

For information

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

**Report on Working Poverty –
Assistance and Support to Working-poor Households**

Introduction

This paper gives an overview of the work of the Administration and the Commission on Poverty (CoP) on measures providing support for the working-poor households. They are also relevant to recommendations (g) and (h) in the LegCo “Report on Working Poverty” (the Report).

Overview

**(A) Providing financial assistance to the working-poor households
(Recommendation (g) of the Report)**

(i) Provision of Disregarded Earnings (DE)

2. Currently, the provision of disregarded earnings (DE) under the CSSA Scheme encourages able-bodied Comprehensive Social Security Assistance (CSSA) recipients to find and maintain employment. The Report suggests that the current provision of the DE should be improved (paragraph 5.20 of the Report refers). At its meeting on 13 June 2006, the CoP discussed the DE provision, including on its objective, its operation and the broader policy direction and interface with other support in assisting the unemployed and working poor. The meeting noted the issues involved were complicated, and the Administration needed to strike a balance between providing work incentives and risk of depressing wages. The Health, Welfare and Food Bureau (HWFB) would conduct a more detailed examination of the existing DE arrangements in consultation with Social Welfare Advisory Committee (SWAC). The CoP would give further consideration in the light of the report by HWFB and SWAC¹.

¹ For details, please refer to CoP Paper 10/2006 on “Provision of disregarded earnings (DE) under the Comprehensive Social Security Assistance (CSSA) Scheme” at Appendix A.

(ii) Allowances for attending job interviews

3. High transport cost may become a disincentive to work for the working poor living in remote areas and who have to commute a long distance for job interviews/work. The Report also suggests providing allowances to assist job seekers in low-income families to attend job interviews (paragraph 5.22 of the Report refers).

4. The Government has been encouraging public transport operators to introduce fare reduction or concession having regard to their respective operating conditions and the economic situation of the community. Financial assistance has also been provided to assist job seekers to attend job interviews and in their transition to work. For example, the Social Welfare Department (SWD) provides Temporary Financial Aid (TFA) under the Intensive Employment Assistance Projects (IEAPs) to assist needy unemployed CSSA recipients as well as “near-CSSA” unemployed persons to meet employment related expenses, including job search. A Special Incentive Allowance Scheme for Local Domestic Helpers (LDH) was introduced in 2003 to address the mismatch in supply and demand in the LDH market and to promote LDH service.

5. In the Budget 2006-2007, a short-term travelling support scheme for eligible graduates of the Employees’ Retraining Board (ERB) was introduced with a view to facilitating the unemployed not assisted by IEAPs to move from unemployment to work. The Administration will review the experience of the scheme later this year.

6. In response to community concern about providing further support to the working poor, the CoP at its meeting on 27 March 2006 also suggested that the Administration should consider how to provide longer-term travelling support to low-income employees living in remote areas². We are exploring with relevant bureaux, departments and NGOs on the feasibility and mechanism to be adopted. We target to launch a pilot project in 2006/07.

² For details, please refer to CoP Paper 5/2006 on “Work Incentives for Working Poor- Transport Support For Those Living in Remote Areas” at Appendix B.

(iii) Establishment of a Child Support Fund

7. The Report suggested that the Government should consider establishing a Child Support Fund to assist children in low-income families (paragraph 5.22 of the Report refers). The CoP Task Force on Children and Youth discussed the applicability of overseas experience in setting up a Child Development Fund in Hong Kong at its meeting on 11 May 2006³.

The Task Force will continue to examine the gaps in existing services and support. Noting the diversity of expectations about the purpose and design of such a Fund, the CoP would organise a Child Development Forum on 10 November 2006 to help gauge views of relevant parties on ideas of a meaningful and feasible arrangement that suit Hong Kong's circumstances.

(B) Providing support services for working-poor households
(*Recommendation (h) of the Report*)

(i) Strengthening existing support services

8. The Government is committed to assisting low-income employees and their dependents to meet basic daily living requirements. At its meeting on 23 January 2006, the CoP examined the existing policies and support in assisting low-income employees⁴. While noting that a wide array of support and highly subsidized public services have been provided to CSSA and non-CSSA families alike, the CoP agreed that more emphasis should be placed on measures and incentives to encourage the working poor/unemployed to upgrade themselves, to work and to achieve self-reliance. In this regard, the CoP would examine training and re-training service at its September 2006 meeting. The Meeting also agreed that the CoP should focus on improving policy interface rather than duplicating existing efforts.

(ii) Mobilizing community resources

9. We agree that the concept of social partnership and empowerment should be better promoted as suggested in the Report. In fact, one of the

³ For details, please refer to CoP TFCY Paper 3/2006 on "Child Development Fund as a Model" at Appendix C.

⁴ For details, please refer to CoP Paper 1/2006 on "Policies in Assisting Low-income Employees at Appendix D.

major foci of the CoP Task Force on District-based Approach is on how district networks and energies could be better harnessed to strengthen support services for the working poor. Members have been updated on a number of initiatives at the Subcommittee meeting on 22 June. A gist of several initiatives being carried out are repeated below for ease of reference

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(a) “Enhancing Self-Reliance Through District Partnership Programme”

10. In the 2006-07 Budget, a total of \$150 million has been committed in the next five years to strengthen district-based poverty alleviation work and assist socially disadvantaged groups to gain self-reliance, including support for social enterprises. A total of \$30 million would be allocated to the Home Affairs Department to implement the above Programme in 2006/07 . The purpose is to promote sustainable poverty prevention and alleviation efforts at the district level; these include for example projects that enhance self-reliance of, and create employment opportunities for, the disadvantaged.

(b) Study on District-based Support for the Disadvantaged

11. The CoP Task Force on District-based Approach is conducting a study in the three pilot districts, namely Yuen Long, Kwun Tong and Sham Shui Po. The main objectives of the Study are to collect best practices in the implementation of poverty alleviation work at district level, in particular on how district networking and co-ordination could be strengthened to provide more effective support to the disadvantaged, including low-income households.

(c) Project on Community Engagement and Joint Actions against Poverty in Tin Shui Wai North (TSW(N))

12. The project is a pioneering project which aims at identifying how community engagement strategy could be used to facilitate redeployment of under-utilized resources at the district level for sustainable poverty alleviation. TSW(N) has been chosen for implementing the Project.

Secretariat to the Commission on Poverty
 Financial Secretary’s Office
 11 July 2006

For information on
10/2006
13 June 2006

CoP Paper

**Provision of disregarded earnings (DE)
under the Comprehensive Social Security Assistance (CSSA) Scheme**

The provision of DE under the CSSA Scheme aims to encourage CSSA recipients to find and maintain employment. DE refers to the earnings from employment that are disregarded when assessing the amount of assistance payable to a CSSA recipient.

BACKGROUND

Improvement to DE in 2003

2. Arising from a review carried out by the Social Welfare Department (SWD) in 2002, the Administration recommended and Legislative Council later approved that the following changes to the DE arrangements should be made :

- (a) the maximum level of monthly DE should be raised from \$1,805 to \$2,500 and its 'no-deduction' limit should be raised from \$451 to \$600 for all categories of recipients subject to (b); and
- (b) no DE should be provided in the initial determination of eligibility, and in cases which have been on CSSA for less than three months.

3. The changes were introduced on 1 June 2003 as part of a package of intensified Support for Self-reliance (SFS) measures to help employable CSSA recipients move towards self-reliance. A summary of the intensified SFS measures is at *Annex A*.

CURRENT ARRANGEMENTS

Eligibility requirement for DE

4. All categories of recipients in cases which have been on CSSA for not less than three months are eligible for DE benefits.

DE benefits

5. CSSA recipients meeting the eligibility requirement are entitled to the following DE benefits:

(A) Monthly DE

Monthly earnings from employment can be partially disregarded up to a maximum of \$2,500 per month, calculated as follows:

<u>Earnings</u>	<u>Level of disregard</u>	<u>Maximum amount to be disregarded</u>
First \$600	100%	\$600
Next \$3,800	50%	\$1,900
\$4,400 or above	The first \$600 and half of next \$3,800	\$2,500

(Two case examples are provided at Annex B.)

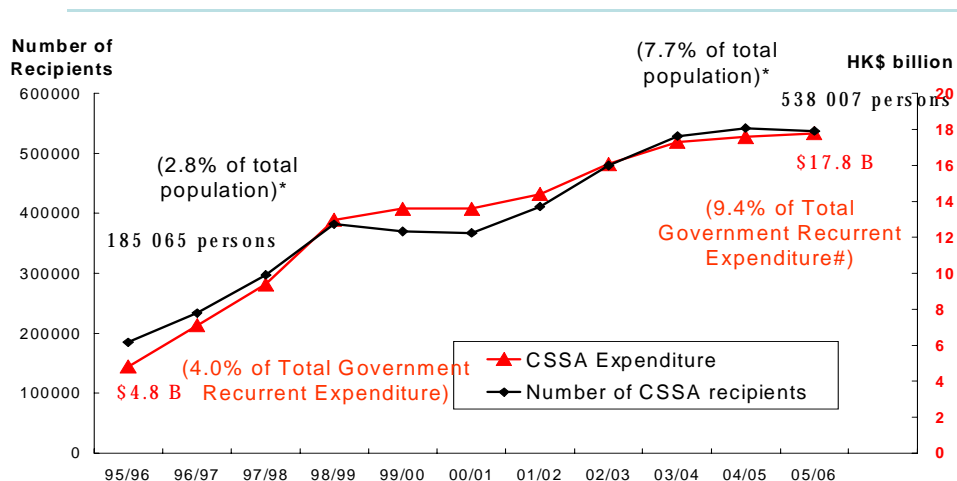
(B) Total disregard of the first month's income

The first month's income earned from a new job can be totally disregarded on condition that the recipient has not benefited from this provision during the past two years.

KEY STATISTICS AND TRENDS*CSSA Recipients and Expenditure*

6. Overall, the number of CSSA recipients increased from 140 400 in 1994-95 to 538 007 in 2005-06, and the associated expenditure on this item increased from \$3.4 billion to \$17.8 billion. CSSA expenditure as a percentage of total government recurrent expenditure increased from 3.2% to 9.4% over the same period. The overall CSSA expenditure and the total number of recipients in the past 10 years are shown in Chart 1.

Chart 1. Overall CSSA expenditure and total number of recipients in the past decade



Notes : * Figures refer to end 1995 and end 2005 respectively.

The figure on total government recurrent expenditure in compiling the ratio refers to Revised Estimates.

DE

7. The total amount of CSSA recipients' earnings that were disregarded increased significantly from \$298.9 million in 2001-02 (equivalent to 2.1% of total CSSA expenditure) to \$830.7 million (equivalent to 4.7% of total CSSA expenditure) in 2005-06, up 531.8 million or 178%. Over the same period, by comparison, total CSSA expenditure increased by 23.3%.

8. As at March 2006, 37 943 CSSA recipients benefited from DE. These included 25 335 able-bodied low-income recipients, whose average monthly income was \$4,688. 56% of these low-income recipients benefited from the maximum monthly DE. The age and status profiles of the CSSA recipients who are benefiting from DE are shown in the pie charts below:

Chart 2. Age of the CSSA recipients who are benefiting from DE

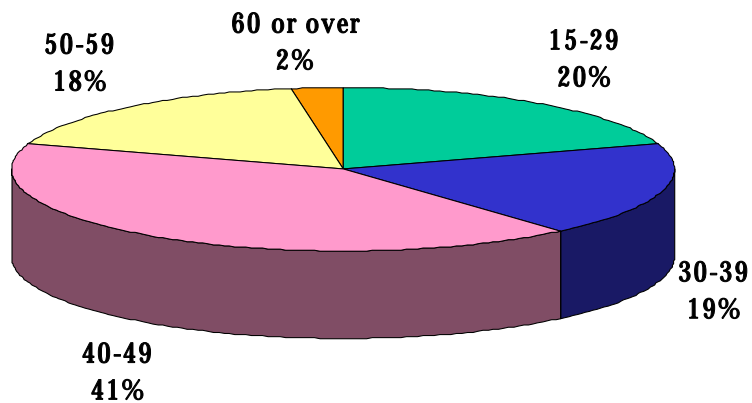
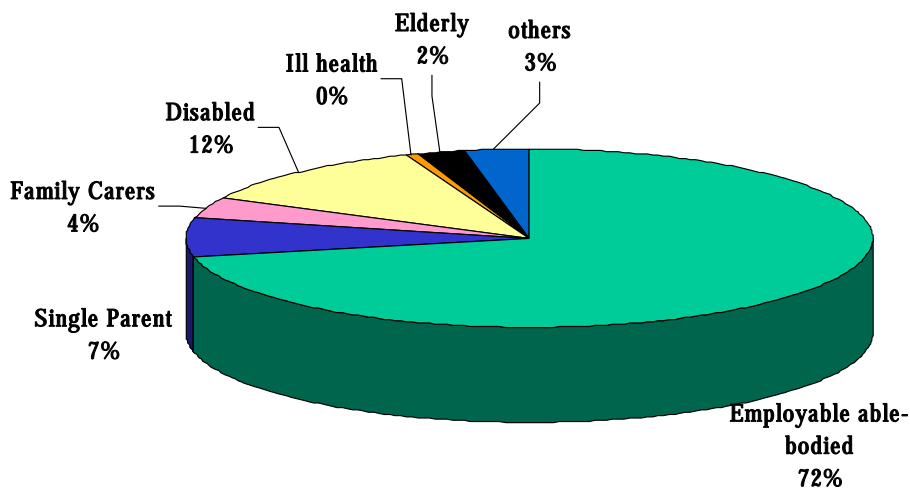


Chart 3. Status of the CSSA recipients who are benefiting from DE



Disposable income

9. In accordance with CSSA rates as from 1 February 2006, the estimated monthly disposable incomes (i.e. CSSA + income from employment) of 'low earnings' cases are:

<u>Household size</u> ^(Note)	<u>Estimated average monthly disposable income</u>
Single persons	\$3,490
2-persons households	\$5,937
3-persons households	\$8,255
4-persons households	\$9,972
5-persons households	\$11,873

Note: Only eligible members are counted

Duration of receipt

10. Duration of receipt of CSSA by able-bodied low-income CSSA recipients and able-bodied unemployed CSSA recipients are shown in the tables below:

Duration of receiving CSSA of the able-bodied low-income CSSA recipients

	As at Mar 2003 (%)	As at Mar 2004 (%)	As at Mar 2005 (%)
Duration of receipt of CSSA			
< 6 months	13.6%	7.6%	5.2%
6 - < 12 months	16.4%	16.1%	8.3%
1 - < 2 years	18.9%	22.1%	20.0%
2 - < 3 years	10.4%	13.7%	18.7%
3 years and above	40.8%	40.5%	47.8%
Median length (months)	25	27	35

Duration of receiving CSSA of the able-bodied unemployed CSSA recipients

	As at Mar 2003 (%)	As at Mar 2004 (%)	As at Mar 2005 (%)
Duration of receipt of CSSA			
< 6 months	20.8%	14.4%	11.7%
6 - < 12 months	17.9%	17.7%	10.1%
1 - < 2 years	18.7%	21.3%	19.3%
2 - < 3 years	8.6%	13.0%	16.4%
3 years and above	34.0%	33.6%	42.4%
Median length (months)	18	22	31

Summary of the Intensified Support for Self-reliance (SFS) measures

A package of intensified SFS measures has been rolled out since 1 June 2003 mainly to encourage and assist employable able-bodied CSSA recipients to move towards self-reliance. These measures included:

- (a) enhancing the Active Employment Assistance (AEA) programme under the SFS Scheme;
- (b) enhancing the Community Work (CW) programme under the SFS Scheme;
- (c) commissioning non-governmental organizations (NGOs) to run Intensive Employment Assistance Projects (IEAPs) for employable CSSA recipients and the 'near-CSSA' unemployed¹; and
- (d) enhancing the provision of disregard earnings (DE) under the CSSA Scheme to provide more financial incentives to work.

Enhanced AEA programme

2. The main features of the enhanced AEA programme are as follows:
- (a) To provide more targeted assistance including job matching where possible and referrals to intensive employment assistance projects;
 - (b) to provide post-placement services for those having secured employment; and
 - (c) to strictly enforce sanction against those who fail to fulfill their job search obligations.

Enhanced CW programme

3. The main features of the enhanced CW programme are as follows:
- (a) to arrange unemployed CSSA recipients to perform community work for one day (or two half-days) a week for a period of six months within the first three months of their entry to the system;

¹ These refer to those who are likely to turn to CSSA if no additional help is given to help them to find work and to develop their capacity for self-reliance.

- (b) to arrange those having joined the AEA programme for 12 months or longer to perform community work for three days a week for a period of six months²; and
- (c) to strictly enforce sanctions against those who fail to meet their CW obligations without good cause.

IEAPs

4. SWD has secured \$200 million from the Lotteries Fund and the Hong Kong Jockey Club Charities Trust to commission NGOs to run IEAPs for employable CSSA recipients and the 'near-CSSA' unemployed to assist them to remove work barriers, enhance their employability and get back to work through a range of activities such as job matching, job skills training, employment counseling and post-employment support. 'Temporary Financial Aid' is provided to needy participants to tide them over short-term financial hardship or to meet employment-related expenses. SWD's plan is to launch 105 projects over four years by three annual batches of 40, 30 and 35 from October 2003.

Enhanced DE

5. The following changes to the provision of DE have been implemented since June 2003 :

- (a) Allowing no DE for all categories of recipients in the initial determination of eligibility and in cases which have been on CSSA for less than three months; and
- (b) raising the maximum level of monthly DE from \$1,805 to \$2,500 and its 'no-deduction' limit from \$451 to \$600 for all categories of recipients in cases which have been on CSSA for at least three months since 1 June 2003 or thereafter.

² Those who have completed the six-month community work will be put on the waiting list again.

Example 1: The recipient benefiting from the maximum DE

A 4-member family comprises the unemployed able-bodied applicant, his wife who is a homemaker, and two children studying in secondary schools. The monthly assistance payable to this incomeless family is \$8,500. After relying on CSSA for half a year, the applicant finds a full time job with a monthly salary of \$5,000. As his first month's income earned from a new job can be totally disregarded, the first month's salary received by him does not affect the amount of assistance payable to the family (i.e. \$8,500). The total monthly income of the family starting from the following month is:

Recognized needs under CSSA	\$8,500
Minus	
Assessable income	\$2,500
monthly income – maximum amount of DE (i.e.\$5,000-\$2,500)	
= Assistance payable	\$6,000
Total family income	
= earnings from employment + CSSA payment (i.e.\$5,000 + \$6,000)	<u>\$11,000</u>

Example 2: The recipient benefiting from monthly DE of less than \$2,500

The same family where the applicant after receiving CSSA for half a year successfully finds a part time job with a monthly salary of \$2,000. As his first month's income earned from a new job can be totally disregarded, the first month's salary received by him does not affect the amount of assistance payable to the family (i.e. \$8,500). The total monthly income of the family starting from the following month is:

Recognized needs under CSSA	\$8,500
Minus	
Assessable income	\$700
\$2,000 - \$1,300 (income disregard)*	
*income disregard : $\$600 + [(\$2,000 - \$600) \div 2] = \$1,300$	
= Assistance payable	\$7,800
Total family income	
= earnings from employment + CSSA payment (i.e.\$2,000 + \$7,800)	<u>\$9,800</u>

For discussion on
27 March 2006

CoP Paper 5/2006

Commission on Poverty

**Work Incentives for Working Poor -
Transport Support For Those Living in Remote Areas**

PURPOSE

Noting the wide community concern about providing transport support to low-income earners living in remote districts, this paper sets out the key features and possible implications of such a support and invites Members' comments on the way forward.

BACKGROUND

2. Promoting self-reliance and upward mobility through work and capacity enhancement is one of the key objectives of the CoP. Consistent with this, Members agreed at the meeting in January 2006 to further consider how best to provide additional incentives for the low-income employees and their families to stay in employment instead of going on welfare, bearing in mind the sustainability of the public finance system. In the Budget 2006/07, a short-term traveling support scheme for eligible graduates of the Employees' Retraining Board (ERB) was introduced with a view to facilitating the transition from unemployment to work. In other words, the subsidy is, by design, one-off (paragraphs 8 – 15 in CoP Paper 4/2005 refer). This paper will focus on long-term travel support to those with low-income and living in remote areas having to commute to work across districts.

COMMUNITY CONCERN

3. Transport costs have been highlighted as one of the key issues which need to be tackled by the Administration. For the working poor living in remote areas having to commute long distance to work due to a relative lack of local employment opportunities, transport costs take up a significant proportion of their income. If left untackled, transport costs may become a disincentive to work/incentive for going on welfare. There is general support among CoP members and the community in finding appropriate ways to address the issue

(CoP's previous discussion on the subject is extracted at Annex A).

4. Members may wish to note the efforts by the Administration to adjust the fares for long-distance travelers (Annex B). Some in the community however consider this inadequate and call for a deeper cross-subsidization among different regions similar to the practice in other places where commuting in city centres cross-subsidize commuting to remoter areas. However, this involves a complex and fundamental review involving possibly all modes of mass public transport. This is not feasible in the near term.

5. Others call for providing long-term travel subsidies of a recurrent nature to help promote job retention. The LegCo Subcommittee to Study the Subject of Combating Poverty at its meeting on 17 March 2006 also passed a motion to strongly request the HKSARG to provide a monthly transport subsidies of \$500 for the working poor living in remote districts (Yuen Long, Tuen Mun, Islands and the North districts) having to commute across districts to work.

POSSIBLE ARRANGEMENT

6. The Government has listened to the community concern, and are willing to consider with an open mind possible options. We have explored the possible features of a subsidy to low-income earners living in remote districts. The following paragraphs set out the most often discussed elements -

- (i) *Targets* - definition of "low-income individuals/families";
- (ii) *Territorial coverage* - definition of "remote districts";
- (iii) *Amount* - the level of such subsidy; and
- (iv) *Screening and monitoring* - an effective system to minimize abuse.

(i) Targets

7. There is fairly general consensus among proponents that the subsidies should be targeted to the needy only. Different thresholds have been suggested. There are some who favour giving the subsidies based on individual income level (e.g. \$5,000/\$6,000), which is simpler and in line with the objective to provide more incentives for the low-income earners to work across districts. However, the CoP as well as some LegCo Members feel that needs of the working poor should be assessed on a household basis (since low-income individuals may not necessarily be

the needy e.g. voluntary part-timers; some with multiple family members working/high household income). In assessing household income, both 50% of median household income, and average CSSA payment level have been cited. While the current difference between the two is small, the latter is a more well-established threshold with greater precision in targeting at the needy.

(ii) Territorial coverage

8. There is also a general consensus in providing transport subsidies to low-income earners living in remote districts like Yuen Long, Tuen Mun, Islands and the North districts. Data from the 2001-Census suggests that the percentages of jobs taken up by local residents are generally higher in remote districts, reflecting a preference to work and live in the same district (**Annex C**). Commuting-time aside, the cost of transport especially for low-income earners is also expected to be an important factor influencing the pattern. Also noteworthy is that the availability of jobs as a percentage of economically active persons living in these remote districts is relatively low. It is however pertinent to point out that the suggested four districts are not alone in having these characteristics (please see paragraph 11(a) and **Annex D**).

(iii) Amount

9. An informed estimate is difficult when key features are themselves subjects of discussion. A ballpark guess suggests that a scheme covering only the four districts of Yuen Long, Tuen Mun, Islands and North Districts and giving no more than \$300 - \$500 for employed persons in households with incomes below average CSSA level could be in the region of \$0.3 billion per annum. Changes in the eligibility, amount of subsidy, territorial coverage and possible abuses will all have financial implications.

(iv) Screening and monitoring mechanism

10. It is also well accepted that any scheme involving recurrent income support made possible through the transfer of taxpayers' money ought to be need-based and means-tested to minimize abuse. An implementation machinery is a must. In terms of attributes, this machinery needs to –

- (a) be adequately resourced to assess applications, conduct interviews, seek further information in respect of dubious cases and conduct selected in-depth checks;

- (b) have legal backup¹ to enable it to approach other public and private agencies to obtain personal data to verify claims; and
- (c) have resort to launch criminal proceedings against those who willfully commit fraudulent claims.

MAJOR CONSIDERATIONS

11. Few social policies are static. When conceiving a new policy, it would be remiss if the longer term considerations are not taken into account, particularly if such have been made explicit. In this connection, Members may wish to note that the comments on the nature and impact of the subsidy made at the meeting of the LegCo Subcommittee on 17 March, as follows –

- (a) *Parity*: Members noted the issue of parity arising from the coverage of districts. While Yuen Long, Tuen Mun, Islands and the North districts are commonly recognized as the more remote districts, we would need to carefully consider the justification for selecting these districts vis-à-vis the others and the long term implications of the selection. In considering the issue, we have drawn reference to a number of relatively more objective criteria (Annex D).
- (b) *Fundamental nature of support*: Few would challenge that the travel support is but a form of income support. Some consider the support as an interim relief pending the resolution of the minimum pay issue (see paragraphs 12 and 13 below).
- (c) *Impact on wages*: Given the glut in supply of low-skilled, low-educated labour and hence their low bargaining leverage, some warn against possible depression of wages by some employers (see paragraph 14 below).

Fundamental nature of support

12. The discussion on transport subsidy is often mixed with calls for a “second safety net” and income support for the working poor. Given the rather comprehensive in-kind services and financial support already in place for the working poor¹, the issue is not the absence of a “second safety net” or needs-based

¹ Housing Department relies on the Housing Ordinance (Cap 283) while Social Welfare Department relies on the Theft Ordinance (Cap 210).

¹ CoP Paper 1/2006 refers.

support, but rather whether there are gaps that should be filled. Three such gaps have been raised by different quarters of the community and echoed by Members of the LegCo Subcommittee to Study the Subject of Combating Poverty –

- (a) *Transport subsidies*: to help defray the significant expenditure incurred by the working poor living in remote areas and who have to commute to work;
- (b) *Rental subsidies*: to help defray the rental cost incurred by working poor living in private domestic units since rent constitutes a major component in the expenditure of working poor households; and
- (c) *Income support*: while CSSA low-income category may be viewed as a de facto income support to working poor families, only a small percentage of working poor families are on low earnings CSSA support. Some Members have questioned whether the present arrangement is the optimal form of long term support for the working poor.

13. In considering any new transport subsidy scheme, we need to bear in mind the implications of the wider discussion on the “support for the working poor” and to consider in a holistic manner the appropriate level of such support, be they in-kind or in cash.

Impact on wages

14. Given the abundant supply of low-skilled, low-educated labour, there is little justification for employers to pay a wage rate higher than would be necessary to secure the manpower needed. Therefore, some LegCo members (and academics) have highlighted the possible unethical practice of some employers in depressing the wages by up to the amount of the travel support. While acknowledging this possibility, forestalling or even reducing this is an almost impossible feat in a market economy. This has in turn led some to view the travel support as an interim step to minimum wage. We notice that community views on the issue of minimum wage are divided.

WAY FORWARD

15. The major considerations in paragraphs 11 – 14 involve complex policy

issues like parity, other support for the working poor, the impact on wages and probable displacement of labour arising from the travel subsidy. All these deserve an informed community discussion and could not be addressed overnight. Meanwhile, for the low-income individuals and households concerned, work remains their important means to capacity enhancement and self-reliance.

16. Members may therefore wish to consider if we should consider travel support as a form of temporary relief, to be time-limited (e.g. in terms of maximum duration a person can be entitled to the travel support). This needs to be complemented by other more proactive measures to address the lack of local employment opportunities for low-skilled, low-educated labour in remote areas, e.g.

- (a) strengthening district employment assistance: Annex C shows that a sizeable portion of the jobs in remote areas are taken up by people resident *outside* the areas. This seems to suggest that location accounts for only part of the unemployment problem; the lack of skills, knowledge, attitude, etc. to hold down a job may also be relevant. In the long-run, more effective and coordinated employment assistance and capacity enhancement at the district level coupled with local economy and social enterprise development, may well prove to be more sustainable and effective in removing the need of financial subsidies to low-income earners²;
- (b) sustainable town planning and development: Members have raised previously the importance of town planning to meet the needs of our community and achieve sustainable development, including employment and the needs of the disadvantaged. There is also growing awareness on the topic in the community³. It is worthwhile to give more attention on how our town planning and other relevant public policies can help promote local employment in the remote areas in a sustainable manner.

² Members will be invited to discuss the recommendations in CoP 6/2006 “District Study on Employment Assistance”. Members may also wish to note that, given Hong Kong’s economic structure, relocating labour-intensive manufacturing industries to Hong Kong would unlikely work unless the products are competitive on the international market.

³ For instance, during the recent consultation of the Lantau Concept Plan, the Council for Sustainable Development expressed the hope that further planning would proceed on a basis of a long-term and holistic perspective. Major social considerations such as population, employment, supporting facilities and other people-based issues should be taken into account.

ADVICE SOUGHT

17. Discussion on support to be provided to working poor has revealed fundamental questions on whether the Government should provide income support, and if so, in what form. Transport subsidy has frequently been mentioned as one such possibility. Members may wish to comment on the following, given the major considerations flagged above -

- (a) whether we should provide transport subsidy as a new form of income support in addition to the wide-ranging forms of existing support for the working poor⁴;
- (b) if so, whether travel support should be the long term solution addressing the needs of the low-skilled, low-educated and low-income earners residing in remote areas (however defined); or whether travel support should be regarded as a temporary stop-gap measure while longer term measures are being worked out (re. paragraphs 15 – 16);
- (c) the design of such support, e.g. targets, territorial coverage, implementation agency and amount of support (re. paragraphs 6 – 10) and its interface with existing employment assistance measures; and
- (d) how to address the major considerations (including district coverage , other forms of income support and impact on wages) (re. paragraphs 11 – 14).

Secretariat to the Commission on Poverty
March 2006

⁴ CoP Paper 1/2006 refers.

Transport Costs

(A) **Low-income earners living in remote areas and traveling to work in urban/distant areas**

There have been calls for fare concessions to low-income earners living in remote areas and traveling to work in urban areas since transport costs may take up a significant proportion of their income. The concern is that, if left untackled, the issue of high transport costs may indirectly and inadvertently reduce the incentives to work vis-à-vis going on welfare. In addition, there is opinion that the meager net disposable income left after discounting transport expenses also detracts from the provision of equitable access to opportunities by the younger generation of such families. Suggestions that have been put forth to help this group include -

- (a) introducing a transport subsidy scheme similar to EMB's Student Travel Subsidy Scheme¹, either in cash or in coupons; or
- (b) giving open concession to passengers of certain routes from certain remote areas to urban areas at certain time.

2. EMB's current Student Travel Subsidy Scheme is premised on the policy of ensuring that students are not deprived of education for lack of financial means. Over 240 000 students benefited from the scheme in 2003-04 with an annual recurrent expenditure of about \$380 million. We need to take into account policy as well as financial and administrative implications in introducing any similar transport subsidy scheme. Possible implications include the following -

- (a) *policy implications*. Pertinent questions include: Why transport costs and why transport costs only when other offsetting cost-of-living implications of residing in remoter areas are taken into consideration? Should the assistance be time-limited? How should it be paid for and what are the related economic/public policy implications? How to qualify a "remote area", "low-income earners" and the related issues of equity? Merits vis-à-vis other intervention measures, e.g. subsidized shuttle or outright wage subsidy? How to prevent subsidy recipients from enjoying double-benefit due to other existing welfare/ subsidy schemes?

¹ The Student Travel Subsidy Scheme is a means-tested scheme for non-CSSA needy students in primary education and above who have not completed their first degree and who live beyond ten minutes' walking distance from their school and travel to school by public transport. Eligible students may receive, depending on their family financial situation, a full rate or half rate subsidy for home-school travel during term time.

(b) financial implications: the amount of recurrent expenditure is expected to be significantly higher given the size of the working population, cost of travel as well as the administrative costs involved;

(c) administrative implications: managing a subsidy scheme for “low-income earners” “living in remote areas” and “traveling to work in urban/distant areas” will likely involve the setting up of a new mechanism to means-test and identify the targets. Susceptibility to, and safeguard against possible, abuses will trigger additional administrative complications.

3. The proposal in 1(b) above would remove the administrative complications mentioned in 2(c) above. Nevertheless, the policy and financial implications remain. Without clear targets, the service may benefit people other than the low-income earners. Moreover, proposal 1(b) involves other difficulties on implementation include: How to identify the routes regarding which fare concession is to be provided? How to differentiate passengers eligible for the concession from the other passengers to ensure effective enforcement of the scheme? Are the public transport operators willing to bear the revenue foregone arising from the concession or should the Government compensate the operators for the revenue foregone due to the concession?

(B) Smaller/easily identifiable target groups

4. Instead of giving concessions to all low-income earners living in remote areas and traveling to work in urban/distant areas, it has been suggested that concessionary schemes targeted at a smaller group of easily identifiable people can be introduced, in particular to encourage their participation in the labour force (instead of going on welfare).

5. To this end, the model of the Local Domestic Helper ("LDH") Discounted Fare Scheme (九巴本地家務助理優惠) introduced by KMB and the Employees Retraining Board (ERB) from 1.11.2002 to 31.10.2003 has been proposed as one of the precedents from which the Commission may draw reference. Under the Scheme, 50%-discounted fare was offered for eligible domestic helpers when travelling on over 300 KMB routes including cross-harbour routes solely operated by KMB. It is worth noting that the concession is justified on the basis of the differential between supply of LDH and demand in more wealthy areas instead of being a pure subsidy.

6. Another suggestion mooted is the provision of transport subsidies to able-bodied recipients of the Intensive Employment Assistance Projects (IEAPs) with a view to facilitating their search for work. Nevertheless, it is relevant to

note that Temporary Financial Assistance (TFA) is already being provided for immediate and direct disbursement to needy near-CSSA/CSSA recipients to tide them over temporary financial hardship. Recipients can use TFA for meeting expenses such as transport cost for attending job interviews/commuting to work, purchasing working uniform, etc up to a maximum of \$1,000 during the period of participation in IEAPs. TFA will be totally disregarded when assessing CSSA payment.

7. In addition, 'disregarded earnings' (DE) is provided under the CSSA Scheme to encourage CSSA recipients to find and maintain employment. Under the scheme, the first month's income earned by a recipient from a new job will be totally disregarded, while the earnings from the month following can be partially disregarded up to a maximum of \$2,500 per month to save as an incentive to recipients to continue working. Recipients are free to use the DE to supplement CSSA payment to meet expenses including transport costs. Arrangements for DE will be reviewed by the end of this year.

8. Given the community's concern about assisting the disadvantaged and needy, the Commission on Poverty may wish to consider the desirability and implications of assisting certain easily identifiable groups, e.g. participants in the Youth Pre-employment Training Programme (展翅計劃) and the Youth Work Experience and Training Scheme (青見計劃), who live in the remoter districts and who are assessed by NGOs under the two schemes as needy (e.g. for attending job interviews).

9. Nevertheless, when targeting special concessions to encourage participation in the labour force by the low-income earners and disadvantaged youths, we also need to consider balancing the needs of other needy groups for assistance in transport costs (e.g. people with disabilities). We also have to consider whether the cost of the concession should be borne by the public transport operators or should be offered as a Government subsidy and how to identify appropriate agencies/NGOs in managing and implementing the targeted schemes.

(C) Appealing to public transport operators to consider special concessions

10. In accordance with the spirit of free enterprise, it will be the commercial decision of individual public transport operators on whether they could reduce their fares or offer concessions. The Government will continue to encourage public transport operators to consider lowering their fares or introducing further concession schemes.

11. The Government has been encouraging public transport operators to introduce fare reduction or concession having regard to their respective operating conditions and the social needs of the community. Most of the public transport operators offer children aged below 12 and elderly aged 65 or above with long-term fare concessions. In addition, public transport operators have altogether introduced over 80 fare concession schemes since July 2002, including bus-rail interchange schemes and discounted bus or railway fares. Residents in Yuen Long/ TSW can benefit from around 20 of them.

12. The concessionary schemes help reduce transport expenses of the traveling public. For example, four franchised bus companies introduced a 10% discount on fares of \$15 and above on all routes (except recreational routes and Airport "A" routes) in October 2003. This scheme has brought greatest benefit to passengers of long-distance routes (including residents of TSW), whose transport expenses normally tend to constitute a relatively higher proportion of their household expenditure. Another example is that an adult passenger can enjoy a \$3.2 discount for every \$30 of Light Rail travel accumulated within 6 days under Light Rail Enhanced Bonus Scheme Light Rail.

13. Given the community's concern about assisting the disadvantaged and needy, the Commission on Poverty can consider how it may further appeal to the public transport operators to give special concessions to certain easily identifiable groups (those mentioned in section (B) above). However, members may wish to note that public transport operators have been very conservative in introducing new or extending existing fare concession schemes. The public operators' main concerns in providing additional fare concessions are increasing competition in the public transport industry as opposed to the slow increase in overall patronage, extraordinary rise in fuel cost in the past year and pressure for salary increase from their staff.

Commission Secretariat
(with input from relevant bureaux)
April 2005

Lowering Fares of Public Transport For Long-distance Travelers

The Government has been encouraging public transport operators to introduce fare reduction or concession having regard to their respective operating conditions and the economic situation of the community. Since public transport services in Hong Kong are commercially operated, in accordance with the spirit of free enterprise, whether to reduce fares or offer fare concessions will be a commercial decision of the public transport operators.

2. In the light of persistent calls for reduction in bus fares, particularly for passengers making use of long-distance routes whose travelling expenses are relatively higher, the Government discussed with Citybus Limited (Franchise for operation of Hong Kong Island and cross-harbour bus services) and Kowloon Motor Bus Company (1933) Limited on the introduction on fare reduction initiatives during the franchise negotiations in 2005. Both bus companies agreed to provide the following fare reduction initiatives after the new bus fare adjustment arrangement takes effect and upon the grant of the new franchises –

- (a) 10% same day return fare reduction on routes where the single fare is \$15 or above¹;
- (b) 5% same day return fare reduction on routes where the single fare is between \$10 and \$14.9¹;
- (c) \$2 flat fare or half fare, whichever is lower, for elderly on Sundays and public holidays²;
- (d) an addition of 47 bus-bus interchange (BBI) schemes³;
- (e) extending the initiatives set out in (a) to (c) to the equivalent routes operated by their sister companies, viz. New World First Bus Services Limited, Citybus Limited (Franchise for operation of Airport and North Lantau services) and Long Win Bus Company Limited, as well as routes jointly operated by franchised bus companies; and
- (f) the above initiatives, except for the additional BBI schemes, will be

¹ The fare reduction initiatives for routes where the single fare is \$15 or above and of \$10 to \$14.9 would not cover Airport “A” routes, recreation routes and racecourse routes.

² The fare reduction initiative would not cover Airport “A” routes and racecourse routes.

³ At present, all franchised bus companies are implementing a total of 167 BBI schemes and are providing BBI discounts, ranging from \$0.1 to \$20.7, for passengers who need to interchange between different bus routes during their journeys.

reviewed in three years' time when the Government next review the bus fare adjustment arrangement.

3. The special elderly fare discount on Sunday and public holidays already commenced since 28 January 2006 (the day preceding to Lunar New Year's Day) to enable the elderly enjoy the discount early during those festive days. For the 10% and 5% same day return fare reduction covering 42 and 56 routes respectively that are of medium or long distance, they were implemented on solely-operated routes with effect from 19 February 2006. Since bus companies need to carry out modification work to the software and hardware of their Octopus systems for implementing the fare reduction schemes consistently across different bus companies, the same-day return fare reduction will be implemented on jointly operated routes from 1 July 2006.

4. While the 10% and 5% same day return fare reduction on routes with fares of \$15 or above and \$10 to \$14.9 would help alleviate the travelling burden of passengers of medium and long haul routes, the introduction of 47 additional BBIs also help reduce the transport expenses of passengers who need to travel for long-distance and have to interchange bus routes during a journey. With the implementation of the 47 additional BBI schemes, over 220 BBIs covering about 390 bus routes with discount ranging from \$0.1 to \$28 will be in place. These cover about 70% of the total number of bus routes.

5. In addition to bus companies, railway corporations also provide fare concessions which may help alleviate travelling burden of long distance travellers. For example, the Kowloon-Canton Railway Corporation introduced Monthly Passes for West Rail, East Rail and Ma On Shan Rail users in August 2004, April 2005 and January 2006 respectively. Passengers using the Monthly Pass can enjoy unlimited rides on West Rail, East Rail and Ma On Shan Rail at \$300, \$380 and \$200 respectively in the same month. For travellers residing in the North-West New Territories, they may enjoy the Octopus discount scheme for Light Rail, under which an adult passenger can have a rebate of \$3 after payment of fares of \$30 or above on six consecutive days. MTR Corporation Limited also provides \$2 flat fare discount to eligible child and elder Octopus cardholders on Sundays/ public holidays during festive periods.

6. While continued effort will be made to encourage public transport operators to offer concessionary fares for disadvantaged groups, public transport operators have raised concerns about the hiking fuel price, increasing competition in the public transport industry and pressure for salary increase from the staff with the onset of inflation. Moreover, some public transport operators consider that

financial transport support for the needy should be provided by the Government as a welfare policy instead of borne public transport operators.

Environment, Transport and Works Bureau
March 2006

Extracted/modified from 2001 Census

District	(a) Work and live in the same district [@]	(b) Number of jobs (fixed work place) in the district	(c) Economic Active persons living in the district	% (a)/(b)	% (a)/(c)	% (b)/(c)	% of (b) of total (100%)	% of (c) of total (100%)
Central and Western	59,533	319,597	149,587	19%	40%	214%	11%	4%
Wan Chai	25,449	253,180	96,498	10%	26%	262%	9%	3%
Eastern	84,708	215,233	327,925	39%	26%	66%	8%	10%
Southern	32,855	73,520	151,475	45%	22%	49%	3%	4%
Yau Tsim Mong	46,244	357,834	147,391	13%	31%	243%	13%	4%
Sham Shui Po	32,923	170,943	170,940	19%	19%	100%	6%	5%
Kowloon City	33,454	146,607	194,757	23%	17%	75%	5%	6%
Wong Tai Sin	23,768	73,749	213,484	32%	11%	35%	3%	6%
Kwun Tong	64,251	239,442	277,754	27%	23%	86%	9%	8%
Kwai Tsing	54,958	190,095	243,796	29%	23%	78%	7%	7%
Tsuen Wan	30,170	126,177	147,046	24%	21%	86%	5%	4%
Tuen Mun	62,253	102,177	248,923	61%	25%	41%	4%	7%
Yuen Long	58,448	100,732	219,444	58%	27%	46%	4%	6%
North	31,128	62,619	142,801	50%	22%	44%	2%	4%
Tai Po	29,626	64,642	154,897	46%	19%	42%	2%	5%
Sha Tin	67,098	152,995	328,387	44%	20%	47%	5%	10%
Sai Kung	23,787	62,774	172,962	38%	14%	36%	2%	5%
Islands*	13,522	71,528	49,925#	19%	27%	143%	3%	1%
Total	774,175	2,783,844	3,437,992	28%	23%	-	100%	100%

The number of economic active persons living in the Islands district is 61 200 as at 2004 based on General Household Survey data.

@ Exclude persons working at home

* Include marine population.

Possible Criteria in Defining Remote Districts

While Yuen Long, Tuen Mun, Islands and the North districts are commonly recognized as the more remote districts, we need to consider whether other districts, e.g. in the New Territories should also be covered in the future. In considering the issue, we have drawn reference to a number of relatively more objective criteria -

- (i) *Distance* – Is distance a sufficient criterion? An area not along the main transport nexus (e.g. in Sai Kung or Tai Po) can be more “remote” (involving more time and cost) than traveling from the North district or Tuen Mun.
- (ii) *Balance of supply and demand for jobs in the locality* – Annex C of this paper indicates that three of the four districts proposed have relatively few local job opportunities and a higher percentage of local residents working in the same district. However, the neighbouring districts e.g. Tai Po, Shatin and Sai Kung also share similar pattern.
- (iii) *Unemployment rates & CSSA caseload* – Appendix to this Annex illustrates that there are districts worse than the four selected in terms of unemployment rate, CSSA unemployment caseload and CSSA low-income caseload. To what extent do these reflect the relative needs of districts for strengthened employment assistance/work incentives?

2. From an equity point of view, any attempt to define needs with reference to “remoteness” is necessarily arbitrary. While the initial phase of any long term travel subsidy can start with a few selected districts, the possible future territorial expansion cannot be dismissed. This raises the merits of a more elaborate needs test based on commuting distance and even differentiated levels of support in accordance with the distance/cost involved.

District Profile –Unemployment Rates and CSSA Able-bodied Caseload

District	Unemployment Rate* (%)	(a) CSSA Low Earnings Cases@	(b) CSSA Unemployment Cases @	(c) Labour Force	(a)/(c) %	(b)/(c) %
Central and Western	4.0	143	529	132 700	0.1	0.4
Wan Chai	3.2	99	564	85 200	0.1	0.7
Eastern	5.1	795	1 457	313 900	0.3	0.5
Southern	4.5	507	420	150 200	0.3	0.3
Yau Tsim Mong	6.3	434	3 491	161 600	0.3	2.2
Sham Shui Po	8.4	1 308	4 451	179 400	0.7	2.5
Kowloon City	5.5	570	1 652	185 300	0.3	0.9
Wong Tai Sin	7.9	1807	2 850	209 200	0.9	1.4
Kwun Tong	8.0	2 342	4 183	279 300	0.8	1.5
Kwai Tsing	9.5	2 228	3 982	256 200	0.9	1.6
Tsuen Wan	5.7	455	1 195	148 700	0.3	0.8
Tuen Mun	8.4	909	3 567	270 500	0.3	1.3
Yuen Long	8.4	2 265	5 264	263 900	0.9	2
North	8.7	736	1 569	148 600	0.5	1.1
Tai Po	7.8	509	1 173	160 900	0.3	0.7
Sha Tin	6.9	1 173	2 035	335 000	0.4	0.6
Sai Kung	6.3	1 167	1 581	218 300	0.5	0.7
Islands	6.5	680	1 007	61 200	1.1	1.6
Total	7.0	18 138 [^]	40 995 ^{^^}	3 560 200	0.5	1.2

@ Source: Social Welfare Department (as at February 2006)

[^] There are 11 cases without information on geographical district.

^{^^} There are 25 cases without information on geographical district.

* Source: Compiled by Census and Statistics Department based on General Household Survey data (as at 2004 only)

For discussion on
11 May 2006

CoP TFCY Paper 3/2006

Commission on Poverty (CoP)
Task Force on Children and Youth
Promoting Child Development -
Child Development Fund as a Model

PURPOSE

This paper examines the relevant overseas experience of Child Development Fund, and proposes a few pointers to facilitate consideration of its applicability in Hong Kong as a model to promote healthy and balanced development of children and youth, and to reduce the risk of intergenerational poverty.

BACKGROUND

2. Children and youth are the hopes of our future. Ensuring healthy and balanced growth of the younger generation, especially those from disadvantaged background, is one of the work priorities of the Commission on Poverty (CoP). The CoP Task Force on Children and Youth is tasked to examine existing policies and measures, and to formulate policy recommendations which help reduce risks of intergenerational poverty, including the applicability of Child Development Fund in Hong Kong.

CHILD DEVELOPMENT FUND – OVERSEAS EXPERIENCE

3. Child Development Fund as a mainstream/national programme is a relatively recent development, with the U.K. and the U.S. being the most prominent examples. The U.K. Government announced the plan in 2003 and set up Child Trust Fund (“CTF”) in 2005. The U.S. moved the American Saving for Personal Investment, Retirement and Education Act (ASPIRE Act) in 2004 which proposes the establishment of Kids Investment and Development Savings Account (“KIDS Account”). The key features of the programmes in the U.K., the U.S., Canada and Taiwan are at Annex A. A comparison table is at Annex B for Members’ reference. The ensuing paragraphs (paragraph 4 - 8) summarise the development of Child Development Fund overseas.

What is Child Development Fund?

4. Contrary to some public misconceptions, Child Development Fund should *not* be understood merely as another fund or public programme to render immediate support services for children and youth. They represent rather a *new approach* in encouraging *long-term investment in children*, i.e. to nurture saving habits and to improve financial literacy among the younger generation and their families, including those from low-income families, and to cultivate *self-responsibility* and *shared responsibility* on the development of children among family and community networks.
5. The key features of the U.K. and U.S. models include -
- (a) The amount of initial contribution from the Government is relatively small (e.g. initial endowment of £ 250/US\$500 in the U.K./U.S. for all born after a certain date with additional, limited supplement for low-income families). Growth of the fund will mainly rely on investment returns and private contribution from the children's parents, family and friends as well as from matching contributions from the private sector.
 - (b) The amount of funding saved¹ cannot be used before the children reach 18 years old, and is intended for their start in the society as adults. While there is no restriction on the specific use of money in the U.K., the money can only be used for certain purposes in the U.S. (e.g. post-secondary education, home purchase).

Asset-based Policy

6. Child Development Funds are heavily influenced by the wider development of asset-based policy since the 1990s², premised on the limitations of passive income support and means-tested public assistance programmes in encouraging self-reliance. Asset-based policy, albeit being a rather recent measure, is gaining increasing political importance, with the introduction of different individual accounts (accounts for kids/families, accounts for specific purposes like education, housing, retirement etc.) to encourage individuals to build assets and human capital for their own future.

¹ Some US estimate suggests that assuming modest but steady contributions, a typical low-income, low-wealth kid could have about US\$20,000 by age 18.

² Sherraden (1991) - Asset-based welfare theory. His speech on asset-based policy and the Child Trust Fund is available at http://gwbweb.wustl.edu/csd/Publications/2002/UK_speech2002.pdf

Bottom-up Development & Community Support

7. It is noteworthy that the national programmes adopted in the U.K. and the U.S. were jump-started by the community, including experience of NGOs, private foundations and/or local financial institutions running smaller-scale programmes. For instance, in the U.S. the Corporation for Enterprise Development (CFED), a nonprofit organization devoted to expand economic opportunity for the disadvantaged, started the pilot savings schemes “American Dream Demonstrations in 1996”. The Government steps in defining the policy paradigm, mainstreaming successful programmes, regulating them and providing legal backup of tax incentives to encourage savings. However, such programmes do not necessarily have to involve government contribution and legal backup, as in the case of the pilots in Taipei city (see Annex A).

8. In addition, since the key objective is to nurture a healthy sense of financial management, the Fund is accompanied by a number of supportive initiatives from the community. For instance, financial institutions and NGOs would contribute financial and human resources to raise awareness of the benefits of savings, as well as to encourage savings through financial inducement. Schools also contribute by incorporating personal financial management education in mainstream curriculum.

RELEVANCE OF OVERSEAS EXPERIENCE TO HONG KONG

9. Child Development Fund receives popular community and political support in overseas countries, as it encourages asset-building *for the future instead of immediate consumption* and reliance on public assistance. It also fosters shared responsibility and multi-party engagement among family, government, NGOs and the private sector. Such asset-based social policy is perceived to benefit value education of children the most, by instilling at an early stage a sense of positive attitude and self-responsibility as well as a willingness to delay gratification among the younger generation, hence strengthening the psychological safeguard against intergenerational poverty.

10. There are a number of issues we need to consider in applying/adapting the concept of Child Development Fund in Hong Kong.

(i) Policy Objectives

11. Overseas model of Child Development Fund is essentially a long-term

process in cultivating savings behaviours and an attitude of self-responsibility for children. Hence, the funds will not be deployed until the children reach adulthood. In other words, it would *not* fulfill the immediate developmental needs of children from disadvantaged background. A key pillar of the overseas model is shared responsibility among the family, other community players and the government instead of major reliance on the latter. If we are to follow overseas practice, we need to consider if -

- (a) there is resolve among key stakeholders, including the parents and the children themselves, to resist the temptation of deploying the funds for the development of the children well before the children reach adulthood; and
- (b) there is consensus and support for the Fund to be the magnet of multi-stakeholders' contributions to ensure that the intended objectives can be achieved (re. paragraph 8 above).

(ii) Relationship with Existing Services

12. In considering establishing Child Development Fund in Hong Kong, we need to take into account the relationship with existing services and to avoid duplication of current efforts. As discussed in previous meetings, the Government has already put in place a wide range of services and support to meet the needs of children and youth at different stages of development, viz. early childhood, education, participation in extra-curricular activities, employment and training (see **Annex C**). There is also an abundance of funds available both from the Government and other community sources in supporting worthwhile projects to promote child development and continuing education beyond the free, compulsory stage, though projects using an asset-based approach are not very common. In considering possible application to Hong Kong, we need to consider whether we should follow the U.K. practice of free deployment of the Fund or the U.S. practice of specifying usages; and if the latter, what are the needs/gaps that should be addressed through the Child Development Fund.

(iii) Universal or Targeted

13. As discussed at previous Task Force meeting, universal programmes for children and youth, supplemented by specific measures for target needy groups, would be more desirable in terms of social inclusiveness and reduced labeling. The U.S. and the U.K. have adopted a universal programme with supplement for low-income families, whereas the programme in Canada and the pilots in Taipei city are targeted at youth from low-income families (though the Taipei pilot is of a

voluntary nature with a strong community flavour).

14. A pertinent contextual consideration must also be pointed out. Child Development Fund in the U.K. and the U.S. was introduced in face of a falling national savings rate and this partly explains its universal nature covering all children born after a certain date. Hong Kong's savings rate mirrors more the Asian ethos and are high in comparison with the West.

ADVICE SOUGHT

15. The Administration is committed to ensuring the sound, healthy and balanced development of children and youth. We also agree on the need for measures to address the needs of those from disadvantaged background. Hence, the Administration adopts a positive attitude to any proposals for reducing risks of intergenerational poverty that are apt for local circumstances and stand a good chance of attaining the designed objective. In respect of Child Development Fund in Hong Kong, in considering if we should follow practice in other countries, Members are invited to offer views on -

- (a) the policy objectives of such an initiative and the conditions for achieving such (paragraphs 9 and 11);
- (b) its relationship with existing services (paragraph 12); and
- (c) whether such programme should be universal or targeted (paragraphs 13 –14).

Pending details of any scheme which Members may favour, practical implications such as agency set-up and legislation, if any, would need to be considered.

Commission Secretariat
May 2006

Child Development Fund - Key Features**U.K. – Child Trust Fund*****Purpose***

The Child Trust Fund (CTF), established by the Child Trust Funds Act 2004, is a long-term savings and investment account for children. Since 6 April 2005, CTF accounts are available for every child born on or after 1 September 2002. The main objectives of CTF are (i) to ensure that children will have assets/savings of their own to start their adult life at the age of 18; (ii) to encourage savings; and (iii) to help children understand personal finance (financial education is a key part of CTF).

Contributions

Government will make an initial endowment of £ 250 to children when they were born. An additional £ 250 will be paid to children in low-income families (those eligible for full Child Tax Credit). Government will make a further payment of £ 250 at age 7; children from low-income families will receive £ 500. Private contributions from parents, family and friends are tax free, with a cap of up to a total of £ 1200 a year. Income arising on the money and investment in a CTF account is exempt from tax.

Use of money

Money can only be taken out by the child when reaching the age of 18. There will be no restriction on how they use the money in their CTF accounts.

Management

HM Revenue & Customs pays and administers the programme. A person with parental responsibility of the child will open the CTF account in one of the approved financial services providers. The account is managed by that person until the child is 16. When children reach 16, they will manage their own CTF accounts.

U.S. – KIDS Account***Purpose***

Similar to the UK, the KIDS Account is also a long-term savings and investment plan for children with a view to encouraging savings, promoting financial literacy, and expanding opportunities for young adults. Pending passage of the American Saving for Personal Investment, Retirement and Education Act (ASPIRE Act), every child born after 31 December 2006 will have a KIDS Account opened automatically.

Contributions

Government will automatically transfer an initial contribution of US\$500 to an account

when opened for newborns. Children from families with household income below the national median income will receive an additional contribution up to \$500. Private contributions (up to \$1000 annually) will be after-tax and can come from any source. There will be a one to one dollar matching contribution from the Government on private contributions up to the first \$500 on an annual basis. Each accountholder will have to repay the initial seed of \$500 contribution beginning at age 30. Earning on contributions to KIDS Account will be tax-free.

Use of money

No withdrawals can be made until the accountholder reaches the age of 18. The money can only be used for investment-related purposes, namely post-secondary education, home purchase and retirement.

Management

The KIDS Account Fund will be governed by the KIDS Account Fund Board under the Treasury. Parents and legal guardians will serve as account custodians and make investment decisions until the accountholder reaches the age of 18. A minimum balance equal to the Government initial contribution is required to be kept in the KIDS Account at all times until retirement age in order to maintain the account as a savings platform for retirement security.

Canada – Canada Learning Bond

Purpose

Canada Learning Bond (CLB) is essentially an education savings plan designed to help low-income parents save for their children's post secondary education. Children born after 31 December 2003 in low-income families (those entitled to the National Child Benefit Supplement) will be benefited.

Contributions

CLB will provide \$500 to eligible children, followed by up to \$100 CLB instalments until they reach 15 in each year. Private contributions can be made by parents, family or friends. The Government will make a matching contribution up to 40 cents for every dollar, up to the first \$500. Interest on the savings will be tax-free.

Use of money

The money can only be used for education purpose, such as paying for full-time or part-time studies in an apprenticeship programme, a trade school, college or university. If the money is not used until the accountholder reaches the age of 26, the CLB is returned to the Government whereas the private contributions will be given back to the accountholder.

Management

Parents or guardians are required to open a Registered Education Savings Plan (RESP) through an approved financial institution.

Taipei City – Individual Development Account (出人頭地帳戶發展專案)

Purpose

Individual Development Account (IDA)³ is a three-year (from 2003-2006) pilot savings project of the Taipei city for young people aged 16-23 from low-income families (for around 100 participants only)⁴. It aims at encouraging the younger generation to save for their education or career development.

Contributions

IDA is on voluntary basis. There is no contribution from the Government. Money mainly comes from the monthly private contribution from accountholders. The minimum savings amount per month is NT\$2000 and the maximum amount is NT\$4000. There will be a one-to-one dollar matching contribution on the total saving amount after three years. The matching contribution is provided by a charity fund⁵.

Use of money

Money can only be used for pursuing higher education or career development. Accountholders can withdraw money from their accounts subject to specified withdrawal limits. Accountholders also have to submit a proposal on how to use the money within the first year after joining the scheme.

Management

All accountholders are required to open an account in Taipei Bank.

Commission Secretariat

May 2006

³ It is based on the Family Development Account (家庭帳戶發展專案), another pilot saving project for the working poor carried out in Taipei from 2000-2003. While the operation is largely the same, money in FDA was used for first-home purchase, pursuing higher education and starting business.

⁴ According to the figures provided by the 台北市政府社會局, there are 85 people joining the scheme as at 31.12.2004.

⁵ A total amount of NT\$14,400,000 is provided by 台北銀行公益慈善基金

Child Development Fund – Summary Table of Key Features

Country/City	<i>UK</i>	<i>US</i>	<i>Canada</i>	<i>Taipei</i>
Asset-building Programme	Child Trust Fund	Kids Investment and Development Savings (KIDS) Account	Canada Learning Bond	Individual Development Account (出人頭地帳戶發展專案)
Commencement year	2005 by the Child Trust Funds Act 2004	Enacting legislation – ASIPRE Act 2005 was introduced in 2005	2004 by the Canada Education Savings Act	From 2003-2006
Nature	Savings and investment	Savings and investment	Savings	Savings
Target	Every child born on or after 1.9.2002	Every child born after 31.12.2006	Only child born after 31.12.2003 and from low-income families	Youth aged 16-23 from low-income families (On voluntary basis)
Key objectives	<ul style="list-style-type: none"> • To encourage savings; • To expand opportunities for young adults; & • To improve financial literacy of children 	Same as the UK	<ul style="list-style-type: none"> • To save for children’s post-secondary education 	Similar to the UK
Government initial endowment	✓ (£ 250 when born) (£ 250 when 7 years)	✓ (US\$500)	✓ (Can\$500)	✗

Country/City	<i>UK</i>	<i>US</i>	<i>Canada</i>	<i>Taipei</i>
	old)			
Supplemental contribution for children from low-income families	✓ (£ 250/ twice)	✓ (Up to US\$500/once)	✓ (Can\$100/ 15 times)	✗
Matching contribution	✗	✓	✓	✓
Private contribution	✓ (Annual cap: £ 1200)	✓ (Annual cap: \$1000)	✓	✓ (Compulsory: NT\$2000-NT\$4000 per month)
Restriction on use	✗	Post-secondary education, home purchase and retirement	Post-secondary education	Post-secondary education and career development
Account management	Approved financial institutions	Board of Directors under the Treasury	Approved financial institutions	Appointed bank
Financial education	✓	✓	✗	✓

PROMOTING CHILD DEVELOPMENT EXISTING MEASURES

Since its establishment in May 2005, the CoP Task Force on Children and Youth has been considering the effective means to reduce the risk of intergenerational poverty. While noting that material support is important, Members considered that access to development opportunities is key to helping children especially those from disadvantaged background to move up the social ladder and lift themselves from poverty. Members observed that various programmes are already in place to address the development needs of children at different stages⁶.

(i) Early childhood developmental needs

2. With an emphasis on early identification and early intervention of problems, the pilot Comprehensive Child Development Service (CCDS) was launched since July 2005. CCDS is a community-based programme which aims at augmenting the existing universal service in our Maternal and Child Health Centres through better alignment of the delivery of health, education and social services. The varied needs of children aged 0 to 5 and their families are identified at an early stage, so that appropriate and timely services could be provided for them. The progress of the pilot implementation is so far encouraging, witnessing enhanced collaboration and interface between the different sectors and increased client accessibility to services. Additional resources has been allocated to improve the pilot service of CCDS, and subject to a review of the pilot service in the third quarter of 2006, extend the service in the other communities in phases.

(ii) Education needs

3. Education is of paramount importance to promoting personal development and capacity enhancement. Over the years, the Administration has been investing substantial resources in meeting the education needs of children and youth. The Government also ensures that no children would be deprived of education for lack of means. Financial assistance under various means-tested schemes administered by the Student Financial Assistance Agency (SFAA) in the form of travel subsidy, textbook assistance, tuition fee remission and public examinations fee remission is available for primary and secondary students in need. Eligible full-time local students of publicly-funded and self-financing programmes at

⁶ For further details, please refer to CoP TFCY Paper 1/2005 on “An Overview of Existing Services for Children and Youth Relevant to Intergenerational Poverty”(www.cop.gov.hk)

post-secondary level may apply for financial assistance in the form of grants and/or low-interest loans to cover tuition fees, academic and living expenses, where applicable. The Administration will continue to consider areas to further improve education quality and affordability especially for the poor.

(iii) Employment and training needs

4. The Administration has been proactive in catering for the training and employment needs of youth, including the non-engaged youths (NEYs). For example, the Career Oriented Curriculum (COC), programmes of the Vocational Training Council, the Youth Pre-employment Training Programme (YPTP) and the Youth Work Experience and Training Scheme (YWETS) are the major initiatives of the Administration in expanding the training and employment opportunities for young people⁷. The Continuing Education Fund (CEF) also subsidizes adults with learning aspirations to pursue continuing education and training courses.

(iv) Other development needs

5. Apart from the provision of school education and training, the Administration is committed to providing children and youth with sufficient opportunities for quality development and enhancement in diverse areas with a view to enabling them to face future challenges of academic/career pursuits. The School-based After-school Learning and Support Programmes provide more support to disadvantaged students in enhancing their learning effectiveness, both in terms of academic studies and outside classroom learning experience. Other government bureaux and departments such as the Home Affairs Bureau, Home Affairs Department and Social Welfare Department are also working closely with relevant agencies and district NGOs in providing different development programmes to nurture and promote the balanced growth of young people⁸. The new funding for strengthening the district-based approach in poverty alleviation will also support projects aiming at preventing and tackling intergenerational poverty⁹.

Commission Secretariat

May 2006

7 For further details, please refer to CoP Paper 17/2005 on "Training and Employment Opportunities for Youth" (www.cop.gov.hk)

8 For further details, please refer to CoP Paper 12/2005 on "Intergenerational Poverty" (www.cop.gov.hk)

9 For further details, please refer to CoP TFDA Paper 1/2006 on "Additional Funding for Districts on Sustainable Poverty Alleviation Initiatives" (www.cop.gov.hk)

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 employees. Those 140 000 full-time low-income employees definitely warrant our focus, as they are most likely the group who are persistently

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.

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 all household members and from all sources is included.

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.

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 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.

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.

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

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

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 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.

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.

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.

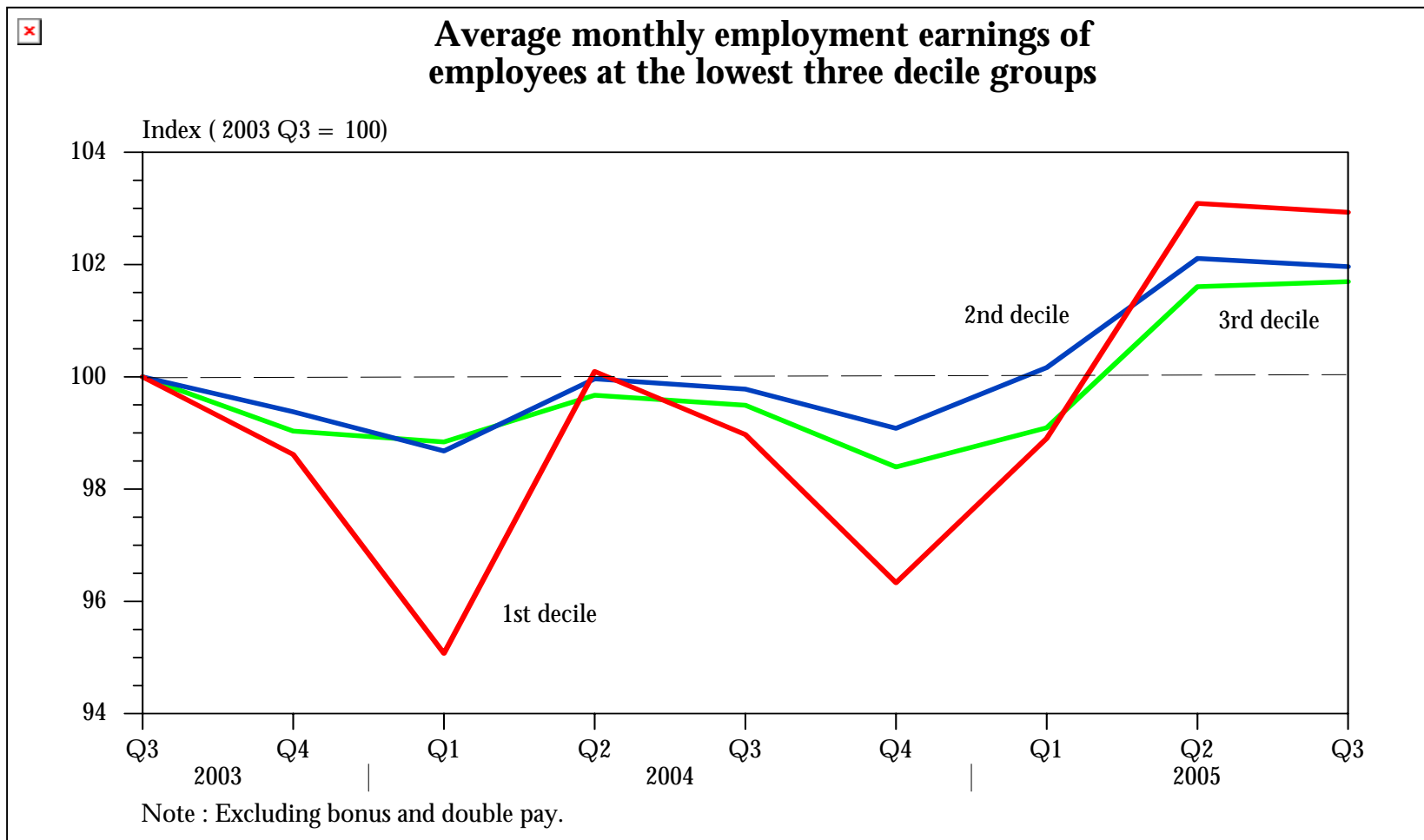
32. This note seeks to set out the status quo in relation to the above. Members are invited to note in this connection -

- (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.



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 -

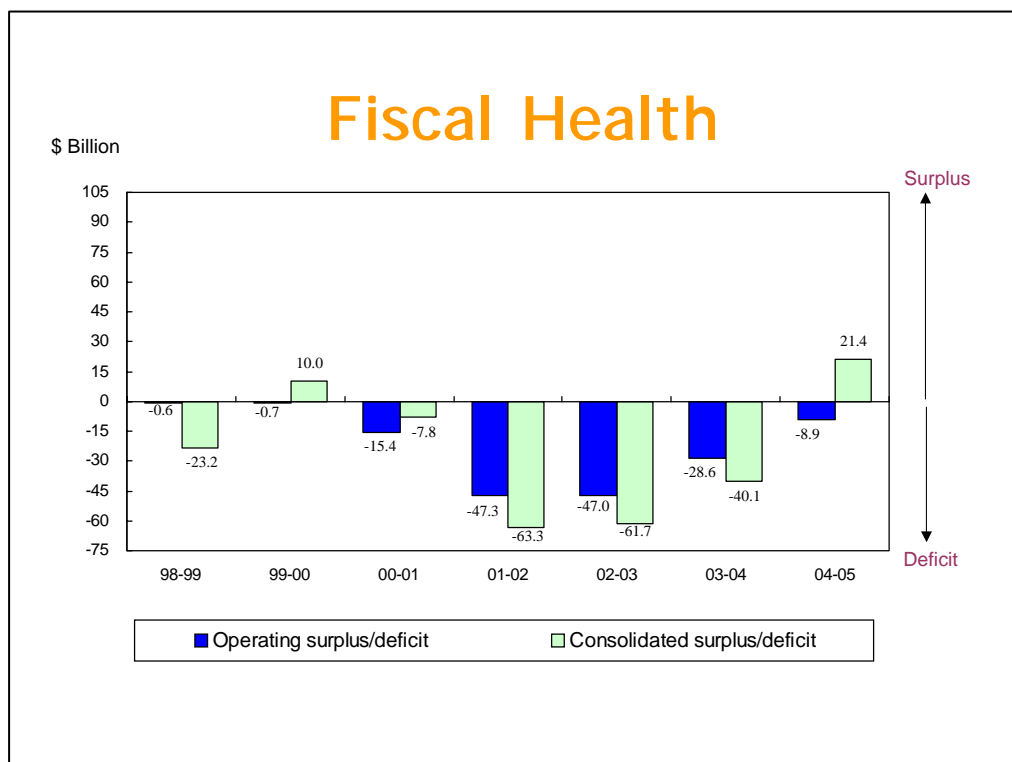
	1995-96 Actual (\$ billion)	2005-06 Estimates (\$ billion)
Education	33.6 [3%] {17.6%}	58.2 [4.2%]{21.6%}
Health	24.3 [2.2%]{12.7%}	32.2 [2.3%]{12%}
Social Welfare	14.1 [1.3%]{7.4%}	36.3 [2.6%]{13.5%}
Housing	19.1 [1.7%]{10%}	18.1 [1.3%]{6.7%}
Total	91.1 [8.2%]{47.7%}	144.8 [10.4%]{53.8%}

[] 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 Dependand	\$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	<ul style="list-style-type: none"> - 30,000 Baht [HKD5,700] - zero band for 80,000 Baht [HKD15,200] 	- 30,000 Baht [HKD5,700]	<ul style="list-style-type: none"> - 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]	<ul style="list-style-type: none"> - 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)

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

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.