

THE HONG KONG HOUSING AUTHORITY

Memorandum for the Subsidised Housing Committee

Rent Allowance for Elderly Scheme

PURPOSE

This paper seeks Members' endorsement to terminate the pilot Rent Allowance for Elderly Scheme (RAES) with immediate effect by (a) ceasing to accept any new applications; and (b) offering public rental housing (PRH) units to existing beneficiaries under the Scheme upon expiry of their current private leases.

BACKGROUND

2. At the Housing Authority (HA) meeting held on 26 July 2001, Members approved the implementation of a pilot RAES with a quota of 500 allowances for 2001/02, giving qualified elderly applicants¹ an arrangement to draw cash rent allowance to lease private accommodation in lieu of PRH allocation. The pilot Scheme was launched in August 2001.

3. In February 2002, the former Rental Housing Committee (RHC) further approved a revised rate of rent allowance and a quota of 600 allowances for 2002/03. The Scheme was also extended to elderly sitting PRH tenants eligible for special transfer on health or social grounds. The extension of the pilot Scheme for one more year has enabled us to assess the merits of the RAES, in terms of its necessity, cost-effectiveness, popularity and financial implications more comprehensively before deciding the way forward.

¹ "Qualified means those elderly applicants who have been on the Waiting List for at least 2 years (subsequently relaxed to 1 year) and those under compassionate and compulsory categories.

THE PRESENT POSITION

4. By the end of August 2003, only 499 out of the quota of 600 allowances for 2002/03 were utilized. Together with the approved cases carried forward from the 2001/02 exercise, the Department was making monthly payments to a total of 621 successful applicants as at 31 August 2003. A breakdown of the locality of the accommodation rented by RAES recipients, the rent level, the amount of allowance and other related expenditure is at [Annex A](#). Taking into account the 3 "approval-in-principle" (AIP) cases which may begin to draw allowances in due course, we estimate that the number of RAES recipients may eventually reach 624.

5. In terms of financial implications, the annual expenditure of the RAES, based on the present level of rent allowance and an estimated number of 624 recipients, is roughly \$12.1M. The outreaching services for the Scheme rendered by an appointed non-governmental organization (NGO) cost us another \$0.7M.

CONSIDERATIONS

(I) Cost-effectiveness

6. While direct provision of subsidized rental housing requires initial capital investment, its subsidy level will be more stable and predictable on comparison with RAES. The subsidy under RAES will be subject to market fluctuation that is more fluid and uncontrollable. Although PRH business is operated at a deficit, the costs for RAES far exceed those for PRH excluding value of land. A simple comparison shows that the amount of maximum allowance payable per year under RAES to a 1-person and 2-person household amounts to \$21,000 and \$29,400 respectively, while the forecast deficit of PRH operation for 2003/04 is on average \$1,570 per flat.

(II) Financial position of HA

7. Given the tight financial position of the HA, we have to look at the cost-effectiveness of the RAES critically. While the annual cost of the RAES is not very significant when compared to the recurrent budget of the HA, the financial burden on the HA if the RAES is to be carried out on a long-term basis cannot be under-estimated, given its accumulating and multiplying effect if we provide new quotas year after year. We need to be particularly cost-conscious in view of other pressing needs for our limited resources.

(III) Response to the pilot Scheme

8. There are a total of 26,339 elderly applicants who are potentially eligible for the pilot RAES since its implementation. However, we have received only 1,859 applications in the past two years, and more importantly, a total of 1,185 were subsequently withdrawn or cancelled for various reasons leaving only 2.6% of the targeted group to join the pilot Scheme. In other words, the response is lukewarm.

9. The response has been particularly poor among those under the compassionate and compulsory categories, as well as those eligible for special transfer on health or social grounds. We have only received 9 applications so far, with only 4 of them taking up our RAES offer. We understand from our contact with those who are already receiving allowances under RAES that many still preferred PRH for better tenure security and the availability of a safety net such as rent reduction under the Rent Assistance Scheme provided by the HA. In fact, out of the 89 existing RAES recipients whose current private leases will have expired by end February 2004, 25 or 28% applied for reversion to PRH upon expiry of their current terms². We expect more such applications for reversion to come.

(IV) Average waiting time (AWT) for singleton elderly waiting list (WL) applicants

10. With the availability of more flats for senior citizens, the AWT for singleton elderly WL applicants has dropped to about 1 year by now, as against our pledge of 2 years as late as 2005. With an anticipated total production of over 15,000 small flats between 2003/04 and 2006/07, while the number of elderly WL applicants is just above 6,100 at the end of August 2003, we are confident that these elderly applicants can be rehoused to PRH within a reasonable short period in the coming years, even without the RAES.

PROPOSALS

11. In the light of paragraphs 6 to 10 above, we recommend on balance that the pilot Scheme should be terminated with immediate effect, in accordance with the arrangements set out in the ensuing paragraphs.

² A six-month advance notice is required for recipients to switch back to PRH upon expiry of their current terms.

Proposed arrangements for Termination of the Scheme

12. We have considered the following three options to terminate the Scheme –

- (a) Terminate the Scheme by ceasing immediately all payments of allowance to existing beneficiaries.
- (b) Phase out the Scheme by not accepting any new applications, but continue to offer rent allowance to existing beneficiaries until all cases have phased out through natural wastage.
- (c) Phase out the Scheme by not accepting any new applications, but continue to offer rent allowance to existing beneficiaries until their current leases expire, and offer them with PRH thereafter.

13. Option (a) will create an abrupt demand for some 624 small PRH flats to rehouse the displaced RAES recipients, rendering this option a non-starter (not to mention the legal complications arising from early termination of private leases with potential compensation of \$1.9M.) Option (b) is no better. While it will help contain the number of RAES recipients at the existing level, we estimate that it will still cost us approximately some \$111.2M before all current 624 cases run out through natural course.

14. Option (c) will avoid the drawbacks mentioned in paragraph 13 above. It will contain the number of RAES recipients at the existing level, and enable the Department to offer them PRH flats in due course in an orderly manner and at a manageable pace. By avoiding any immediate termination of the existing private leases, it will cause minimal disruptions to the affected RAES recipients. As PRH will be offered upon expiry of the existing private leases, they can be assured of the availability of suitable accommodation in the long term, with sufficient lead time to plan for the relocation. Option (c) is obviously a more pragmatic and practicable approach.

Proposed arrangement for exceptional cases requiring short-term extensions

15. Despite the above-proposed arrangement to terminate the RAES, we realize that there are cases where the recipients would encounter genuine hardship if they were required to move to PRH flats immediately upon expiry of their private leases (e.g. cases where the private leases will expire very shortly after the termination of the Scheme). We propose that an Assistant Director of

Housing be delegated the authority to grant temporary extension of the rent allowance in such cases. Such discretion will enable a smooth changeover and tide over practical difficulties that may arise.

16. In line with the practice for 2002/03, the allowance rate for 2003/04 for cases covered by the exceptional arrangement will continue to be revised in order to keep in pace with the market trend of the private rent level and the prevailing space allocation of PRH recipients. Based on the average space allocation for PRH and the private rent level adopted for the recent WL income limit review by the former RHC at its meeting held on 20 March 2003, we propose to adjust downwards the maximum monthly rate of allowance for 1-person, 2-person and 3-person households for 2003/04 to \$1,750, \$2,450 and \$3,120 respectively. The revision represents a decrease of \$60 (3.3%), \$170 (6.5%) and \$30 (1%) respectively against the existing rates. Details are given at [Annex B](#). The top-up principle approved vide Paper No. HA 42/2001 on the calculation of maximum RAES rent allowance for Comprehensive Social Security Assistance (CSSA) recipients will continue to apply too³.

PROVISION OF OUTREACHING SERVICE

17. With the proposed termination of the pilot RAES, if endorsed, there is no longer a need to continue with any outreaching services under the Scheme when the contract with the existing service provider expires in December 2003. However, services such as home visits, checking of rent receipts and occupancy position, and moving to PRH etc will still be required for the existing RAES beneficiaries until all the cases have been phased out. We will meet the service requirement during the interim period by redeployment of in-house staff.

FINANCIAL IMPLICATIONS

18. The proposed termination of the pilot RAES will bring about a full-year annual savings in the order of \$12.8M. If option (c) of paragraph 12 above is taken, we will not accept any request to opt for RAES with immediate effect. The current leases of existing beneficiaries will all expire in 2 years' time, and a full year savings would be achieved from 2006/07 onwards.

³ The same top-up principle will also apply in respect of the rent allowance rate for existing recipients under the scheme, upon the Social Welfare Department's downward adjustment of the Maximum Rent Allowance under the CSSA since June 2003.

STAFF IMPLICATIONS

19. On top of the savings mentioned in paragraph 18 above, a full year savings of \$2.3M, representing the annual staff cost of 1 Assistant Housing Manager, 2 Housing Officers and 1 Assistant Clerical Officer, will be achieved upon deletion of these 4 posts when the phasing out of the RAES is complete. The manpower requirement for providing services to RAES beneficiaries, upon expiry of the contract with the existing service provider and before the complete phasing-out of the Scheme, would be absorbed by internal redeployment without causing any additional staffing implication.

PUBLIC REACTION/PUBLICITY

20. We anticipate that termination of the pilot RAES will possibly attract objection from some of the recipients and from concerned groups. However, as paragraph 10 above has pointed out, there will be adequate resources to cope with the elderly applicants' demand for self-contained small units. Also, where necessary, the Department can grant temporary extension of allowance to help the existing participants tide over the period from RAES-subsidized private accommodation to PRH. We are confident, and will make it clear when announcing the decision, that termination of the pilot Scheme will neither affect our pledge of maintaining the AWT at 2 years for the single elderly nor cause existing recipients grave problems in meeting housing needs. By arranging the elderly to move into PRH, it will meet the general public's expectation for our housing resources to be used in a more cost-effective manner.

DECLASSIFICATION

21. We propose to declassify this paper upon approval of the recommendations at paragraph 22 below. The paper will be made available to the public at the Housing Authority home page, the Department's Library and through the Department Access to Information Officer if it is declassified.

RECOMMENDATIONS

22. The following proposals are recommended for Members' approval -

- (a) to terminate the pilot RAES with immediate effect by (i) ceasing to approve any new applications; and (ii) offering public rental housing units to existing beneficiaries under the Scheme upon expiry of their current leases (paragraphs 12 to 14);
- (b) to delegate to an Assistant Director of Housing the authority to grant temporary extension of allowances if short-term extension is required (paragraph 15);
- (c) to revise the maximum monthly rent allowance for 2003/2004 to \$1,750, \$2,450 and \$3,120 for 1, 2 and 3-person households in respect of the short-term extensions, and to uphold the top-up principle in setting the maximum rent allowance for CSSA recipients (paragraph 16); and
- (d) to declassify the paper (paragraph 21).

DISCUSSION

23. This paper is issued for Members' discussion and endorsement of the recommendations above at the coming meeting on 25 September 2003.

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Rent Allowance for Elderly Scheme

District Distribution of Rented Accommodation (as at 31.8.2003)

| RAES Recipients | | | Proposed Reception District | No. | Total |
|-----------------|-----|------------|-----------------------------|------------|------------|
| District | | No. | | | |
| UB | CW | 49 | Hong Kong Island | 169 | 428 |
| | WC | 18 | | | |
| | E | 96 | | | |
| | S | 6 | | | |
| | YTM | 91 | Kowloon West | 169 | |
| | SSP | 78 | | | |
| | KC | 64 | Kowloon Central | 64 | |
| | WTS | 1 | Wong Tai Sin | 1 | |
| | KT | 25 | Kowloon East | 25 | |
| EB | KwT | 12 | Kwai Tsing | 12 | 45 |
| | TW | 16 | Tsuen Wan | 16 | |
| | ST | 12 | Shatin | 12 | |
| | SK | 5 | Tseung Kwan O | 5 | |
| NT & IS | TP | 25 | Tai Po | 25 | 148 |
| | N | 32 | North | 32 | |
| | TM | 36 | Tuen Mun | 36 | |
| | YL | 47 | Yuen Long | 47 | |
| | IS | 8 | Islands | 8 | |
| Total | | 621 | | 621 | 621 |

Rental Level (as at 31.8.2003)

| Rental Amount (\$) | No. of Family | Percentage (%) |
|--------------------|---------------|----------------|
| 2500 and below | 92 | 14.8 |
| 2501 – 3500 | 259 | 41.7 |
| 3501 – 4500 | 178 | 28.7 |
| 4501 – 5500 | 59 | 9.5 |
| 5501 and above | 33 | 5.3 |
| Total | 621 | 100 |

Cumulative Expenditure for RAES since implementation in 2001/02 up to 31.8.2003)

| | | |
|---------------------------------|--------------|----------------------|
| Rent Allowance | \$10,730,000 | |
| Special Grant ^{Note 1} | \$1,440,000 | |
| Emergency Alarm System | \$180,000 | |
| Service Team ^{Note 2} | \$1,050,000 | Total : \$13,400,000 |

Note 1 : A one-off special grant equivalent to two months' rent allowance payable is given to the RAES recipients to meet expenses, such as rent deposit and commission for estate agent, incurred in joining the scheme.

Note 2 : A Service Team is appointed to promote RAES, assist elderly in making application and processing lease matters, to monitor occupancy position, to check rent receipts, to assist RAES renewal and to assist renewal of tenancy.

**Proposed Rent Allowance for 2003/04
(Non-CSSA Recipients)**

| No. of H/H Members | Average Size of Accommodation (m²) (Note 1) | Private Rent (Note 2) (\$) | Rent Contributed By Applicants (\$) (40%) | Maximum Rent Allowance (\$) (60%) |
|---------------------------|---|-----------------------------------|--|--|
| 1 | 16.7 | 2,910 | 1,160 | 1,750 |
| 2 | 24.3 | 4,080 | 1,630 | 2,450 |
| 3 | 31.9 | 5,200 | 2,080 | 3,120 |

Note (1) : The average size of accommodation is equivalent to the average space allocated to the households rehoused to PRH in 99/00 – 01/02. It includes the living accommodation and other facilities such as toilet, kitchen and circulation area as appropriate.

Note (2) : Derived by multiplying the average space allocated to the households rehoused to PRH in 99/00 – 01/02 and the average rental of “Hong Kong and Kowloon with Flat Size Below 70m²”, which is based on the rental figures of the Rent Survey for 4th Quarter of 2002. The average rental figures by household size are shown as follows –

| Household Size | Unit Rent (\$/m²) |
|-----------------------|-------------------------------------|
| 1P | 174 |
| 2P | 168 |
| 3P+ | 163 |

**Proposed Rent Allowance for 2003/04
(CSSA Recipients)**

| No. of H/H Members | Rent Contributed (Note 3) By CSSA Scheme (\$) | Maximum Rent (Note 3) Allowance Payable (\$) |
|---------------------------|---|--|
| 1 | 1,265 * | 1,645 * |
| 2 | 2,550 * | 1,530 * |
| 3 | 3,330 * | 1,870 * |

Note (3) : In the calculation of Maximum Rent Allowance Payable to CSSA recipients, the top-up principle will be used when the rent contributed by CSSA Scheme is revised.

* The amount indicates the revised amount with effect from 1.6.03 resulting from the downward revision of SWD to Rent Allowance of CSSA.