

For discussion on
16 December 2010

Legislative Council Panel on Manpower

Work Incentive Transport Subsidy Scheme

Purpose

This paper briefs Members on the details of the proposed Work Incentive Transport Subsidy (WITS) Scheme.

Need for transport subsidy

2. 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 who are financially disadvantaged.

3. Transport is one of the key areas of daily expenses which is not normally subsidised by the Government. It is the Government's established policy that public transport services should be run by the private sector or public corporations in accordance with commercial principles. 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.

4. As recommended by the former Commission on Poverty, the Government has, since June 2007, introduced on a pilot basis a Transport Support Scheme (TSS) to provide time-limited transport allowance for needy job-seekers and low-income employees residing in four designated remote districts¹ where the supply of labour far outstripped the jobs available. As subsidy is provided for a period of 12 months, this is essentially a short-term incentive for residents in the remote districts to encourage them to "go out" and seek jobs or work across districts.

¹ Yuen Long, Tuen Mun, North and Islands districts.

5. There have been strong demands for the Government to subsidise low-income earners' transport expenses on a recurrent and territory-wide basis. But this goes beyond the policy intent of TSS which is to provide a springboard to those who have the ability to work to seek employment and achieve self-reliance. Nonetheless, the Administration has undertaken to look into the need for a more general form of transport subsidy.

6. We notice that travelling expenses for commuting to and from work take up a relatively significant part of the income of low-income earners. A 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. Provision of work-related transport subsidy to low-income earners will help relieve their burden of travelling expenses arising from commuting to and from work, and encourage them to stay in employment as they need not spend a disproportionately large amount of their employment earnings on work-related travels. As announced by the Chief Executive in his 2010-11 Policy Address, the Administration has decided that a new WITS Scheme should be introduced to replace TSS in order to better serve the needs of low-income earners.

Objective and features of the WITS Scheme

7. 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:

- (i) assist the most needy and ensure that public funds are used prudently;
- (ii) minimise the chances for abuse,.
- (iii) keep it relatively simple and user-friendly; and
- (iv) keep the administrative costs relatively low.

The key features of the WITS Scheme are set out in the ensuing paragraphs.

Territory-wide coverage

8. The WITS Scheme will benefit all employed persons, including self-employed persons, in low-income families who are lawfully employable in Hong Kong² and have to incur travelling expenses commuting to and from work, irrespective of the travelling distance, mode of transport and actual travelling expenses.

9. Job-seekers are not covered because there is little proven demand for Job Search Allowance (JSA) under TSS³. Statistics indicate that as at the end of September 2010, the majority (91.3%) of admitted TSS applicants were already in employment at the time when they were admitted. Over 99% of the TSS payment was for the On-the-job Transport Allowance and only a negligible proportion (0.3%) was for JSA. To enable the WITS Scheme to have a clear focus, we do not intend to extend it to job-seekers. Full-time students who undertake paid or unpaid work and trainees not in employment likewise are not covered under the WITS Scheme. It should be noted that there are in existence various support services for job-seekers which include the Labour Department's (LD) free employment service and target programmes, employment assistance programmes under the CSSA Scheme for CSSA able-bodied recipients and Employees Retraining Board's (ERB) full-time employment-oriented programmes.

Non time-limited

10. The subsidy will be provided on a recurrent basis. There is no deadline for application, and eligible applicants can continue to receive subsidy so long as they meet the eligibility criteria set out in paragraphs 11 to 13 below.

Eligibility criteria

Income and asset limits

11. To ensure that public resources are channelled to low-income earners 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

² 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.

³ Two types of allowances are made available to eligible applicants under the TSS, viz. a JSA on a reimbursement basis up to \$600 and an On-the-job Transport Allowance of \$600 per month for up to 12 months.

each applicant of the household. The reason for this requirement is that a household-based means test is considered more equitable than one that assesses only the individuals' income and assets because the economic situation of the household is taken into consideration. After all, members of the same household are expected to support each other financially, given that the family forms the basic unit of society. This also accords with our aim of identifying low-income families as our target recipients. There is also less room for abuse through transfer of assets among different members of the family.

12. For the purpose of the WITS Scheme, different income⁴ and asset⁵ thresholds for households of different sizes are set, having regard to income statistics and the prevailing thresholds for comparable schemes. Details are given at **Annex 1**. Overall speaking, the income thresholds are close to 60% of the median household income for the corresponding household size; that for one-member households is close to the median⁶. As regards asset limits, they are two to three times of those under the CSSA Scheme for the same household size. To recognise the fact that elders tend to hold on to assets for meeting unforeseen expenses and as a form of old age security, households with elderly members will enjoy a higher asset limit. For each elderly member (aged 60 or above) of the household, the household asset limit will increase by \$35,000.

Working hours 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. If we further relax this requirement, the subsidy rate may be disproportionately high compared to the actual earnings from work. Providing allowance on a *pro rata* basis according to the actual number of working hours is also not practicable, as it will increase substantially the workload for verification and result in disproportionately high administrative costs. To help those who wish to work longer hours, LD and ERB will actually provide enhanced services to them.

⁴ 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 WITS) are not included.

⁵ Asset includes land/properties, cash, bank deposits, vehicle, transferable vehicle licences, cash value of insurance policy, 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.

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

Level of subsidy

14. As announced in the Chief Executive's 2010 Policy Address, the monthly subsidy will be provided at a flat rate of \$600 per qualified applicant. According to the GHS mentioned in paragraph 6 above, the average monthly expense of our target beneficiaries on public transport for travelling to and from work in the second quarter of 2010 was \$420, and that for those who need to work across districts was \$460 (See **Annex 2**). A WITS at \$600 per eligible person per month should therefore provide sufficient support to most people in need. The payments will be effected by automatic bank transfers from the Government to individual recipients direct.

15. We will not provide a customised subsidy based on beneficiaries' actual travelling expenses, as it would be very difficult to verify each and every individual's actual travelling expenses and set the payment levels accordingly. Setting two different levels of subsidy for beneficiaries working in the same district and across districts is not practicable or fair either, as some of them (e.g. local domestic helpers, casual workers, etc.) do not have a fixed working place. Depending on the location of work and residence and the availability of direct routes between the two points, travelling to a neighbouring district is not always farther or more expensive than travelling within district.

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

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 three years after implementation.

Implementation

18. The Labour and Welfare Bureau, supported by LD, will be responsible for implementing the WITS Scheme. LD plans to set up a new WITS Division to perform all operational functions, including receiving and processing applications, handling appeals, effecting subsidy payments, identifying and investigating fraudulent cases, etc. Subject to the approval of the Finance Committee (FC), the WITS Division will be supervised by an Assistant Commissioner for Labour (AC for L)⁷ and will comprise about 160 non-directorate civil service staff. 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. Taking into account the time required for developing the necessary Information Technology (IT) infrastructure to facilitate case processing and guard against abuse, finalising the operational arrangements, setting up new offices, recruiting and providing training to staff, etc., we estimate that if FC approval can be given by the end of January 2011 and everything goes smoothly, we may start receiving WITS applications in the third quarter of 2011.

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 benefits at the same time. We plan to 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 period⁸, 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.

⁷ On 18 November 2010, this Panel was briefed on and supported LD's proposal to create one new AC for L post to, inter alia, implement the WITS Scheme (vide LC Paper No. CB(2)276/10-11(05)). The proposal will be submitted to the Establishment Subcommittee of the Finance Committee in January 2011.

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

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 6 above suggests that there were about 330 000 employed persons working 18 hours or more a week living in households which fell within the income thresholds for WITS in the second quarter of 2010. Assuming that 165 000 people will come forward and apply for the WITS and can meet the eligibility criteria, we estimate that the implementation of the WITS Scheme will require a non-recurrent commitment of \$3,703 million for the initial three years, broken down as follows:

	<u>Financial implications</u> <u>(\$ million)</u>
Subsidy payment	3,564
Other charges	74
Accommodation and related expenditure	42
Publicity and promotion	10
Contingency	13
Total	<u>3,703</u>

22. Funding requirements for the civil service posts will be reflected in the draft Estimates of the relevant years. Funding for the IT system will be provided for under the Capital Works Reserve Fund.

WAY FORWARD

23. Subject to Members' views, we plan to submit the proposal to FC for funding approval on 28 January 2011.

Income and asset thresholds for the WITS Scheme

Household Size	Income Limit	Asset Limit
1	\$6,500	\$44,000 (+ \$35,000 = \$79,000 if the applicant is an elderly person aged 60 or above)
2	\$8,500	\$60,000 (+ \$35,000 for each elderly member aged 60 or above)
3	\$12,000	\$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)

**Employed persons' ⁽¹⁾ monthly travelling expenses on
public transportation ⁽²⁾ for going to and from work**

(Second quarter of 2010)

	Working within the same district	Working across districts	Others⁽³⁾	Overall
Median travelling expenses (HK\$)	210	400	400	350
Average travelling expenses (HK\$)	220	460	420	420

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.