

ITEM FOR FINANCE COMMITTEE

**HEAD 141 – GOVERNMENT SECRETARIAT :
LABOUR AND WELFARE BUREAU**

Subhead 000 Operational expenses

**HEAD 173 – STUDENT FINANCIAL ASSISTANCE AGENCY
(to be renamed as Working Family and Student Financial
Assistance Agency)**

Subhead 000 Operational expenses

Members are invited to approve the following proposals for taking forward the Low-income Working Family Allowance Scheme –

- (a) a supplementary provision of \$52,471,000 in 2014-15 under Subhead 000 Operational expenses of Head 141;
- (b) renaming Head 173 as “Working Family and Student Financial Assistance Agency”, with “Head, Working Family and Student Financial Assistance Agency” as the Controlling Officer, as from 1 March 2015; and
- (c) a supplementary provision of \$16,582,000 in 2014-15 under Subhead 000 Operational expenses of Head 173.

PROBLEM

We need additional funding provision in 2014-15 to plan and prepare for the implementation of the Low-income Working Family Allowance (LIFA) Scheme.

/PROPOSAL

PROPOSAL

2. The Secretary for Labour and Welfare proposes to –
- (a) seek a supplementary provision of \$52,471,000 for Subhead 000 Operational expenses of Head 141 in 2014-15 for taking forward the implementation of the LIFA Scheme. If approval is given after July 2014, the actual supplementary provision required would be adjusted downward administratively by an amount of \$4,869,000 to \$7,288,000 per month¹;
 - (b) as from 1 March 2015, rename Head 173 as “Working Family and Student Financial Assistance Agency” (WFSFAA) instead of “Student Financial Assistance Agency” (SFAA), with Head, WFSFAA taking over from Controller, SFAA as Controlling Officer ; and
 - (c) seek a supplementary provision of \$16,582,000 for Subhead 000 Operational expenses of Head 173 in 2014-15 for setting up the Working Family Allowance Office (WFAO) for administering the Scheme and providing for the related expenses of the head of WFSFAA and his/her supporting staff.

JUSTIFICATION**Background and Basic Principles**

3. The Government’s poverty alleviation policy is to encourage self-reliance through employment, while putting in place a reasonable and sustainable social security and welfare system to help those who cannot provide for themselves. The 2012 poverty statistics indicate a need to relieve the financial burden of working poor families not receiving Comprehensive Social Security Assistance (CSSA), with particular focus on children, in order to address inter-generational poverty. These families typically need to support children by a relatively smaller number of working members.² On 15 January 2014, the Chief Executive announced in the 2014 Policy Address the introduction of LIFA. There are two considerations –

- (a) Despite the protection offered by statutory minimum wage, many grassroots workers, as the sole breadwinners of families, still bear a

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¹ The reduction of expenditure is due to reduced provision for staffing and the relevant administrative costs, including accommodation for these staff. The variation in the reduction of expenditure per month is mainly due to the staggering arrangement in staffing with civil service posts and non-civil service contract positions.

² In 2012, an average non-CSSA working poor household had 1.1 working members and 0.9 of a child, while an average non-CSSA working household had 1.7 working members and 0.5 of a child.

heavy financial burden. Providing them with suitable assistance and encouraging them to remain employed will help keep them from falling into the CSSA net; and

- (b) Special attention must be paid to the children and youths of these families. Offering them appropriate support promotes upward mobility and breaks the vicious cycle of inter-generational poverty.

4. LIFA's design is premised on the following three basic principles –

- (a) A basic allowance will be granted on a family basis and tied to employment and working hours to encourage self-reliance. More allowance will be granted to those who work more. Families with eligible children and young members will receive additional allowance;
- (b) To ensure that limited public resources will be used to help those families most in need, there will be an income test and an asset test for LIFA; and
- (c) The structure of LIFA would be as simple and easy to understand as possible, with appropriate safeguards against abuse to ensure prudent use of public resources.

5. Since the announcement of LIFA in January 2014, the public and major stakeholders have generally welcomed the proposal. Some have commented on individual features of the proposed LIFA. Paragraphs 6 to 15 below outline our latest proposal on LIFA's major parameters and implementation framework, which have taken into account comments received as far as appropriate.

Key Parameters of LIFA Scheme

Eligibility Criteria

6. Each eligible LIFA family should consist of two or more members, with at least one being a working member. LIFA would provide a Basic Allowance (\$600 per month) to each eligible family³ and a Child Allowance (\$800 per month) for each eligible child⁴ in the family. This would be based on –

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³ For the LIFA Scheme, a "family" generally refers to a household covering people with close economic ties (but excluding economic ties arising from employment relationship) and living in the same premises. This will normally include family members (such as husband and wife and their dependant(s)) and those who share or are obliged to share the provisions for a living.

⁴ An eligible child has to be aged below 15, or aged between 15 and 21 receiving full-time education (but not post-secondary education).

- (a) the family's passage of the asset test: LIFA's asset test will generally be set at the same level as that of public rental housing (PRH)⁵ and it will be adjusted annually on 1 April following the adjustment of PRH's asset limit on the same day. While PRH applicants are not allowed to own domestic properties in Hong Kong⁶, LIFA will allow its beneficiary families to have properties but their value will be counted towards the asset of the families, with the exception of self-occupied properties;
- (b) the family's passage of the income test: LIFA will adopt a two-tiered income threshold. The first tier will be set at 50% of the Median Monthly Domestic Household Income⁷ (MMDHI). The second tier will be explained in paragraph 10 below. MMDHI figures are published on a quarterly basis. The actual income limits will be adjusted annually on 1 April each year based on the then available quarterly MMDHI level.⁸ This is to synchronise with the adjustment cycle of asset limit; and
- (c) the LIFA applicant meeting the working hour requirement of 144 hours per month.

7. Eligible families with applicants reaching the higher working hour threshold of 192 hours per month may be paid the higher Basic Allowance of \$1,000 per month. The Child Allowance of \$800 per child will not be affected by the working hour threshold reached by the applicant.

8. If the LIFA applicant is a single-parent⁹, his/her two-tiered working hour threshold would be lowered to 36 (for receiving \$600 Basic Allowance) and 72 hours (for receiving \$1,000 Basic Allowance) per month. He/she would also receive the Child Allowance of \$800 per child, irrespective of which working hour threshold he/she meets.

9. The paid holidays/leave/absence from duty of a LIFA applicant (including single-parent applicant) will be allowed to count towards the working hour requirements for the purpose of LIFA's eligibility assessment.

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⁵ The Hong Kong Housing Authority doubles the asset limit for PRH family applicants whose members are all elderly persons (aged 60 or above). No such doubling arrangement will apply to LIFA.

⁶ If sitting PRH tenants purchase domestic properties, the value of the properties will be counted towards their asset under the "Well-off Tenants Policies".

⁷ This excludes the income of foreign domestic helpers.

⁸ The first income limits for the LIFA Scheme would depend on the actual launch date of the Scheme and other preparatory work.

⁹ For the purpose of deciding the eligibility for the lower working hour thresholds, single-parent refers to one having his/her youngest child living with him/her aged below 15.

10. Families (including families whose applicants are single-parents) meeting all the above qualifying criteria but with a family income exceeding 50% of MMDHI but not higher than 60% of MMDHI would be given a half Basic Allowance (\$300 or \$500 per month depending on the number of working hours reached by the applicant) and a half Child Allowance (\$400 per child per month).

11. New arrivals might also be eligible to apply for LIFA and be counted in a LIFA family. LIFA would exclude Hong Kong non-permanent residents who have been admitted to Hong Kong to work, study or receive training¹⁰ and their dependants, as well as visitors. Each member within a LIFA-receiving family must be living in Hong Kong. Noting that there are occasions where a family member may need to be temporarily away from Hong Kong, we would allow each of the members within a LIFA-receiving family to be absent from Hong Kong for not more than 30 days within each claim period of six months (as referred to in paragraph 14 below). In addition, a LIFA family member's absence from Hong Kong which is required by gainful employment during the claim period may be disregarded from the absence rule of 30 days.

Interface with Other Government Assistance Schemes

12. LIFA families will not be allowed to benefit from CSSA and household-based Work Incentive Transport Subsidy (WITS) at the same time. Nevertheless, all working members in a LIFA family (except for the LIFA applicants themselves) may apply for or continue to benefit from individual-based WITS if they are eligible. Their WITS payment will be counted towards the family income in LIFA's income test. All members within a LIFA-receiving family may apply for or continue to benefit from School Textbook Assistance Scheme, Student Travel Subsidy Scheme, Subsidy Scheme for Internet Access Charges, Disability Allowance and Old Age Allowance (OAA) and such allowance amounts would not be counted towards the family income in LIFA's income assessment. Whilst LIFA family members may benefit from the Old Age Living Allowance (OALA) and the pilot Carer Allowance scheme at the same time, these cash allowances will largely be counted towards the family income in LIFA's income test.¹¹

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¹⁰ Such as those admitted for employment as foreign domestic helpers, admitted for employment under the Supplementary Labour Scheme, admitted through the General Employment Policy, and the Admission Scheme for Mainland Talents and Professionals, etc.

¹¹ For an elderly aged 70 or above receiving OALA and living in a LIFA family, LIFA would count the differential amount of OALA and OAA. If he/she is aged 65 or above but below 70, the whole OALA payment will be counted. A LIFA family member receiving carer allowance under the pilot Carer Allowance scheme will have his/her whole carer allowance counted in LIFA's income test. The pilot Carer Allowance scheme is a programme under the Community Care Fund. If it is regularised in the future, we will review its interface arrangement with LIFA.

13. On the other hand, LIFA would not be counted towards the applicants' income under other major means-tested government financial assistance schemes. Should any means-tested government assistance schemes be reviewed in the future, the relevant government bureaux and departments might review their respective scheme's interface with LIFA. PRH, which is not a cash assistance scheme, will count LIFA as "income" in its income test.

14. The claim period of LIFA would cover the past six months on the basis of the proof of eligibility for each calendar month in the claim period. Appropriate safeguards against abuse will be built in through random checks including office interviews, home visits and/or authentication of application details with third parties concerned as necessary.

Implementation Framework and Timeframe

15. As LIFA aims to provide financial assistance to working poor families, particularly those with children and eligible children in these families may continue to apply for textbook, transport and Internet grants administered by the SFAA, there would be some overlap in the clientele of the existing SFAA schemes and that of the LIFA Scheme. We propose to put the administration of LIFA under WFAO, alongside that of the existing SFAA which will be renamed as Student Finance Office (SFO), under the same Agency to be named as WFSFAA. Accordingly, we propose to change Head 173 in the Estimates from SFAA to WFSFAA, which will comprise SFO responsible to the Education Bureau (EDB) for providing financial assistance to students¹² and WFAO responsible to Labour and Welfare Bureau (LWB) for providing financial assistance to working families. We propose putting in place this new organisation structure and renaming Head 173 with effect from 1 March 2015.¹³

16. We need to urgently take forward the necessary planning and preparatory work of the LIFA Scheme. This involves a substantial amount of complex work involved in formulating the operational details of the Scheme, including setting up the modus operandi of the Scheme; drawing up detailed definitions of the various eligibility criteria, detailed operational manuals and guidelines, schedule of authorisation, accounting, payment control and auditing mechanism; devising fraud prevention, detection and investigation mechanism through carefully defined risk management approach; and working out the operational arrangements for the interface of the LIFA Scheme with other financial assistance schemes administered by the Government.

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¹² Except for the Continuing Education Fund which will continue to be overseen by LWB.

¹³ Schedule 1 to the Ombudsman Ordinance (Cap. 397) specifies that SFAA is subject to the Ombudsman's investigation. The new organisational structure would necessitate amendment to Schedule 1 to Cap. 397.

17. Given the substantial amount of work involved in finalising the operational details, setting up the administration arrangements, and leasing and fitting-out works of office premises and development and installation of information technology (IT) system and office automation (OA) facilities¹⁴, we would require, barring unforeseeable circumstances, a lead time of 15 to 18 months after obtaining funding approval for the preparatory work before launching the LIFA Scheme. This is a highly compressed timetable. Any delay due to unforeseeable circumstances or other reasons would adversely affect the implementation timetable.

18. It is important to secure Finance Committee's (FC's) approval for the necessary resources for taking forward the Scheme as soon as possible, in particular for leasing premises and implementation of the IT project. If approval is obtained in July 2014, we would aim to start receiving applications in the fourth quarter of 2015. If approval is given after July 2014, the implementation timetable would be deferred accordingly.

Additional Manpower Resources

19. Additional directorate and non-directorate manpower resources are required to plan and implement the LIFA Scheme, which comprise the following arrangements –

- (a) creating a supernumerary Senior Principal Executive Officer (SPEO) (D2) post in the LWB¹⁵ up to 31 March 2016 to head a Planning Team for taking forward the implementation of the LIFA Scheme;
- (b) creating a permanent Principal Executive Officer (D1) post in LWB from 1 October 2014 to 28 February 2015 to head a Start-up Team for undertaking preparatory work for setting up WFAO, and transferring the post on a cost-neutral basis to WFAO under Head 173 on 1 March 2015 to head WFAO upon its establishment;
- (c) creating a permanent Administrative Officer Staff Grade B (D3) post in WFSFAA with effect from 1 March 2015 to be Head, WFSFAA and to oversee the LIFA Scheme under WFAO and various student financial assistance schemes under SFO; and

/(d)

¹⁴ The development of IT system and provision of OA facilities will involve a non-recurrent funding of \$40,037,000 under the Capital Works Reserve Fund and will be submitted to FC for consideration vide a separate FC Agenda Item (FCR(2014-15)48).

¹⁵ A supernumerary SPEO post has been created in LWB under delegated authority for six months from 28 February 2014. It will lapse on 28 August 2014 or upon FC's approval for the creation of the post, whichever is the earlier.

- (d) adjusting the establishment ceiling placed on the total notional annual mid-point salary value of all non-directorate posts in the permanent establishment under Head 141 and Head 173 in 2014-15 to facilitate the creation/upgrading/transfer of the necessary non-directorate posts for planning and implementation of the LIFA Scheme.

The above manpower proposals were recommended by the Establishment Subcommittee (ESC) on 11 June 2014 for approval by this Committee vide EC(2014-15)10 included in the Agenda Item on Recommendations of the ESC made on 11 June.

FINANCIAL IMPLICATIONS

Recurrent Expenditure

20. The total allowance amount to be paid under the LIFA Scheme is estimated to be \$3,126.5 million in a full year. We estimate that over 204 000 low-income families (involving over 710 000 persons, including over 180 000 eligible children)¹⁶ could benefit from the Scheme.

21. The full-year recurrent expenditure for administration of the LIFA Scheme is estimated to be \$184,368,000 per year. This includes staff cost of \$117,890,000 for 376 civil service posts to be created in WFSFAA, \$52,527,000 for other recurrent administrative expenditure, including accommodation and general departmental expenses, and \$13,951,000 for IT support.

Time-limited Expenditure

22. The implementation of the LIFA Scheme will entail the following time-limited expenditure. There will be an additional staff cost of \$102,326,000 for 159 time-limited Non-Civil Service Contract (NCSC) positions up to 2017-18 (with annual cost at about \$33 million). In addition, \$5,497,000 will be required for creation of three civil service posts on a time-limited basis for about two years up to end 2016-17 for supporting the development of the IT system; and upgrading of one civil service post on a time-limited basis for three years up to late 2017 for strengthening policy support for the LIFA Scheme.

/Start-up

¹⁶ The number of beneficiaries and allowance amount are estimated based on the available household profiles (including statistics on income and working hours) collected through the General Household Surveys conducted in 2012. The Administration has no data on these households' assets. The estimates are made assuming that 80% of the eligible households would pass the asset test and come forward to apply for LIFA. Such estimates have not taken into account the following factors: (a) different family composition and characteristics, such as the number of children in a family, etc., which could affect a family's choice between LIFA and other government financial assistance schemes; and (b) LIFA may induce behavioural changes, such as changes in an applicant's monthly working hours, etc.

Start-up Expenditure

23. As regards the initial start-up costs, \$40,368,000 will be required from 2014-15 for about two years. This includes \$30,400,000 required for a time-limited Planning Team comprising 25 civil servants and three NCSC staff to be set up from 2014-15 till 2015-16 under LWB for planning the implementation of the Scheme and 80 NCSC staff under WFAO from late 2015 for six months to cope with the possible influx of applications upon the roll-out of the Scheme. The remaining \$9,968,000 is required for procurement of furniture and equipment and for publicity of the Scheme.

24. A breakdown of the estimated recurrent and non-recurrent expenditure is as follows –

Expenditure Item	2014-15 \$'000	2015-16 \$'000	2016-17 \$'000	2017-18 \$'000	2018-19 \$'000
Recurrent					
1. Civil service posts	15,883	117,890	117,890	117,890	117,890
2. IT and other administrative expenditure	28,358	65,534	75,078	79,672	66,478
<u>Sub-total</u>	<u>44,241</u>	<u>183,424</u>	<u>192,968</u>	<u>197,562</u>	<u>184,368</u>
Time-limited					
1. Time-limited NCSC staff	2,765	33,187	33,187	33,187	-
2. Time-limited civil service posts	364	2,471	2,471	191	-
<u>Sub-total</u>	<u>3,129</u>	<u>35,658</u>	<u>35,658</u>	<u>33,378</u>	
Start-up					
1. Staff for planning team	13,215	6,414	-	-	-
2. NCSC staff to handle initial case influx	-	8,976	1,795	-	-
3. Furniture, equipment & publicity	8,468	1,500	-	-	-
<u>Sub-total</u>	<u>21,683</u>	<u>16,890</u>	<u>1,795</u>	-	-
Total	69,053	235,972	230,421	230,940	184,368

/Supplementary

Supplementary Provision in 2014-15

25. For budgeting purpose, it is assumed that the funding for setting up the Planning Team and the office accommodation is from 15 July 2014. Subject to Members' approval, a supplementary provision of \$69,053,000 will be provided in 2014-15 to meet staff cost as well as other operating expenses (including office accommodation, etc.) necessary for planning and preparation for the implementation of the LIFA Scheme. This will include \$52,471,000 under Subhead 000 in Head 141 LWB and \$16,582,000 under Subhead 000 in Head 173 –

Head 141 - LWB

	(\$'000)
(a) Staff costs (including civil service posts and NCSC positions)	19,464
(b) Other administrative expenses (including accommodation, furniture & equipment, publicity)	33,007
Total	52,471

Head 173 - WFSFAA

	(\$'000)
(a) Staff costs (including civil service posts and NCSC positions)	12,763
(b) Other administrative expenses (including accommodation)	3,819
Total	16,582

26. In the event that the date of establishment of the Planning Team under LWB is later than July 2014, the expenditure for Head 141 LWB and the total expenditure in 2014-15 will be reduced by an amount of \$4,869,000 to \$7,288,000 per month and the supplementary provision would be adjusted downward administratively as appropriate through the established administrative arrangements. The financial implications of the LIFA Scheme in 2015-16 and beyond will be reflected in the draft Estimates of the relevant years.

/PUBLIC

PUBLIC CONSULTATION

27. We consulted the Legislative Council (LegCo) Subcommittee on Poverty on the LIFA Scheme on 27 May 2014¹⁷. Members supported the Scheme and its early implementation. On the Scheme's key parameters, some Members suggested that the upper working hour requirement be further lowered and that more generous treatment of leave be made in counting working hours. There were also suggestions of giving special treatment to people with special needs. Members noted that the Government would conduct an overall policy review one year after the Scheme's implementation. Members agreed that the relevant proposals be submitted to the LegCo ESC and FC.

Labour and Welfare Bureau
July 2014

¹⁷ Members of the LegCo Panel on Welfare Services and all other LegCo Members were invited to join the discussion.