For discussion
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Legislative Council Panel on Welfare Services
Analysis of poverty situation in Hong Kong in 2017

Purpose

This paper briefs on the major findings of the analysis of poverty situation in Hong Kong in 2017 based on the poverty line analytical framework formulated by the Commission on Poverty.

Background

2.   The Commission on Poverty (CoP) was reinstated in December 2012 to deliberate on various policies and measures in support of the Government's poverty alleviation work for achieving the objectives of preventing and alleviating poverty.   One of the priority tasks of the first-term CoP was to set a well-recognised poverty line for Hong Kong.

3.   In September 2013, the first-term CoP announced the first official poverty line. Poverty statistics for Hong Kong have since been updated annually under the poverty line framework for ongoing monitoring of the poverty situation in the territory.   Since the official poverty line was announced for the first time in 2013, the Government has published six annual analyses of the poverty situation, with statistics covering the period between 2009 and 2017.   All annual Hong Kong Poverty Situation Reports have been uploaded to the CoP's website (www.povertyrelief.gov.hk) for public information.

4.   After various rounds of discussion, the first-term CoP agreed to adopt the concept of "relative poverty".   With monthly household income before policy intervention (i.e. before taxation and social welfare transfers) as the basis for measurement, the poverty line is set at 50% of the median household income by

household size.   The concept of "relative poverty" identifies households with income level below those of the general public as poor, consistent with the poverty alleviation principle of enabling different strata of society to share the fruits of economic development.   Moreover, the poverty line provides objective quantitative analysis as an analytical tool, which helps the Government monitor and understand the poverty situation, formulate poverty alleviation policies and assess policy effectiveness in an ongoing manner.   It also provides a common basis for the discussion of poverty situation in the community.   Information about the formulation, limitations and application of the prevailing poverty line analytical framework is set out at **Annex**.

Major findings of poverty situation analysis in 2017

5.   The Government published the Hong Kong Poverty Situation Report 2017 in November 2018.   With a tightening labour market and a notable expansion of the economy in 2017, overall wages recorded a year-on-year increase of 3.8%. Alongside the increase in wages, there was a general increase of the poverty line thresholds by household size.   Compared with 2016, the overall poverty situation in 2017 remained largely stable.   Overall poverty rate after recurrent cash policy intervention remained at 14.7%.   The size of the poor population went slightly upwards by 13 000 persons to 1 008 800 persons[1].

6.   On the effectiveness of policy intervention, the Government's recurrent cash measures in 2017 continued to provide effective support to poor households, lifting 367 900 persons out of poverty, which was 3.1% more than the 356 600 persons in 2016, and reducing the poverty rate by 5.4 percentage points. Among the measures, the means-tested Comprehensive Social Security

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[1]   Before policy intervention, the poor population in Hong Kong was 1 376 600 persons, which increased by 24 200 persons as compared with 2016 (1 352 500).   The corresponding poverty rate was 20.1%, registering a year-on-year increase of 0.2 percentage points (19.9%).

Assistance and Old Age Living Allowance (OALA)[2] were most impactful on poverty alleviation, reducing the overall poverty rate by 2.5 percentage points and 2.0 percentage points respectively.   Compared with the poverty situation after recurrent cash intervention, the non-recurrent cash measures introduced in 2017 further reduced the poverty rate to 13.9%.   Other than cash measures, the Government has been investing a lot of resources to provide grassroots with various in-kind benefits, in particular the public rental housing (PRH).   These in-kind benefits (mainly comprising PRH) lifted an additional 288 000 persons out of poverty when compared with the situation taking into account recurrent cash policies, further lowering the poverty rate to 10.5%.   This indicates the important role of PRH in poverty alleviation.

7.   The poverty statistics reflected the outcome of various factors at play, including the implementation of the Government's poverty alleviation initiatives, the number of beneficiaries involved, the economic situation, the change in overall employment income and demographic changes, some of which were beyond the Government's control.   In addition, the poverty alleviation effectiveness of many non-means tested relief measures, such as the Elderly Health Care Voucher and the Government Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities, were not captured by the poverty line analytical framework.   While there was a slight increase in the overall poor population in 2017, it did not imply a reduction of resources or the effectiveness of the Government's poverty alleviation efforts.   In fact, the Government's recurrent expenditure on social welfare has been on the rise.   In 2019/20, that expenditure is estimated to reach $84.3 billion, representing 19.1% of the total recurrent expenditure estimate, which almost doubled the expenditure in 2012/13.   This demonstrates the Government's steadfast

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[2]   OALA is available at normal rate and higher rate, with the latter launched on 1 June 2018 with retrospective effect from May 2017.   Therefore, the poverty situation statistics in 2017 only reflected the impact of the enhanced OALA (also including the relaxation of the asset limit of Normal OALA in May 2017) on poverty alleviation for eight months.   The full year effect of enhanced OALA will be reflected in the poverty situation statistics in 2018.

In 2017, OALA lifted 91 200 elderly persons out of poverty, reducing the elderly poverty rate by 8.2 percentage points. OALA was the most effective measure in alleviating elderly poverty amongst various recurrent cash policies.

commitment in poverty alleviation.

8.   Since the publication of the poverty line and its analytical framework in 2013, the Government and CoP noted that there were views from society calling for the setting of a poverty reduction target.   In this regard, the poverty line is not a poverty alleviation line.   The Government's poverty alleviation initiatives need to achieve the dual function of poverty prevention and alleviation and should not just benefit those living under the poverty line.   Currently, the income of the applicants of various cash-based support measures, such as OALA, the Working Family Allowances (WFA), the School Textbook Assistance Scheme, etc. can be higher than the poverty line thresholds in general.   A quantified poverty alleviation target may cause policy tilting towards households living under the poverty line, and the needed support and assistance to prevent those living on the edge of the poverty line from falling below the poverty line may be overlooked as a result.

9.   Moreover, the poverty line takes income as the sole indicator for measuring poverty without considering the amount of assets and liabilities.   A quantified poverty alleviation target will lead to an emphasis on cash-based allowances, but a   significant part of the expenditure on health, education as well as welfare services (such as elderly, rehabilitation, family, youth and community development services) were spent on the provision of services rather than cash allowances.   Therefore, while reducing poverty is still a major focus of the Government's poverty alleviation work, the Government should not set a quantified poverty alleviation target.   As mentioned above, the introduction of the poverty line and its analysis help the Government assess the effectiveness of its policies, thereby assisting policy formulation and enhancement.

10.   Looking ahead, in view of the rapid structural population ageing, the continued upward adjustment of the poverty line thresholds alongside wages increase as well as the fact that the poverty line only takes into account income but not assets, there would not be much room for significant improvement in the poverty figures in future. However, various measures on poverty alleviation and support for the elderly, including OALA, WFA, and the Life Annuity Scheme

launched by the HKMC Annuity Limited have been rolled out and their effectiveness will be fully reflected in future poverty situation analyses. The Government will continue to monitor the effectiveness of these measures.

Conclusion

11.   The poverty line provides a simple and easy-to-understand quantitative basis for the Government and the community to understand the trends of the poverty situation in Hong Kong.   The Government will continue to make use of the poverty line analysis to monitor the poverty situation, evaluate the effectiveness of various initiatives on poverty alleviation as well as review and improve policy initiatives in light of relevant data analyses.

12.   The Government and CoP will keep the application of the analytical framework of the poverty line under review and explore feasible enhancement measures to improve the dimensions of analysis and data collection so as to enrich the poverty line analysis and facilitate public understanding of the poverty situation in Hong Kong.   The Government and CoP will continue to communicate with the stakeholders of various sectors and listen to the views of the community.

13.   Members are invited to note the content of this paper.

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**Formulation, Limitations and Application of
the Poverty Line Analytical Framework**

Analytical framework of the poverty line and its limitations

In formulating the poverty line framework, the first-term Commission on Poverty (CoP) considered the three functions of the poverty line as a policy tool (i.e. analysing the poverty situation, assisting policy formulation, and assessing policy effectiveness) and five guiding principles (i.e. ready measurability, international comparability, regular data availability, cost-effectiveness and amenability to compilation and interpretation). In accordance with the aforementioned functions of the poverty line and guiding principles, the first-term CoP, after thorough discussion, agreed to adopt the concept of "relative poverty" with monthly household income before policy intervention (i.e. before taxation and social welfare transfers) as the basis for measurement, with the poverty line set at 50% of the median household income by household size. Households with income below the poverty line are classified as poor and the household members concerned are counted as poor persons.

2.   CoP adopts the concept of "relative poverty" which is simple and easy-to-understand. Its adoption is consistent with the international practice of most developed economies, such as the Organisation for Economic Co-operation and Development (OECD) and the European Union, and the statistics so compiled are more readily and generally comparable internationally. In addition, it has been a common practice, both internationally and locally, to set the poverty line at 50% of the median monthly household income. For instance, OECD sets its main poverty line at 50% of the median household income. In Hong Kong, some non-governmental organisations (such as the Hong Kong Council of Social Service and Oxfam) have also adopted 50% of the median household income as the poverty line for years.

3.   With reference to international practice, there are several major poverty indicators under the poverty line framework, namely poverty incidence (including the number of poor households and the size of the poor population) and poverty rate for measuring the extent of poverty; and poverty gap (including average and total poverty gaps) for measuring the depth of poverty.

4.   The main analytical framework of the poverty line mainly measures the effectiveness of recurrent cash policies, such as the Comprehensive Social Security Assistance (CSSA), Old Age Living Allowance (OALA), Working Family Allowance (WFA), Old Age Allowance and Disability Allowance.   In addition to the main analytical framework of the poverty line, supplementary analyses are prepared to assess the effectiveness of non-recurrent cash benefits (including one-off measures such as the provision of rates waiver and additional social security payments) and means-tested in-kind benefits (including mainly public rental housing).   For universal in-kind benefits without means tests, such as public medical services and education, the first-term CoP's decision was that these measures should not be included in the poverty line analytical framework as the general public are able to enjoy them.

5.   Just as any framework of data analysis, the poverty line has its limitations, including:

   (1)   Since the poverty line takes household income as the sole indicator for measuring poverty without considering assets and liabilities, some "asset-rich, income-poor" persons (such as retired elderly persons who have a considerable amount of savings or own properties) may be classified as poor, and the poverty situation will be overstated as a result;

   (2)   The poverty line is not a poverty alleviation line.   It should not be taken directly as the eligibility criteria of any poverty alleviation initiatives, nor should it be linked directly to the means-tested

mechanisms of any assistance schemes; and

(3)   Based on the concept of "relative poverty", the poverty line is set at a percentage of the pre-intervention median household income. Under normal circumstances, statistically there are always persons in poverty before policy intervention.

6.   To make up for the limitations of the analytical framework of the poverty line and facilitate multi-dimensional understanding and analysis of the local poverty situation, the Government and CoP have been soliciting views from different sectors of the community for introducing some other analyses under the analytical framework of the poverty line.   For example:

(1)   A thematic analysis has been included in the Hong Kong Poverty Situation Report since 2013 regarding the poverty situation of elderly persons by further analysing the data acquired from the General Household Survey conducted by the Census and Statistics Department;

(2)   Poverty statistics by age of household head and an analysis of the impact of population ageing and other structural factors on the poverty statistics has been introduced in the Hong Kong Poverty Situation Report since 2015;

(3)   An information paper entitled "Supplementary Poverty Line Analysis: Expenditure Patterns of Poor Households in 2015" was prepared based on the statistics acquired from the Household Expenditure Survey conducted once every five years to provide an additional analysis of the expenditure of poor households for supplementary reference; and

(4)   The thematic analysis on the poverty situation of elderly persons

was expanded for the first time in the Hong Kong Poverty Situation Report 2017, by introducing a new analysis to identify "income poor, owning property of certain value" elderly persons among those residing in owner-occupied mortgage-free housing.

Effectiveness and application of the poverty line

7.   One of the major functions of the poverty line is to assess policy effectiveness.   In the poverty line analysis, household income is classified into two types, i.e. "pre-intervention" household income[1] and "post-intervention" household income[2].   By analysing the changes in poverty indicators before and after policy intervention, the effectiveness of existing poverty alleviation measures can be quantified, evaluated and compared, thereby facilitating policy review.   Through the analytical framework of the poverty line, the effect of policy initiatives under deliberation on various poverty indicators can be simulated, which serves to provide objective policy guidance.

8.   Statistics for poverty analysis are mainly sourced from the General Household Survey of the Census and Statistics Department.   The data collected can be further analysed by a set of socio-economic characteristics, such as gender, age, employment condition and district.   A focused analysis of the situation of various groups, such as elderly, single-parent and unemployed households, can also be conducted so that groups in need of focused support can be identified and policy initiatives be explored and formulated accordingly to provide targeted support.   For example, the poverty line analysis has revealed that low-income working families not receiving CSSA, mostly with children at school, are at a higher risk of poverty and deserve priority attention.

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[1]   It refers to the original household income without taxation or any other policy intervention and includes only a household's own employment earnings and other non-social-transfer cash income.

[2]   It refers to the derived household income obtained by deducting taxes and counting all recurrent cash benefits (such as CSSA, Old Age Allowance, OALA, Disability Allowance, Work Incentive Transport Subsidy and WFA) on top of the "pre-intervention" household income.   This income reflects more genuinely the amount of monthly disposable cash available to a household.

In view of that, the Government devised and launched the Low-income Working Family Allowance Scheme (renamed as the "Working Family Allowance" Scheme on 1 April 2018 with the implementation of a series of enhancements) in 2016 to encourage members of these families to stay in active employment and ease intergenerational poverty. Furthermore, the poverty line analysis also has a particular focus on the poverty situation of the elderly, and has helped the Government further identify the poor elderly persons with financial needs. In this connection, the Higher OALA was introduced in 2018 to provide additional support for them.

9. The analytical framework of the poverty line has also been applied in other related studies, which in turn helped the Government monitor the situation of some specific groups not covered by the annual poverty situation report. For instance, the Government has, on the basis of the poverty line framework, compiled analyses on the poverty situation of persons with disabilities and ethnic minorities[3] to help better understand the forms of poverty of these specific groups and formulate targeted support measures for them.

10. Moreover, the poverty line has gained wide acceptance in the community in recent years. Academics, think tanks and welfare organisations have used the data from the poverty line analysis in their studies, some of which have shed light on how CoP may improve the analytical framework of the poverty line. Therefore, the poverty line not only provides a common basis for deliberation on poverty issues in Hong Kong, but also helps the Government and CoP strengthen exchanges and interactions with various stakeholders on poverty issues.

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[3] The Government has published the "Hong Kong Poverty Situation Report on Disability 2013", "Hong Kong Poverty Situation Report on Ethnic Minorities 2014" and "Hong Kong Poverty Situation Report on Ethnic Minorities 2016".