



## **Position Paper on Improvement of Work Incentive Transport Subsidy Scheme**

**January 2012**

### **Executive Summary**

Apart from the minimum wage, the Work Incentive Transport Subsidy Scheme (WITS) is one of the essential anti-poverty measures to alleviate the burden for low-income earners in Hong Kong and to encourage them to sustain employment. However, its objective is set too narrow to tackle the poor economic situation of low-income households. Current income and assets limits are too stringent and with the implementation of the minimum wage and the increases in the salaries of low-income earners, many low-income earners fail to qualify. Even though the minimum wage may have increased the salary of low-income earners, inflation has eroded most of their salary growth and has also increased the cost of living, particularly for families with children. During this period of high inflation, WITS could have helped reduce the cost of living burden for many low-income people and their families. With only about 21,000 applications – the Government had expected about 218,000 – the application rate for WITS is far lower than expected. In all, about 10,947 of the 218,000 eligible workers have received the support, which is only about 5 per cent. The Hong Kong Special Administrative Region Government must adjust the income and assets limits for WITS to assist its target population. Oxfam Hong Kong proposes that the Government 1) Redesign the income limit for WITS by considering the income limit for the application of the public rental housing, and also consider the additional burden that families with children face; 2.) Adjust the assets limit for WITS by adopting the assets limit for the application of the public rental housing in order to allow more employed members of low-income families to benefit from WITS and thus, achieve the policy goals.

#### **A. Background**

##### **1. The Objectives of the Scheme**

When the Hong Kong Special Administrative Region Government reviewed the Transport Support Scheme<sup>1</sup> in 2010, it recognised that transportation expenses for commuting to and

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1 The Transport Support Scheme served residents of Yuen Long, Tuen Mun, North District and Islands District (demarcated in accordance with the District Council electoral boundaries). The subsidy could only be claimed for up to 12 months at most. ([http://www.tss.labour.gov.hk/gui\\_eng/faq.html#4c](http://www.tss.labour.gov.hk/gui_eng/faq.html#4c))

from the workplace take up a significant proportion of a worker's income. The Government therefore transformed the time- and geographically-specific Scheme into the ongoing and territory-wide Work Incentive Transport Subsidy Scheme (WITS). WITS aims to assist employed members of low-income families with their commuting expenses

## **2. Income and Assets Limits**

2.1 Unlike for the Transport Support Scheme, the means tests for WITS are on a household basis. The Government argues that a household-based means test is more equitable than an individual-based one, because the family forms the basic unit of society and therefore, the economic situation of the whole household should be taken into consideration. Members of a household are expected to support each other financially.

2.2 The current income limit for WITS was designed by the Government before the implementation of the minimum wage, and on the basis of the General Household Survey in 2010. The income thresholds are HK\$6,500 for a one-person household, HK\$12,000 for a two-person household, and HK\$13,000 for a three-person household (See Appendix: Table 1). As the Government stresses the sharing of resources in a household, the income limit test reflects that the more members a household may have, the more stringent the limit will be. For example, the income limit for one-person household is almost the same as the median household income of a corresponding household size in the Second Quarter of 2010<sup>2</sup>, while the limit for a five-person household accounts for 59.2 per cent of the median of a corresponding household size.

2.3 The assets limit for WITS was designed with reference to the Comprehensive Social Security Allowance (CSSA) Scheme. Assets are defined as assets which can potentially be changed into income, such as bank deposits, savings, stocks, funds, the current value of insurance plans and of properties owned but not lived in. The WITS assets limits for 1- to 4-person households are 1.9 times more than the corresponding limits for CSSA, and the limits for 5- to 6 or more person households are two to three times higher (See Appendix: Table 1).

## **B. Policy Improvements Needed**

### **3. Narrow Objective of the Scheme**

The objective of WITS is set very narrow to focus on the work-related transportation expenses, while its design, i.e. eligibility criteria, broadly considers the economic situation of household, rather than transportation need of individuals. Thus WITS is not broad enough to meet the living expenses of the low-income families nor sufficient enough to meet transportation

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<sup>2</sup> Legislation Council Panel on Manpower: Work Incentive Transport Subsidy Scheme, 16 December, 2010

expenses of low-income earners, particularly those who need to commute to and from the workplace in a long distance.

#### 4. Exceeding Income Limit after the Implementation of Minimum Wage

The implementation of the minimum wage has been beneficial to increase the salaries of low-income employees, yet now their salary often exceeds the WITS income limit. According to the Wage and Payroll Statistics Quarterly Report in 2011, the average monthly income of the lowest-wage occupations increased by at least 9.5 per cent from the First to the Third Quarter of 2011 (See Table 2) and the monthly salary of a washroom cleaner increased by 20 per cent from the First to the Third Quarter of 2011, from HK\$5,600 to HK\$6,769. These statistics reveal that for a one-person household, the WITS income limit has been exceeded.

Suppose two earners of a couple work as cleaners and earn salaries close to the average. Their total income would reach about HK\$13,500, which would exceed the income limits of a 2-person household at HK\$12,000, or even a 3-person household at HK\$13,000 if they had a child or another dependent.

In fact, even before the implementation of the minimum wage, the wages of some low-wage occupations such as cleaners and security guards exceeded the WITS income limit for a one-person household. Thus, the income limit was set too low from the start. According to the Labour and Welfare Bureau, as of 30 December 2011 (several months after the implementation of minimum wage), only 21,000 applications had been filed and only 10,000 applications (with approximately 10,947 applicants) had been granted the subsidy<sup>3</sup>. The number of applications is far lower than what had been estimated by the Government, at 218,000<sup>4</sup>. In fact, only about 5 per cent of eligible workers have received the support.

Table 2. Average Monthly Salary of Lowest-wage Occupations, First and Third Quarters, 2011

Industry Type/Occupation	Average Monthly Salary, 2011 (HK\$)		Change in Income from 1 <sup>st</sup> to 3 <sup>rd</sup> Quarter 2011 (%)
	1 <sup>st</sup> Quarter	3 <sup>rd</sup> Quarter	
<b>Cleaning Services</b>			
Washroom Cleaner	5,633	6,759	20.0
General Cleaner	5,890	6,718	14.1
Service Worker	6,598	7,593	15.1

<sup>3</sup> According to the minutes of the Legislative Council Meeting on 30 November 2011, the Labour and Welfare Bureau disclosed that from 1 October until 29 November 2011, the Labour Department had received 19,393 applications, with 21,230 applicants. That is, the ratio of application case to applicant is 1: 1.09.

<sup>4</sup> Before the implementation of WITS in October 2011, the Government estimated that 436,000 people would be eligible and that 218,000 people would actually apply. Please refer to the minutes of the Legislative Council Meeting on 17 February 2011. (<http://www.legco.gov.hk/yr10-11/english/panels/mp/papers/mp0217cb2-1070-1-e.pdf>.)

Security Services			
Security Guard (general)	7,893	8,899	12.7
Two-shift Security Guard(12hr)	7,778	9,021	16.0
Three-shift Security Guard (8hr)	6949	7611	9.5

Source: First and Third Quarters Reports of Wage and Payroll Statistics, 2011.

## 5. Offsetting the Positive Effects of Minimum Wage by Inflation

5.1 Although the minimum wage has increased the wages of low-income earners, the Consumer Price Index (A) also increased, persistently, in 2011, which offset the growth of workers' salaries. According to the Third Quarter Economic Report of 2011, the salaries of the lowest decile employee group rose year-on-year by 9.7 per cent in the Second Quarter and by 13.1 per cent in the Third Quarter; however, the inflation rate lowered the year-on-year salary growth rate by about 60 per cent. Therefore, the inflation-adjusted rate of salary growth is 4.0 and 5.0 per cent for the Second and Third Quarters, respectively (See Appendix: Table 3).

5.2 On average, food and housing expenditure for low-income families takes up over 60 per cent of their total household expenditure.<sup>5</sup> In 2011, the high inflation was mainly evident in rising food prices and in higher private housing rents.<sup>6</sup> The Food Price Index in the Consumer Price Index rose up year-on-year by 7.2 per cent in the Second Quarter and by 8.3 per cent in the Third Quarter of 2011. The rental index of private housing flats below 40m<sup>2</sup> also rose year-on-year, by 17.7 per cent in the Second Quarter, and by 18.4 per cent in the Third Quarter<sup>7</sup>. As the increases for food and rent have been higher than the inflation-adjusted rates for salary growth, low-income employees have been struggling to cope. Oxfam research<sup>8</sup> in 2011 has shown that low-income families in the workforce have been skimping on food intake and other expenses. Their quality of life has been adversely affected (See Table 4).

5.3 Low-paid employees initially could apply for WITS to reduce their cost of living. Nevertheless, after the implementation of the minimum wage, their salary has likely risen to a level exceeding the WITS income limit, and they also have to cope with high inflationary pressure. Overall, WITS has failed to achieve the objective of assisting the majority of low-paid employees with their cost of living.

## 6. Assets Limit: Contravening the Objectives of Increasing Work Incentives

The WITS assets limit, which was designed with reference to the CSSA Scheme, is too

<sup>5</sup> According to the 2009/2010 Household Expenditure Survey and the Rebasing of the Consumer Price Indices, for the lowest 25% of expenditure group, the food and housing expenditure shares 69% of their total household expenditure.

<sup>6</sup> According to the Report on Consumer Price Index in November 2012, the combined weighting of food and housing in the consumption basket is 65.9%.

<sup>7</sup> Source: the Hong Kong Property Review Monthly Supplement in January 2012.

<sup>8</sup> Survey on the Impact of Soaring Food Prices of Poor Families in Hong Kong ([http://www.oxfam.org.hk/filemgr/1630/FoodSurveyReportAug2011\\_revised.pdf](http://www.oxfam.org.hk/filemgr/1630/FoodSurveyReportAug2011_revised.pdf))

stringent. As CSSA aims to assist poor families with their basic needs, a stricter assets limit was designed to screen out the less needy. Nevertheless, one of the policy objectives for WITS is to encourage low-income workers to stay in employment, apart from lessening the burden of transportation expenses for their families. Working in the labour market should be seen as the most important means tests for WITS, yet the Scheme also has an additional means test for assets. If the Government sets such a strict assets test for applicants, it not only disqualifies many hardworking low-wage earners, it also does not encourage them to stay in employment. According to a survey conducted by Caritas in 2010<sup>9</sup>, 73 per cent of interviewees indicated that the individual asset limit should be relaxed, and about 60 per cent suggested that the one-person asset limit should be increased from HK\$44,000 to HK\$150,000, or above.

### 7. Internal Policy Inconsistency: Not Assisting Households with Children

The WITS is internally inconsistent when the Government considers it justifiable for considering the economic situation of the household, but fails to consider expenses for children in designing the WITS income limit. Currently, the design overlooks the fact that the economic burden of a family with children can be considerably higher than a family without children. Using the regression analysis model and the 2009/2010 Household Expenditure Survey of the Census and Statistics Department, we can estimate the increased household expenditure for an additional child and an adult. It is found that with an additional child aged under 15, household expenditure would increase by HK\$5,328 a month, and for an additional adult, by HK\$4,165 – a monthly difference of HK\$1,163 (See Table 4). Whatever the household size, a household with children has a higher per-capita expenditure than a household without; and the more children a household may have, the per-capita expenditure is higher still. Families with children also tend to have less ability and less flexibility to deploy resources in times of need.

Table 4. Results of the Regression Analysis

p-value < 0.0001			
Parameter Estimate	p-value	Parameter Estimate	p-value
$\alpha = 12,714$	< 0.0001		
$\beta = 4,165$	< 0.0001	$\beta' = 0.33$	< 0.0001
$\gamma = 5,328$	< 0.0001	$\gamma' = 0.42$	< 0.0001

Source: 2009/2010 Household Expenditure Survey and the Rebasing of the Consumer Price Indices, Census and Statistics Department

Note: Model : Household Expenditure =  $\alpha + \beta$  (Additional Adult) +  $\gamma$  (Additional Child, aged below 15)

$\alpha$  = One-person household expenditure

$\beta$  = Additional expenditure due to an additional adult in the household

<sup>9</sup> “Work-Related Transport Subsidy Scheme Survey”. December 2010. Lai Chi Kok Labour Center, under Caritas. The Survey was only produced in Chinese.  
([http://cd.caritas.org.hk/report/Rpt\\_Traffic\\_Allowance201012.pdf](http://cd.caritas.org.hk/report/Rpt_Traffic_Allowance201012.pdf))

$\gamma$ = Additional expenditure due to an additional child in the household  
 $\beta'$ =Proportion of additional expenditure from an additional adult to one-person household expenditure  
 $\gamma'$ =Proportion of additional expenditure from an additional child to one-person household expenditure

### **C. Two Policy Suggestions from Oxfam Hong Kong**

Oxfam Hong Kong maintains that all working people have the right to a decent minimum standard of living for themselves and their families. During the three-month period from June to August 2011 – after the implementation of the minimum wage – there were still 177,500 families, or 614,400 people, living in poverty<sup>10</sup>: an employment poverty rate of 10.5 per cent; that is, one out of every ten people living in families with at least one employed member<sup>11</sup>. WITS can be one means to assist such workers and their families to move out of poverty, but the income and assets limits have been set too strictly. Oxfam Hong Kong recommends that the Government should expedite a comprehensive review of WITS before the end of Tsang Administration earlier than one year after the implementation of WITS, and take the following three actions on behalf of poor families in the workforce.

#### **8.1 Adjustments in the Income Limit**

Based on the above analysis, Oxfam Hong Kong suggests an adjustment of the WITS income limit to allow more employed members of a household to be eligible for WITS, and to help them relieve their cost of living through WITS. Two factors need to be considered for the adjustment. First, the income limit threshold set for public rental housing (PRH) applicants is also very suitable for WITS, because the target group of low-income families is similar for both. The second factor to consider for the income limit is the additional cost of living burden for children, as outlined above in Section 6. If the Government considers these two factors and creates a new income limit for WITS (See Table 6 and for detailed calculations, see Table 7 in the Appendix), it is estimated (on the basis of Third Quarter General Household Income Survey in 2011) that 636,000 employed persons would meet the income test. If half of them (318,000) applied for WITS, the expenditure would amount to approximately HK\$2.24 billion<sup>12</sup>, 1.42 times the estimated annual total subsidy expenditure (HK\$1.58 billion).

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<sup>10</sup> Members of Low-earning Households: those who are members of domestic household with monthly household income less than a half of median household income of corresponding household size with at least one employed person (excluding foreign domestic helpers).

<sup>11</sup> This data is based on the General Household Survey from June to August, 2011.

<sup>12</sup> Oxfam's estimated figures are based on the Third Quarter of the General Household Survey in 2011, while the official original estimation of the transport subsidy was based on the Survey in 2010. Eligible employed people include full- and part-time workers.

Table 6. New Income Limit with Considerations of Children's Needs for WITS

Household Size (Number of Persons)	Child aged <15	Income Limit for WITS (HK\$)	New Income Limit for WITS (HK\$)	Percentage Increase
1	0	6,500	8,740	34.46
2	0	12,000	13,410	11.75
	1	12,000	14,317	19.31
3	0	13,000	15,260	17.38
	1	13,000	16,087	23.75
	2	13,000	16,915	30.12
4	0	14,000	18,560	32.57
	1	14,000	19,399	38.56
	2	14,000	20,239	44.56
	3	14,000	21,078	50.56
5	0	14,500	21,520	48.41
	1	14,500	22,355	54.17
	2	14,500	23,190	59.93
	3	14,500	24,024	65.68
	4	14,500	24,859	71.44
6	0	16,000	25,040	56.50
	1	16,000	25,890	61.81
	2	16,000	26,741	67.13
	3	16,000	27,591	72.44
	4	16,000	28,442	77.76
	5	16,000	29,292	83.08

Source: 2009-2010 Household Expenditure Survey and the Rebasing of the Consumer Price Indices, Census and Statistics Department.

## 8.2 Relaxing Assets Threshold

To enable more low-income working families to benefit from WITS, Oxfam Hong Kong recommends adopting the assets threshold under the application of the PRH flats for the design of the assets threshold for WITS. If this proposal is adopted, overall speaking, the Government would need to increase the assets limit by three to four times (See Table 8).

Table 8. Comparing Assets Thresholds under WITS and the PRH Flats Application

Household Size (Number of Persons)	Assets Threshold for WITS (HK\$) (A)	Assets Threshold for PRH Flats Application (HK\$) (B)	Difference between A and B in Ratio
1	44,000	193,000	1: 4.4
2	60,000	260,000	1: 4.3
3	90,000	341,000	1: 3.8
4	120,000	397,000	1: 3.3
5	150,000	442,000	1: 2.9
6 or more	180,000	478,000	1: 2.7

Sources: The Labour Department and the Hong Kong Housing Authority.

### 8.3. Review of the Impacts of Minimum Wage

To ensure other welfare measures benefit low-income working families, the government should review the impacts of minimum wage on other welfare measures.

#### D. Conclusion

Oxfam Hong Kong remains extremely concerned about employment poverty in Hong Kong. We believe that once people choose to work for their self-reliance, they should be entitled to basic living protection. WITS is one of the important anti-poverty measures to encourage low-income workers to sustain employment, apart from alleviating their burden of transportation expenses. Since its current income and assets limits are too stringent, hundreds of thousands of low-income earners cannot benefit from the scheme. The Hong Kong SAR Government must therefore adjust the income and assets limits of WITS. Oxfam Hong Kong proposes that the Government 1) Redesign the income limit for WITS by considering the income limit for the application of the public rental housing, and also consider the additional burden that families with children face; 2.) Adjust the assets limit for WITS by adopting the assets limit for the application of the public rental housing in order to allow more employed members of low-income families to benefit from WITS and thus, achieve the policy goals.

## Appendix

Table 1. Income and Assets Limits under Work Incentive Transport Subsidy Scheme

Household Size (Number of Persons)	Income Limit (HK\$)	Asset Limit (HK\$)	Income limit as a percentage of median household income of Q2 2010 (%)*	Ratio between income limits of CSSA and WITS
1	6,500	44,000	98.5	1: 1.9
2	12,000	60,000	83.9	1: 1.9
3	13,000	90,000	65.0	1: 1.9
4	14,000	120,000	59.6	1: 1.9
5	14,500	150,000	59.2	1: 2.4
6 or more	16,000	180,000	60.4	1: 2.9

Sources: The Labour Department; Census and Statistics Department

Note: As the original income limit was designed on the basis of 2<sup>nd</sup> Quarterly General Household Income Statistics Report (2010), the median household income of 2<sup>nd</sup> Quarter 2010 was used to compare income limits of different household sizes.

Table 3. The Rate of Salary Growth before or after being Adjusted for Inflation

	The Lowest 10% Group of Employee's Salary	
	Rate of Salary Growth (before being adjusted for inflation) (%)	Rate of Salary Growth (after being adjusted for inflation) (%)
Second Quarter of 2011	9.7	4.0
Third Quarter of 2011	13.1	5.0

Source: Third Quarter Economic Report, 2011. Hong Kong Special Administrative Region of the Government. ([http://www.hkeconomy.gov.hk/tc/pdf/er\\_c\\_11q3.pdf](http://www.hkeconomy.gov.hk/tc/pdf/er_c_11q3.pdf))

Table 4. Year-on-Year Rate of Food Price Index and Average Rent of Private Housing (below 40 m<sup>2</sup>)

	Rate of Food Price Index(%)	Average Rent of Private Housing (below 40 m <sup>2</sup> ) (%)
Second Quarter of 2011	7.2	17.7
Third Quarter of 2011	8.3	18.4

Sources : Monthly Consumer Price Index, November 2011 ; Hong Kong Property Review: Monthly Supplement, January 2012 .

Note: Food Price Index refers to the one in the Consumer Price Index (A) .

Table 7. New WITS Income Limit with Considerations of Children's Needs

Household Size (Number of Persons)	Child aged <15	Equivalence Scale (ES) = 1+ 0.33 (Adult) + 0.42 (Child) <sup>13</sup>				Income Limit for the Application of Public Housing Flat (HK\$) (B)	Income Limit as the Proportion of Equivalent Median Household Income (A/B)	Revised Ratio	New Income Limit for WITS
		E.S.	Adjusted E.S. (Adult Couple without Children =1)	Equivalent Median Household Income (HK\$) (A)					
1	0	1	0.75	12,030	8,740	0.73	0.73	8,740	
2	0	1.33	1	16,000*	13,410	0.84	0.84	13,410	
	1	1.42	1.07	17,083	13,410	0.79	0.84	14,317	
3	0	1.66	1.25	19,970	15,260	0.76	0.76	15,260	
	1	1.75	1.32	21,053	15,260	0.72	0.76	16,087	
	2	1.84	1.38	22,135	15,260	0.69	0.76	16,915	
4	0	1.99	1.50	23,940	18,560	0.78	0.78	18,560	
	1	2.08	1.56	25,023	18,560	0.74	0.78	19,399	
	2	2.17	1.63	26,105	18,560	0.71	0.78	20,239	
	3	2.26	1.70	27,188	18560	0.68	0.78	21,078	
5	0	2.32	1.74	27,910	21520	0.77	0.77	21,520	
	1	2.41	1.81	28,992	21520	0.74	0.77	22,355	
	2	2.5	1.88	30,075	21520	0.72	0.77	23,190	
	3	2.59	1.95	31,158	21520	0.69	0.77	24,024	
	4	2.68	2.02	32,241	21520	0.67	0.77	24,859	
6	0	2.65	1.99	31,880	25040	0.79	0.79	25,040	
	1	2.74	2.06	32,962	25040	0.76	0.79	25,890	
	2	2.83	2.13	34,045	25040	0.74	0.79	26,741	
	3	2.92	2.20	35,128	25040	0.71	0.79	27,591	
	4	3.01	2.26	36,211	25040	0.69	0.79	28,442	
	5	3.1	2.33	37,293	25040	0.67	0.79	29,292	

Source: 2009-2010 Household Expenditure Survey and the Rebasing of the Consumer Price Indices; Census and Statistics Department.

<sup>13</sup> Equivalence Scale is used to measure the needs of heterogeneous families so that the situation of different families can be compared on the same scale. It has taken into consideration the fact that family members share resources. Thus, if a household increases by one or more members, its consumption does not increase proportionally. In addition, the Equivalence Scale reflects the different needs of children and adults. According to the 2009-2010 Household Expenditure Survey and the Rebasing of the Consumer Price Indices, we estimate that the additional household expenditure for one more adult would account for 0.33 of the household expenditure of a one-person household, while expenditure for an additional child would account for 0.42 of the expenditure. ([http://www.oecd.org/LongAbstract/0,3425,en\\_2649\\_33933\\_35411112\\_119669\\_1\\_1\\_1,00.html](http://www.oecd.org/LongAbstract/0,3425,en_2649_33933_35411112_119669_1_1_1,00.html))

Note: \*An adult couple *without* children has been used as the reference family for this Table. To calculate the equivalent median household income of a corresponding household size and composition *with* children, we have multiplied the median household income of the reference family by the adjusted Equivalence Scale. For example, the equivalent median household income of a 2-person household *with* a child is  $\$16,000 \times (1.42/1.33) = \$17,083$ .