

Legislative Council Panel on Housing

Review of Waiting List Income and Asset Limits for 2014/15

PURPOSE

This paper briefs Members on the outcome of the review of the Waiting List (WL) income and asset limits for 2014/15.

THE REVIEW

2. The outcome of the review is set out in the Memorandum for the Housing Authority's Subsidised Housing Committee (SHC) as **attached**. Overall, the proposed income and asset limits for 2014/15 will increase by an average of 8.4% and 4.4% respectively over those for 2013/14.

3. Members are invited to note the outcome of the review, which will be considered by the SHC on 24 March 2014.

Transport and Housing Bureau
February 2014

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

Review of Waiting List Income and Asset Limits for 2014/15

PURPOSE

This paper seeks Members' endorsement of the proposed Waiting List (WL) income and asset limits for 2014/15.

BACKGROUND

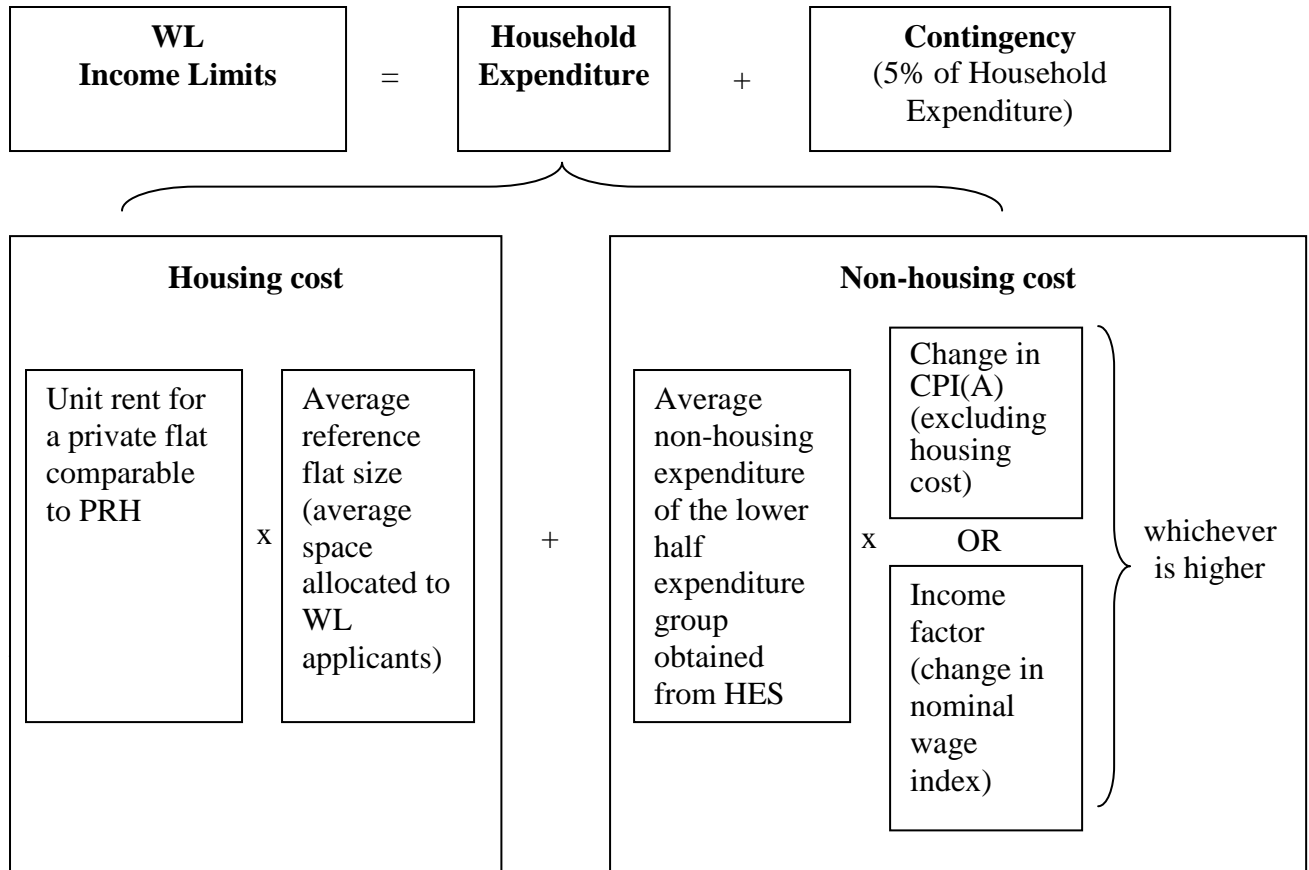
2. The Housing Authority (HA) has put in place a WL system through which low-income families who cannot afford to rent private accommodation may apply for public rental housing (PRH). The eligibility of PRH applicants is determined by way of the WL income and asset limits, which measure the total household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

REVIEW OF INCOME LIMITS

Review Mechanism

3. Under the established mechanism, the WL income limits are derived using a household expenditure approach, which consists of housing costs and non-housing costs, plus a contingency provision. Housing costs measure the cost of renting a private flat comparable to PRH. This depends on the differential unit rents of private accommodation and reference flat sizes. The non-housing cost is determined with reference to the latest Household Expenditure Survey (HES) conducted by the Census and Statistics Department (C&SD), with adjustments made according to the latest movement in the Consumer Price Index (CPI)(A)(excluding housing costs), or the change in the

nominal wage index obtained through the Labour Earnings Survey (LES) conducted by C&SD as the income factor ^{Note 1}, whichever is higher. The WL income limits for different household sizes are the respective sums of the above two major cost items, plus a 5% contingency provision ^{Note 2}. The mechanism is summarized in the following diagram -



Note 1 The Subsidised Housing Committee (SHC) approved at its meeting on 7 February 2013 the refinement to the mechanism for reviewing the WL income limits, whereby the change in nominal wage index was introduced as the income factor to reflect changes in income (including implementation and changes of the Statutory Minimum Wage (SMW)) in a timely manner before the HES results are updated. The change in nominal wage index was considered to be a suitable yardstick to gauge changes in income of the PRH target group and to reflect the impact of SMW on income, because it covers occupational groups at non-managerial/professional levels (e.g. technical, clerical, service workers and craftsmen) who are most likely to be the potential applicants for PRH.

Note 2 Following established practice, the WL income limits are rounded to the nearest ten.

4. The movements of the key parameters over the years to be covered in the review of WL income limits are set out as follows –

Table 1

Parameters	Review for 2013/14	Review for 2014/15
	<u>4Q 2012</u>	<u>4Q 2013</u>
(a) Differential unit rents of private flats (per m ² Internal Floor Area (IFA))		
- 1-person	\$232	\$272
- 2-person	\$217	\$251
- Overall	\$214	\$248
	<u>2009/10 – 2011/12</u>	<u>2010/11 – 2012/13</u>
(b) Reference flat size ^{Note 3}		
- 1-person	15.7m ²	15.3m ²
- 2-person	22.4m ²	22.4m ²
- 3-person	30.4m ²	29.9m ²
- 4-person	37.1m ²	36.3m ²
	<u>4Q 2012</u>	<u>4Q 2013</u>
(c) Change in CPI(A)(excluding housing cost) as compared with the same quarter of previous year	+3.1%	+3.9%
	<u>3Q 2012</u>	<u>3Q 2013</u>
(d) Change in nominal wage index as compared with the same quarter of previous year ^{Note 4}	+4.8%	+4.8%

Note 3 Based on the average space (in terms of IFA) of flats allocated to WL applicants in the past three years.

Note 4 As the summary statistics of LES are presented in the Quarterly Report of Wage and Payroll Statistics published by C&SD in March, June, September and December each year, the SHC agreed at its meeting on 7 February 2013 that a yearly comparison can be made by using figures published in December (i.e. the nominal wage index in the third quarter) to fit in with the established schedule for conducting the review of WL income and asset limits for the new limits to come into effect on 1 April every year.

Housing Costs

5. Under the established mechanism, housing costs include rent payment, rates, Government rent 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 ^{Note 5} allocated to WL applicants in the past three years by a unit rent derived from a sample survey of private dwellings conducted by the C&SD. For 1-person and 2-person households, the respective differential unit rent or the overall average unit rent, whichever is higher, is adopted in the calculation. For 3-person households or above, the overall average unit rent is adopted.

6. As shown in Table 1 above, the overall private rent has increased since the last review in March 2013. As a result, the housing costs on average have increased by 14.5%. Details are shown in Table 2 below –

Table 2

Housing costs	Review for 2013/14	Review for 2014/15	% change
- 1-person	\$3,642	\$4,162	+14.3%
- 2-person	\$4,861	\$5,622	+15.7%
- 3-person	\$6,506	\$7,415	+14.0%
- 4-person	\$7,939	\$9,002	+13.4%
- Overall			+14.5%

Non-housing Costs

7. Following the established mechanism, this year's review adopted the non-housing expenditure statistics from the latest HES (i.e. the 2009/10 HES) of the lower half expenditure group among tenant households in the private sector, excluding those households comprising solely of elderly or non-working members. For the change in CPI(A)(excluding housing cost), the

Note 5 All Home Ownership Scheme (HOS) flats which were transferred to PRH and 3-bedroom flats allocated to 4-person households are excluded from the calculation. This is because the basis for assessing housing costs is to assess the cost of renting a private flat 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 reference flat sizes, taking into account the fact that these flats were not designed and allocated according to the normal PRH standards.

latest figure as at the fourth quarter of 2013 is +3.9%. As at the third quarter of 2013, the yearly change in nominal wage index (i.e. compared to the third quarter of 2012) was +4.8%. As the yearly change in nominal wage index (i.e. compared to the third quarter of 2012) of +4.8% is higher than the annual change in CPI(A)(excluding housing cost) of +3.9% as at the fourth quarter of 2013, it is adopted to adjust the non-housing expenditure obtained from the HES.

8. As a result, the non-housing costs would on average increase by 4.8%. Details are shown in Table 3 below –

Table 3

Non-housing costs	Review for 2013/14	Review for 2014/15	% change
- 1-person	\$4,813	\$5,044	+4.8%
- 2-person	\$8,235	\$8,630	+4.8%
- 3-person	\$10,932	\$11,457	+4.8%
- 4-person	\$13,142	\$13,773	+4.8%
- Overall			+4.8%

Total Household Expenditure

9. The total household expenditure, which is the sum of the housing costs and non-housing costs, is shown in Table 4 below. As compared to the last review in March 2013, the total household expenditure of all household sizes has increased, averaging at 8.4%. This is mainly due to an average increase of 14.5% in housing costs and an average increase of 4.8% in non-housing costs.

Table 4

Total household expenditure	Review for 2013/14	Review for 2014/15	% change
- 1-person	\$8,455	\$9,206	+8.9%
- 2-person	\$13,096	\$14,252	+8.8%
- 3-person	\$17,438	\$18,872	+8.2%
- 4-person	\$21,081	\$22,775	+8.0%
- Overall			+8.4%

Proposed WL Income Limits for 2014/15

10. Together with a contingency provision of 5% of household expenditure, the proposed WL income limits for 2014/15 are tabulated below –

Table 5^{Note 6}

	Existing WL income limits for 2013/14	Proposed WL income limits for 2014/15	% difference in income limits
- 1-person	\$8,880 (\$9,347)	\$9,670 (\$10,179)	+8.9%
- 2-person	\$13,750 (\$14,474)	\$14,970 (\$15,758)	+8.9%
- 3-person	\$18,310 (\$19,274)	\$19,820 (\$20,863)	+8.2%
- 4-person	\$22,140 (\$23,305)	\$23,910 (\$25,168)	+8.0%

(Overall: +8.4%)

11. If the above proposed WL income limits are adopted, there will be on average an increase of 8.4% over the 2013/14 level overall, as compared with 7.7% and 6.0% in 2012/13 and 2013/14 respectively. Detailed calculation of the proposed WL income limits for 2014/15 is set out at **Annex A**. Details of the proposed income limits of various household sizes are set out at **Annex B**.

12. If the proposed income limits are adopted, it is estimated that the number of eligible households would increase and some 147 100 non-owner occupied households in the private sector (32.3% of the total number of non-owner occupied households in the private sector) would be eligible for PRH. However, it should be noted that this estimate may be of limited reference

Note 6 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 and are shown in brackets in the table.

value^{Note 7}. We would continue to monitor the number of applications on the WL.

REVIEW OF ASSET LIMITS

Review Mechanism

13. Under the established mechanism, the WL asset limits are adjusted with reference to the movements in CPI(A) over the year^{Note 8}. In 2005, the SHC agreed to set the asset limits for elderly households at two times the limits for non-elderly applicants. The SHC further 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 CPI(A).

Key Parameter

14. The movements of the key parameter (i.e. CPI(A)) over the year for the review of WL asset limits are set out as follows –

Table 6

Parameter	Review for 2013/14	Review for 2014/15
	<u>4Q 2012</u>	<u>4Q 2013</u>
Change in CPI(A) as compared with the same quarter of previous year	+4.2%	+4.4%

Note 7 This figure only gives a snapshot of the position as at the fourth quarter of 2013 and should be interpreted with caution. The number of non-owner occupied households in the private sector will change over time, so will the proportion of them eligible for PRH. Households meeting the income limits may not necessarily be able to meet other eligibility criteria and this figure has not taken into account the assets of households. Eligible households may choose not to apply for PRH and some eligible households may already be on the WL. Besides, apart from existing non-owner occupied households, members of existing households from PRH, owner-occupier households of HOS and owner-occupier households in the private sector may also form new households and apply for PRH.

Note 8 Following established practice, the WL asset limits are rounded to the nearest thousand.

Proposed WL Asset Limits for 2014/15

15. Using the established review mechanism, we propose an adjustment to the existing WL asset limits following the 4.4% increase in overall CPI(A), as compared with 5.3% and 4.2% in 2012/13 and 2013/14 respectively. The proposed WL asset limits for 2014/15 are summarised below –

Table 7

	Existing WL asset limits for 2013/14	Proposed WL asset limits for 2014/15 (% difference in asset limits)
- 1-person	\$212,000	\$221,000
- 2-person	\$286,000	\$299,000
- 3-person	\$374,000	\$390,000
- 4-person	\$436,000	\$455,000

(Overall: +4.4%)

16. Details of the proposed WL asset limits of various household sizes are set out in **Annex B**.

RECOMMENDATION

17. It is recommended that the proposed income and asset limits (as set out in paragraphs 10, 15 and **Annex B**) be adopted for 2014/15.

IMPLICATIONS ON THE NUMBER OF WELL-OFF TENANTS

18. At present, under the Housing Subsidy Policy (HSP) and Policy on Safeguarding Rational Allocation of Public Housing Resources (SRA), which are collectively known as “well-off tenants policy”, households who have resided in PRH for ten years or above with an income level exceeding prescribed limits ^{Note 9} need to pay additional rent. Those with income and assets exceeding prescribed limits ^{Note 10} need to move out of PRH. The income and asset limits under HSP and SRA are multiples of WL income limits and will be adjusted in line with the revised WL income limits every year. ----- **Annex C** shows the new income limits under the HSP if the proposed adjustment of WL income limits is endorsed.

PUBLIC REACTION AND PUBLICITY

19. It is expected that the review of WL income and asset limits will attract media and public attention. We consider that the overall average increase of 8.4% and 4.4% in the proposed WL income and asset limits respectively for 2014/15 should be generally acceptable to the public at large. A press release will be issued to announce the outcome of this review.

DISCUSSION

20. At the SHC meeting to be held on 24 March 2014, Members will be invited to endorse the recommendation as set out in paragraph 17.

Note 9 Under the HSP, tenants who have resided in PRH for ten years or above are required to declare household income at a biennial cycle. Households with income exceeding two times the WL income limits have to pay 1.5 times net rent plus rates. Those with income exceeding three times the WL income limits, or who choose not to declare their income, have to pay double net rent plus rates.

Note 10 Under the SRA, households who pay double net rent plus rates under HSP would be required to declare their assets in the next reporting cycle. If their income exceeds 3 times the WL income limits and assets exceed 84 times the WL income limits, they are considered no longer eligible for PRH and they need to move out.

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(Strategy Division)
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Proposed WL Income Limits for 2014/15

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 IFA) of the flats allocated to the WL applicants from 2010/11 - 2012/13 ^(a)
- Average unit rents are derived from the data of C&SD's Rent Survey in the fourth quarter of 2013, covering those private flats with flat size of 69.9m² Saleable Area (SA) or below, with adjustment to unit rent per IFA

Household Size	Average Unit Rent (\$/m ² IFA) ^(b)
1	272
2	251
Overall Average	248

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 2009/10 HES and adjusted by the change in CPI(A)(excluding housing cost) or the change in nominal wage index, whichever is higher

Household size	Average reference flat sizes ^(a) (m ² , IFA)	Housing expenditure (\$)	Non-housing expenditure (\$)	Total household expenditure (\$)	Plus 5% contingency provision (\$)	Proposed income limits (\$)	Existing income limits (\$)	Change (\$) (%)	
1	15.3	4,162	5,044	9,206	9,666	9,670	8,880	790	8.9
2	22.4	5,622	8,630	14,252	14,965	14,970	13,750	1,220	8.9
3	29.9	7,415	11,457	18,872	19,816	19,820	18,310	1,510	8.2
4	36.3	9,002	13,773	22,775	23,914	23,910	22,140	1,770	8.0
5	39.6	9,821	16,361	26,182	27,491	27,490	25,360	2,130	8.4
6	44.5	11,036	18,278	29,314	30,780	30,780	28,400	2,380	8.4
7	49.8	12,350	20,240	32,590	34,220	34,220	31,630	2,590	8.2
8	51.4	12,747	22,060	34,807	36,547	36,550	33,810	2,740	8.1
9	61.7	15,302	23,760	39,062	41,015	41,020	37,850	3,170	8.4
10+	63.0	15,624	25,358	40,982	43,031	43,030	39,740	3,290	8.3
Average	-	-	-	-	-	-	-	-	8.4
Number of non-owner occupied households in private sector within the proposed WL income limits ^(c)									
1P						43 600	39 200	4 400	11.2%
2P+						103 500	91 100	12 400	13.6%
Total						147 100	130 300	16 800	12.9%
As a % of total number of non-owner occupied households in private sector in Hong Kong ^(d)						32.3%	28.6%		

- 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) Matching the proposed WL income limits with the household income distribution of the non-owner occupied households in the private sector from C&SD's General Household Survey (GHS), those households with household income equal or below the income limits would be regarded as being eligible for PRH.
 - (d) According to the GHS of C&SD, 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 455 000 in the fourth quarter of 2013.

Proposed WL Income and Asset limits for 2014/15

Household Size	Existing WL Income Limits for 2013/14*	Existing WL Asset Limits for 2013/14^	Proposed WL Income Limits for 2014/15*	Proposed WL Asset Limits for 2014/15^
1-Person	\$8,880 (\$9,347)	\$212,000	\$9,670 (\$10,179)	\$221,000
2-Person	\$13,750 (\$14,474)	\$286,000	\$14,970 (\$15,758)	\$299,000
3-Person	\$18,310 (\$19,274)	\$374,000	\$19,820 (\$20,863)	\$390,000
4-Person	\$22,140 (\$23,305)	\$436,000	\$23,910 (\$25,168)	\$455,000
5-Person	\$25,360 (\$26,695)	\$485,000	\$27,490 (\$28,937)	\$506,000
6-Person	\$28,400 (\$29,895)	\$524,000	\$30,780 (\$32,400)	\$547,000
7-Person	\$31,630 (\$33,295)	\$560,000	\$34,220 (\$36,021)	\$585,000
8-Person	\$33,810 (\$35,589)	\$587,000	\$36,550 (\$38,474)	\$613,000
9-Person	\$37,850 (\$39,842)	\$648,000	\$41,020 (\$43,179)	\$677,000
10-Person and above	\$39,740 (\$41,832)	\$698,000	\$43,030 (\$45,295)	\$729,000

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

^ 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.

**Income limits under HSP for 2014/15
if the proposed WL income limits are endorsed**

	Households with income exceeding the following limits are required to pay 1.5 times net rent/licence <u>fee plus rates</u>		Households with income exceeding the following limits are required to pay double net rent/licence <u>fee plus rates</u>	
	Existing	From 1 April 2014	Existing	From 1 April 2014
1-person	\$17,760	\$19,340	\$26,640	\$29,010
2-person	\$27,500	\$29,940	\$41,250	\$44,910
3-person	\$36,620	\$39,640	\$54,930	\$59,460
4-person	\$44,280	\$47,820	\$66,420	\$71,730
5-person	\$50,720	\$54,980	\$76,080	\$82,470
6-person	\$56,800	\$61,560	\$85,200	\$92,340
7-person	\$63,260	\$68,440	\$94,890	\$102,660
8-person	\$67,620	\$73,100	\$101,430	\$109,650
9-person	\$75,700	\$82,040	\$113,550	\$123,060
10-person	\$79,480	\$86,060	\$119,220	\$129,090