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Subcommittee on Poverty

**Updated background brief prepared by the Legislative Council Secretariat
for the meeting on 22 December 2015**

Low-income Working Family Allowance

Purpose

This paper summarizes the discussions by the Panel on Welfare Services, the Subcommittee on Poverty ("the Subcommittee") under the House Committee and the Finance Committee ("FC") on Low-income Working Family Allowance ("LIFA").

Background

2. According to the Administration's analysis of poverty statistics, while the working poor families not receiving Comprehensive Social Security Assistance ("CSSA") have been working hard and striving for self-reliance, they are more prone to poverty. This is because these families have fewer working members and need to support more children. The working members of these families are mostly engaged in lower-skilled jobs. In his 2014 Policy Address the Chief Executive announced the Government's proposal to introduce LIFA with an aim to relieve the financial burden of non-CSSA low-income working families (especially those with children), as well as to promote self-reliance and upward social mobility.

3. Following the funding approval by FC on 16 January 2015, the Administration has been pressing full steam ahead with the preparatory work for the LIFA Scheme. On 24 November 2015, the Administration announced that the LIFA Scheme would start receiving applications from 3 May 2016 onwards. Under LIFA, a Basic Allowance will be granted on a family basis and tied to employment and working hours to encourage self-reliance. Each eligible child¹ of a LIFA family will receive an additional Child Allowance of

¹ According to the Administration, an eligible child has to be aged below 15, or aged between 15 and 21 receiving full-time education (but not post-secondary education).

\$800 per month. There will be an income test and an asset test for LIFA. If the income of a family is equivalent to or below 50% of the median monthly domestic household income ("MMDHI") and the applicant is a working member who meets the working hour threshold, this family will be eligible for a full Basic Allowance of \$600 or a higher Basic Allowance of \$1,000 per month, depending on the working hours tier to which it belongs. To help prevent poverty, eligible low-income working families with a monthly income exceeding 50% of MMDHI but not higher than 60% of MMDHI would receive a half Basic Allowance and a half Child Allowance. A two-tier working hour requirement is adopted. The first tier is in the range of 144 hours a month to less than 192 hours a month and the second tier is set at 192 hours or more a month. If a LIFA applicant is a single-parent, the two-tiered working hour requirements for the applicant is 36 hours per month and 72 hours per month for receiving the Basic Allowance and the Higher Basic Allowance respectively.

4. The Administration expects LIFA to benefit 200 000 low-income working families, comprising a total of 700 000 people who include 170 000 eligible children or youths. The estimated expenditure on the LIFA Scheme each year is about \$3 billion. The Scheme is estimated to cut the overall poverty rate by 2% and the child poverty rate by 4.2%².

Members' deliberations

Level of allowance and coverage of LIFA

5. Some Members expressed the view that needy families should be offered a higher amount of Basic Allowance or a special allowance under LIFA so that their household income could be supplemented to exceed 50% of MMDHI, thereby reducing the number of households below the poverty line. The Administration explained that the poverty line was not a poverty alleviation line but a measurement tool to assist policy formulation. The design of LIFA aimed to provide assistance for needy low-income working families, including those having income below or slightly higher than 50% of MMDHI. LIFA's objectives were to encourage employment, promote self-reliance and help alleviate inter-generational poverty.

6. Some Members considered that low-income working families with elderly, chronically ill or disabled members and with members who were not on Disability Allowance ("DA"), Old Age Allowance or Old Age Living Allowance ("OALA") should also be covered by the LIFA Scheme. Some

² According to the Hong Kong Poverty Situation Report 2014 published by the Economic Analysis Division of the Economic Analysis and Business Facilitation Unit and the Census and Statistics Department, after recurrent cash intervention, the overall poverty rate and the child poverty rate in 2014 was 14.3% and 18.2% respectively.

other Members cast doubt on the design of LIFA which did not cover low-income singletons or give special considerations to full-time carers of the chronically ill. If LIFA could not benefit these people, the Community Care Fund ("CCF") under the Commission on Poverty ("CoP") should provide them with the necessary assistance.

7. The Administration advised that LIFA, which focused on helping to alleviate inter-generational poverty and promoted upward social mobility in the long run, would be granted to the needy on a family basis. To help needy elderly people, the Administration had implemented various social security measures such as OALA, and CoP was going to launch a public consultation exercise on retirement protection in December 2015. At the same time, a host of CCF programmes had been implemented to assist the needy. The Administration was also conducting a review on the eligibility criteria for DA. As regards assistance to singletons, the Administration was of the view that, with the introduction of statutory minimum wage, the recovery of labour market, and the enhancement of the Work Incentive Transport Subsidy ("WITS") Scheme, the income of a full-time singleton worker would not be too low.

8. Some Members were of the view that needy youths aged between 15 and 21 who were not students should also be eligible for the Child Allowance under LIFA; and for an applicant to be regarded as a single-parent, the age limit of his/her children should be reviewed. The Administration explained that providing the Child Allowance to youths aged between 15 and 21 who were neither student nor in employment would be inconsistent with the LIFA's objective to promote young people's upward mobility.

9. Some Members considered it unreasonable to disallow LIFA households to benefit from household-based WITS. The Administration advised that CoP had discussed at length the interface between LIFA and WITS, and considered that allowing LIFA household members (except the LIFA applicant) to apply for or continue to benefit from individual-based WITS would be an appropriate arrangement. The second worker within a LIFA household might also continue to benefit from individual-based WITS.

Working hour requirements

10. Expressing concern that it might be difficult for some low-income families, part-time workers and casual workers to meet the working hour requirement for the higher Basic Allowance of LIFA, some Members urged the Administration to lower the corresponding working hour threshold to 176 hours a month. Some other Members considered that LIFA should be provided for the needy regardless of the number of hours they worked given that many grass-roots were under-employed for reasons beyond their control and some elderly persons could only work for a few hours a day because of their health conditions.

11. Some Members were of the view that as an employee working 72 hours a month was generally regarded as in continuous employment, and the majority of workers worked 144 hours a month, the working hour threshold should be lowered to 72 hours a month and 144 hours a month for receiving the Basic Allowance and the higher Basic Allowance respectively. Some other Members considered that an extra tier of working hour threshold should be set between 144 hours and 192 hours. They also proposed that for carers of elderly or disabled family members, the two-tiered working hour thresholds should be set at 36 hours and 72 hours per month. Some Members called on the Administration to simplify the operation of LIFA by adopting a one-tier system for both the working hours and the allowance, i.e. setting the working hour threshold at 144 hours a month and the allowance at \$1,000 a month.

12. The Administration advised that since the basic principle of LIFA was to encourage self-reliance through employment, more allowance would be granted to those who worked more. As such, the higher Basic Allowance would serve as an incentive for work. Having considered the views collected, the Administration had lowered the working hour threshold for the higher Basic Allowance from the original proposal of 208 hours to 192 hours per month, which was its bottom line. It was estimated that over 60% of prospective applicants would meet the current 192-hour threshold for the higher Basic Allowance. An overall review of LIFA would be conducted one year after its implementation.

13. Some Members considered it infeasible to verify the number of working hours. They said that the LIFA applicants who were self-employed or daily waged workers might not be able to provide proof of their income and hours worked. The Administration advised that for such applicants, self-declaration on their income and hours worked would suffice.

14. Some Members opined that the working hours of the second breadwinner of a household should be counted to tie in with the Government policy on gender mainstreaming and encourage family members to stay in employment. According to the Administration, counting the total working hours of all workers of a family might discourage some of them to work longer hours when the family reached the working hour threshold for LIFA. A suitable balance should be struck between helping the needy families with LIFA and maintaining work incentive. Given that the LIFA's objectives were to encourage employment and promote self-reliance, the working hour thresholds should not be too low. Having regard to the long working hours of many low-income working people, a higher amount of allowance was provided to recognize their hard work.

15. Some Members held the view that general/statutory holidays, on the basis of eight hours a day, should be counted towards the working hour requirements per month for all applicants, regardless of whether they were full-time workers, casual workers or self-employed. This would avoid their working hours being affected by the number of general/statutory holidays. Some other Members further requested the Administration to consider counting also unpaid sick leave for the working hour threshold.

16. According to the Administration, paid holidays/leave/absence from duty would be counted towards the working hour requirements for the purpose of LIFA's eligibility assessment. The number of hours an applicant worked on working days would be taken as a reference for considering how the applicant's paid holiday/leave/absence from duty would be counted in LIFA's working hour assessment. Detailed arrangements would be worked out at a later stage and the treatment of holidays/leave/absence from duty would be subject to review. The Administration was of the view that using eight hours a day as a basis for calculating the working hours for general/statutory holidays would not be feasible as it could not reflect the actual working hours of the applicants, which could vary to a great extent.

Asset test and income test

17. While some Members considered that the asset test for LIFA should be removed, some other Members considered the asset test necessary. Some Members were of the view that should there be any asset test, a cumbersome mechanism for implementation should be avoided. Given that public rental housing ("PRH") applicants currently waiting for PRH allocation had already met the asset test when applying for PRH, they should be exempted. According to the Administration, to ensure that limited public resources would be put on those households most in need, an income test and an asset test would be introduced for LIFA, but the thresholds would be more generous.

18. Some Members took the view that OALA and the allowance under the Pilot Scheme on Living Allowance for Carers of the Elderly Persons from Low-income Families should not be counted in LIFA's income test. The Administration advised that the aforementioned assistance was living allowance and should be counted in the LIFA's income test.

Implementation of LIFA

19. Some Members noted with concern that after obtaining FC's funding approval on 16 January 2015, the Administration expected to launch the LIFA Scheme in the second quarter of 2016. These Members had time and again urged the Administration to expedite the implementation of LIFA. The

Administration advised that a lead time of 15 to 18 months would be required as a substantial amount of work had to be done, such as leasing and fitting-out works of office premises, development of information technology system, etc. To help the needy before the implementation of LIFA, CCF had re-launched the "one-off living subsidy for low-income households not living in public housing and not receiving CSSA". In addition, CCF had introduced a one-off special subsidy for primary and secondary students on full grant under the School Textbook Assistance Scheme which provided each eligible student with a one-off subsidy of \$3,600 in the 2015-2016 school year.

20. Given the long lead time for rolling out the LIFA Scheme and the Administration's advice that the claim period of a LIFA application would cover the past six calendar months, some Members urged the Administration to consider extending the claim period to cover 12 months for the first round of LIFA application. The Administration explained that the further extension might not be feasible as such an extended claim period had not been taken into account in the design of the LIFA Scheme.

21. According to the Administration, the LIFA Scheme will start receiving applications from 3 May 2016 onwards. The Subcommittee will be briefed on the implementation of the LIFA Scheme at its meeting on 22 December 2015.

Relevant papers

22. A list of the relevant papers on the Legislative Council website is in the **Appendix**.

Council Business Division 2
Legislative Council Secretariat
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Appendix

Relevant papers on Low-income Working Family Allowance

Committee	Date of meeting	Paper
Panel on Welfare Services	23 January 2014 (Item II)	Agenda Minutes
Subcommittee on Poverty	29 January 2014 (Item I)	Agenda Minutes
Subcommittee on Poverty	12 May 2014 (Item I)	Agenda Minutes
Subcommittee on Poverty	27 May 2014 (Item I)	Agenda Minutes
Subcommittee on Poverty	28 October 2014 (Item I)	Agenda Minutes
Finance Committee	16 January 2015 (Item No. 2)	Agenda Minutes
Subcommittee on Poverty	29 January 2015 (Item I)	Agenda Minutes
Subcommittee on Poverty	23 March 2015 (Item I)	Agenda Minutes
Subcommittee on Poverty	20 October 2015 (Item II)	Agenda Minutes