

## **ITEM FOR FINANCE COMMITTEE**

### **HEAD 90 – LABOUR DEPARTMENT**

#### **Subhead 700 General non-recurrent**

#### **New Item “Work Incentive Transport Subsidy Scheme”**

Members are invited to approve a new commitment of \$4,295 million for implementing the Work Incentive Transport Subsidy Scheme.

### **PROBLEM**

Travelling expenses incurred in commuting to and from work take up a relatively significant part of the income of low-income families. A work-related transport subsidy is needed to relieve them of this burden and encourage their employed members to stay in employment.

### **PROPOSAL**

2. The Secretary for Labour and Welfare proposes to create a new commitment of \$4,295 million for implementing a Work Incentive Transport Subsidy (WITS) Scheme.

### **JUSTIFICATION**

#### **Need for transport subsidy**

3. The Government provides a wide range of free or heavily subsidised social services for Hong Kong residents covering education, healthcare, social welfare and housing. For some forms of assistance, such as student financial assistance, medical fee waiver, public rental housing and Comprehensive Social Security Assistance (CSSA), etc., eligibility is restricted to those households who are financially disadvantaged.

4. Transport is one of the key areas of daily expenses which is not normally subsidised by the Government. While individual transport operators may offer concessionary fares as they see fit, direct subsidy by the Government specifically for transport purpose is limited to certain groups of commuters such as needy full-time students under the Student Travel Subsidy Scheme; elders, persons with disabilities and those certified to be in ill health under the CSSA Scheme; and persons with severe disabilities who are recipients of Disability Allowance under the Social Security Allowance Scheme. Time-limited transport allowance is also provided to needy job-seekers and low-income employees residing in four designated remote districts<sup>1</sup> under the pilot Transport Support Scheme (TSS) which was introduced in 2007 to encourage them to “go out” and seek jobs or work across districts.

5. We notice that travelling expenses for commuting to and from work take up a relatively significant part of the income of low-income households with employed persons<sup>2</sup>. Provision of work-related transport subsidy to low-income households with employed members will therefore help relieve their burden of travelling expenses arising from commuting to and from work, and promote sustained employment as they need not spend a disproportionately large amount of their employment earnings on work-related travels.

## **Proposed features of the WITS Scheme**

### General considerations

6. The WITS Scheme aims at helping employed members of low-income families reduce the burden of home-to-work travelling expenses, rather than generally meeting their living expenses or non-work related transport needs. In designing the WITS Scheme, we have endeavoured to –

- (a) assist the most needy and ensure that public funds are used prudently;
- (b) minimise the chances for abuse;
- (c) keep the Scheme relatively simple and user-friendly; and
- (d) keep the administrative costs relatively low.

/Territory-wide .....

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<sup>1</sup> Yuen Long, Tuen Mun, North and Islands districts.

<sup>2</sup> The General Household Survey (GHS) conducted by the Census and Statistics Department (C & SD) in the second quarter of 2010 suggests that, insofar as households with employed persons are concerned, work-related travel expenses on average amounted to about 5.4% of the household income, when the household income was less than \$10,000 a month. The percentage was noticeably lower (at about 3.1%) for households whose monthly income was \$10,000 or more.

Territory-wide coverage

7. The WITS Scheme will benefit all employed persons, including self-employed persons, in low-income families who are lawfully employable in Hong Kong<sup>3</sup> and have to incur travelling expenses commuting to and from work, irrespective of the travelling distance, mode of transport and actual travelling expenses. Job-seekers, full-time students who undertake paid or unpaid work and trainees not in employment will not be covered by the WITS Scheme.

Non time-limited

8. There is no deadline for application, and eligible applicants can continue to receive the subsidy so long as they meet the eligibility criteria set out in paragraphs 9 to 13 below.

Eligibility criteria*Income and asset limits*

9. To ensure that public resources are channelled to low-income earners more genuinely in need, applicants will be means-tested on a household basis and, subject to all the eligibility criteria being met, the subsidy will be payable to each applicant of the household. For the purpose of the WITS Scheme, different income<sup>4</sup> and asset<sup>5</sup> thresholds for households of different sizes are set, having regard to income statistics and the prevailing thresholds for comparable schemes. The details are given at Enclosure 1.

Encl. 1

10. We have carefully considered the suggestion of adopting a dual-track approach for the means test, i.e. allowing applicants to choose to be means-tested either on an individual or household basis. Our conclusion is that a household-based means test is more equitable than one that assesses only the

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<sup>3</sup> A person is "lawfully employable in Hong Kong" if he is free to take up any employment in Hong Kong without the Director of Immigration's prior permission. By definition, foreign domestic helpers and imported workers are excluded. This criterion is also adopted for TSS.

<sup>4</sup> Income includes earnings from employment and other income (e.g. business profits, fees for rendered services, rent collected, contributions from relatives/friends, etc.). Employee's mandatory contribution to a Mandatory Provident Fund Scheme and financial assistance provided by the Government (e.g. TSS benefits and CSSA payment) are not included.

<sup>5</sup> Asset includes land/properties, cash, bank deposits, vehicle, transferrable vehicle licences, cash value of insurance policies, investments (e.g. stocks, shares, and bonds) and other readily realisable assets (including those within and outside Hong Kong). Self-occupied property is not included.

individuals' income and assets because the economic situation of the household is taken into consideration. It is neither practicable nor appropriate to adopt a dual-track approach as it cannot help screen out those who have less financial need, and there is a greater risk of abuse and confusion during implementation. A household-based means test is also consistent with other standing Government financial assistance schemes.

11. In the original proposal presented to the Panel on Manpower of the Legislative Council (the Manpower Panel) in December 2010, the income thresholds for 2- and 3-member households were \$8,500 and \$12,000 respectively. We now propose to raise these thresholds because smaller households tend to have higher per capita expenditure<sup>6</sup> and less room for deployment of resources in times of need. The revised income thresholds for 2- and 3-member households are \$10,000 and \$13,000 respectively. They represent about 70% and 65% respectively of the median income for households of the same size. For households of other sizes, the income thresholds are close to 60% of the median; that for one-member household is close to the median<sup>7</sup>.

12. On asset limits, we consider that the proposed levels should remain as they are two to three times of those under the CSSA Scheme for the same household size. In fact, to recognise the fact that elders tend to hold on to assets for meeting unforeseen expenses and as a form of old age security, our original proposal already provides that households with elderly members enjoy a higher asset limit. For each elderly member (aged 60 or above) of the household, the asset limit will increase by \$35,000.

#### *Working hour requirement*

13. An applicant has to work for a minimum of 72 hours per month to be eligible for WITS. This is the same as the requirement under TSS and should cover many part-time workers. We consider it inappropriate to provide subsidy to those who work for less than 72 hours per month on a *pro rata* basis or at half rate. Specifically, not only will it increase substantially the workload for verification and result in disproportionately high administrative costs, it will also undermine the policy objective of encouraging more substantive employment which entails longer working hours. We are of the view that the most pragmatic and effective way to support part-timers who wish to increase their employment earnings is to help them seek more part-time jobs.

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<sup>6</sup> According to the 2004-05 Household Expenditure Survey conducted by the C & SD, the monthly expenditure per person for a 2- and 3-member household was \$7,929 and \$6,094 respectively, which were visibly higher than that of a 4- and 5-member household (i.e. about \$5,200).

<sup>7</sup> As of the second quarter of 2010, the monthly median income of one-member household was \$6,600.

14. To this end, the Labour Department (LD) and the Employees Retraining Board (ERB) will provide enhanced service to those who wish to work longer hours. LD will provide persons seeking part-time jobs with special employment services (including proactive job matching and referral to ERB for skills training) and set up a dedicated webpage on part-time work. In parallel, ERB will step up placement service for its trainee graduates who would like to seek more work through the Smart Living platform. LD and ERB will work closely to administer a customer-friendly referral mechanism for persons seeking part-time jobs and open up more training and employment opportunities to them to tie in with the commencement of the WITS Scheme.

#### Level of subsidy

15. The monthly subsidy will be provided at a flat rate of \$600 per qualified applicant. To keep the WITS Scheme simple and easy to administer, we will not provide a customised subsidy based on the beneficiaries' actual travelling expenses. Nor will we set two different levels of subsidy for beneficiaries working in the same district and across districts, as some of them do not have a fixed working place, and depending on the location of work and residence and the availability of transport services, travelling to a neighbouring district is not always farther or more expensive than travelling within district. We believe that a WITS at \$600 per eligible person per month should provide sufficient support to most people in need. According to the General Household Survey (GHS) conducted by the Census and Statistics Department in the second quarter of 2010, the average monthly expense of our target beneficiaries on public transport for travelling to and from work was only \$410, and that for those who need to work across districts was only \$460 (See Enclosure 2).

Encl. 2

#### Avoidance of double benefits

16. WITS recipients will not be eligible for other similar employment-related transport subsidies under the CSSA Scheme such as the Temporary Financial Aid of the Integrated Employment Assistance Scheme for the able-bodied who are already in employment, and grants covering travelling expenses to and from work for the elderly, persons with disabilities and those certified to be in ill health. As an encouragement to work, however, CSSA recipients who are in paid employment and meet the eligibility criteria can apply for WITS. Similar to the TSS arrangement, WITS will be disregarded for the purposes of assessing the household's eligibility for CSSA and determining its CSSA payments.

/Review .....

Review

17. In view of the significant financial implications and the new approach in assisting low-income families, a comprehensive review of the WITS Scheme, including its objectives, eligibility criteria, modus operandi and effectiveness, will be conducted having regard to the experience gained during the first three years of operation.

**IMPLEMENTATION**

18. The Labour and Welfare Bureau, supported by LD, will be responsible for implementing the WITS Scheme. LD will set up a new WITS Division, supervised by an Assistant Commissioner for Labour and comprising about 200 non-directorate civil service staff, to perform all operational functions, including receiving and processing applications, handling appeals, effecting subsidy payments, identifying and investigating fraudulent cases, etc. Given that the WITS Scheme is a new territory-wide scheme, it is difficult to accurately estimate the exact workload and caseload at this stage. We will review the manpower requirement in the light of operational experience.

19. Payment will be made based on proof of eligibility over the previous 12 months. Applicants can opt for a shorter review cycle of no less than six months. Subject to Member's approval of the funding proposal at this meeting, our plan is to start receiving WITS applications from October 2011 onwards. For the first round of application, 1 April 2011 will be deemed as the effective date for subsidy payment. This means that when the WITS Scheme is formally launched in October 2011, applicants may immediately apply for WITS for the previous six months dating back to April 2011, or submit an application later covering a longer payment period (that for a full-year payment can be submitted on or after 1 April 2012). The payments will be effected by automatic bank transfers from the Government to individual recipients direct.

**TRANSITIONAL ARRANGEMENT**

20. TSS, being a time-limited scheme, is nearing completion. We will facilitate those TSS beneficiaries who will be eligible for WITS to migrate smoothly from one scheme to another while ensuring that they do not enjoy both

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benefits at the same time. We will stop receiving applications for admission to TSS upon the launch of the WITS Scheme. Those who are already admitted to TSS can opt to continue receiving TSS subsidy within the qualifying period<sup>8</sup>, or to give up their eligibility for TSS and apply for WITS instead. Although WITS applicants are means-tested on a household basis, the fact that one or more household members is/are on TSS will not affect the eligibility of the other household member(s) for WITS, provided that the relevant eligibility criteria are met.

## FINANCIAL IMPLICATIONS

21. It is difficult to have an accurate estimate of the public response and the actual number of persons who will benefit from the WITS Scheme. The GHS mentioned in paragraph 15 above suggests that there were about 377 500 employed persons working 72 hours or more a month living in households which fell within the revised income thresholds for WITS in the second quarter of 2010. In other words, with the revised income thresholds for smaller households proposed in paragraph 11 above, an additional 47 500 persons may benefit from the WITS Scheme when compared with the estimate of 330 000 in the original proposal presented to the Manpower Panel in December 2010. Assuming that half of them (i.e. 188 750 people) will come forward and apply for WITS and can meet the eligibility criteria, we estimate that implementation of the WITS Scheme will require a non-recurrent commitment of \$4,295 million for the initial three years (as compared with \$3,703 million in the original proposal), broken down as follows –

	<b>Financial implications (\$ million)</b>
Subsidy payment	4,077
Other charges (e.g. cost of engaging non-civil service contract staff, data preparation and other operating expenses)	130
Accommodation and related expenditure	61
Publicity and promotion	10
Contingency	17
<b>Total</b>	<b>4,295</b>

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<sup>8</sup> Under the existing TSS, an eligible applicant can claim subsidy within 24 months from the approval date of his/her application.

22. The estimated cash flow of the WITS Scheme is as follows –

<b>Financial Year</b>	<b>\$ million</b>
2011-12	1,094
2012-13	1,411
2013-14	1,410
2014-15	380
<b>Total</b>	<b>4,295</b>

23. Funding requirements for the civil service posts will be reflected in the Estimates of the relevant years. Funding for the information technology system will be separately provided for under the Capital Works Reserve Fund.

## **PUBLIC CONSULTATION**

24. We consulted the Manpower Panel on 16 December 2010. Members generally welcomed the introduction of a transport subsidy scheme which is territory-wide and recurrent in nature. However, they requested the Administration to adopt a dual-track approach for the means test and provide subsidy to those working less than 72 hours per month on a *pro rata* basis or at half rate. As explained in paragraphs 10 and 13 above, we consider it inappropriate to adopt these suggestions. However, we propose to raise the income thresholds for smaller households, as set out in paragraph 11 above, thus benefitting more people. As proposed in paragraph 19 above, for the first round of application, 1 April 2011 will be deemed as the effective date for subsidy payment.

## **BACKGROUND**

25. As recommended by the former Commission on Poverty, the Government has, since June 2007, introduced on a pilot basis a TSS to provide time-limited transport allowance for job-seekers and low-income employees residing in four designated remote districts where the supply of labour far outstripped the jobs available. To relieve the burden on travelling expenses commuting to and from work on the part of low-income families with employed members and promote sustained employment, the Chief Executive announced in his 2010-11 Policy Address that a new WITS Scheme would be introduced to replace TSS.

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**Enclosure 1 to FCR(2010-11)60**

**Income and asset thresholds for the WITS Scheme**

<b>Household Size</b>	<b>Income Limit</b>	<b>Asset Limit</b>
1	\$6,500	\$44,000 (+ \$35,000 = \$79,000 if the applicant is an elderly person aged 60 or above)
2	\$10,000	\$60,000 (+ \$35,000 for each elderly member aged 60 or above)
3	\$13,000	\$90,000 (+ \$35,000 for each elderly member aged 60 or above)
4	\$14,000	\$120,000 (+ \$35,000 for each elderly member aged 60 or above)
5	\$14,500	\$150,000 (+ \$35,000 for each elderly member aged 60 or above)
6 or above	\$16,000	\$180,000 (+ \$35,000 for each elderly member aged 60 or above)

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**Enclosure 2 to FCR(2010-11)60**

**Employed persons<sup>(1)</sup> monthly travelling expenses on  
public transportation<sup>(2)</sup> for travelling to and from work  
(Second quarter of 2010)**

	<b>Working within the same district</b>	<b>Working across districts</b>	<b>Others<sup>(3)</sup></b>	<b>Overall</b>
<b>Median travelling expenses</b>	\$210	\$400	\$400	\$350
<b>Average travelling expenses</b>	\$220	\$460	\$430	\$410

Source: General Household Survey (second quarter of 2010), the Census and Statistics Department

Notes:

- (1) Including employed persons with income less than the threshold of the corresponding household size for the WITS Scheme, who are working for at least 18 hours in the seven-day period before enumeration but excluding employed persons travelling only on taxis/private vehicles/motorcycles to and from work, those working at home, foreign domestic helpers, those studying full-time and those with unknown mode/cost of transportation. The travelling expense of some employed persons was zero, e.g. staff of bus companies and their family members travelling on buses.
- (2) Not including travelling expenses on taxis and the operating expenses for private vehicles/motorcycles.
- (3) Including employed persons who have no fixed place of work and those working outside Hong Kong.

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