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Paper for the House Committee meeting on 31 May 2013

**Report of the Subcommittee on Poverty
on setting the poverty line**

Purpose

This paper reports on the deliberations of the Subcommittee on Poverty ("the Subcommittee") regarding the setting of a poverty line.

Background

2. As recommended by the former Commission on Poverty ("CoP") which was dissolved in 2007, the Government has adopted a set of 24 multi-dimensional poverty indicators for monitoring the overall poverty situation in Hong Kong. This set of indicators has been designed to provide a broad picture of how the poverty situation has been evolving and help identify areas for further study.

3. In his Election Manifesto, the Chief Executive pledged to reinstate CoP to undertake an overall review of the forms and manners by which poverty is manifested and their underlying causes. In October 2012, the House Committee set up a subcommittee (i.e. the Subcommittee) to study relevant policies and measures for easing the disparity between the rich and the poor as well as alleviating poverty, and follow up the work of the Government's CoP to be reinstated. The membership list of the Subcommittee is in **Appendix I**.

4. CoP was reinstated in November 2012, with the setting of a poverty line as one of its main tasks. The Social Security and Retirement Protection Task Force ("Task Force") was formed under CoP to conduct an in-depth study on the setting of a poverty line, and give advice and make recommendations to CoP.

5. The Subcommittee held two meetings on 11 December 2012 and 27 April 2013 to meet with 77 deputations and individuals as well as the Administration on the setting of a poverty line. The list of deputations which have made submissions to the Subcommittee is in **Appendix II**. The Subcommittee also met with the Administration on 8 May 2013 to further discuss the issue.

Deliberations of the Subcommittee

Functions of the poverty line

6. The Administration points out that CoP and the Task Force have agreed on the following three major functions of the poverty line –

- (a) to gauge the poverty situation: quantifying the poverty situation in Hong Kong, with focused analysis of the various groups of people living below the poverty line and thorough investigation of the features and causes of poverty;
- (b) to facilitate policy formulation: serving as a guiding reference for government policy formulation so as to optimize the use of limited resources and put in place a more appropriate and effective poverty alleviation policy; and
- (c) to review policy effectiveness: enabling quantitative assessment of the effectiveness of policy interventions.

7. CoP and the Task Force have also agreed that the poverty line should comply with the following five guiding principles –

- (a) measurement: the poverty line should match with the socio-economic characteristics specific to the local context. Its structural changes should also be readily captured by the system to enable reliable statistical measurement of the poverty situation to be carried out effectively;
- (b) international comparability: how poverty is measured should, to the extent possible, take into account international practices, so as to enhance credibility, recognition, comparability and practicability;

- (c) data support: data should be collected on a regular basis, so as to update the measurement results for poverty for long-term and systematic monitoring;
- (d) cost-effectiveness: the resources and time required for compilation should be considered, including areas such as collecting suitable data and consolidating results, so as to reflect the latest situation in a timely manner; and
- (e) compilation and comprehension: measurement should be simple and easy-to-understand, so as to facilitate integrated analysis for members of the public to understand the core of the problem thoroughly from the quantitative data.

8. Some deputations consider that the poverty line should serve as an indicator in some measure. If members of the public are living below this level, the Government should be responsible for assisting them to improve their livelihood, thereby enabling them to live above the poverty line. This is an effect the poverty line should achieve as a poverty indicator. Moreover, some other deputations consider that the setting of a poverty line, apart from meeting the guiding principle of international comparability and performing the function of reviewing policy effectiveness, should also serve as a standard. That is to say, it can set the minimum level of basic subsistence recognized by the community. And the Government has the underlying responsibility to ensure that members of the public are living above the minimum standard, thereby enabling them to improve their livelihood and escape from poverty. Members of the Subcommittee stress that the ultimate goal of setting the poverty line should be assisting members of the public to escape from poverty and improve their quality of living, rather than hiding the poverty problem.

9. The Administration points out that the poverty line is not meant to be linked directly to the eligibility criteria of various means-tested assistance programmes. It is not a "poverty alleviation" line. The poverty line is a tool for analysis which will enable the Administration to identify and target various groups of people in need, and analyze and monitor the effectiveness of government policy interventions over time.

Setting the poverty line by "absolute poverty" or "relative poverty"

10. According to the Administration, there are generally two mainstream approaches in setting the poverty line, namely "absolute poverty" and "relative poverty". Briefly, the former defines "the poor"

as those who cannot achieve a level of minimum subsistence or basic needs; while the latter considers those whose living standards are comparatively lower than the general public as "the poor".

11. CoP and the Task Force note that the adoption of the concept of "relative poverty" would be in line with the international practice of most developed economies, such as the Organisation for Economic Co-operation and Development ("OECD") and the European Union ("EU"). CoP has endorsed the recommendation made by the Task Force to adopt the concept of "relative poverty" in setting the poverty line.

12. Some members of the Subcommittee consider that it might be difficult to measure the effectiveness of poverty alleviation by merely adopting the concept of "relative poverty". On the contrary, the concept of "absolute poverty" would be conducive to the setting of a specific indicator of poverty alleviation. They share the views of some deputations that apart from adopting the concept of "relative poverty" to set the poverty line, the concept of "absolute poverty" should also be adopted to set the subsistence living protection line, so as to delineate the minimum standard of basic subsistence recognized by the community.

13. The Administration points out that by adopting the concept of "relative poverty" to set the poverty line, the statistics so compiled would be more readily and broadly comparable with the international practice. In addition, in a developed economy like Hong Kong, it might be difficult to canvass broad-based community support to only regard those not meeting the level of minimum subsistence as "poor"¹. To tackle the issue of poverty in today's economic environment of Hong Kong, the Administration needs to look into those people who are living with relatively less available resources.

14. The Administration stresses that adopting the concept of "relative poverty" could enable the poverty line to serve better its purpose of identifying target groups, analyzing and monitoring the effectiveness of various policies as mentioned in paragraph 9 above, though CoP and the Task Force acknowledge that the concept has its own limitations (for example, only household income is counted while assets are not, and that there will always be some people statistically below the poverty line).

¹ The Administration points out that there was a proposal to set an absolute poverty line at the level of the Comprehensive Social Security Assistance ("CSSA"). With a poverty line set at this level, the size of the poor population would exceed 0.7 million. However, the proposal failed to obtain general support from the public.

How to delineate the poverty line

15. OECD delineates the poverty line at 50% of the median household disposable income² and EU at 60%. CoP has endorsed the Task Force's recommendation under which an income-based approach is adopted to delineate the poverty line at 50% of the median household income³.

Income-based Approach

16. The Subcommittee shares the views of some deputations that the Administration should adopt the disposable cash income as the basis for setting the subsistence living protection line.

17. The Administration has explained that data of the disposable income are not collected by the Census and Statistics Department ("C&SD")'s General Household Surveys. To take into account the full expenditure pattern of households, up-to-date expenditure data would be required which would only be available in the Household Expenditure Surveys conducted by C&SD every five years (with the next one to be conducted in 2014-2015). This would make it impossible for the Administration to compile poverty statistics on an annual basis for regular monitoring of the effectiveness of government policy interventions.

Benchmark for delineating the poverty line

18. Most deputations and some members of the Subcommittee consider it more desirable to delineate the poverty line at 60% rather than 50% of the median household income. They point out that the poverty line would be on the low side if it is delineated at 50% of the median household income because for a one-person household, 50% of the median household income would be \$3,650, far lower than the average CSSA payment (\$4,351) for such households. They consider that 50% of the median household income is already the level of absolute poverty, and the poverty line should not be delineated below this level. Some members consider that the Administration should consult the public regarding the delineation of poverty line at 50% or 60% of the median household income.

² According to the Research Office of the Legislative Council Secretariat, household disposable income includes all income from work, investment and property and social security cash benefits, deducting taxes and social security contributions, but in-kind social benefits (such as public housing, publicly financed education and health care benefits) are not included.

³ The Administration points out that this median household income refers to the "pre-policy intervention household income" (i.e. not including the cash-based benefits of policy interventions such as CSSA and Old Age Allowance, etc). Its basis is slightly different from that used by the Census and Statistics Department in its General Household Surveys or that used by the Hong Kong Council of Social Service and Oxfam in setting their poverty lines.

19. The Administration has explained that it has been a common practice, both internationally and locally, to delineate the poverty line at 50% of the median household income. For instance, OECD adopts 50% of the median household income as their headline poverty threshold. While EU adopts a benchmark at 60% of the median household income instead of 50%, it is important to note that this is, in fact, an "at-risk-of poverty" threshold⁴. In Hong Kong, non-governmental organizations such as Oxfam and the Hong Kong Council of Social Service have been estimating the size of poor population for years based on 50% of the median household income. Their poverty estimates have been widely quoted and well recognized in the community. Moreover, the setting of a poverty line does not mean that people in need but with income level above the poverty line will be deprived of the opportunity of receiving government assistances. Poverty alleviation measures will continue to be considered by the Government based on the needs of different under-privileged groups. Currently, even if the household income of some groups is above the poverty line, they will be eligible for government subsidies subject to their meeting the means test of individual assistance schemes. For example, the income limit for applying for the Work Incentive Transport Subsidy represents about 60% to 100% of the median household income (depending on the household size of the applicant). As for student finance such as the School Textbook Assistance Scheme and the Student Travel Subsidy Scheme, families whose household income falling within 50% to 60% of the monthly median household income are eligible for full-grant assistance, while half-grant assistance is provided to those with household income falling within 60% to 100% of the monthly median household income.

The number of poverty lines

20. Members of the Subcommittee share the views of some deputations that several poverty lines should be set in order to monitor the situation of people in different degrees of poverty and the changes in their situation. As regards how the poverty lines should be delineated, the following approaches have been suggested –

- (a) Two poverty lines should be drawn up. One line is to be drawn up as a subsistence living protection line based on the concept of "absolute poverty", while the other line is to be drawn up based on the concept of "relative poverty" and set at 50% or 60% of the median household income;

⁴ According to the Administration, "This indicator does not measure wealth or poverty, but low income in comparison to other residents in that country, which does not necessarily imply a low standard of living." From *Glossary: At-risk-of-poverty rate - Statistics Explained* (http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Glossary:At-risk-of-poverty_rate)

- (b) There should be at least three benchmarks to measure poverty. The lowest benchmark should be a subsistence living protection line corresponding to an income level that maintains subsistence living. The middle benchmark, representing the poverty line, should be set at 60% of the median household income. The highest benchmark should represent a poverty prevention line, possibly set at 70% of the median household income;
- (c) The poverty line should be set at 60% of the per capita median household income, with reference indicators set at 50% and 40%. Adjustment for household size is not necessary, and the calculation is based on the per capita median household income; or
- (d) Four poverty lines should be drawn up. The concept of "relative poverty" will be adopted for three of them, taking 40%, 50% and 60% of the median household income of different household sizes as thresholds. For the last one, the concepts of "absolute poverty" and "relative deprivation" will be adopted to set the subsistence living protection line for determining the CSSA level.

21. The Administration has pointed out that apart from setting the main poverty line at 50% of the median household income, it does not rule out the option of taking data corresponding to other percentages, such as 40%, 60% and 70%, as reference in the future. On the other hand, the Government Economist and C&SD will analyze the data based on the framework agreed by CoP, which includes adopting the concept of "relative poverty" based on an income-based approach, and setting the main poverty line at half of the median household income, so as to identify the various characteristics (e.g. social, economic, housing conditions and district characteristics) of households below the poverty line, and conduct detailed analysis on specific groups such as the working poor, poor elderly, households receiving CSSA, single-parent families, new arrivals, etc. This will facilitate the Administration's formulation of targeted poverty alleviation initiatives.

Measures that should be counted in the "post-policy intervention household income"

22. The Administration has pointed out that currently the Government has different cash-based and non-cash based social welfare

measures to assist people in need and improve their living standard. At two meetings, the Task Force discussed in detail what measures should be counted in the "post-policy intervention household income". Cash-based benefits cover those recurrent cash assistance schemes such as CSSA, Old Age Allowance, Old Age Living Allowance, Disability Allowance, student finance, etc. These cash-based benefits have little controversy. The Task Force agrees that they should be included in the cash-based benefits of policy interventions. As for those non-cash based benefits, the Task Force agrees that those means-tested recurrent benefits (such as public housing) should be included in the non-cash based benefits of policy interventions while those universal non-cash based benefits (such as 12-year free education, out-patient and hospitalized services, etc.) should not be included. The Task Force has submitted the aforesaid recommendations to CoP for discussion.

23. The Subcommittee shares the views of some depositions who do not support incorporating public housing benefits as part of the cash income in the calculation of the poverty line, because given that the location of the public housing has a considerable bearing on its market rent, if the public housing benefits are evaluated with this approach, the poverty rate of public housing tenants in urban areas will be substantially underestimated. Some members of the Subcommittee consider that if CoP incorporates public housing benefits in the calculation of the poverty line, the size of the poor population will be substantially reduced, thus begging doubts about CoP tempering with the figures to understate the poor population.

24. In response, the Administration states that, as mentioned in paragraph 6(c) above, one of the functions of the poverty line is to assess the effectiveness of the Government's policy interventions on the poverty situation of Hong Kong, and the public housing policy is one of the most important intervention points and most effective policy for assisting low-income families. CoP is exploring the methodology to quantify public housing benefits. As this is a controversial issue, CoP must exercise great care in handling it and make careful considerations. It has not yet made any decision on this matter. In addition, upon the setting of the poverty line, the Administration will release to the public the figures before and after policy interventions by the Government. Therefore, there is no question of CoP understating some figures. Nevertheless, the most important point is what methodology can best measure the effectiveness of the policy. Although the effectiveness of the policy can be reflected in quantitative changes, what the Administration pursues is not increase or decrease in quantity, but really helping the underprivileged and the low-income people in Hong Kong.

Motion

25. In the light of the aforesaid discussion, the Subcommittee has passed the following motion in relation to the framework agreed by CoP for setting the poverty line, as well as such matters as whether public housing benefits should be incorporated in the calculation of poverty lines –

"That the poverty line should be set with the ultimate goal of helping members of the public get out of poverty and improving their quality of living, instead of hiding the problem of poverty. This Subcommittee considers that a poverty line setting at 50% of the median household income is too low, and does not support incorporating public housing benefits as part of the cash income in the calculation of the poverty line. This Subcommittee further considers that the concept of disposable income should be used to set the subsistence living protection line for the purposes of alleviating and eliminating poverty."

Transparency of CoP's work and public consultation on setting the poverty line

26. Some deputations criticize CoP for operating in a black box, completely oblivious to the reality. They strongly request CoP to make public the documents and records related to its meetings, and urge it to consult the public before making a decision on setting the poverty line.

27. Members of the Subcommittee consider that CoP and its Task Forces should enhance their transparency by, inter alia, making their meeting agendas and discussion schedules available to the Subcommittee to facilitate its work. However, CoP has declined to accede to the request on the grounds that CoP and its Task Forces will hold their meetings behind closed door and all the documents, information and discussion of these meetings are restricted materials. CoP has uploaded suitable information to its dedicated website and issued relevant press releases from time to time. CoP and its Task Forces will report the progress of their work to the Legislative Council after they have operated for some time. Members express regret at CoP's refusal to provide the Subcommittee with information on CoP's meeting agendas and discussion schedules. They consider that it will hinder the Subcommittee's monitoring of CoP's work and hamper the public's discussion on issues relating to poverty alleviation.

28. As regards public consultation on the setting of the poverty line, the Administration points out that the Secretary for Labour and Welfare,

as a representative of CoP, has attended the three meetings held by the Subcommittee in relation to the poverty line, including two meetings to gauge public views and one meeting with the Administration. CoP has also listened to the views of the community and the media on this matter. In addition, in the light of the goal of setting the poverty line in 2013, CoP will still have plenty of work to do after setting the main poverty line, and therefore will not be able to make time for conducting public consultation.

Recommendations of the Subcommittee

29. The Subcommittee recommends that CoP should –
- (a) set the poverty line with the ultimate goal of helping members of the public get out of poverty and improving their quality of living, instead of hiding the poverty problem, and should set specific targets for the elimination of poverty;
 - (b) set three benchmarks for the poverty line. The lowest benchmark should be a subsistence living protection line based on the concept of disposable income. The middle benchmark should be a poverty line set at 60% of the median household income. The highest benchmark should be a poverty prevention line, set at 70% of the median household income;
 - (c) not incorporate public housing benefits as part of cash income in the calculation of the poverty line;
 - (d) consult the public before making a decision on the framework for setting the poverty line; and
 - (e) make public the documents and records related to the meetings held by CoP and its Task Forces, as well as relevant study reports and data.
30. The Subcommittee agrees that the report should first be submitted to the House Committee for information, and then forwarded to CoP for consideration and response.

Subcommittee on Poverty

Membership list

Chairman	Hon Frederick FUNG Kin-kee, SBS, JP
Deputy Chairman	Dr Hon Fernando CHEUNG Chiu-hung
Members	Hon Albert HO Chun-yan Hon LEE Cheuk-yan Hon LEUNG Yiu-chung (since 11 December 2012) Hon TAM Yiu-chung, GBS, JP Hon Abraham SHEK Lai-him, SBS, JP Hon Ronny TONG Ka-wah, SC Hon CHAN Kin-por, BBS, JP Dr Hon Priscilla LEUNG Mei-fun, JP Hon CHEUNG Kwok-che Hon Mrs Regina IP LAU Suk-ye, GBS, JP (up to 23 January 2013) Hon Alan LEONG Kah-kit, SC Hon LEUNG Kwok-hung Hon WONG Yuk-man Hon Frankie YICK Chi-ming Hon Charles Peter MOK (since 11 December 2012) Hon CHAN Chi-chuen (since 11 December 2012) Hon CHAN Yuen-han, SBS, JP Hon LEUNG Che-cheung, BBS, MH, JP Dr Hon KWOK Ka-ki Hon KWOK Wai-keung Hon TANG Ka-piu (Total : 22 Members)
Clerk	Mr Colin CHUI
Legal adviser	Mr YICK Wing-kin
Date	24 January 2013

Subcommittee on Poverty

List of deputations/individuals which/who have given written and/or oral views to the Subcommittee

1. Academic for Universal Pension
2. Alliance for Children Development Right
3. Alliance for Universal Pension
4. Care-taker's Concern Group
5. Chinese Grey Power
6. Civic Party
7. Concerning CSSA & Low Income Alliance
8. Concerning Grassroots Alliance
9. Concern Group of Women Poverty
10. Concerning Urban Housing Rights Social Workers Alliance
11. Democratic Alliance for the Betterment and Progress of Hong Kong
12. Dr James Patrick VERE
13. Eco-Feminist Cooperative Network
14. Elderly Council of Tsuen Kwai Tsing District
15. Elderly Welfare Group
16. Grassroots Development Centre
17. Hong Kong Association for Democracy and People's Livelihood
18. Hong Kong Association for the Survivors of Women Abuse (Kwan Fook)
19. Hong Kong Catholic Commission for Labour Affairs
20. Hong Kong Christian Institute
21. Hong Kong Neuro-Muscular Disease Association
22. Hong Kong Women Workers' Association
23. Industrial Relations Institute
24. Justice and Peace Commission of the Catholic Diocese
25. Kwai Chung Estate Labour Rights Concern Group
26. Kwai Chung Estate Residents Rights Concern Group
27. Kwai Fong Estate Elderly Rights Concern Group
28. Labour Party
29. Labour Rights Commune
30. League of Social Democrats
31. Liberal Party
32. Miss Christina TSAO
33. Mr CHAN Chung-yau
34. Mr KWOK Chung-man
35. Mr LEUNG Kwok-tung
36. Mr SO Chi-hong
37. Ms CHAN Wa-chun
38. Ms CHOI Pik-kwan
39. Ms HO Shuk-yi

40. Ms HU Kwun-wing
41. New Women Arrivals League
42. New People's Party
43. New Territories Evangelical Ambassador
44. North District Employment Concern Group
45. Oxfam Hong Kong
46. Pastoral Centre for Workers (N.T.), Catholic Diocese of Hongkong Diocesan
47. Rights of Low Income Family Concern Group
48. Shamshuipo Community Association
49. Smart and Beauty Group
50. Sustainability Research Centre
51. The Against Elderly Abuse of Hong Kong
52. The Boys' and Girls' Clubs Association of Hong Kong
53. The Democratic Party
54. The Federation of Hong Kong and Kowloon Labour Unions (Social Affairs Committee)
55. The Hong Kong Council of Social Service
56. The Hong Kong Federation of Trade Unions – Social Affairs Committee
57. The Lion Rock Institute
58. Tin Shui Wai Community Development Alliance
59. Tin Shui Wai Low Income Subsidy Concern Group
60. Tin Shui Wai Parents Group
61. Women Workers' Cooperative
62. "I want low income allowance" alliance
63. 1st Step Association
64. 天水圍爭取尊嚴生活權益會
65. 利安邨利華樓互委會
66. 人手比例不乎最低工資關注組
67. 全民退保關注組
68. 中港低收入家庭互助網絡
69. 關注扶貧政策小組
70. 關注綜援改革行動組
71. 天水圍爭取低收入家庭權益會
72. 爭取貧窮線定立於入息中位數六成會
73. 六成會
74. 葵涌邨基層關注組
75. 葵涌區劏房街坊關注組
76. 葵涌劏房住客聯盟
77. 反對閉門造車聯盟

Written submissions only

1. Dr Donna WONG, Honorary Research Fellow of Sau Po Centre on Ageing, The University of Hong Kong
2. Dr WONG Hung, Assistant Professor, Department of Social Work, The Chinese University of Hong Kong
3. Hong Kong Association of Squint and Double Vision Sufferers
4. Hong Kong Jockey Club Employees Solidarity Union
5. Mr WONG Yuen-shan
6. wo lee