9%**

Household Size	Existing Income Limits ($)	New Income Limits if the Proposed Changes are Adopted ($)
1	6,600	7,900 (+19.7%)
2	10,000	12,200 (+22.0%)
3	11,700	13,800 (+17.9%)
4	14,000	17,000 (+21.4%)
•	•	•
•	•	•
10+	22,600	25,400 (+12.4%)
Average		+16.9%

- **The number of non-owner occupied households living in private sector eligible for PRH will increase by 20.4% from 116,400 (33.3% of the total number of corresponding households in HK) to 140,200 (40.2% of the total number of corresponding households in HK)**

Comparison with Income Limits for 1998/99

- The WL income limits for 1998/99 were at historical high
- Had the existing relaxed formula been used to calculate the income limits in 1998/99, they would have increased by an average of 9.8%, and the percentage of non-owner occupied households living in private sector eligible for PRH increased from 33.7% to 38.5%
- If we were to implement the suggestions to calculate the non-housing expenditure based on the average household expenditure of the second lowest quarter expenditure group and to increase the contingency provision to 10%, the average income limits for 1998/99 would further rise by an average of 24.6%, and the percentage of non-owner occupied households living in private sector eligible for PRH would increase to 46.3%

Household Size	Income Limits for 1998/99 Derived Based on the Old Mechanism ($)	Income Limits Derived Based on the Existing Mechanism and Statistics in 3Q1997 ($)	Income Limits if the Proposed Changes are Adopted Using Statistics in 3Q1997 ($)
1	6,600	7,500 (+13.6%)	8,600 (+30.3%)
2	11,900	13,000 (+9.2%)	15,300 (+28.6%)
3	14,800	16,900 (+14.2%)	19,400 (+31.1%)
4	17,700	19,700 (+11.3%)	23,100 (+30.5%)
:	:	:	:
10+	30,700	33,800 (+10.1%)	37,100 (+20.8%)
	Average	+9.8%	+24.6%

3) Setting of 'Reference' Flat Sizes of Accommodation Based on the Allocation Standards of New Harmony Blocks

- The 'reference' flat sizes are not derived from any objective criteria, but are pegged with the average space of PRH flats allocated over the past years

- Notwithstanding the exclusion of HOS-converted flats and 3-bedroom flats allocated to 4-person households in calculating the average space of PRH flats allocated to WL applicants (endorsed in the 2003/04 review), the sharp increase in the supply of large flats due to the conversion HOS flats to PRH units will continue to inflate the average space of PRH allocated, and hence the housing expenditure

- **To address this problem, we can consider calculating the 'reference' flat sizes based on a fixed standard**

- **One possible option is to adopt the allocation standards for New Harmony blocks in determining the 'reference' flat sizes**

Average Space of PRH Flats Allocated to WL Applicants
(m^2 IFA)

Household Size	Average Space of Allocated Flats Adopted in the Calculation of WL Limits for 1998/99 (94/95 to 96/97)	Average Space of Allocated Flats Adopted in the Calculation of WL Limits for 2005/06 (01/02 to 03/04)
1	16.1	16.8 (+4.3%)
2	24.0	24.8 (+3.3%)
3	28.7	33.0 (+15.0%)
4	34.5	39.5 (+14.5%)
5	39.0	43.3 (+11.0%)
6	44.0	46.8 (+6.4%)
7	48.6	51.2 (+5.3%)
8	52.0	53.6 (+3.1%)
9	55.2	58.9 (+6.7%)
10 +	55.5	63.0 (+13.5%)

Allocation Standard of New Harmony Blocks

Flat Type	IFA (m^2)	Allocation Range
Small	17.40/17.81	1 to 2-person Households
2P/3P	21.69/21.96	2 to 3-person Households
1-Bedroom	30.34	3 to 4-person Households
2-Bedroom	39.74	4 to 5-person Households
3-Bedroom	49.06	5 to 7-person Households

‘Reference’ Flat Sizes of Accommodation

(m² IFA)

Household Size	Average Space of Allocated Flats Adopted under the Existing Mechanism (01/02 to 03/04)	Average Allocation Standard of New Harmony Flat Type
1	16.8	17.6 (+4.8%)
2	24.8	19.7 (-20.6%)
3	33.0	26.0 (-21.2%)
4	39.5	35.0 (-11.4%)
5	43.3	44.4 (+2.5%)
6	46.8	49.1 (+4.9%)
7	51.2	49.1 (-4.1%)
8	53.6	70.1 (+30.8%)
9	58.9	77.7 (+31.9%)
10+	63.0	84.5 (+34.1%)
		Overall Average (+5.2%)

Setting of 'Reference' Flat Sizes of Accommodation Based on the Allocation Standard of New Harmony Blocks – Implications

- **WL income limits will increase by an average of 3.5% but WL income limits for 2 to 4-person households will drop by 2.1% to 6.8%**

Household Size	Existing Income Limits ($)	New Income Limits if the Proposed Change is adopted ($)
1	6,600	6,700 (+1.5%)
2	10,000	9,500 (-5.0%)
3	11,700	10,900 (-6.8%)
4	14,000	13,700 (-2.1%)
•	•	•
•	•	•
10+	22,600	25,900 (+14.6%)
	Average	+3.5%

- **Given that nearly 60% of the WL applicants are 2 to 4-person households, the number of non-owner occupied households living in private sector eligible for PRH will slightly drop by 1% from 116,400 (33.3% of the total number of corresponding households in HK) to 115,200 (33.0% of the total number of corresponding households in HK)**

Setting of 'Reference' Flat Sizes of Accommodation Based on the Allocation Standards of New Harmony Blocks – Factors to be considered

- While this proposal could achieve a more rational allocation of PRH resources, the public may find it hard to accept the substantial reduction in the limits for 2 to 4-person households

- As the economy has only begun to recover, it may not be opportune to change the existing formula

4) To Raise the Asset Limits of the Elderly Households

- There have been suggestions that the current WL asset limits have paid little regard to the fact that most of the elderly have retired or are non-working and have to rely on their savings to meet their daily expenses

- The asset limits of elderly households should therefore be higher than those of non-elderly household to enable elderly with higher savings to apply for PRH

To Raise the Asset Limits for the Elderly Households – Considerations

- Currently, the asset limits for 2 to 3-person nuclear elderly households have been raised to the same level as those of 4-person ordinary households

Household Size	Income Limits ($)		Asset Limits ($)	
	Ordinary Households	Nuclear Elderly Households	Ordinary Households	Nuclear Elderly Households
1	6,600	6,600	170,000	170,000
2	10,000	10,000	230,000	350,000
3	11,700	11,700	300,000	350,000
4	14,000	14,000	350,000	350,000

- Should we further relax the asset limits for the elderly households, in particular, the elderly singleton households?

(V) Conclusion

- The comprehensive review in 2002 provided for the development of a new methodology that adjusts flexibly the income and asset limits. The relaxation measures have lifted the limits by an average of about 10%
- Although the limits were adjusted downwards in the past two years in tandem with deflation and declining rental of private flats, the percentage of tenant households in the private sector eligible for PRH was higher than the average in the past 10 years
- Suggestions (1) and (2) to modify the methodology will further push up the income limits substantially

- **Suggestion (3) will increase the overall income and asset limits, but those for 2-person to 4-person households will be decreased to a different extent**
- **The HA has to ensure that the limited housing resources are allocated only to those in genuine need**
- **We accept that there is room for relaxing the asset limits for elderly households, taking account of the fact that elderly people generally have to rely on their savings to meet their daily expenses**

Thank you