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Panel on Welfare Services

Updated background brief prepared by the Legislative Council Secretariat for the meeting on 12 March 2018

Poverty line

Purpose

This paper summarizes the discussions regarding poverty line at meetings of the House Committee ("HC") and the Subcommittee on Poverty ("Subcommittee") formed under HC in the Fifth Legislative Council ("LegCo") including the latest development as advised by the Administration in November 2017.

Background

2. As recommended by the former Commission on Poverty ("CoP") which was dissolved in 2007, the Administration 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. CoP was reinstated in December 2012, with the setting of a poverty line as one of its main tasks. Subsequently, CoP formed the Social Security and Retirement Protection Task Force¹ ("Task Force") to conduct an in-depth study on the setting of a

¹ In its term from 1 December 2014 to 30 June 2017, CoP has been merged with the Task Force to enhance the efficiency of deliberation on poverty situation, social security and retirement protection issues.

poverty line, and give advice and make recommendations to CoP.

4. At the CoP Summit on 28 September 2013, the first official poverty line was announced. According to the Administration, CoP had agreed to adopt the concept of "relative poverty" and set the poverty line at 50% of the median monthly household income before tax and social benefits transfers (i.e. before government policy intervention), and the analysis of the poverty line would be updated annually.

Deliberations by Members

Basis for setting poverty line

5. The Subcommittee received public views on poverty line at its meetings on 11 December 2012 and 27 April 2013. Deputations had different views on how the poverty line should be set. Some were in support of following the Organisation for Economic Co-operation and Development to set the poverty line at 50% of the median monthly household income. Some others were in favour of following the European Commission to set the line at 60% thereof. And yet some others considered that the line should be set at a range from 40% to 70 % of the median monthly household income.

6. The Administration advised that the Task Force agreed, at its meetings on 28 January and 18 March 2013, to adopt the concept of "relative poverty" and set the main poverty line at half of the median monthly household income. The Task Force considered that setting the poverty line in this way was easy to understand, but noted that there were also limitations such as only household income was counted while assets were not; and there would always be some people statistically below the poverty line. With due regard to these limitations, the Task Force accepted that the poverty line could not be directly linked to the eligibility criteria of various means-tested social welfare schemes. In other words, even if the poverty line was set, the Administration would not automatically offer subsidies to individuals or households whose income was below the poverty line. On the contrary, even if the household income of some groups was slightly above the poverty line, they would be eligible for government subsidies subject to their being able to meet the means test of individual social welfare schemes.

7. Some Members considered 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 shared 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. The Administration stressed 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 government policy intervention, though CoP and the Task Force acknowledged that the concept had its own limitations as mentioned in paragraph 6 above.

8. At the Subcommittee meeting on 8 May 2013, the Administration advised that CoP had endorsed the Task Force's recommendation under which an income-based approach would be adopted to set the main poverty line at 50% of the median monthly household income. Some Members considered it more desirable to delineate the poverty line at 60% rather than 50% of the median monthly household income. They said that the poverty line would be on the low side if it was delineated at 50% of the median monthly household income because for a one-person household, 50% of the median monthly household income would be \$3,650, far lower than the average Comprehensive Social Security Assistance ("CSSA") payment (\$4,351) for such households. They considered that 50% of the median monthly household income was already the level of absolute poverty, and the poverty line should not be delineated below this level.

9. The Administration responded that it had been a common practice, both internationally and locally, to delineate the poverty line at 50% of the median monthly household income. The Administration reiterated that the setting of a poverty line did not mean that people in need but with income level above the poverty line would be deprived of the opportunity of receiving government assistances. Currently, even if the household income of some groups was above the poverty line, they would be eligible for government subsidies subject to their meeting the means test of individual assistance schemes. Poverty alleviation measures would continue to be considered by the Administration based on the needs of different underprivileged groups.

10. Some Members were of the view that the Administration should adopt the disposable cash income as the basis for setting the subsistence living protection line. The Administration explained that data of the disposable income were 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 years². 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 intervention.

Number of poverty lines

11. Some Members shared 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 had been suggested –

- (a) Two poverty lines should be drawn up. One line was to be drawn up as a subsistence living protection line based on the concept of "absolute poverty", while the other line was to be drawn up based on the concept of "relative poverty" and set at 50% or 60% of the median household income;
- (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 maintained 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 was not necessary, and the calculation was based on the per capita median household income; or
- (d) Four poverty lines should be drawn up. The concept of "relative poverty" would be adopted for three of them, taking 40%, 50% and 60% of the median household income of

² According to the Census and Statistics Department, the major results of the 2014-2015 Household Expenditure Survey will be released to the public around mid-2016.

different household sizes as thresholds. For the last one, the concepts of "absolute poverty" and "relative deprivation" would be adopted to set the subsistence living protection line for determining the CSSA level.

12. According to the Administration, apart from setting the main poverty line at 50% of the median monthly household income, it did 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 would analyze the data based on the framework agreed by CoP, which included adopting the concept of "relative poverty" based on an income-based approach, and setting the main poverty line at half of the median monthly 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 would facilitate the Administration's formulation of targeted poverty alleviation initiatives.

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

13. According to the Administration, it currently had different cash-based and non-cash based social welfare measures (such as CSSA, student finance assistance and public housing, etc.) to assist people in need and improve their living standard. The Task Force discussed in detail and formed an initial view on what measures should be counted in the "post-tax and post-social transfer household income", which would serve as a quantified indicator measuring the impact of poverty alleviation measures of the Administration.

14. Some Members did 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 had a considerable bearing on its market rent, if the public housing benefits were evaluated with this approach, the poverty rate of public housing tenants in urban areas would be substantially underestimated. Some Members considered that if CoP incorporated public housing benefits in the calculation of the poverty line, the size of the poor population would be substantially reduced, thus begging doubts about CoP tempering with the figures to understate the poor population.

15. The Administration stated that one of the functions of the poverty line was to assess the effectiveness of government policy intervention on the poverty situation of Hong Kong, and the public housing policy was one of the most important intervention points and most effective policy for assisting low-income families. CoP was exploring the methodology to quantify public housing benefits. CoP would exercise great care in handling the issue and make careful consideration. In addition, upon the setting of the poverty line, the Administration would release to the public the figures before and after policy intervention by the Administration. Therefore, there was no question of CoP understating some figures. Nevertheless, the most important point was what methodology could best measure the effectiveness of the policy. Although the effectiveness of the policy could be reflected in quantitative changes, what the Administration pursued was not increase or decrease in quantity, but really helping the underprivileged and the low-income people in Hong Kong.

16. At its meeting on 8 May 2013, the Subcommittee passed the following motion in relation to setting the poverty line –

"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."

The Subcommittee's recommendations on the setting of poverty line

17. The Subcommittee deliberated its draft report on setting the poverty line at its meeting on 24 May 2013 and recommended 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.

The report was presented to the House Committee for information at its meeting on 31 May 2013 and then forwarded to CoP on 5 June 2013 for consideration.

First poverty line and updating

18. Following the publication of the first official poverty line at the CoP Summit on 28 September 2013 (details of which were set out in paragraph 4 above), the Administration subsequently briefed Members at the Subcommittee meeting on 16 December 2014 on the updated poverty line and the Hong Kong's poverty situation in 2013. Some Members considered that the existing poverty line could not truly reflect the poverty situation in Hong Kong as it did not take account of the disposable cash income.

19. The Administration explained that the setting of the poverty line was generally in line with the international practice adopted by the Organisation for Economic Co-operation and Development and local organizations, such as Oxfam Hong Kong and the Hong Kong Council of Social Service. However, there were limitations in the poverty line, for example, both monthly expenditure for the basic daily necessities and assets of an individual or a household were not counted in setting the poverty line.

Latest development

20. According to the Administration, since the official poverty line was introduced in 2013, CoP had updated relevant data analysis on an annual basis so as to monitor the poverty situation, assess the effectiveness of

poverty alleviation policies and guide future policy formulation. The latest development of the poverty line was explained by the Administration in November 2017 when it analysed the poverty situation in Hong Kong in 2016. According to the Administration, on the back of moderate economic growth and a stable labour market, there was an across-the-board rise in the poverty line thresholds alongside the increase in household income in 2016. When compared with 2015, both the size of the poor population and the poverty rate went up. Before policy intervention (i.e. before taxation and social welfare transfer), the size of the poor population rose by 7 500 persons (or 0.6%) to 1 352 500 persons, and the poverty rate increased by 0.2 percentage point to 19.9%.³ After recurrent cash policy intervention,⁴ the poverty rate in 2016 recorded a slight increase of 0.4 percentage point to 14.7%.⁵ The size of the poor population also went slightly upwards by 24 400 persons to 995 800 persons, staying below one million persons for the fourth consecutive year. The poverty situation by and large remained stable.

Relevant papers

21. A list of relevant papers on the LegCo website is in the **Appendix**.

Council Business Division 2
Legislative Council Secretariat
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³ The size of the poor population (poverty rate) prior to policy intervention in 2013, 2014 and 2015 was 1 336 200 persons (19.9%), 1 324 800 persons (19.6%) and 1 345 000 persons (19.7%) respectively.

⁴ Under the poverty line framework endorsed by the Commission on Poverty, recurrent cash benefits include social security payments (i.e. Comprehensive Social Security Assistance, Old Age Living Allowance, Old Age Allowance and Disability Allowance) and other recurrent cash benefits such as the Financial Assistance Scheme for Post-secondary Students, the Work Incentive Transport Subsidy Scheme, the Low-income Working Family Allowance Scheme, etc.

⁵ The size of the poor population (poverty rate) after recurrent cash policy intervention in 2013, 2014 and 2015 was 972 000 persons (14.5%), 962 100 persons (14.3%) and 971 400 persons (14.3%) respectively.

Relevant papers on poverty line

Committee	Date of meeting	Paper
Subcommittee on Poverty	11 December 2012 (Item III)	Agenda Minutes
Subcommittee on Poverty	27 April 2013 (Item III)	Agenda Minutes
Subcommittee on Poverty	8 May 2013 (Item I)	Agenda Minutes
Subcommittee on Poverty	24 May 2013 (Item III)	Agenda Minutes
House Committee	31 May 2013 (Item V (b))	Agenda Minutes
Subcommittee on Poverty	29 October 2013 (Item I)	Agenda Minutes
Subcommittee on Poverty	28 October 2014 (Item I)	Agenda Minutes
Subcommittee on Poverty	16 December 2014 (Item II)	Agenda Minutes
Subcommittee on Poverty	20 October 2015 (Item II)	Agenda Minutes