

Doc Type	HA
Paper No	50/95
Title	Review of the Rent Assistance Scheme
CONTENTS	<p>HA 50/95</p> <p>THE HONG KONG HOUSING AUTHORITY</p> <p>Memorandum for the Housing Authority</p> <p>Review of the Rent Assistance Scheme</p> <p>PURPOSE</p> <p>To review the Rent Assistance Scheme (RAS) and to seek approval to dissolve the Sub-committee on Rent Assistance Scheme (RSC).</p> <p>CURRENT RENT ASSISTANCE SCHEME</p> <p>Objectives and Eligibility Criteria</p> <p>2. The RAS was introduced in September 1992 with the objective of giving relief in the form of rent reduction to public housing tenants facing temporary financial difficulties. It is different from the objective of the Comprehensive Social Security Allowance (CSSA) which is intended to provide income support to people facing medium and long term hardship as a result of unemployment or low earnings.</p> <p>3. Households with rent-to-income ratio (RIRs) above 25% may apply for rent reduction. The level of rent reduction is one-quarter if the RIR is above 25%; one-half if the RIR is above 33%. More generous eligibility criteria for elderly and households with disabled member(s) were introduced in September 1994. They may apply for rent reduction if their RIR is above 20%. The rent reduction is one-quarter if the RIR is above 20%; one-half if the RIR is above 25%.</p> <p>4. CSSA beneficiaries cannot at the same time receive rent assistance as CSSA already includes a rent allowance covering the full amount of rent payable. RAS beneficiaries (including elderly and households with disabled members) must not be occupying flats with a size exceeding the respective maximum allocation standard. Furthermore, applicants may not own any domestic or non-domestic property.</p> <p>5. Continual eligibility for rent assistance is assessed on an annual basis. Other than elderly or households with disabled member(s), households who have received rent reduction for more than twelve months are required to transfer to a cheaper flat in the same district or cease to receive assistance. These households will, on transfer, be eligible for a Domestic Removal Allowance (DRA) and one month rent free period.</p> <p>6. At present, prospective and redevelopment tenants will be offered new or vacant flats in the district having regard to their preference and affordability. They may not apply for rent assistance until the next rent review or unless their family circumstances have changed after moving-in.</p> <p>Public Feedback</p> <p>7. Since the review conducted in September 1994, feedback on the RAS has reflected the following concerns -</p> <p>(a) the 25% RIR eligibility criterion is too strict. Taking into account the rent levels of public rental housing (PRH), households earning marginally above the CSSA limits would not be eligible for assistance;</p> <p>(b) one-quarter rent reduction is not enough for low income households;</p> <p>(c) the scheme fails to take account of variation in household sizes as the eligibility for assistance is determined on the basis of RIR only; and</p> <p>(d) the requirement for beneficiaries to transfer to cheaper accommodation after receiving one year's assistance is too disruptive.</p> <p>In view of the above feedback and in response to CHA's request, a more fundamental review of the scheme has been carried out.</p> <p>OBSERVATIONS</p> <p>8. Until end August 1995, a total of 728 applications had been received (298 from 9/92 to 8/93; 152 from 9/93 to 8/94 and 278 from 9/94 to 8/95). Of these, 647 or 89% were approved. We have examined the particulars of the applicant households, including successful and unsuccessful cases. The following observations are pertinent -</p> <p>(a) one-fifth of the successful applicants reported no income and another 65% reported very low income of less than \$3,000 a month. They should be able to satisfy the income criteria of Social Welfare Department's (SWD) CSSA scheme and obtain more comprehensive benefits but may have been debarred by the savings/assets criteria;</p> <p>(b) elderly 1-p and 2-p households account for two-thirds of all successful applicants. The high proportion of successful applications from elderly households was probably due to the more relaxed RIR for elderly households and their exemption from the requirement to move flat after receiving benefit for one year; and</p> <p>(c) of the 23 unsuccessful applications which failed because their RIRs were lower than the prescribed limits, 17 households were earning an income below the respective non-housing expenditure component of the Waiting List Income Limit (WLIL). After payment of rent, their disposable income represents about 50 to 60% of the non-housing expenditure of the WLIL. It can be concluded from the above that, although the RAS has been offering assistance to some households in temporary financial hardship, some low income households have been excluded because they fail to meet the qualifying RIR.</p>

PROPOSALS

9. Having regard to the above observations, we propose a fundamental revision to the scheme by lowering the qualifying RIR for all types of households but putting in place appropriate income limits to help target our assistance to the low income households. The proposals are explained in detail below.

Income Limits

10. In setting the income limits, we propose to take into account three factors -

- (a) families should have adequate disposable income for non-housing expenditure;
- (b) as non-housing expenditure varies with household sizes, the income limits should vary accordingly; and
- (c) the revised scheme should offer assistance to those households who earn marginally above CSSA standard rates but are still in a tight financial position.

11. To help determine the appropriate amount of non-housing expenditure that should be allowed for, we make reference to the WLIL calculations and the non-housing expenditure of households with income marginally above CSSA "limits". If PRH households are to enjoy a non-housing expenditure equivalent to that allowed for in the WLIL, they should on average earn a monthly income at about 57% of the WLIL (Annex A). For PRH households to enjoy a non-housing expenditure comparable to those earning marginally above CSSA "limits", they should on average earn a monthly income at about 44% of the WLIL (Annex B) Note 1. Generally speaking, households earning less than 50-60% of WLIL would be in a tight financial situation after rent payment and should be our target group for rent assistance.

12. We therefore propose setting the income limits at 50% and 60% of the WLIL respectively (Annex C). For a typical 4-p household, the proposed income limits would be 10% and 33% above the CSSA rates (standard rates plus rent). The income limits, therefore, should be able to cover most low-income households who earn marginally above the CSSA rates but are in a tight financial situation.

Review of Rent-income-ratio (RIR)

13. When the scheme was introduced in 1992, RIRs of 25% and 33% were chosen having regard to the policy median-rent- income-ratios (MRIR) of 15% and 18.5% for an allocation standard of 5.5m² and 7m² respectively and the then estimated RIR of 25% in the private sector Note 2 .

14. At present, the MRIR concept in rent setting is subject to criticism that it would be unfair if low income households have to pay rent at a RIR considerably above the MRIR. We accept that low income households will be more hard pressed than those of higher income if a high RIR is sustained. We therefore propose to give assistance to the very low-income households earning an income less than 50% of WLIL if their RIR exceeds the policy MRIR of 15%. For those earning an income between 50% and 60% of WLIL, assistance should be given if their RIR exceeds 20%.

Rent Reduction

15. Until end August 1995, only 16% of the rent assistance beneficiaries enjoyed one-quarter rent reduction and the average amount of reduction was \$290 per month; whereas the average amount of reduction enjoyed by those on one-half rent reduction was \$440 per month. Taking into account the small amount enjoyed by those on one-quarter reduction, we propose to grant one-half rent reduction to all qualified applicants under the revised scheme.

Grace Period for Transfer to Cheaper Flat

16. At present, successful applicants are required to transfer to cheaper accommodation after receiving one year's assistance or cease to receive assistance. This requirement has been a subject of emotive debate. Careful consideration has been given to whether to waive this requirement for all beneficiaries.

17. As the RAS' objective is to provide assistance to those in temporary financial hardship, we consider it justified to require tenants in need of long term assistance to take up cheaper Note 3 but adequate self-contained accommodation, if available. Taking into account the inconvenience and cost in moving flat, we recommend extending the grace period to two years i.e. beneficiaries will only be required to move to a cheaper flat in the same district if they still need assistance after two years. Elderly households and households with disabled member(s) will continue to be exempted from this requirement to move flat.

Existing Policy/Practice To Be Retained

18. The existing policy in relation to space allocation standards (paragraph 4), prospective and redevelopment tenants (paragraph 6), payment of DRA and a one-month rent free period on flat transfer (paragraph 5) should remain unchanged. All beneficiaries will continue to be subject to annual review of their eligibility.

IMPACT ASSESSMENT AND FINANCIAL IMPLICATIONS

19. Using December 1994 General Household Survey (GHS) information, the number of households eligible for the current RAS is estimated at 4,700 after deduction of the estimated number of CSSA beneficiaries living in PRH. The actual number of applications received since September 1994 represents about 6% of the estimate. The estimate should be interpreted with care as anecdotal evidence has suggested that under-reporting of income in surveys is very common. The actual demand is likely to be much smaller.

20. According to GHS information, the number of households eligible for assistance under the recommended scheme is estimated at about 49,200. Assuming the demand is realised at 10% Note 4 of this estimate, about 4,920 eligible applications are expected. On the basis of an average rent of \$1,000 per month, the total reduction in rental income would be \$29.5 million per annum. The financial implications if the demand is realized at 20% or 30% are \$59.0 million or \$88.5 million respectively.

STAFFING IMPLICATIONS

21. The workload arising from the expected increase in the number of applications will be absorbed by existing staff.

SUB-COMMITTEE ON RENT ASSISTANCE SCHEME (RSC)

22. A RSC which comprises three members of the Management and Operations Committee (MOC) was formed in July 1992 to monitor the implementation of the Rent Assistance Scheme. It also serves as a channel for appeal against the regional Chief Housing Manager's rejection of applications for rent assistance.

23. The RSC held one meeting in February 1993 to discuss the progress and publicity for the scheme and has been dormant since then. In the last two years, there have not been any appeal cases. It is therefore proposed to dissolve the RSC. Future appeals, if any, can be handled by the Complaints Committee (CC).

RECOMMENDATION

24. It is recommended that -

- (a) two sets of income limits at 50% and 60% of WLIL be put in place to ensure that rent assistance is targeted at low-income households (paragraphs 10-12);
- (b) households with income below 50% of WLIL and RIR above 15% and those with income between 50% and 60% of WLIL and RIR above 20% should be eligible for rent assistance (paragraphs 13-14);
- (c) elderly households and households with disabled member(s) will be subject to the same eligibility criteria as set out in (a) and (b) above;
- (d) all eligible households will be granted one-half rent reduction (paragraph 15);
- (e) the grace period for transfer to a cheaper flat for ordinary families should be extended from one to two years (paragraphs 16-17);
- (f) elderly households and households with disabled member(s) would continue to be exempted from the requirement to move flat (paragraph 17);
- (g) existing arrangements in relation to space allocation standards, prospective and redevelopment tenants, payment of DRA and a one-month rent free period for flat transfer should remain unchanged (paragraph 18); and
- (h) RSC should be dissolved (paragraphs 22-23).

CONSULTATION

25. We have consulted MOC and views of its Members have been taken into account.

PUBLIC REACTION AND PUBLICITY

26. The revised scheme, which will benefit more households, should be welcomed by potential beneficiaries and the general public. However, there may still be criticism at the requirement to transfer to a cheaper flat after two years. In our publicity, we shall explain that the requirement is consistent with the objective of the scheme. The bull points of the revised scheme and the rationale behind it will be thoroughly explained.

27. In addition to the public announcement at the post HA press conference, suitable publicity, e.g. posters and pamphlets, will be arranged to inform public housing tenants of the revised scheme.

DISCUSSION

28. At the meeting of the Housing Authority on 28 September 1995, Members will be asked to approve the recommendations as set out in paragraph 24.

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File Ref : HD(CR) 19/1/177 II

Date : 26 September 1995

Note 1 CSSA households account for 6-7% of total households in Hong Kong. The non-housing expenditure at ten percentile is a good indication of the expenditure patterns of households earning marginally above CSSA.

Note 2 MRIR for sole tenant households in the private

sector, as quoted in MOC Paper 78/92

Note 3 The rent of the cheaper flat should be at such level that the household's RIR after transfer would not exceed 15% or 20%, as the case may be.

Note 4 The demand realisation rate is assumed to be

higher than the current 6% in view of the longer grace period..

