

For information

**Legislative Council Subcommittee
to Study the Subject of Combating Poverty**

**Resources for Assisting the Working Poor –
Input from the Administration**

Introduction

The paper sets out the resources the Government has invested in our social safety net which helps the working poor and the needy in the community, as well as our observations on the three issues raised in the letter dated 2 March from the Subcommittee.

Resources for Assisting the Working Poor

2. Despite some misunderstanding that the Government is neglecting the needs of the working poor, the Government has over the years invested heavily in building a basic safety net which ensures that our people, including the working poor, can have access to services and support to meet their basic daily living requirements. Of note is that over half of the revised Estimates of 2005/06 and draft Estimates for 2006/07 are expenditures on public housing, education, welfare and public health. In fact, our taxation, education, housing, welfare and public health care policies of Hong Kong all have an income redistributive character. These may be viewed as “social wages” not reflected in our available income statistics, but nonetheless help alleviate the burden of the working poor. A background note compiled for the meeting of the Commission on Poverty held in January 2006 is attached at Appendix I. It sets out comprehensively the wide array of public service relevant to addressing the issue of working poor.

3. Underlining the long-established desire on the part of the Government for policy enhancement, the Budget for 2006/07 has included, among other things, a number of proposals helping the disadvantaged which are relevant to the working poor (the measures are summarized at Appendix

II). An additional recurrent spending of about \$100 million and around \$230 million new money for the next five years will respectively be provided on top of our investment in the safety net, reaffirming our commitment to assist the less privileged in the community.

Letter dated 2 March from the Subcommittee

4. We note that in its letter of 2 March, the Subcommittee wishes to raise at its meeting on 17 March three specific issues, reproduced below -

- (a) providing transport subsidy to the working poor living in remote areas in the northern and western parts of the New Territories for traveling to work in other districts;
- (b) providing financial assistance to the working poor to enable them to have an acceptable standard of living (i.e. the second safety net concept); and
- (c) setting up a fund to help people living in poverty.

It is noted that these three proposals are further developments subsequent to the eight recommendations contained in the “Report on Working Poverty” (the Report) endorsed by the House Committee on 10 February 2006 (repeated at Appendix III).

Transport subsidy

5. In respect of 4(a) above, the Government is keenly aware of the concern and we will continue to explore feasible ways to further enhance incentives for people living in remote areas to work. Members would note that in the 2006/07 Budget, we propose to provide short-term travel support on a trial basis to retrainees residing in Yuen Long (including Tin Shui Wai), Islands (including Tung Chung) and the North districts who have completed a full-time or placement-tied course of the Employees Retraining Board (ERB) and who are financially needy. Noteworthy is that the objective behind this proposal is similar to the proposal by some Members as stated in paragraph 5.22 of the Report.

6. In considering feasibility of any new subsidy scheme, apart from financial implications, there are a number of guiding considerations -

- (a) **Target:** the need to target at those with genuine financial needs;
- (b) **Abuse:** the need to minimize abuse, including possibility for employers to reduce the wages of their employees while the latter receive long-term travel support;
- (c) **Parity:** fairness of the scheme to low-income people not living in remote areas; and
- (d) **Alternatives:** whether we should establish a new subsidy scheme, or whether we should look into how to improve our existing financial support to low-income earners and their families.

“Second safety net”

7. In respect of 4(b) above, the Administration would appreciate an elaboration by the Subcommittee’s on its idea of “a second safety net” and the proposed coverage. As mentioned in paragraph 2 above, the Government has effectively put in place a “second safety net” for the working poor to access to in-kind essential services and support. The CSSA Scheme also provides financial assistance to the working poor, including unemployment assistance for unemployed workers with insufficient means, financial relief for single-parent families, as well as financial incentives for low-income employees to find and maintain employment, acting as a de facto income support programme for families earning low incomes.

8. In this connection, we note that the Report proposes introducing tax credit and reviewing the calculations of disregarded earnings (DE). As stated in the preliminary response of the Financial Secretary to the recommendations in the Report (Appendix IV), given our taxation structure where all of the working poor are presently not liable to pay personal emolument tax, tax credit may not be relevant to the situation in Hong Kong. We shall nevertheless examine room to improve the existing financial assistance/incentives to the working poor, including the operation of DE.

9. It is important to emphasize that for the working poor, the concept of the social safety net should not be limited to financial assistance per se. We should adopt more proactive interpretation of the concept, viz. by ensuring that our people have the opportunities to change the circumstances that put them at poverty risk, e.g. by providing education and training opportunities as well as job creation concomitant with economic development so that people can move towards self-reliance.

A Fund to Help People Living in Poverty

10. In respect of 4(c) above, the Administration notes that the idea of a fund for the poor is not among the Report's recommendations. Nevertheless, Members are aware that at present, a number of funds are available to finance projects seeking to address the needs of the disadvantaged in Hong Kong. Salient examples include the Lotteries Fund, Community Investment Inclusion Fund, Partnership Fund for the Disadvantaged and additional funding to reinforce the district-based approach to alleviate and prevent poverty as included in the Budget for 2006/07. We would consider ways to encourage the existing funds to give more focus on the needs of the working poor.

11. The Administration welcomes suggestion from Members on how to further provide assistance to the working poor through establishment of a new fund. Any proposal which involves distribution of financial subsidies should take into account the four guiding considerations in paragraph 6 above.

“Report on Working Poverty” (The Report)

12. Besides the three ideas set out in paragraph 4 above, the Administration is glad to note that the recommendations from the Subcommittee as contained in the Report reflect a large measure of consensus between the Administration and the Legislative Council on the direction and broad measures to support the working poor. They reflect a mutually shared wish for further improvement on the basis of the present achievements. We are consulting internally on how to take forward the

Subcommittee's recommendations and shall be happy to discuss these items one-by-one at future Subcommittee meetings.

Conclusion

13. Notwithstanding the rather comprehensive nature of the social policies in Hong Kong addressing the needs of the poor, including the working poor, the Administration realizes that there are still areas where existing measures could be improved and gaps which need to be filled, in order to encourage self-reliance through work and to ensure that those who work hard will have their hard efforts duly rewarded. The Administration also acknowledges that this would need to be a continuous endeavour. The Administration thanks the Subcommittee for the Report and values continued collaboration with Members as well as all relevant stakeholders to take this forward in a manner conducive to Hong Kong's sustained and balanced development. To facilitate our consideration, we should be grateful for the Subcommittee's elaboration of the issues in paragraph 4 above. Last but not least, the Administration looks forward to discussing with the Subcommittee the Report's recommendations at future meetings.

Secretariat to the Commission on Poverty
13 March 2006

For discussion on
23 January 2006

CoP Paper 1/2006

Commission on Poverty

Policies in Assisting Low-income Employees

PURPOSE

This paper provides an overview of the profile of low-income employees (often referred to as the “working poor”). Members would be invited to consider the existing support made available to them and the policy direction in improving such support.

BACKGROUND AND PURPOSE

2. The CoP agreed at its meeting on 28 June 2005 that in respect of the able-bodied unemployed, the direction should be to help them move “from welfare to self-reliance”. In this regard, the CoP would continue to consider ways to improve training and employment assistance, including strengthening the development of social enterprises and creating community employment opportunities.

3. Training and employment assistance is key to helping the working poor to upgrade themselves and find jobs. We will examine training and employment assistance and how low-income employees are assisted at the next CoP meeting.

4. This paper would outline the situation of low-income employees in Hong Kong – their profile and the existing support made available to them. The objectives are to ascertain if -

- (a) despite their relatively low income, the working poor and “non-working poor” alike are assisted in meeting their basic daily-living requirements; and
- (b) in connection with (a), support and assistance are so structured as to help the low-income employees move out of poverty while minimizing the risk of work incentives erosion and reliance on the

welfare net.

PROFILING THE WORKING POOR¹

Recent trend

5. Along with the broad-based and sustained economic upturn, situation of the low-income group improved in terms of both increased job opportunities and higher employment income. The unemployment rate for workers engaged in elementary occupations has fallen from a peak of 9.6% in mid-2003 to 6.6% in September - November 2005². The average employment earnings of employees at the lowest three decile groups have been picking up since the beginning of 2005 (Annex A).

6. In Q3 2005, there were 267 000 employees earning less than \$5,000 per month³, but only 140 000 of them were full-time workers⁴, representing 5.0% of the total employees. These were reduced from the corresponding figures of 150 000 and 5.8% in Q3 2003. Meanwhile, the number of full-time employees earning \$5,000 - 7,999 per month increased by 71 000 between Q3 2003 and Q3 2005, suggesting that some of the low-income workers might have moved up the income ladder during the period. Of the 127 000 part-time workers in Q3 2005, 61% of them were voluntary in nature, while the remaining 39% were involuntary or being classified as underemployed persons. Even taking into account the underemployed persons, the number and share of low-income workers also shrank between Q3 2003 and Q3 2005 (Annex B).

7. Despite the decreasing size of the working poor and the improving income earnings, it is useful to examine closer their profile and characteristics in order to ensure that our policies provide effective and targeted assistance to them. Specifically, there were 190 000 low-income employees in mid-2005, comprising 140 000 of those working full-time and 50 000 underemployed, taken together accounting for 6.8% of the total

¹ Foreign domestic helpers are excluded from this analysis, unless otherwise stated.

² For consistency with the unemployment rate widely published, no adjustment has been made to exclude foreign domestic helpers in compiling the unemployment rate for workers engaged in elementary occupations.

³ With the median monthly employment earnings of employees standing at \$10,000 in Q3 2005, less than \$5,000 per month is equivalent to less than 50% of the median monthly employment earnings, which is also the criterion for sizing the working poor under Indicator 13 in CoP Paper 26/2005.

⁴ Full-time workers refer to those working 35 hours or above per week.

employees. Those 140 000 full-time low-income employees definitely warrant our focus, as they are most likely the group who are persistently earning low income. The 50 000 underemployed low-income employees also call for attention, as they are the group who were unable to find more work and earnings as desired and also with unstable jobs.

Socio-economic characteristics of the low-income employees

8. Among the 190 000 low-income employees in mid-2005, relatively more of them were female workers, persons aged 40-59, or with education up to the secondary level. Compared with the situation in mid-1995, there was an increase in the share of females among the low-income employees, and also that of persons aged 20-29 and 40-59, but a decrease in the share of those aged 60 or above. As a result of the continuous upgrade in educational requirement for our workforce, there are now more low-income employees with upper secondary education.

9. Analysed by occupation, almost half of the low-income employees are engaged in elementary occupation, while one-quarter of them are service workers and shop sales workers. Analysed by economic sector, around one-third of the low-income employees are employed in the community, social and personal services sector, and another one-third in the wholesale, retail, import/export trades, restaurants and hotels sector.

10. As compared to a decade ago, due to continuous restructuring of the Hong Kong economy from manufacturing to services, there are now more service workers and shop sales workers among the low-income employees, and also more low-income jobs in the service sectors.

11. The 190 000 low-income employees in mid-2005 were distributed among 180 000 households, with household size of three to four members dominating. 53% of these households lived in public rental housing and another 18% in subsidized sale flats. In addition, 46% of them had children/youths attending full-time education, mostly with one or two children/youths. Yet notwithstanding the inclusion of one and in some cases more than one low-income employee, yet only 18% of the households were with income below the average CSSA payment levels⁵, if income from

⁵ Households with income below average CSSA payment is the criterion for identifying children/youths and adults living in low-income households under Indicators 2, 3 and 10, as well as for identifying the low-income households under Indicator 20 in CoP Paper 26/2005.

all household members and from all sources is included.

GOVERNMENT POLICIES IN ASSISTING THE WORKING POOR

Overview

12. The Government is committed to assisting all to meet basic daily living requirements, including the low-income employees and their dependents. We have a long established public housing policy which subsidizes low-income families who cannot afford private housing. The Government also provides a wide range of highly subsidized public services covering areas essential to the enrichment and well-being of our people, *viz.* education, medical services and other social services. Mechanisms are in place to ensure low-income employees and their families can gain access to these services. Low-income employees who are not earning enough to support themselves and their families can receive income support under the “low earnings” category of the CSSA Scheme.

13. The total public spending on housing, education, welfare and public health care services accounts for over half of the 2005-06 Estimates for public expenditure. Expenditure in these services has increased by about 60% in the past ten years, amounting to some \$144.8 billion in the 2005-06 Estimates (see Annex C). Under our salaries tax system, due to our very generous allowances and deductions, only around one-third of our working population is subject to tax. Employees earning less than 50% of the median employment earnings do not have to pay any salaries tax.

14. More details of the above policies are set out in paragraphs 15 to 23 below.

Public housing programme

15. With a stock of 721 400 flats⁶, the public rental housing programme, which provides basic and adequate accommodation to families who are unable to afford private-rental housing, is one of the Government’s key

⁶ This figure includes the stock of both the Housing Authority and the Housing Society as at 3rd quarter 2005. Of the 721 400 flats, HA public rental housing flats amount to 688 600 units (95.4%). The remaining 32 900 flats (4.6%) are owned by the Housing Society and managed according to its own rental and tenancy policies.

instruments to improve the standard of living of low-income families. Through heavy public subsidy, notably in the form of free land, public housing rents are maintained at affordable levels, thus enabling low-income families to improve their quality of life, develop in a stable living environment and, in time, move up the social ladder.

16. Public housing resources is scarce in relation to demand. To ensure that only families in genuine need of subsidised accommodation are given access to, and allowed continued residence in, public rental housing, new applicants have to meet a means test to be eligible for allocation while sitting tenants have to, depending on the extent that their household income and assets exceed the prescribed limits, pay additional rent or move out.

17. Various measures are in place to ensure that low-income families can benefit from the public housing programme -

- (a) the waiting time for public rental housing is minimized where possible to ensure that low-income families can benefit from programme as soon as public resources permit;
- (b) rents for public housing are kept at affordable levels. The Housing Authority is currently conducting a comprehensive review of its domestic rent policy, with a view to formulating a more flexible and sustainable rent adjustment mechanism that provides greater choice to public housing tenants and better reflects their rental affordability. Public consultation will be conducted shortly on a package of proposals; and
- (c) arrangements have been put in place to address the needs of families in financial distress via the Rent Assistance Scheme. As at September 2005, recipients of CSSA and the Housing Authority's rent assistance together accounted for some 23% of the total number of public rental housing households.

Details on how the public rental housing programme provides support for low-income families are at Annex D.

Public services

18. The Government strives to ensure that low-income earners and their dependents can access the various public services on a need basis, for

instance -

Education – the Government provides free and universal education (for nine years) and highly subsidized education (post-Secondary 3) as well as supporting services for students and youths, including those from low-income families⁷. In particular, student financial assistance schemes are set up to provide financial assistance to eligible primary and secondary school students from low-income families not receiving CSSA in the form of travel subsidy, textbook assistance, tuition fee remission and public examinations fee remission. Needy pre-primary and post-secondary students may also receive assistance under the schemes applicable to them.

Public health care services – it is the Government’s long-held policy that no one should be denied adequate medical care because of lack of means. In respect of recipients of CSSA, payment of their expenses for public health services will be waived. To assist the low-income groups who are not CSSA recipients, the Government has implemented an enhanced medical fee waiver mechanism for them⁸.

Other supporting social services – besides education and health care services, the Government also provides a wide range of support services to families in need (e.g. child care, youth and family services)⁹. All those in need including low-income earners and CSSA recipients have access to these services by direct approach, on a referral basis or through the outreaching network of the Social Welfare Department.

Low earnings CSSA cases

19. The CSSA Scheme provides a safety net of last resort for those who cannot support themselves financially. Over the past decade, the CSSA Scheme has evolved from a rudimentary welfare assistance programme to

⁷ For details, please refer to CoP Paper 2/2005 Enclosure II.

⁸ For details, please refer to CoP Paper 2/2005 Enclosure I on health services.

⁹ For details, please refer to CoP Paper 2/2005 Enclosure I on support services.

become a form of income support scheme with comprehensive coverage, which helps low-income employees during times of unemployment and financial hardship. To encourage employees to find and maintain employment, a provision of “disregarded earnings” under the Scheme was introduced where an amount of earnings from employment (up to \$2,500) can be disregarded when assessing the amount of assistance payable to a CSSA recipient. Currently there is no time limit for an employee to stay in the “low earnings” CSSA category. Subject to meeting other eligibility criteria, CSSA will continue to be granted as long as the family’s income falls below the recognized needs level of the scheme.

20. There is an increasing trend of CSSA “low earnings” caseload, and median duration of stay is also on an upward trend. As at end 2005, there were 18 089 such cases with a total of 65 655 recipients (i.e. low earning recipients and their family members) in the respective households. The median duration of stay in end-2005 was 3.4 years. Government expenditure on “low-earnings” cases increased from \$674 million to \$1,132 million between 2001-02 and 2004-05.

Salaries tax system

21. The purpose of the salaries tax system is to generate revenue. Allowances and deductions are given to relieve the liability of taxpayers in recognition of the principle that tax should be charged in accordance with the ability to pay and the additional financial burden that may be imposed by individual or family circumstances and responsibilities. The tax allowances and deductions under our salaries tax system are very generous by world standards. This has the effect of excluding many wages and salary earners from the tax base. At present, only some 36% of our working population (1.22 million out of 3.37 million) pays salaries tax. The basic allowance (at \$100,000 per person) alone causes employees with monthly income below some \$8,300 to fall outside the tax net. In other words, employees earning less than 50% of the median employment earnings all fall outside the tax net. There are also other allowances and deductions to take into account the financial burden of taxpayers. As a result and to give an illustration, a family with a couple, two children and a dependent parent will not be subject to tax unless the monthly family income exceeds some \$28,300 (or annual income of \$340,000). Our tax rates are also very low, with the marginal rates ranging from 2% to 20% (with an overall cap at 16%). For

taxpayers with annual income of \$100,000 to \$200,000, the average tax liability is only \$1,640 a year and most of these taxpayers have no family financial burden.

22. There is little scope to adjust salaries tax to lower the burden of low-income employees as, in the Hong Kong context, most of them are already outside the tax net.

23. More details on public finance system and its relationship to alleviating the burden of the low-income group and those with special needs are at Annex C.

EXTENT OF THE PROBLEM

Impact of Government benefits/transfers

24. The figures in paragraphs 5 – 11 on the profile of low-income employees are compiled primarily on the basis of employment earnings reported in surveys. They share the inadequacies of surveys of employment income only; and these include uni-dimensionality and hence, incomplete portrayal of commandable resources, as well as total disregard for the effect of public policies. Empirical studies and experience suggest that different social groups have different specific needs. Poverty situation hinges not only on pecuniary income but also on the support networks available, as well as the impact of relevant Government policies, e.g. wealth redistribution through taxation and social policies. Government benefits/transfers described in paragraphs 15 – 23 above, be they financial or in-kind, have an impact on the well-being and the disposable income of the low-income employees, as well as on the income distribution among different groups in the society. Nevertheless, due to data constraint and the need-based access to social assistance and support, information on the impact of Government's policies on the low-income employees is less than clear.

25. Members have also previously expressed concern about the impact of Government policies which might have neglected the needs of those just above the thresholds. Currently, there is no detailed data for assessing the income of the low-income group after adjusting for Government benefits/transfers vis-à-vis the income of those just above the thresholds who are not eligible for receiving such benefits. Nevertheless, it is pertinent to point out that, conceptually, the problem of those who are "just above" the eligibility threshold will always be present, irrespective of what the criteria are and whether they are tiered. It would therefore appear more important for the system and criteria in place to have adequate flexibility to cater for CSSA as well as non-CSSA recipients who are in need of assistance to meet their basic daily-living requirements.

Income disparity

26. Some have associated the problem faced by the low-income employees to the growing disparity of income in Hong Kong, and some have cited the worsening trend of Gini Coefficient of Hong Kong and its

comparison with other countries to demonstrate the worsening poverty problem in Hong Kong. While the two concepts are related, it is important to highlight that disparity in income does not necessarily indicate worsening of poverty situation as both the rich and the poor may become richer simultaneously though their rates of income change may differ. In addition, taxation and other social policies can affect the disposable income of the two groups. It is also important to stress that for balanced and sustainable development of any society, the emphasis should not be on equality of income per se, but on equality of opportunity while assisting the disadvantaged and low-income groups to meet their basic daily-living requirements. Equality of opportunity is ensured by a system which respects the law, combats corruptive abuses and provides accessible avenues for upward mobility such as free and universal education; and training, retraining and employment assistance, etc. As economic and employment restructuring is one of the major causes of the widening disparity between the rich and the poor, our targeted policies must work towards the promotion of economic development, education and skills enhancement and creation of employment opportunities.

27. In relation to drawing international comparison of Gini Coefficients, one should also avoid being over-simplistic without taking into account the different stages of economic development and income level of the places concerned, and the nature of the Hong Kong economy as an externally oriented service economy. The World Bank has also pointed out that Gini Coefficient is not strictly comparable across places because the underlying household surveys differ in terms of method and type of data collected. For instance, an assessment shows that after discounting the impact of salary tax the 2001 figure for Hong Kong (0.525) would be reduced by 7.2% to 0.487. The figure would be reduced by 14.3% to 0.450 if adjustments were made for salary tax, public housing benefits and education benefits. A more detailed discussion on income disparity is at [Annex E](#).

Earnings mobility

28. In understanding the severity of the problems faced by low-income employees, one also needs to take into account the duration of the individuals/families being in poverty (i.e. the trend of earnings mobility) to ensure that our society has provided opportunities for the low-income employees and their families to move up the earnings ladder.

29. A study on earnings mobility conducted in 2001 indicates ample opportunities for upward mobility. Between 1991 and 2000, 58% of the employed persons at the lowest 20% of the earnings distribution had managed to move up the earnings ladder in ten years' time. Over this period, the probabilities of employed persons moving up, staying put and moving down the earnings ladder were roughly the same, at slightly more than 30% each. Details of the findings are at Annex F.

30. In view of the changing economic pattern and performance over the past few years, the Government Economist is assisting the CoP in conducting a similar study to gauge the mobility situation in the more recent years. Results would be available in mid-2006.

CONCLUDING REMARKS

31. No social policies can be divorced from contextual considerations. Economically, Hong Kong is service-oriented and very reliant on global trade. Socially, it has a non-contributory and comprehensive safety net, supplemented by access to highly subsidized public services on a universal basis for those who are both in and outside the safety net. We have a low and simple tax system and only slightly more than one-third of our working population pays salaries tax. All these, taken together, would imply that the actual situation of the low-income group is an empirical issue which must take account of the impact of relevant policies rather than a simple mathematical derivation based on pecuniary income level alone. The same applies to any international comparison. As a corollary, the crucial questions are to ensure that –

- (a) the basic daily-living requirements of the disadvantaged and the low-income are and will be met; and
- (b) policies on education, training and employment assistance are so structured not only to assure equality in opportunity but also to facilitate upward mobility over time.

32. This note seeks to set out the status quo in relation to the above. Members are invited to note in this connection -

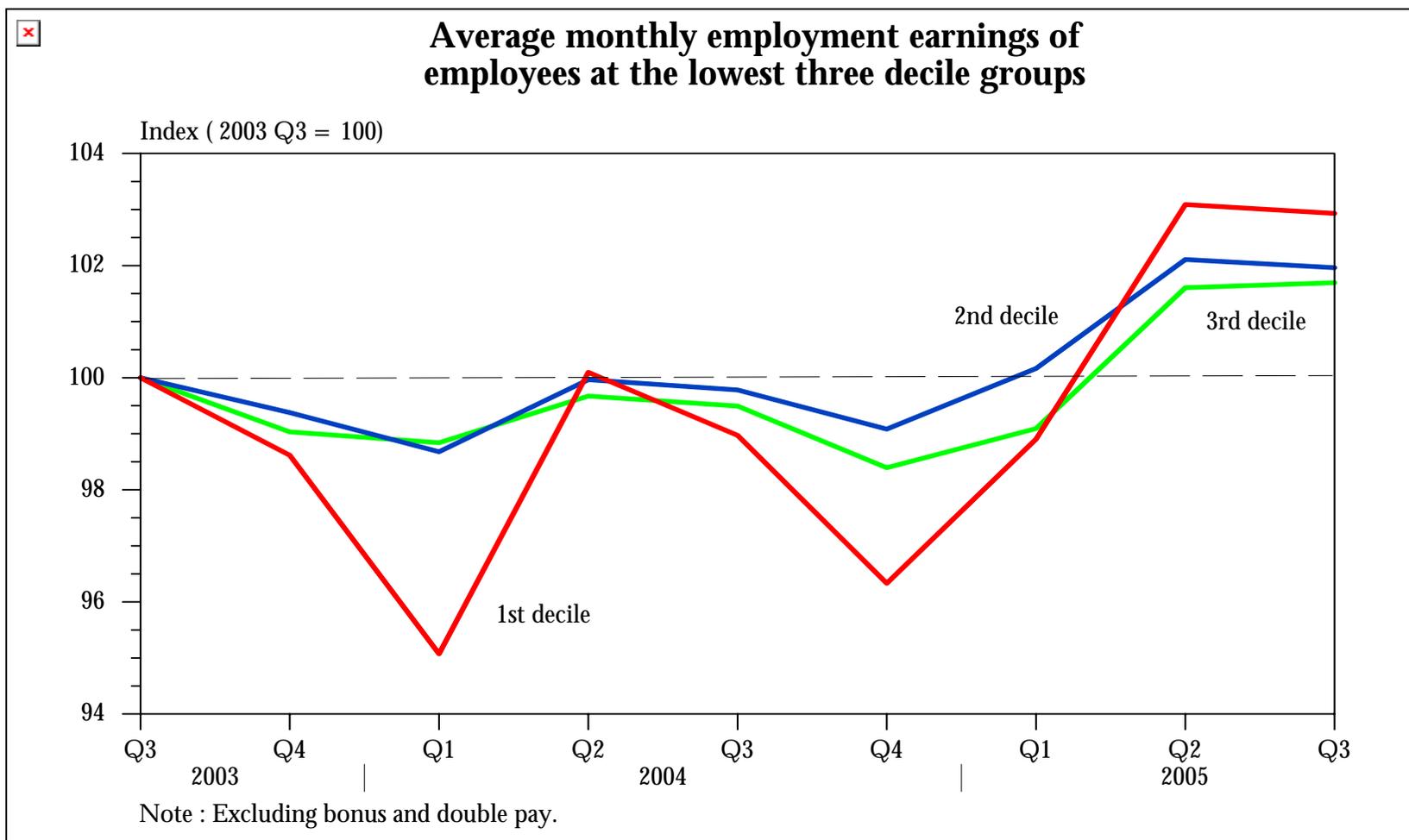
- (a) the profile of low-income employees in Hong Kong (paragraphs 5 – 11);

- (b) Government policies in assisting them, including housing, education, medical and other social services, financial assistance through low-earnings CSSA cases as well as taxation (paragraphs 15 – 23); and
 - (c) pointers in assessing the extent of problems faced by the low-income employees (paragraphs 24 – 30).
33. As next steps, Members may wish to comment on and to -
- (a) subject to data constraint, assess the impact of Government benefits/transfers on the disposable income of different income groups for better understanding of the true extent of the problems faced by the low-income group; and
 - (b) consider how best to provide additional incentives for the low-income employees and their families to stay in employment, bearing in mind financial sustainability of the public finance system¹⁰ and the importance of continued employment to capacity enhancement and eventually upward mobility.

Commission Secretariat
(with inputs from relevant bureaux)
January 2006

¹⁰ In this regard, while the discussion about improving labour market conditions (including minimum wage, maximum working hours) are relevant, the CoP would only keep in view the on-going discussions at the Labour Advisory Board to avoid duplication of efforts.

¹ Capped at standard rate of 16% on net total income without tax allowances.



Employees by selected monthly employment earnings

	<u>< \$5,000</u>		<u>\$5,000 - 5,999</u>		<u>\$6,000 - 6,999</u>		<u>\$7,000 - 7,999</u>	
	<u>Part-time</u>	<u>Full-time</u>	<u>Part-time</u>	<u>Full-time</u>	<u>Part-time</u>	<u>Full-time</u>	<u>Part-time</u>	<u>Full-time</u>
Q3 2003	124 300 (4.8)	150 400 (5.8)	20 800 (0.8)	139 900 (5.4)	17 100 (0.7)	188 700 (7.3)	13 500 (0.5)	178 200 (6.9)
Q3 2004	132 200 (4.9)	152 800 (5.6)	16 500 (0.6)	158 500 (5.9)	15 800 (0.6)	199 100 (7.4)	11 100 (0.4)	198 600 (7.3)
Q3 2005	127 200 (4.6)	140 100 (5.0)	18 700 (0.7)	160 600 (5.8)	14 500 (0.5)	208 200 (7.5)	12 100 (0.4)	208 700 (7.5)

Notes : Part-time workers refer to those working less than 35 hours per week.

() % Share in all employees excluding FDHs.

Public Finance

Purpose

This paper sets out the fundamental principles guiding the public finance system, and its relationship to alleviating the burden of the low-income group and those with special needs in the society through public expenditure on social policies and taxation.

Guiding principle

2. Robust and sustainable public finance system is one of Hong Kong's fundamental strengths and the cornerstone of Hong Kong's continued economic development. Article 107 of the Basic Law stipulates that the Hong Kong Special Administrative Region shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product. Article 108 provides that the Hong Kong Special Administrative Region shall, taking the low tax policy previously pursued in Hong Kong as reference, enact laws on its own concerning types of taxes, tax rates, tax reductions, allowances and exemptions, and other matters of taxation. The Government will continue to follow these guiding principles, and within limits, direct available resources to meet reasonable calls on public expenditure, including assisting the needy, and to maintain a low tax policy.

Public spending on social policies

3. The share of public expenditure in the economy averaged around 16% in the mid-1980s, about 17% in the mid-1990s, but rose to 20.2% in the

2005-06 Estimates. Public spending on major social policy areas is as follows -

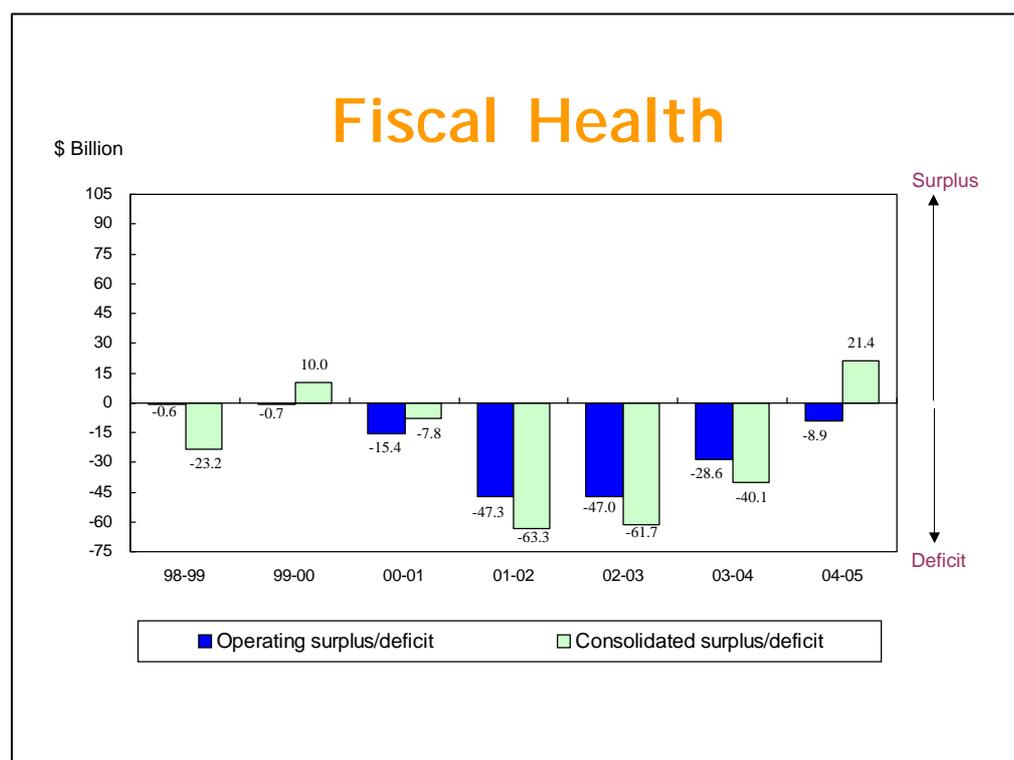
	1995-96 Actual (\$ billion)	2005-06 Estimates (\$ billion)
Education	33.6 [3%] {17.6%}	58.2 [4.2%]{21.6%}
Health	24.3 [2.2%]{12.7%}	32.2 [2.3%]{12%}
Social Welfare	14.1 [1.3%]{7.4%}	36.3 [2.6%]{13.5%}
Housing	19.1 [1.7%]{10%}	18.1 [1.3%]{6.7%}
Total	91.1 [8.2%]{47.7%}	144.8 [10.4%]{53.8%}

[] expenditure as a percentage of GDP

{ } expenditure as a percentage of total public expenditure

Fiscal position

4. Whilst, spending where necessary, government has been suffering from successive years of fiscal deficit and the level of fiscal reserves has gone down by some 35% as at end 2004-05 compared with end 1997-98.



5. Our economy put in a strong performance in recent past; GDP leaped by 8.2% in 2004 and is forecast to grow by 7% in 2005. With the steady economic upturn, the financial position of the Government has gradually improved. For the first time since 1999-2000, the Consolidated Account for 2004-05 recorded a surplus of \$21.4 billion. Nonetheless, a deficit of \$4 billion remained after discounting the proceeds from bond issuances. The Operating Account remained in deficit in 2004-05 for the seventh consecutive year and the deficit was \$8.9 billion.

6. Although the fiscal position has improved, we are aware of the challenges ahead. The direct taxes (including profits and salaries taxes) accounting for some 40% of the government revenue fluctuate in line with the peaks and troughs of economic cycles, while investment income and land premium which, together accounting for about 20% of the government revenue, are highly also volatile. Over the past ten years, annual government revenue oscillated between \$170 billion to \$280 billion. On the other hand, there is a considerable degree of rigidity in government spending. In addition, the challenges brought by a narrowing tax base, an ageing population and rising costs of health care, etc. are all exerting pressure on the historical pool of fiscal reserves.

7. Being highly externally-oriented, our economy is very sensitive to outside factors such as surging oil prices, rising US interest rates, development in US asset prices and consumer confidence, movements of the US dollar and renminbi, the pace of the Mainland's economic growth and changes in its policies.

8. We will present the latest medium term forecast in the 2006-07 Budget this February.

Taxation

9. The purpose of the salaries tax system is to generate revenue. Allowances and deductions are given to relieve the liability of taxpayers in recognition of the principle that tax should be charged in accordance with the ability to pay and the additional financial burden that may be imposed by individual or family circumstances and responsibilities. A list of the allowances and deductions and their current levels are as follows:

Allowances	
Basic	\$100,000
Married	\$200,000
Single Parent	\$100,000
Child: 1st to 9th child	\$40,000
Dependent Parent/Grandparent:	
Aged 60 or above	
Basic	\$30,000
Additional allowance (for dependant living with taxpayer)	\$30,000
Aged 55 to 59	
Basic	\$15,000
Additional allowance (for dependant living with taxpayer)	\$15,000
Dependent Brother/Sister	\$30,000
Disabled Dependant	\$60,000
Deductions	
Self-Education Expenses	\$40,000
Home Loan Interest	\$100,000
Elderly Residential Care Expenses	\$60,000
Mandatory contributions to Mandatory Provident Fund Schemes or contributions to recognized occupational retirement schemes	\$12,000

10. In the 2005-06 Budget, further relief was provided for taxpayers maintaining children or dependent parents. Child allowance was raised to \$40,000 while a new allowance and an additional allowance, both at \$15,000, were introduced in respect of dependent parents or grandparents aged 55 to 59. The allowances and deductions under our salaries tax system are very generous by world standards (see *Appendix I* for a comparison of the allowances in some other jurisdictions). This has the effect of excluding many wages and salary earners from the tax base. At present, only some 36%

of our working population (1.22 million out of 3.37 million) pays salaries tax. The basic allowance (at \$100,000 per person) alone causes employees with monthly income below some \$8,300 to fall outside the tax net. In other words, employees earning less than 50% of the median employment earnings all fall outside the tax net.

11. The salaries tax rates, at marginal rates of 2% to 20% and capped at the standard rate of 16%, are also low by international standards (see *Appendix II* for a comparison with some other jurisdictions). The salaries tax revenue is mostly contributed by taxpayers of the higher income groups, with some 58% of total revenue contributed by the top 100 000 taxpayers. For taxpayers with annual income of \$100,000 to \$200,000, the average tax liability is only \$1,640 a year, with the effective tax rate at 1.1%, and most of these taxpayers have no family financial burden. A table showing the average tax liability and effective tax rate of taxpayers in various income groups is below.

Annual income	Total number of taxpayers	Average tax liability	Effective tax rate
\$100,001 to \$200,000	423 000	\$1,640	1.1%
\$200,001 to \$300,000	306 000	\$8,190	3.3%
\$300,001 to \$400,000	188 000	\$17,760	5.1%
\$400,001 to \$600,000	157 000	\$40,130	8.3%
\$600,001 to \$900,000	74 000	\$86,710	12.0%
\$900,001 and above	72 000	\$260,400	15.2%
Total	1 220 000		

Treasury Branch
 Financial Services and Treasury Bureau
 January 2006

Appendix I to Annex C

Salaries tax allowances for resident individuals

	Personal	Spouse	Child	Parents/grandparents	Other dependants	Disabled dependants
Hong Kong	<ul style="list-style-type: none"> - HK\$100,000 - An extra HK\$100,000 for single parent 	<ul style="list-style-type: none"> - An extra HK\$100,000, making up the married person allowance of HK\$200,000 	<ul style="list-style-type: none"> - HK\$40,000 each for the 1st to 9th child 	<ul style="list-style-type: none"> Aged 60 or above - HK\$30,000 (not living together) - HK\$60,000 (living together) Aged 55 to 59 - HK\$15,000 (not living together) - HK\$30,000 (living together) 	<ul style="list-style-type: none"> - HK\$30,000 for dependent brothers/sisters 	<ul style="list-style-type: none"> - An extra HK\$60,000 for disabled spouse/child/brothers/sisters/parents/grandparents
Singapore	<ul style="list-style-type: none"> - Zero band S\$20,000 [HKD92,000] - Earned income relief S\$1,000 [HKD4,600] (aged below 55), 	<ul style="list-style-type: none"> - Wife relief up to S\$2,000 [HKD9,200] 	<ul style="list-style-type: none"> - Child relief S\$2,000 for each of the 1st to 4th child [HKD9,200] - Parenthood tax rebate of 	<ul style="list-style-type: none"> - S\$3,500 [HKD16,100] (not living together) - S\$5,000 [HKD23,000] (living together) - over 55 and must be 	<ul style="list-style-type: none"> - Only available for handicapped brothers/sisters S\$3,500 [HKD16,100] for each 	<ul style="list-style-type: none"> - an extra S\$1,000 - 2,000 [HKD4,600-9,200] earned income relief - an extra S\$1,500 [HKD6,900]

	Personal	Spouse	Child	Parents/grandparents	Other dependants	Disabled dependants
	S\$3,000 [HKD13,800] (aged 55 to 59) and S\$4,000 [HKD18,400] (aged 60 & above)		S\$10,000 to S\$20,000 [HKD46,000 to HKD92,000] - Working mother child relief of 5% to 25% of mother's income, capped at S\$25,000 per child	living in Singapore - up to a maximum of 2 dependants - S\$3,000 for parent taking care of child aged 12 or below [HKD13,800]		disabled spouse relief - an extra S\$1,500 [HKD6,900] for disabled child - Extra S\$3,000 [HKD13,800]for parent relief
	<u>Notes</u> - Only 1 person is allowed to claim relief in respect of a dependant; - All dependant allowances require a means test i.e. income of dependant must be below S\$2,000					
Japan	- JPY380,000 [HKD25,500] - Widow's /widower's and divorced person	- JPY380,000 [HKD25,500] - JPY480,000 [HKD32,200] if aged 70 or more	<u>Under 16</u> - JPY480,000 [HKD32,200] <u>Aged 16 to 22</u> - JPY630,000	- For aged relatives aged 70 or more and supported by the taxpayer in the same household	- JPY380,000 [HKD25,500] for dependants who are relatives, living together and	- Extra JPY270,000 [HKD18,100]if the taxpayer, spouse or dependants are handicapped or

	Personal	Spouse	Child	Parents/grandparents	Other dependants	Disabled dependants
	allowance of JPY270,000 – JPY350,000 [HKD18,100- 23,500]		[HKD42,300]	- JPY480,000 [HKD32,200] - JPY580,000 [HKD39,000](if living with elderly dependant of linear ascendance)	supported by the taxpayer	JPY400,000 [HKD26,900] if seriously handicapped.
Malaysia	- RM8,000 [HKD16,500] - Zero band RM2,500 [HKD5,200]	- RM3,000 [HKD6,200]	- RM1,000 [HKD2,060] per child - RM4,000 [HKD8,200] for each child pursuing tertiary education at a recognized institution locally or abroad	- RM5,000 (max) [HKD10,300] medical expenses for parents	Nil	- Disabled individual RM6,000 [HKD12,400] - Disabled wife RM3,500 [HKD7,200] - Disabled child RM5,000 [HKD10,300]

	Personal	Spouse	Child	Parents/grandparents	Other dependants	Disabled dependants
Thailand	- 30,000 Baht [HKD5,700] - zero band for 80,000 Baht [HKD15,200]	- 30,000 Baht [HKD5,700]	- 15,000 Baht [HKD2,850] each (limited to 3) - Extra 2,000 Baht [HKD380] for each child studying in local schools	Nil	Nil	Nil
South Korea	- KRW1 million [HKD7,400]	- KRW1 million [HKD7,400]	- KRW 1 million [HKD7,400]for each dependant living with taxpayer - Dependant means a lineal ascendant over 60 years (or 55 for woman) including a lineal ascendant of a spouse, and a lineal descendant under 20 years, or a brother or sister under 20 or over 60 years old in the same household with income not exceeding KRW 1 million			- Extra KRW 1 million [HKD7,400] per dependant

	Personal	Spouse	Child	Parents/grandparents	Other dependants	Disabled dependants
New Zealand	- No allowances. Tax credits are granted to maintain minimum income levels. These credits are based on a family's income and size and include family support tax credit, child tax credit, parental tax credit (for new parents over 8 weeks from birth). The aggregate amount of the tax credits begins to abate when the taxpayer's specified income exceeds NZD20,000 [HKD109,400] at varying rates.					
Australia	- Zero band AUD6,000 [HKD35,000]	- A dependant rebate is available to a resident individual who contributes to the maintenance of a dependant who is also a resident and is a spouse, child, parent or spouse's parent. The maximum credit is AUD 1,572 [HKD9,200] for spouse and child and AUD1,414 [HKD8,300] for parents.				
UK	<ul style="list-style-type: none"> - The amount of the basic personal allowance depends on the age and marital status of the individual. The allowance is greater for an individual who attains the age of 65 during the tax year, but only if his income does not exceed a stated amount. - Current personal allowances range from GBP4,895 to GBP7,220 [HKD67,700 to 99,800]. - Taxpayers are also entitled to the working tax credit and the child tax credit. - Taxpayer's entitlement to the credits is aggregated and gradually reduced as taxable income of the family unit rises. The calculation of credit entitlement is complex. 					

Exchange rates as at 27 October 2005

(October 2005)

Appendix II to Annex C

	Lowest rate (for income below)	Highest rate (for income above)
Hong Kong ¹	2% (HKD 30,000)	20% (HKD 90,000)
Australia	15% (AUD 15,600)	47% (AUD 89,000)
Canada	16% (CAD 35,595)	29% (CAD 115,739)
China	5% (RMB500)	45% (RMB 100,000)
Japan	10% (JPY 3.3m)	37% (JPY 18m)
Macau	7% (MOP 20,000)	12% (MOP 280,000)
Malaysia	1% (MYR 2,500)	28% (MYR 225,000)
New Zealand	19.5% (NZD 38,000)	39% (NZD 60,000)
Singapore	4% (SGD 10,000)	22% (SGD 300,000)
South Korea	8% (KRW 10m)	35% (KRW 80m)
Thailand	5% (THB 20,000)	37% (THB 3.92m)
The UK	10% (GBP 2,090)	40% (GBP 32,400)
The US	10% (USD 7,300)	35% (USD 326,450)

Hong Kong's Public Housing as Support for Low-income Families

The public rental housing programme, which provides basic and adequate accommodation to families who are unable to afford private-rental housing, is one of the Government's key instruments to improve the standard of living of low-income families. The following are some key aspects of the programme -

Waiting time for public rental housing

2. To ensure that low-income families can benefit from the public rental housing programme as soon as public resources permit, the Government has pledged to maintain the average waiting time at around three years. At present the overall average waiting time is two years. Applicants with no particular preferences for estate location or flat type can be allocated a flat within a period of slightly more than a year. Elderly applicants are given expedited access under various priority flat allocation schemes. Families with urgent and genuine housing need can also get immediate access to public rental housing under the Compassionate Rehousing Scheme on medical or social grounds as assessed and recommended by the Social Welfare Department.

Means eligibility criteria for access to public rental housing

3. As at June 2005, about 31% (2.133 million) of Hong Kong's population lives in public rental housing. Given that public housing resources is scarce in relation to demand, it is necessary to ensure that only families in genuine need of subsidised accommodation are given access to, and allowed continued residence in, public rental housing.

4. To this end, applicants for public rental housing are subject to a means test covering the total income and assets of the entire family. The means limits reflect their ability to rent adequate private-sector accommodation, and are determined and annually reviewed according to an established mechanism using a "household expenditure" approach, which

takes into account the housing expenditure to rent a private flat of comparable size to public rental housing and the non-housing expenditure of the lower half expenditure group amongst tenant households in the private sector.

5. By the same token, we also encourage sitting tenants whose economic situations have improved to move out, so as to vacate flats for re-allocation to families eligible for subsidised housing. Accordingly, tenants who have resided in public rental housing for ten years or more are required to declare their household incomes biennially. Families with their household income exceeding two times of the Waiting List income limits are required to pay extra rent plus rates. Tenants with household income exceeding three times of the Waiting List income limits and assets exceeding the specified net asset limits have to pay market rent and vacate their public rental housing flats within one year. As at October 2005, there were 16 464 tenants paying 1.5 times rent, 2 492 paying double rent and 27 paying market rent. The current Waiting List income and asset limits for public rental housing under the Housing Authority, and the limits applicable to additional rent payers, are set out at Appendix.

6. Statistics in the third quarter of 2005 show that the median household income of public housing tenants was \$10,650 per month, which is lower than the territory-wide all-household median of \$16,020 and the private-sector household median of \$22,000.

Public housing rents

7. The Housing Authority is committed to keeping rents for public housing at affordable levels. Public housing rents, which are inclusive of rates, management fees and maintenance expenses, range between \$252 and \$3,810 per month, with the average at \$1,470 per month. Some 61.7% of tenants pay less than \$1,500 for rent per month. The median rent-to-income ratio among public housing tenants was 14.6% in the third quarter of 2005. The median rent-to-income ratio in the local private rental market is 25.7% in the same period.

8. The Housing Authority is currently conducting a comprehensive review of its domestic rent policy, with a view to formulating a more flexible

and sustainable rent adjustment mechanism that provides greater choice to public housing tenants and better reflects their rental affordability. The Housing Authority will launch a public consultation shortly on a package of proposals.

Rent assistance

9. Within the public housing system, arrangements have been put in place to address the needs of families in financial distress. The Housing Authority operates a Rent Assistance Scheme for tenants who have difficulty in affording normal rents due to temporary financial hardship. Under the Scheme, tenants can apply for a 50% rent reduction if their rent takes up more than 25% of their income, or if their income is below 50% of the Waiting List income limit. For elderly tenants, the eligibility criteria is more relaxed: they are eligible for rent assistance if their income is below 60% of the Waiting List income limit or if their rent-to-income ratio exceeds 20%. To cater for non-elderly families who are now marginally ineligible for rent assistance, the Housing Authority has recently decided to enhance the Scheme with the addition of a new eligibility tier to provide 25% rent reduction to tenants whose household income is between 50% to 60% of the Waiting List income limit, or whose rent-to-income ratio stands at 20-25%. This enhanced arrangement will come into effect on 1 March 2006.

10. The Rent Assistance Scheme provides an effective relief to ensure rents are affordable to individual tenants, and has in practice put a cap on their rent-to-income ratio at 20%. This compares favourably with the benchmark of 30% set by the United Nation Centre for Human Settlement (Habitat) for the lowest 40th percentile of the overall population of a territory. As at September 2005, 16 300 tenants were benefiting from the Scheme. Families without income or in need of more substantial or longer-term assistance can apply for Comprehensive Social Security Assistance (CSSA) provided by the Social Welfare Department under which a rent allowance, adequate to cover public housing rent in full in most cases, is provided by the Government. As at September 2005, recipients of CSSA and the Housing Authority's rent assistance together accounted for some 23% of the total number of public rental housing households.

Housing Authority
January 2006

**Income and Asset Limits for Access to Public Rental Housing
under the Housing Authority
(2005-06)**

Household size	Waiting List income and asset limits			Income and Asset Limits Applicable to Additional Rent Payers			
				1.5 times rent	Double rent	Market rent	
	Income limit	Asset limit		Household income in the following ranges	Household income exceeding the following limits	Household income exceeding the following limits	Asset limit (84 times of Waiting List income limit)
Non-elderly household		Elderly household					
1 person	\$6,600	\$170,000	[\$340,000] ⁽¹⁾	\$13,201-\$19,800	\$19,800	\$19,800	\$560,000 [\$1,210,000] ⁽²⁾
2 persons	\$10,100	\$230,000	[\$460,000] ⁽¹⁾	\$20,201-\$30,300	\$30,300	\$30,300	\$850,000 [\$1,210,000] ⁽²⁾
3 persons	\$11,900	\$300,000	[\$600,000] ⁽¹⁾	\$23,801-\$35,700	\$35,700	\$35,700	\$1,000,000 [\$1,210,000] ⁽²⁾
4 persons	\$14,300	\$350,000	[\$700,000] ⁽¹⁾	\$28,601-\$42,900	\$42,900	\$42,900	\$1,210,000
5 persons	\$16,100	\$390,000		\$32,201-\$48,300	\$48,300	\$48,300	\$1,360,000
6 persons	\$17,600	\$420,000		\$35,201-\$52,800	\$52,800	\$52,800	\$1,480,000
7 persons	\$19,100	\$450,000		\$38,201-\$57,300	\$57,300	\$57,300	\$1,610,000
8 persons	\$20,300	\$470,000		\$40,601-\$60,900	\$60,900	\$60,900	\$1,710,000
9 persons	\$21,800	\$520,000		\$43,601-\$65,400	\$65,400	\$65,400	\$1,840,000
10 persons +	\$23,100	\$560,000		\$46,201-\$69,300	\$69,300	\$69,300	\$1,950,000

- (1) In view of the specific needs of elderly applicants who are mostly retired or on very low income and hence have to rely on savings to meet their daily expenses, the Housing Authority has adopted a more relaxed set of asset limits for elderly households from 2005-06 onwards.
- (2) For 1-person, 2-person or 3-person households with all members aged over 55, the net asset limit for a 4-person household applies.

Income Disparity in Hong Kong

The Gini Coefficient¹ is the most common indicator used to measure income disparity between the rich and the poor. According to the household income distribution data obtained from Population Censuses/By-censuses, the Gini Coefficient for Hong Kong has been on the upward trend in the past three decades -

	<u>1971</u>	<u>1976</u>	<u>1981</u>	<u>1986</u>	<u>1991</u>	<u>1996</u>	<u>2001</u>
Gini Coefficient	0.430	0.429	0.451	0.453	0.476	0.518	0.525
% change	-	-0.2	+ 5.1%	+0.4%	+ 5.1%	+ 8.8%	+ 1.4%

Observations from the Gini Coefficient

(a) Economic growth and rise in overall income

2. While an increase in the Gini Coefficient indicates rising income disparity, it does not necessarily indicate worsening of poverty situation as both the rich and the poor may experience income increase simultaneously, albeit at different rates. In 2001, the median monthly employment earnings of employed persons at the lowest two decile groups were two to three times higher in money terms than those in 1986². Taking into account the effect of inflation, the corresponding increases still ranged between 28-78% in real terms. Over this period, the overall median monthly employment earnings increased by 257% in money terms or 56% in real terms.

(b) Structural transformation of the economy

3. The growing disparity of income also reflects the transformation of Hong Kong into a high value-added financial and business services hub in the region. One would note the increase of the Gini Coefficient was more drastic in the 1990s during the time of rapid structural change of Hong Kong's economy. Between 1991 and 2001, the number of manufacturing workers went down by 7.6% per annum, accelerated from the 4.8% fall per annum during 1986-1991. Over the same periods, the growth in number of

¹ The Gini Coefficient is an index measuring the disparity in household income. The Gini Coefficient takes the value between zero and one. The larger the value of the Gini Coefficient, the greater the disparity between the rich and the poor.

² This refers the monthly employment earnings of all employed persons without excluding foreign domestic helpers, as the latter had not been separately identified for data in the early years.

workers engaged in the financing, insurance, real estate and business services sector picked up from 7.2% to 7.6% per annum.

(c) Impact of tax and other benefits

4. The Gini Coefficient of Hong Kong is calculated based on gross household income without any adjustment for tax and social benefits. For instance, after incorporating salary tax adjustment the 2001 figure (0.525) would be reduced by 7.2% to 0.487. The figure would be further reduced by 14.3% to 0.450 if adjustments were made also for public housing benefits and education benefits³.

(d) International comparison

5. One needs to avoid being over-simplistic in drawing international comparison of the Gini Coefficients given the different stages of development of different places. For instance, the Gini Coefficients of countries with great differences in economic development, and income level and distribution, such as Egypt, Switzerland, Japan, South Korea and India, can be similar. The World Bank has also pointed out that Gini Coefficient is not strictly comparable across places because the underlying household surveys differ in terms of method and type of data collected⁴. For instance, the Gini Coefficients of some countries cited are based on disposable income taking into account the impact of taxation and other public benefits.

(e) Hong Kong as a Global City

6. Some have also argued that for a place like Hong Kong which is becoming a global city like London and New York, the occupational structure is polarized with professionals, managers in producer services at one end, and low-skilled service workers at the other end⁵. Hence it is not appropriate to compare the Gini Coefficient of Hong Kong with national economies with a much greater preponderance of agricultural and manufacturing activities at narrower income differentials.

Commission Secretariat

(with input from Government Economist)

January 2006

³ Distribution of Household Income in Hong Kong (May 2002), Census and Statistics Department in collaboration with Economic Analysis Division

⁴ The World Bank (2004). 2004 World Development Indicators. Washington DC.

⁵ Sassen (2001). Chiu and Lui (2004).

Earnings mobility in Hong Kong

The findings of a study on earnings mobility conducted in 2001 were as follows -

(a) Earnings mobility rates by quintile for all employed persons over the period 1991-2000

<u>Quintile in 1991</u>	<u>Quintile in 2000</u>					<u>Total</u>
	<u>Bottom</u>	<u>2nd</u>	<u>3rd</u>	<u>4th</u>	<u>Top</u>	
Bottom	42.4%	24.6%	17.5%	10.9%	4.6%	100%
2nd	25.0%	32.5%	23.1%	14.8%	4.7%	100%
3rd	16.2%	26.1%	25.4%	23.3%	8.9%	100%
4th	11.9%	11.6%	22.9%	31.5%	22.1%	100%
Top	4.5%	5.2%	11.1%	19.6%	59.7%	100%
Total	100%	100%	100%	100%	100%	

(b) Overall earnings mobility rate for all employed persons over the period 1991-2000

	<u>1991-96</u>	<u>1996-2000</u>	<u>1991-2000</u>
Upward	24.2%	24.0%	30.9%
No change	49.4%	55.4%	38.3%
Downward	26.4%	20.5%	30.8%
Total	100%	100%	100%

Note : Figures may not add up exactly to the total due to rounding.

Source : Report on "Earnings Mobility in Hong Kong" produced by the Hong Kong Institute of Economics and Business Strategy, University of Hong Kong.

Proposals in the Budget 2006/07 Relevant to the Working Poor

The following proposals in this year's Budget which help the disadvantaged groups are relevant to the working poor, and not dissimilar to the direction of the Subcommittee's Report (*note*: paragraph numbers refer to the Budget Speech 2006-07 –

(a) measures which enhance services and support to the needy, e.g.

-
- (i) amounting to an *additional* recurrent spending of about \$100 million (re. paragraph 63) and covering areas such as early childhood development, family support, services for the elderly and disabled;
- (ii) exempting non-government welfare organizations from the additional expenditure-reduction measures that we originally planned to help restore fiscal balance for 2006/07 (re. paragraph 58);

(b) enhancing employment opportunity and empowerment of the unemployed as well as the working poor through –

- (i) job creation through investment in infrastructure (re. paragraph 60);
- (ii) promotion of social enterprises which can provide an authentic working environment for the low-skilled and low-educated workers to enhance their employability and competitiveness (re. paragraphs 64 and 65);
- (iii) promotion of local economy and creativity through seed funding provided to district-based poverty alleviation projects (re. paragraph 64);
- (iv) relaxing the requirement that projects eligible for grants under the “Enhancement Employment of People with Disabilities through Small Enterprise Project” must have at least 60% of workers being disabled so as to benefit more enterprises and

thus encourage the creation of more jobs for both the disabled and able-bodied unemployed (re. paragraph 65);

- (v) piloting a more holistic interpretation of value for money in evaluating bids for Government procurement of goods and services by incorporating employment promotion as one of the evaluation criteria (re. paragraph 65);
- (c) **strengthening support for the transition from unemployment to work through –**
- (i) providing short term travel support for attending job interviews and first-month employment for trainees of the Employees' Retraining Board who have completed a full-time placement-tied course and who are resident in North, Yuen Long and Island districts and are financially needy (re. paragraph 64);
 - (ii) continuation of the Intensified Employment Assistance Projects (IEAP) (re. paragraph 64);
 - (iii) encouraging the harder-to-assist unemployed youth and adult recipients of the Comprehensive Social Security Assistance through the pilot My STEP Project and District Employment Assistance Trial Projects which seek to build on the IEAP experience and strengthen the motivation and employment assistance elements in a way that is appropriate to the respective age groups (re. paragraph 64). Inherent in these pilots are training elements that help enhance the beneficiaries' competitiveness.

Chapter 6 : Summary of recommendations

Chapter 6 : Summary of recommendations

6.1 The Subcommittee generally agrees that it is Government’s responsibility to formulate polices and strategies to alleviate poverty. The Subcommittee has agreed on the following recommendations to reduce working poverty and alleviate the problems faced by such households –

- (a) enabling community participation and empowerment of the working poor in formulating strategies to reduce working poverty;
- (b) developing the economy and creating employment opportunities;
- (c) providing community support and developing local economies;
- (d) reviewing the contracting-out arrangements for Government services;
- (e) safeguarding employees’ benefits;
- (f) enhancing the competitiveness of the working poor through education and training;
- (g) providing financial assistance to the working-poor households; and
- (h) providing support services for working-poor households.

6.2 As regards the suggestion of setting a minimum wage, the Subcommittee considers that the Government should take note of the various views expressed on this subject in this report.

6.3 The Subcommittee agrees that the report should be provided to the Government for its consideration and response.

[Translation]

**The Financial Secretary's Response to the Motion on
"Implementing the Recommendations in the Report on Working Poverty
by the Subcommittee to Study the Subject of Combating Poverty"
Moved by Hon Frederick FUNG Kin-kee on 15 February 2006 (Wednesday)**

Madam President,

I would like to thank the Subcommittee to Study the Subject of Combating Poverty ("the Subcommittee") for its recommendations made in the Report on Working Poverty, and Members for their views.

The Commission on Poverty ("the Commission") discussed at the meeting on 23 January this year the various support made available to low-income employees and the policy direction in improving such support. Accusations of our lack of attention to the working poor were unfounded. I am very pleased to have the opportunity today to share with you our belief and strategy in this regard, and to give a preliminary response to the Subcommittee's recommendations.

Understanding the situation of working poor

In order to understand the situation of low-income employees (i.e. those with a monthly income of less than \$5,000) and their families, the Commission and the Subcommittee have made reference to the figures provided by the Census and Statistics Department (C&SD). Despite the differences in the methodology employed, they have both estimated the number of low-income employees in mid-2005 to be around 190 000. These employees comprise 140 000 of those working full-time (i.e. working 35 hours or more a week) and 50 000 underemployed, and both numbers are lower than those in 2003. The unemployment rate for workers engaged in elementary occupations has fallen from 9.6% in mid-2003 to 6.2% at end-2005. The average employment earnings of employees at the lowest three decile groups have been picking up since the beginning of 2005, and an increase of 2-4% was recorded in the third quarter of the year. I am also aware that the wages of employees in some low-paying sectors, such as shampooing workers, salespersons and restaurant dishwashers, have increased recently. This demonstrates that as a result of the efforts of the Government in promoting economic development, the job opportunities and employment income for the low-income group have been improving gradually with the economic upturn.

The Commission agreed that it was inadequate to make reference to these figures alone. While these figures can help us understand the profile and the problem of the working poor, they cannot reflect the impact of public policies (including those on taxation, housing, health care, education and other welfare services) on their disposable income. In order to have a more accurate picture of the impact of government policies on different income groups and a better assessment of the effectiveness of the policies, the Government Economist and the C&SD will conduct an analysis of their disposable income. We hope that a preliminary outcome will be available soon.

Strategy for helping the working poor

Now, I would like to elaborate on our strategy for helping the working poor from the following five perspectives:

- (1) Reinforcing the district-based approach, enhancing community building and participation

The Commission has reviewed the existing key policies (including taxation, housing, health care, education and other social welfare services) aimed at meeting the needs of low-income people and their families. Although there is still room for improvement, it is believed that these policies are generally effective in providing the necessary assistance to the working poor. Some Members have expressed concern about the effectiveness of the poverty indicators, and how the Government identifies the poor so as to provide them with the necessary assistance. I believe that Members are not suggesting that the Government should rigidly affix a new label to the working poor. I am also very pleased to see that items (a), (c) and (h) of the Subcommittee's recommendations also emphasize the importance of community building and participation. During the district visits, I have also realised that only by building social capital and community network can the needy, including the working poor, be really taken care of. This is also the ultimate objective of the district-based approach adopted by the Commission. In implementing this approach, we will actively encourage district bodies and non-government organisations to take forward schemes targetted at the working poor, such as promoting the dissemination of information or reaching out to these people so that they can make good use of district resources.

- (2) Proactive poverty alleviation strategy

Economic restructuring is one of the main factors contributing to skill mismatch and working poverty in the community. We should therefore adopt a proactive strategy to help the low-income group to get out of poverty. I have emphasized in many occasions that the fundamental way to help people with employability is to improve our economy and promote

employment (Note 1), strengthen education and training (Note 2) as well as the relevant employment services so that their employability can be enhanced. The above two measures are in line with items (b) and (f) of the Subcommittee's recommendations. I am also very pleased to see that the beliefs of the Subcommittee in this respect coincide with ours, though I may differ with the view of the Subcommittee on certain recommendations, such as whether encouraging individual sectors to operate factories in Hong Kong is suitable for a small and highly open economy as Hong Kong. The Government will maintain dialogue with the Legislative Council to explore feasible ways to enhance the competitiveness of low-income employees.

(3) Developing local economy/promoting social enterprises

Apart from promoting economic development, education and training, the Commission also agrees to provide those people with greater difficulty in finding jobs in the open market (e.g. the less-educated, low-skilled and the middle-aged) with training and employment opportunities by encouraging social enterprise development and promoting local economy. I am very glad that the recommendations put forward by the Subcommittee (i.e. item (c), see Note 3) in this area coincide with ours. We have already commenced work on areas like policy facilitation, financial support and promotion. I briefed Members of the Subcommittee on these efforts at their last meeting. We are happy to report on the progress of our work to the Subcommittee in future.

(4) Enhancing financial assistance

The Subcommittee recommends that the Government should provide financial assistance to families of the working poor (Note 4), making reference to the Tax Credit Scheme of the United Kingdom (UK). In this respect, first of all, I would like to emphasize that our public finances and tax system are very different from those of the UK. However, the Commission has agreed to consider how best to increase work incentive for the low-income employees, while adhering to the principle of "Prudent Management of Public Finances" and not dampening the motivation for work. At present, if the income of a low-income employee is insufficient to support his family expenses, he may receive income support under the low-income category of CSSA. We will further examine the existing arrangements, including the need to improve the operation of "disregarded earnings". We will also continue to consider feasible options to help the unemployed to seek jobs, such as providing subsidies or allowances to them.

(5) Labour rights

A number of Members have mentioned labour rights. The Subcommittee has also made some recommendations on this issue (Note 5). Protecting labour rights and promoting good labour relations so that employees can share the fruits of our economic recovery are essential in building a harmonious society. As you are aware, the issue of “minimum wage” is complex and controversial. Some Members have also expressed different views on it. The Labour Advisory Board is now discussing the impact of this policy on our society and economy. The SAR Government always attaches great importance to the protection of labour rights. We will give this subject serious consideration, with a view to striking a proper balance between the interests of employers and employees.

Conclusion

The public may have an impression that the Government and the Legislative Council have dissenting views on poverty alleviation issues. However, when I study the Subcommittee’s recommendations, I find that we do share the same thoughts on many issues. I am glad that we are no longer embroiled in the question of whether there is a need to set a new poverty line. As I said in my response to the Hon Emily Lau’s question this morning, we have in effect adopted the level of CSSA payment in estimating the number of poor people eligible for financial assistance. Besides, we have, through implementing various policies, rendered the necessary support to people with different needs. Adopting a brand new but incomprehensive standard would only confuse the public further and would not be conducive to the effective review and improvement of public policies.

Members have expressed concern about the uses of indicators. In fact, indicators can play a significant role in policy review. They will be updated annually. This can help us keep track of the progress of our poverty alleviation work and serve as a reference in reviewing the effectiveness of relevant policies. To cite an example, the change in the number of non-engaged youths may be due to the design of the projects or impacts brought by other new social factors.

The prevention and alleviation of poverty is an established part of Hong Kong’s public policy. Through our continuous efforts over the years, we have witnessed the gradual improvement in the living conditions of low-income employees. In the future, the SAR Government and the Commission will cooperate fully with the Legislative Council. We will try to seek a consensus pragmatically on the following areas with a view to improving the existing policies:

- (i) Conducting more accurate assessments on the situation of the working poor and their families, and the impact of the relevant public policies on their disposable income;

- (ii) Strengthening district-based approach to poverty alleviation, enhancing community building and participation, and actively encouraging local bodies to provide more information and support focusing on the needs of the working poor;
- (iii) Promoting a proactive strategy for alleviating poverty. Continuous efforts will be made to create jobs through promoting economic development, and to strengthen the support in education, training and employment assistance to enhance the capabilities of the working poor;
- (iv) Developing local economy and promoting the development of social enterprises to enable the disadvantaged to contribute to society and move towards self-reliance;
- (v) Considering providing financial assistance and increasing work incentives as appropriate; and
- (vi) Considering how to better protect employees' interests, taking into account the overall social and economic developments of Hong Kong and the need to balance the interests of employers and employees.

Thank you, Madam President.

(Note 1) Item (b) of the Subcommittee's recommendations

(Note 2) Item (f) of the Subcommittee's recommendations

(Note 3) Item (c) of the Subcommittee's recommendations

(Note 4) Item (g) of the Subcommittee's recommendations

(Note 5) Items (d) and (e) of the Subcommittee's recommendations
