THE HONG KONG HOUSING AUTHORITY

Memorandum for the Management and Operations Committee

Methodology for Determining the Waiting List Income Limits

PURPOSE

To review the methodology for determining the Waiting List Income Limits (WLILs) for public rental housing (PRH).

BACKGROUND

2. The ‘household expenditure’ approach has been established in reviewing the WLILs. This approach consists of two elements -

   (a) Housing Cost - this is the cost of renting private flats of a size equivalent to the prevailing maximum allocation standards of PRH for households of respective sizes. The unit rent is derived from the weighted average rentals in the private sector for both existing tenancies and new lettings, projected to the third quarter of the year.

   (b) Non-housing Expenditure - this is based on the average of the lowest one-third of the expenditure groups among private households as indicated in the 1994/95 Household Expenditure Survey. The figures are adjusted by movements in Consumer Price Index (A) and projected to the third quarter of the year.
MEMBERS’ VIEWS

3. At the joint meeting of the Home Ownership Committee and the Management and Operations Committee on 17 February 1997, Members expressed the following views on the issue -

(a) it is unrealistic to use maximum allocation standards in PRH in arriving at the housing cost because people of that income bracket could not afford accommodation of that size;

(b) the level of non-housing cost of the average of the lowest one-third group point was too low. Instead, the non-housing expenditure group of the thirty-third percentile should be considered;

(c) the median instead of an average of the group should be used;

(d) the non-housing expenditure worked out for 1997/98 WLILs was a bit less than the estimated Comprehensive Social Security Allowance (CSSA) non-rental payment for 1-P and 4-P households after adjustment of inflation rate at 6%; and

(e) the existing basis of computation should be reviewed in the context of the Long Term Housing Strategy Review to allocate housing resources to those in genuine need.

The joint meeting concluded that the present approach in reviewing the WLILs should be reviewed.
ALTERNATIVE SCENARIOS

4. The Department has conducted a review on the bases for the calculation of the housing and non-housing costs, the two elements of the well established ‘household expenditure’ approach for reviewing the WLILs. A number of scenarios using different combination of methods for calculating the housing and non-housing costs have been prepared at Annexes 1 to 3 which are summarized below -

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Options</th>
<th>Housing Cost</th>
<th>Non-housing Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>1</td>
<td>average unit rent in private sector x maximum allocation standard of PRH</td>
<td>33 percentile of expenditure group</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>- ditto -</td>
<td>average of the lower half expenditure group</td>
</tr>
<tr>
<td>II</td>
<td>1</td>
<td>average unit rent in private sector x minimum allocation standard of PRH</td>
<td>33 percentile of expenditure group</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>- ditto -</td>
<td>average of the lower half expenditure group</td>
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</table>

5. The ground for using either the maximum or minimum allocation standard as the base for working out the Housing Cost under Scenario I and II is weak. In reality, very few prospective WL applicants can afford the maximum allocation standard of PRH paid in market rent. On the other hand, the use of minimum allocation standard may also be seen as a bit harsh. As for the Non-housing Cost, it is noted that using the 33 percentile is too high. As a result, the income limits will be increased embracing too many households to become eligible for PRH and making those in genuine need of subsidised housing having to wait longer.
6. It can therefore be seen that among the above scenarios, Option 2 of Scenario III is the most suitable as it combines the average allocation standard as the base for the housing cost and the average of the lower half expenditure group as non-housing cost. The reasons for proposing this option are -

(i) The adoption of the average allocation standard in arriving at the housing cost is more realistic.

(ii) The change of the non-housing expenditure household group from the lowest one-third to the lower half expenditure group will widen the coverage of the households by 50% and is therefore more representative. As at first quarter of 1997, the number of tenant households in private permanent housing and all households in private temporary housing was 357,000. 1/3 of the households is 119,000 and 1/2 households is 178,500. It raises the non-housing expenditure of various household sizes by 13.9% on average. The average household expenditure (excluding rent and rates) of the lower half expenditure group for various household sizes will be 6% to 40% higher than the estimated CSSA non-rental payment for tenants in all housing sectors in 1997/98.

(iii) For measuring central tendency of data distribution which is not very skewed, as in this case of calculating expenditure, it is more appropriate to use the average instead of the median. Higher income households may not proportionately spend more than the lower income ones.

The estimated number of eligible households upon adoption of this Option will be about 109,700 which is close to 109,800 for the existing WLILs as shown at Annex 4.
DISCUSSION

7. At the meeting of the Management and Operations Committee on 11 September 1997, Members will be asked to approve the proposal in paragraph 5 as the approach for next year’s revision of the WLILs.

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