

## **ITEM FOR FINANCE COMMITTEE**

### **HEAD 173 – WORKING FAMILY AND STUDENT FINANCIAL ASSISTANCE AGENCY**

#### **Subhead 199 Working family allowance**

Members are invited to approve a supplementary provision of \$795 million for 2021-22 under Head 173 Working Family and Student Financial Assistance Agency Subhead 199 Working family allowance to provide sufficient resources for handling the additional applications arising from the time-limited reduction of working hour requirements under the Working Family Allowance Scheme.

### **PROBLEM**

The Government needs to provide additional support to individuals and families with financial difficulties amid the worsening employment and economic conditions brought by the protracted 2019 coronavirus disease (COVID-19) pandemic.

### **PROPOSAL**

2. The Government recommends approving a supplementary provision of \$795 million for 2021-22 under Head 173 Subhead 199 Working family allowance to provide sufficient resources for handling the increasing applications arising from the time-limited reduction of working hour requirements (for one year) under the Working Family Allowance (WFA) Scheme.

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## JUSTIFICATION

### *The WFA Scheme*

3. The WFA Scheme (formally the Low-income Working Family Allowance (LIFA) Scheme) aims to support lower-income working households which are not on Comprehensive Social Security Assistance (CSSA) and have longer working hours (e.g. engaging in full-time employment) with a view to encouraging self-reliance and alleviating intergenerational poverty. The WFA Scheme is designed to encourage full-time employment and reward hard work, and has put in place two tiers of higher working hour requirements (currently 168 and 192 hours per month) for higher levels of allowance on top of the basic requirement of 144 hours per month for non-single-parent households. It is worth noting that, as at end February 2021, under the WFA Scheme, there were over 58 000 “active households”<sup>1</sup> (involving over 190 000 persons), more than double the number of LIFA beneficiary households (27 600) before the implementation of improvement measures in 2018. Taking a four-person household with two children as an example, they may receive up to \$4,200 per month, which is significantly higher than \$2,600 in 2018 by over 60%. Meanwhile, the annual payout increased by nearly two times from about \$650 million in 2017-18 to about \$1,720 million for the 2020-21 revised estimate.

4. In response to the challenges brought by the protracted COVID-19 pandemic, the Government recommends reducing, on a one-year time-limited basis, the WFA working hour requirements for non-single-parent households, which include substantially reducing the basic working hours from 144 hours per month to 72 hours per month as detailed below –

<b>Types of allowances</b>	<b>Existing requirement of total monthly working hours (Hours)</b>	<b>Recommended requirement of total monthly working hours (Time-limited for one year) (Hours)</b>
Basic Allowance	144 to less than 168	<b>72</b> to less than 132
Medium Allowance	168 to less than 192	<b>132</b> to less than 192
Higher Allowance	192 or more	<b>Unchanged</b> at 192 or more

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<sup>1</sup> The claim period of a WFA application covers the immediate past six calendar months before submission, with the amount of allowance to be determined on a monthly basis. “Active households” refer to households who have been approved with WFA and submitted their latest applications in the past six months.

Encl.

The major design of the WFA Scheme after the time-limited reduction is at the Enclosure. Upon expiry of the one-year time-limited arrangement, the three-tier working hour requirements of the WFA Scheme will resume to the current levels of 144, 168 and 192 hours per month.

5. Specifically, the Government recommends a substantial reduction of the basic working hour requirement to 72 hours per month on a time-limited basis for non-single-parent households under the WFA Scheme in order to provide financial support to eligible low-income households by allowing them to apply for WFA amid decrease in their working hours owing to the pandemic. To maintain the fundamental policy objective of the WFA Scheme, i.e. to promote full-time employment and reward hard work, the working hour requirement for WFA Medium Allowance will be reduced from 168 hours per month to 132 hours per month, while the working hour requirement for WFA Higher Allowance will remain at 192 hours or above per month with a view to upholding the relativity of the working hour requirements across different tiers of allowance. The existing lenient working hour requirements of 36, 54 and 72 hours per month for single-parent households will remain unchanged.

6. Under the one-year time-limited arrangement, households with an aggregate<sup>2</sup> of 72 working hours (but less than 132 hours) per month will be eligible for a maximum of \$1,000 WFA Basic Allowance per month, plus a maximum of \$1,400 Child Allowance per month for each eligible child and youth<sup>3</sup>. As for households with 132 monthly working hours (but less than 192 hours) in aggregate, apart from the said Child Allowance, they will be eligible for WFA Medium Allowance up to \$1,200 per month<sup>4</sup>, whereas those with an aggregate of 192 working hours or above per month may continue to receive Child Allowance and WFA Higher Allowance (up to \$1,400 per month). Taking a four-person household with two children as an example, if their aggregate monthly working hours reach 72 hours but fall short of 132 hours, they may receive up to \$3,800 per month. Before implementing the above time-limited arrangement, given that the aggregate working hours of this household do not meet the existing WFA basic requirement of 144 hours per month, they are not eligible for any allowance.

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<sup>2</sup> The WFA Scheme allows household members to aggregate their working hours which may assist low-income households to apply for WFA and receive a higher rate of allowance.

<sup>3</sup> Refers to those who are aged below 15, or aged between 15 and 21 and receiving full-time education (excluding post-secondary education).

<sup>4</sup> Including households with 144 monthly working hours (but less than 167 hours) in aggregate, and their household allowances under WFA will also increase from a maximum of \$1,000 per month Basic Allowance by 20% to a maximum of \$1,200 per month Medium Allowance.

*The Individual-based Work Incentive Transport Subsidy (I-WITS) Scheme*

7. While reducing the working hour requirements on a time-limited basis for non-single parent households under the WFA Scheme, the Government decides to abolish the I-WITS Scheme so as to pool resources for implementing the time-limited reduction of WFA working hour requirements and handling the continued surge in WFA applications.

8. The I-WITS Scheme is also a ‘pro-employment’ measure. It aims to help low-income earners to reduce their cost of commuting to work. Applicants who fulfil the working hour requirement of 36 or 72 hours per month may receive a monthly \$300 half-rate subsidy or a \$600 full-rate subsidy respectively. The number of I-WITS recipients has dropped significantly by about 45% from 34 000 in 2017-18 to about 19 000 during the claim period between April and September 2020.

9. Of note the Transport and Housing Bureau has launched the non-means-tested Public Transport Fare Subsidy Scheme (PTFSS) since January 2019 to relieve the fare burden of public transport commuters whose public transport expenses are relatively high. As at January 2021, the PTFSS benefitted more than 2 million persons per month on average with a monthly subsidy of about \$170 million, which incurred a total subsidy of over \$4,200 million. As the above Scheme is non-means-tested and benefits all citizens, eligible I-WITS recipients may also receive this public transport fare subsidy of a similar nature, which could be seen as receiving ‘double benefit’.

10. Apart from the issue of ‘double benefit’ and the continued significant drop in I-WITS recipients mentioned above, it is noted that among those in receipt of I-WITS from April to September 2020, 95% would be able to meet the time-limited reduced basic working hour requirement at no less than 72 hours per month under the WFA Scheme as recommended in paragraph 4 above, and 64% would meet the current 144-hour basic working hour requirement. If they choose to change to apply for WFA and meet the other eligibility criteria, their maximum allowance receivable (from \$1,000 to \$1,400 per month) will be higher than that under I-WITS (maximum of \$600 per month). If there are children in these families, the amount of subsidies will be even higher. For example, for a four-person household with two eligible children and if the parents have aggregated 72 working hours per month, this household will only receive a maximum of \$600 per month under the I-WITS Scheme. Under the time-limited reduced WFA basic working hour requirement, the amount of allowance to be received by this household under the WFA Scheme will increase to a maximum of \$3,800 per month (viz. \$1,000 Basic Allowance for the household and \$1,400 Child Allowance per person for the two eligible children).

11. The Working Family Allowance Office (WFAO) under the Working Family and Student Financial Assistance Agency will redeploy manpower resources for the I-WITS Scheme to process WFA applications, which have doubled in the past years and are expected to increase further in light of the time-limited new measure, with a view to disbursing the allowance to eligible households in a timely manner to assist them in meeting their imminent needs. In the months ahead, the WFAO will encourage and assist current I-WITS recipients to apply for WFA. Apart from issuing letters to introduce the details and eligibility criteria of the WFA Scheme, the WFAO will arrange dedicated officers to answer enquiries about the WFA Scheme and set up dedicated service counters in the office to provide form-filling services for WFA applications from I-WITS recipients.

*The income limit adjustment of the two schemes in 2021*

12. Having regard to the current adverse economic situation, the Government will freeze the income limits of the WFA Scheme (where applicable) in 2021<sup>5</sup>. According to the established mechanism, the income limits of the WFA Scheme are adjusted annually in April each year based on the median monthly domestic household income of economically active households (MMDHI(EA)) of the previous calendar year (figures are available in around March every year). According to the information prepared by the Census and Statistics Department, the MMDHI(EA)s of all household sizes from September to November 2020 have recorded a year-on-year decrease from 1.0% to 6.0%. Taking into account the situation faced by individuals and families with financial difficulties, the Government will make reference to actual statistics and increase/maintain the WFA income limits of household sizes where such limits are to be increased or frozen according to the corresponding MMDHI(EA) which varies from year to year, and freeze the income limits where they are to be decreased according to that parameter. As for the I-WITS Scheme<sup>6</sup>, having regard to the relevant factors including the way forward for the scheme, the Government will also freeze the income limit of the I-WITS Scheme at \$11,000 per month<sup>7</sup>. The financial implications of freezing the income limits of the WFA and I-WITS Schemes will amount to \$95 million and \$11 million respectively in the form of extra payment on the Government's part, which will be met by existing provisions with no additional financial commitment required. The Government consulted the Panel on Welfare Services and Panel on

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<sup>5</sup> The asset limits of the WFA Scheme will be adjusted according to those of the public rental housing applications as per the established mechanism, while the asset limit of the I-WITS Scheme will be maintained at three times of the corresponding asset limit of the CSSA Scheme as adjusted annually.

<sup>6</sup> It was updated based on 100% of the median monthly domestic household income (MMDHI) for one-person household in the third quarter of the previous year.

<sup>7</sup> According to the MMDHI for one-person household in the third quarter of 2020, the income limit for I-WITS applications should have been reduced from \$11,000 (based on the MMDHI figure as at the third quarter of 2018 and has been frozen at that level in 2020 as agreed by the Legislative Council (LegCo)) to \$9,700.

Manpower on 8 February 2021 on freezing the income limits of the two schemes. Members had no objection to the relevant proposals. The Government will implement this arrangement.

## **FINANCIAL IMPLICATIONS**

13. For the time-limited reduction of working hour requirements under the WFA Scheme, it is roughly estimated that about 24 000 additional households will benefit from this arrangement, involving an additional expenditure of about \$954 million (including \$795 million in 2021-22 and \$159 million in 2022-23), which is equivalent to more than half of the 2020-21 revised estimate for WFA. To this end, the Government recommends approving a supplementary provision of \$795 million for 2021-22 under Head 173 Subhead 199 Working family allowance to meet the requirements in 2021-22. Meanwhile, the Government will include the provision required in 2022-23 (i.e. \$159 million) in the draft estimates of the forthcoming year, and seek the approval of LegCo in the context of the Appropriation Bill 2022.

## **IMPLEMENTATION**

14. Subject to this Committee's approval, the time-limited reduction of working hour requirements under the WFA Scheme will take effect from the claim month of June 2021 at the earliest, with the last claim month for the I-WITS Scheme being May 2021.

## **PUBLIC CONSULTATION**

15. The Government briefed members of the Panel on Welfare Services and Panel on Manpower on the proposals in this paper on 8 February 2021. Members supported the submission of the funding proposal to the Finance Committee.

## **BACKGROUND**

### *The WFA Scheme*

16. The LIFA Scheme, now known as the WFA Scheme, was introduced in 2016. The Government has implemented a host of improvement measures for the scheme in recent years, which included relaxing its eligibility criteria (such as extending the scheme to one-person households), substantially increasing the rates of allowances, allowing households to aggregate the working hours of household members for a higher level of allowance, renaming the scheme as the WFA Scheme, etc.

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*The I-WITS Scheme*

17. The Work Incentive Transport Subsidy (WITS) Scheme (introduced in 2011) originally adopted a dual-track approach, where eligible persons could choose to apply for subsidies under an individual-based or a household-based approach. Noting that the improved WFA Scheme would basically cover the applicants of the household-based WITS Scheme, the Government abolished the household-based Scheme in April 2018 in tandem with the implementation of the much improved WFA Scheme, and indicated that it would consider whether to do the same for the I-WITS Scheme in the longer run.

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Labour and Welfare Bureau  
Working Family and Student Financial Assistance Agency  
March 2021

**Major Design of the Working Family Allowance Scheme  
under the Time-limited Working Hour Reduction Arrangement**

	<b>Full rate monthly allowance</b>  (monthly household income not higher than 50% Median Monthly Domestic Household Income of economically active households (MMDHI)(EA))	<b>3/4 rate monthly allowance</b>  (monthly household income of more than 50% but not higher than 60% MMDHI(EA))	<b>Half rate monthly allowance</b>  (monthly household income of more than 60% but not higher than 70% MMDHI(EA))
<b>Basic Allowance:</b> monthly working hours of at least 72 hours (single-parent households: 36 hours)	\$1,000	\$750	\$500
<b>Medium Allowance:</b> monthly working hours of at least 132 hours (single-parent households: 54 hours)	\$1,200	\$900	\$600
<b>Higher Allowance:</b> monthly working hours of at least 192 hours (single-parent households: 72 hours)	\$1,400	\$1,050	\$700
<b>Child Allowance</b> (each child/ youth)	\$1,400	\$1,050	\$700

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