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Review of Waiting List Income and Asset Limits for 2006/07

March 2006

Contents

(I) Background

- An important cornerstone of Housing Authority (HA)'s policy is to provide public rental housing (PRH) to families that cannot afford renting accommodations in the private market. Families with household income below the Waiting List (WL) Income and Asset Limits are considered as those who cannot afford renting accommodations in the private market and are eligible for applying PRH.
- In order to reflect closely the prevailing socio-economic circumstances, the WL Income and Asset Limits are reviewed annually, by using the up-to-date economic data.
- A comprehensive review of the mechanism for setting of the WL Income and Asset Limits was conducted by the Subsidised Housing Committee (SHC) in 2002. A series of measures had also been taken to rationalize and relax the methodology for assessing the limits, which resulted in a general lifting of the income limits by an average of about 10% as compared to those derived under the previous methodology.

- In 2005, the SHC further revisited the methodology for assessing the WL Income and Asset Limits. It decided to retain the existing methodology for assessing the income limits and to set the asset limits for elderly households at two times the limits for non-elderly applicants.
- In that review, the Housing Department also put forward a proposal for adjusting the asset limits with reference to movements in Consumer Price Index(A) (CPI(A)). Members asked for a more thorough examination of other options for calculating the asset limits before a decision is made.
- The SHC held a brainstorming session in November 2005 to broach possible options.

(II) WL Income and Asset Limits for 2006/07 derived under the Current Mechanism

- The three main variables affecting the households' housing and non-housing expenditure, and hence the WL Income and Asset limits are :
  - (i) private rentals
  - (ii) CPI(A) on non-housing costs
  - (iii) size of the reference flats (derived from the average space allocated to WL applicants in the past three years)
- Following general improvement of the economy in Hong Kong, both private rentals and CPI(A) have shown upward adjustments in end 2005 when compared with those in end 2004.
- However, the average space allocated to WL applicants has shown downward adjustment largely as a result of the reduction in the number of those large PRH flats which were in excess supply over the past few years.

Latest Rental Levels and Consumer Price Index

	4th quarter 2004	4th quarter 2005
(i) Differential unit rents of private flats (per m^2 IFA)		
– 1- person	\$134	\$142(+6.0%)
– 2- person	\$126	\$130(+3.2%)
– overall average	\$126	\$130(+3.2%)
(ii) Consumer Price Index (A) on non-housing cost (1999/2000 =100)	96.9	98.3(+1.4%)
(iii) Reference flats (IFA)		
– 1- person	16.8 sq. m.	16.3 sq. m. (-3.0%)
– 2- person	24.8 sq. m.	24.6 sq. m. (-0.8%)
– 3- person	33.0 sq. m.	32.5 sq. m. (-1.5%)
– 4- person	39.5 sq. m.	39.0 sq. m. (-1.3%)

Projected Limits derived under the Current Mechanism

Household Size	Existing Limits for 2005/06		Projected Limits for 2006/07 derived under the Current Mechanism	
	Income Limits($)	Asset Limits ($)	New Income Limits ($)	New Asset Limits ($)
1	6,600	170,000*	6,800 (+3.0%)	170,000*(0.0%)
2	10,100	230,000*	10,300(+2.0%)	230,000*(0.0%)
3	11,900	300,000*	12,100(+1.7%)	300,000*(0.0%)
4	14,300	350,000*	14,600(+2.1%)	370,000*(+5.7%)
•		•		•
•		•		•
•		•		•
10+	23,100	560,000	23,900(+3.5%)	610,000(+8.9%)
		Average	(+2.7%)	(+5.6%)

*If all members of a household of one to four persons are elderly (60 years old or above), its asset limits are set at two times the limits for non-elderly applicants.

(III) Possible Alternative Methodologies for Setting Asset Limits

a) Keeping the existing formula but adjusting the reference from six years' rentals to two years' in line with the present average waiting time;

b) Deriving the asset limits based on the estimated amount of household savings that the prospective WL applicants may reasonably accrue over a period of, say, 10 years;

c) Deriving the asset limits based on the total household expenditure of the WL applicants for a period of, say, three years;

d) Pegging the asset limits at 24 times the income limits. The limits so calculated will be very close to the existing ones; and

e) Keeping the current WL asset limits level and making corresponding adjustments with reference to movements in CPI(A) over the year.

Comparison and Assessment of Alternative Methodologies for Setting WL Asset Limits

Option	Comparison and Assessment
(a) Keeping the existing methodology but adjusting the reference from six years’ rentals to two years’	• There is no strong connecting thread between rental expenditure and asset limits. • When the asset limits were established in 1998, HA did not explicitly decide to adjust the calculation of asset limits according to the change in average waiting time. To do so is likely to cause major fluctuations in the asset limits. • The option would drastically reduce the asset limits by 65% and is unlikely to be acceptable to the community.
(b) Deriving the asset limits based on the estimated amount of household savings over a period of, say, ten years	• Developing an objective formula along the notion of household savings is fraught with difficulties. It is mainly due to the fact that there is no universally accepted rate of saving, nor is there any official statistics on household saving in Hong Kong. (A possible method is to draw on the differentials between the income limits and actual household expenditure and will result in the rate of saving of about 16%). • There is no objective basis for referring to “accrued savings” of 10 years. • The asset limits derived from this option are lower than the existing ones by 15.7% to 25.3% which can hardly be accepted by the public. • We can increase the reference period to more than ten years to bring the revised asset limits closer to the existing ones. But to do so would be as arbitrary as to continue to adopt six years9 rentals as the asset limits.

Option	Comparison and Assessment
(c) Deriving the asset limits based on the total household expenditure of the WL applicants over a period of, say, three years	• The option will substantially increase the asset limits by 35.9% to 55.5%. • It begs the question whether such substantial increase in asset limits is justifiable and necessary. • There is no objective basis for adopting the three years’ total household expenditure.
(d) Setting the WL Asset Limits at 24 times the WL Income Limits	• The option links up asset and income limits and derives both sets of limits under the same framework. • The future adjustment of limits will become simpler and transparent. • The asset limits calculated using this method happen to come close to the existing ones. However, it would still lead to quite substantial changes to the asset limits for households of different sizes, ranging from -4.1% to +8.7%. • While this option is simple, the rationale behind pegging the asset limits at 24 times the income limits is rather unclear.
(e) Adopting the current WL Asset Limits as the basis for future adjustments with reference to movements in CPI(A)	• Retaining the current asset limits as the basis for adjustments may reduce disputes. • The advantage of using CPI(A) is that it is a broader-based price indicator as compared to rental index. The rental index would also be potentially subject to more volatile fluctuations according to the economic cycle.

Comparison Between Existing Limits and Options (a) to (e)

Household Size	Existing Asset Limits ($)	Asset Limits Under Different Options ($): Option (a) (2 years rental)	Option (b) (10 years saving)	Option (c) (3 years household expenditure)	Option (d) (24 times income limits)	Option (e) (Adjusted by CPI(A) movement)
1	170,000*	60,000* (-64.7%)	127,000* (-25.3%)	231,000* (+35.9%)	163,000* (-4.1%)	173,000* (+1.8%)
2	230,000*	80,000* (-65.2%)	194,000* (-15.7%)	352,000* (+53.0%)	247,000* (+7.4%)	234,000* (+1.7%)
3	300,000*	100,000* (-66.7%)	228,000* (-24.0%)	414,000* (+38.0%)	290,000* (-3.3%)	305,000* (+1.7%)
4	350,000*	120,000* (-65.7%)	275,000* (-21.4%)	500,000* (+42.9%)	350,000* (0.0%)	356,000* (+1.7%)
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10+	560,000	200,000 (-64.3%)	444,000 (-20.7%)	819,000 (+46.3%)	574,000 (+2.5%)	569,000 (+1.6%)
	Average	-64.7%	-20.2%	+46.0%	+2.3%	+1.7%

* If all members of a household of one to four persons are elderly (60 years old or above), its asset limits are set at two times the limits for non-elderly applicants.

- When assessing the viability of the above options, we have to consider the following practical constraints :
  - The existing asset limits are largely accepted by the community. This should not be ignored in the consideration of other methodologies for setting asset limits.
  - Adopting an entirely new methodology is likely to produce major deviations from the existing limits. It may not be easy to convince the public to accept such major departure from the existing asset limits.
  - Any alternative methodologies will unavoidably involve a certain degree of subjectivity.
  - Any purposed adjustments to the parameters under the alternative methodologies will undoubtedly bring revised limits close to the existing ones. But to do so is likely to render the alternatives arbitrary.

(IV) Conclusion

- A less controversial approach is to retain the current asset limits level and improve the annual adjustment mechanism. It is more reasonable to adjust the limits by using CPI(A) instead of private rentals.
- The advantage of using CPI(A) is that it is a broader-based price indicator as compared to rental index. The rental index would also be potentially subject to more volatile fluctuations according to the economic cycle.
- On 13 March 2006, the SHC endorsed option (e) and the WL Income and Asset Limits for 2006/07 so derived be adopted.

WL Income and Asset Limits for 2006/07

Household Size	Limits for 2005/06		Limits for 2006/07	
	Income Limits ($)	Asset Limits ($)	New Income Limits ($)	New Asset Limits ($)
1	6,600	170,000*	6,800 (+3.0%)	173,000*(+1.8%)
2	10,100	230,000*	10,300(+2.0%)	234,000*(+1.7%)
3	11,900	300,000*	12,100(+1.7%)	305,000*(+1.7%)
4	14,300	350,000*	14,600(+2.1%)	356,000*(+1.7%)
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10+	23,100	560,000	23,900(+3.5%)	569,000(+1.6%)
		Average	(+2.7%)	(+1.7%)

* If all members of a household of one to four persons are elderly (60 years old or above), its asset limits are set at two times the limits for non-elderly applicants.

Thank you