

# GREEN PAPER : HOUSING SUBSIDY TO TENANTS OF PUBLIC HOUSING

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## **CHAPTER I**

### **Introduction**

The issue of "well-off" tenants in public rental housing estates has been one of the major subjects of discussion by both the Hong Kong Housing Authority and members of the public over the years. Public opinion on this issue during the consultation exercise on the Review of Public Housing Allocation Policies in 1984 was generally in favour of introducing measures to reduce public housing subsidies to the better-off tenants, so that priority for public rental housing should be given to those most in need of it and that a better allocation of limited resources could be achieved. An independent public attitude survey conducted during the same period showed that many people were in support of introducing fixed-term tenancies, at the expiry of which the tenants should be means-tested. Those whose income exceeded a certain limit should be evicted but could be given the option to buy Home Ownership flats. While Members of the Housing Authority were against eviction, they were generally in favour of limiting the provision of public subsidised housing to those most in need of it. With such an objective in mind, the Committee on Housing Subsidy to Tenants of Public Housing was established in October 1984.

### **Membership of the Committee on Housing Subsidy to Tenants of Public Housing**

2. The Membership of the Committee is as follows-

Chairman :

The Honourable HU Fa-kuang, OBE, JP

Members :

Mrs. LEE LO Yuk-sim, JP

Mr. CHEUNG Kin-chung

Miss LEUNG Wai-tung

Mr. HUI Kam-fung

Mr. FUNG Tung, JP,

Deputy Director/

Estate Management,

Housing Department

Secretary Mrs. Clarie LO,

Senior Administrative

Officer/Estate Management,

Housing Department

### **Terms of Reference of the Committee**

3. The terms of reference of the Committee are as follows-

- (a) to establish criteria by which to identify those tenants who are in need of housing subsidies;
- (b) to consider practical means of reducing subsidies to those who are no longer in need of housing subsidies; and
- (c) to make recommendations on courses of action.

4. This paper contains the suggestions made by the Committee as a result of its deliberations. The Housing Authority has generally endorsed the approach of the Committee but has not yet adopted as policy the suggestions contained in this paper. They will be considered in detail in the light of comments made by the public and a decision will be taken thereafter.

5. Members of the public who wish to comment are invited to do so before 31 October 1985. Comments should be in writing and addressed to -

Secretary,  
Committee on Housing Subsidy to Tenants of Public Housing,  
Housing Department Headquarters,  
101, Princess Margaret Road,  
Kowloon.

## **CHAPTER II**

### **Present Position**

6. Rental levels for public housing are substantially below market levels, and are often as low as 20% to 30% of rent charged for similar accommodation in the private sector. It has been possible for the Housing Authority to keep rents low because of very heavy Government subsidies. The Government provides land free of charge to the Housing Authority for the development of rental estates and also lends money on special concessionary terms to finance construction. Over the years, the Government has made available over \$22,000 million to the Housing Authority to

provide public housing for 2.4 million Hong Kong people.

7. Rents collected from public rental flats are used to offset recurrent costs including rates, maintenance and management etc. Because of the low rent levels of most existing estates, there has always been a deficit in running these estates. For illustration, the deficits incurred from domestic properties in the last few years were -

<b>Deficits from Domestic Properties</b>	
	\$ Million
<u>1981-82</u>	<u>51</u>
<u>1982-83</u>	<u>136</u>
<u>1983-84</u>	<u>189</u>
<u>1984-85</u>	<u>158</u> (subject to audit)
	534

8. Over the years, some tenants have improved their financial situation (see paragraph 13) and some have even become owners of domestic properties. The income distribution of public housing tenants shows that a considerable number of households who have been living in subsidised public housing for a long time have income well above the Waiting List Income Limit.(1)

9. The present policy of the Housing Authority is to encourage public housing tenants who have improved their financial situation to buy Home Ownership flats. All public housing tenants are given green form status which exempts them from the normal eligibility criteria, i.e. income limit of \$7,500 per month and non-possession of domestic properties, both of which are strictly applied to private sector (white form) buyers. So far, 23 500 families have bought Home Ownership flats using the green form system since the introduction of the Home Ownership Scheme in 1978.

### **CHAPTER III**

#### **Suggestions of the Committee**

##### **Approach adopted by the Committee**

10. The Committee strongly believes that eviction of tenants who have improved their financial situation over the years is not a desirable way to tackle the problem.

11. The Committee agrees that the term "well of f tenants" is difficult to define. But the Committee also believes that housing subsidies should be reduced for tenants who are no longer in need of them and that those who can afford to pay a higher rent should be expected to do.

12. The Committee agrees that the criteria established to identify those tenants who should pay higher rents should not cause unnecessary hardship or disturbance to public housing tenants, and that the criteria should be easily understood by both tenants and the public at large.

##### **Housing subsidies to Housing Authority public housing tenants should be reviewed after their initial ten years of residence**

13. A survey conducted by the Committee in December 1984 on the income changes of public housing tenants

revealed that total household income growth for a 10-year period was +381% in current price terms (i.e. before deducting inflation) and +97% in constant price terms (i.e. after deducting inflation). That is to say, after ten years, a family's real income would be almost double what it was at the time of intake. Statistics also show that from 1975 to 1984, public housing rents increased by 109% in current price terms (i.e. before deducting inflation) which represents a decrease by 7% in constant price terms (i.e. after deducting inflation). Public housing rents have therefore neither been set at a level which kept pace with inflation nor have they been in line with the real income growth of public housing tenants. A comparison of the expenditure patterns for private and public housing tenants shows that among households in the same income group (up to \$7,000 per month), public housing tenants spend more on practically every group of goods and services other than on rents.(2)

14. For a typical public rental housing family, children at the time of intake were on the average around eight to nine years old. After a period of ten years, most of them would have finished schooling and would be in a position to contribute towards the household expenses.

15. The Committee considers that heavily subsidised public housing should not be a life long entitlement of tenants irrespective of their needs and therefore feels that families with an improved financial situation should be able to afford to contribute more to the cost of their housing.

### **Households having stayed in public housing for ten years or more and with income exceeding a Subsidy Income Limit should be charged twice the net rent plus rates**

16. The Committee suggests that a Subsidy Income Limit should be fixed at one and a half times the prevailing Waiting List Income Limit(3) (i.e. 50% above the Waiting List Income Limit), with allowance for different household sizes. For example, the Waiting List Income Limit for a 5 persons family is \$5,200 per month, the Subsidy Income Limit will be \$7,800 per month. Because of the income calculation formula suggested in paragraph 17 below, which takes into account only 60% of the income of earners other than the tenancy holder and his/her spouse, the Subsidy Income Limit in effect would be near to twice the Waiting List Income Limit in respect of many households with other earners if the method of income calculation follows that of the present Waiting List practice. The Committee suggests that after their initial ten years of stay in public housing, tenants should be charged twice the net rent plus rates unless they declare and can prove to the Housing Authority that their income does not exceed the Subsidy Income Limit. If the Housing Authority is satisfied that the tenants' income does not exceed the Subsidy Income Limit, then they should be allowed to continue paying the existing rent.

### **Income Calculation**

17. At present, the income of Waiting List applicants is calculated by taking into consideration the full income of every earner in a household. The results of the survey described in paragraph 13 above

It show that the average contribution of personal income to the common housekeeping budget from earners amounts to 60%. The Committee therefore suggests in broad terms that the full income of the tenancy holder and his/her spouse, and 60% of the income of other earners should be included in the income calculation. Details of implementation will be a matter for further examination by the Management Committee of the Housing Authority.

18. As to the elements to be included in the income calculation, the Committee suggests 2 options for public consideration -

#### **Option A**

Elements similar to those for Waiting List applications should be taken into account, i.e. income arising from employment and investments. Income from employment includes wages and salaries, overtime allowances, bonus and other cash allowances, net receipt from self-employment and income from business etc. Income from investments includes rental from property, interests from deposits, dividends from stocks and shares and income from commercial vehicles etc.

#### **Option B**

Views have been expressed that in addition to income arising from employment and investments as stipulated in

option A above, household income should also include 5% of the assessed value of non-income generating assets, converted to monthly equivalents. Examples of non-income generating assets are motor vehicles for private use and precious metals etc. Five per cent of the assessed value of non-income generating assets has been considered appropriate having regard to the fact that the average interest rate over the last 10 years for one year time deposits has been 8%.

It is for public consideration as to which option should be adopted.

19. The Committee also suggests that consideration be given to bringing the method of income calculation for the Waiting List Income Limit in line with that adopted for the Subsidy Income Limit. The criteria for inheritance and relief of overcrowding and the income limit set for them should also be reviewed.

20. It is estimated that about 10% of households who have lived in Housing Authority rental units for more than 10 years have income exceeding the Subsidy Income Limit. (4) The Committee feels that the Subsidy Income Limit, which is to be set at one and a half times the Waiting List Income Limit, is reasonable and justified because -

(a) families with income above the Subsidy Income Limit have income exceeding the lowest income point of the top 30% households in Hong Kong. The income of those four-person families among them even exceeds the lowest income point of the top 25% households in the

(5) It is therefore not unreasonable to expect that such tenants should no longer continue to receive heavy public housing subsidies;

(b) statistics show that, on the average, 29% of all public housing households have income which will allow them to rent comparable accommodation in the private sector without adversely affecting their standard of living;(6)

(c) the median rent to income proportion is about 5% for all public housing tenants whereas for the private sector, it is about 17%.(7) It is estimated that the median rent to income proportion is only

The median rent income proportion means that 50% of the households are paying a proportion less than the median and the other 50% paying more than the median. about 2% for those public housing tenants whose income exceeds the Subsidy Income Limit. Thus, the resultant median rent to income proportion even after doubling net rents would amount to only 4%, which is still considerably lower than in the private sector; and

(d) even if twice the net rent is charged, the new rent would only amount to less than two-thirds of the full market value, meaning that those tenants would still be enjoying a substantial public housing subsidy.

21. In the event that future public housing rents reach half of the market rents, so that doubling the net rent would equate or exceed the market rents, the Committee suggests that the Housing Authority should charge a rent that would only come close to but below the market rent.

### **The onus of proof of eligibility for continuing to pay the existing rent should rest with the tenants**

22. For families who wish to continue to pay the existing rent after their initial ten years of residence in public housing, the Committee, suggests that every adult member of a family (aged 18 or above) should be required to complete a declaration form to declare his/her income about six months before the end of the tenth year. The tenant will also have to declare on behalf of all those members of the family under 18 years of age. It is also suggested that the onus of proof should rest with the applicants. The Housing Department would carry out interviews and detailed checking to verify the accuracy of tenants' declarations.

23. The Committee suggests that if the income of households paying twice the net rent should subsequently fall below the prevailing Waiting List Income Limit, then they should be allowed to apply to pay the lower rent.

24. As for those tenants who continue to pay the existing rent after the first ten years of residence, the Committee suggests that they should be requested to declare their income once every two years thereafter in order to qualify for

continuing to pay the existing rent.

### **Exceptions**

25. The Committee suggests that the following categories of households should be excluded from the 10-year review -

(a) households on public assistance; and

(b) households with all members aged 60 or over who were admitted through the Elderly Priority Scheme started in 1980-81.

26. For households who have been directed to move at the initiative of the Housing Authority (e.g. redevelopment cases or transfers due to administrative necessity), the calculation of the initial ten years would start with their new tenancy.

### **Action should be taken against tenants who submit false information**

27. The Committee suggests that in order to deter deliberate attempts to give false information, tenants so doing should be liable to termination of tenancy and prosecution under Section 26 of the Housing Ordinance (Cap 283).(8)

### **Review of the suggested measures**

28. The Committee also suggests that the measures to be adopted should be reviewed periodically having regard to the prevailing social and economic circumstances.

### **Option to buy Home Ownership Flats**

29. The Committee considers that tenants who prefer to buy Home Ownership flats rather than pay twice the net rent can continue to do so using the green form status. The question of whether additional incentives should be offered to encourage tenants to buy Home Ownership flats should be a matter for further consideration by the Home Ownership Committee of the Housing Authority.

## **CHAPTER IV**

### **Implementation Plan**

30. The Committee suggests that all affected tenants should be given at least six months notice before being required to pay the new rent (i.e. twice the net rent plus rates). Tenants who wish to claim that their household income is below the Subsidy Income Limit should obtain declaration forms from their Estate Office and return them within a specified time. The Housing Department will then interview the tenants to establish their financial circumstances. If their claims can be substantiated, they will continue to pay the existing rent. The information supplied by the tenants to the Housing Authority will be treated in strict confidence.

31. Tenants who do not submit a declaration form within the specified time will be required to pay the new rent on expiry of the six month notice.

32. The Committee suggests that a procedure should be devised to deal with appeals arising from the implementation of the suggested measures.

33. There are at present more than 285 000 households who have stayed in rental public housing for ten years or more. It would be impracticable to process them all at once. Therefore, the Committee suggests that, to ensure smooth implementation of the suggested arrangements, only those who have lived in public housing for 23 years or more (about 30 000 households) will be processed in the first year. The number of families to be processed in the subsequent years will increase gradually. The aim is that by the end of the fifth year of implementation, all those who have lived in public housing for ten years or more will have been processed.

34. The additional revenue which would be generated as a result of introducing the suggested arrangements is difficult

to quantify because it would depend largely on the number of tenants who opt to buy Home Ownership flats rather than pay the new rent. When there is a clearer indication of the amount involved, the Committee suggests that further consideration be given as to how this additional income should be used.

## CHAPTER V

### Summary of Suggestions

35. The following is a summary of the suggestions of the Committee -

- (a) public housing tenants who have improved their financial situation should not be evicted;
- (b) public housing subsidy should be reduced for those tenants who are no longer in need;
- (c) the Subsidy Income Limit should be set at one and a half times the Waiting List Income Limit (i.e. 50% above the Waiting List Income Limit), with allowance for different household sizes;
- (d) the full income of the tenancy holder and his/her spouse, and 60% of the income of other earners should be included in the calculation of household income;
- (e) it is for public consideration whether option A or option B in paragraph 18 should be adopted in calculating the household income;
- (f) at the expiry of the initial ten years of residence, households with income exceeding the Subsidy Income Limit should be charged twice the net rent plus rates, unless they declare and can prove to the Housing Authority that their income does not exceed the Subsidy Income Limit;
- (g) the onus of proof of eligibility for continuing to pay the existing rent should rest with the tenants;
- (h) tenants who submit false information should be liable to termination of tenancy and prosecution under Section 26 of the Housing Ordinance (Cap. 283);
- (i) if the income of households paying twice the net rent should subsequently fall below the prevailing Waiting List Income Limit, then such households should be permitted to apply to pay the lower rent;
- (j) households who continue to pay the existing rent after the first ten years of residence should be required to declare their income once every two years; and
- (k) measures to reduce housing subsidy to those public housing tenants who are no longer in need should be reviewed periodically.

(1) Source: Quarterly General Household Survey of the Census and Statistics Department

(2) Source: Household Expenditure Survey of the Census and Statistics Department

(3) Waiting List Income Limits are reviewed every year and are adjusted when necessary.

(4) Sources: Quarterly General Household Survey of the Census and Statistics Department and Housing Authority tenancy records territory.

(5) Source: Quarterly General Household Survey of the Census and Statistics Department

(6) Sources: Quarterly General Household Survey, Household Expenditure Survey and Rent Survey of the Census & Statistics Department and administrative records of the Housing Department

(7) Source: Quarterly General Household Survey of the Census & Statistics Department. (The average rent to income proportions are 7% and 21% for tenants in public and private sector housing respectively.)

(8) Section 26 of the Housing Ordinance stipulates that any person who knowingly makes any false statement to the Housing Authority shall be guilty of an offence and shall be liable on conviction to a fine of \$20,000 and to imprisonment for 6 months.