

Commission on Poverty

LegCo's Report on Working Poverty

PURPOSE

This paper summarizes the major recommendations of LegCo Subcommittee to Study the Subject of Combating Poverty as contained in its Report on Working Poverty (the Report), the Government's preliminary response and the recommended way forward.

BACKGROUND

2. On 10 February 2006, the Chairman of the Legislative Council House Committee sent the Report to the Administration. The Financial Secretary (FS) gave a preliminary response on 15 February 2006 during a motion debate urging the Administration to consider implementing the recommendations therein. Both the Report and FS' preliminary response have been circulated to Members for reference¹.

PRELIMINARY RESPONSE AND WAY FORWARD

3. All in all, the Administration is glad to note that the eight recommendations from the Subcommittee reflect a large measure of consensus between the Administration and the Legislative Council on the direction and broad measures to support the working poor. They reflect a mutually shared wish for further improvement on the basis of the present achievements. A summary of the recommendations and the Government's preliminary response to the recommendations are set out at Annex. The way forward in considering the recommendations is also proposed for Members' consideration.

¹ LegCo's Report on Working Poverty can be accessed at
<http://www.legco.gov.hk/yr05-06/english/hc/papers/hc0210cb2-1002-e.pdf>
<http://www.legco.gov.hk/yr05-06/chinese/hc/papers/hc0210cb2-1002-c.pdf>

FS' preliminary response can be accessed at <http://www.info.gov.hk/gia/general/200602/15/P200602150236.htm>

ADVICE SOUGHT

4. Members will be invited to consider the recommendations set out in the Report, and the Government's preliminary response and proposed way forward as summarized at Annex. Meanwhile, the Administration is committed to work closely with LegCo and the CoP to find pragmatic and feasible ways to improve our existing policies and support to the working poor and their families.

Secretariat to the Commission on Poverty
March 2006

**LegCo Subcommittee to Study the Subject of Combating Poverty
Report on Working Poverty (February 2006)**

Government's Preliminary Response and Next Step

***Recommendation (a)* - Enabling community participation and empowerment of the working poor in formulating strategies to reduce working poverty, e.g. modeling after the operation of the Irish National Economic Social Forum (NESF)**

Government Response – Government shares merits of a wide consultative network to gauge public views. The various advisory bodies and communication channels at both the central and district levels have become an established part of our community (please refer to LC Paper No. CB(2) 1969/04-05(03)¹). They are effective and continue to evolve with time and needs.

Examples include the newly established Committee on Economic Development and Economic Cooperation with the Mainland and Committee on Social Development and Quality of Life under the Committee on Strategic Development. Like the Irish forum cited by the Report, they focus on economic and social policy initiatives. In addition, we also have different advisory bodies focusing on training and employment issues. In considering proposals for any new setup, we need to be mindful of possible duplication and the resultant problem of resource and coordination implications.

Next Step –CoP Members would be invited to comment on the suitable institutional set up at the central and district levels to consider issues relevant to poverty alleviation and prevention in the second half of 2006.

¹ The paper was submitted to LegCo in June 2005 on the consultative mechanism of the CoP and existing consultative network of the Government at central and district level.

Recommendation (b) - Developing the economy and creating employment opportunities, e.g. develop local production industries and encourage the relocation of manufacturing industries back to Hong Kong, introduce specific incentives in remote areas

Government Response – No government can control and accurately predict global market forces. To design public policies following such a prediction is highly risky especially for an economy as externally oriented as Hong Kong. The Administration believes that the Government should remain basically a market facilitator, maintaining an environment conducive to economic growth and job creation. To refrain from favouring individual industries and enterprises is to ensure that, over time, the Hong Kong economy would remain competitive in the global market.

Instead, the Administration would focus on providing support with little distortion of market forces. These include, for instance, assisting local enterprises and their employees to move to high-value added activities and acquire high-level skills. At the same time, we would provide support to encourage local economy and social enterprise development.

Next Step – The Administration/CoP would work with LegCo on Recommendation (c) below.

Recommendation (c) - Providing community support and developing local economies

Government Response – We share LegCo's view on the importance of building social capital and networks. Though intangible and non-monetary, they are key to enhancing capacities of individuals and communities, including the working poor.

Therefore, the Government has been actively promoting social capital and building social network e.g. through the Community Investment and Inclusion Fund (CIIF), the Partnership Fund for the Disadvantaged etc. The CoP has also started some pilots to further promote social capital facilitating the sound development of the younger generation.

Likewise, the Government shares the importance of promoting local economic development. As stated in the Budget 2006/07, we have earmarked HK\$150 million to strengthen the district-based approach in alleviating and preventing poverty, which should help provide support to relevant initiatives. The CoP is also pursuing a number of initiatives to promote the development of social enterprises.

Next Step – The CoP Task Force on District-based Approach would examine existing practices and recommend strategies for sustainable improvement of the livelihood of the needy in the community, including strengthening community building, social capital and local employment creation for the less advantaged.

Recommendation (d) – Reviewing the contracting-out arrangements for Government contracts

Government Response –

- (i) Reducing the contracting out of its services as it will lead to unemployment of its existing employees and lowering of wages in the labour market:**

Contracting out is implemented for its business- and quality-promotion opportunities, operational and technological enhancement in tandem with developments as well as efficiency. In other words, it is pursued for better service to the community and more prudent use of public fund. This also helps keep the Government small.

Before a particular service, or part of it, is outsourced, a department will consider all relevant issues associated with outsourcing such as the availability of qualified and experienced private sector service providers, effective use of government resources, whether value for money will be achieved, and potential impacts on staff. So far, no civil servant has been forced into redundancy as a result of outsourcing. Many outsourcing projects involve new facilities or services which do not affect civil servants' jobs.

Exploitation of workers is not a natural and necessary consequence of contracting out. The Government takes this matter very seriously and has introduced a number of measures to prevent and detect such exploitation. We shall continue to be vigilant.

- (ii) Strengthening the monitoring of compliance of the contract terms, particularly those concerning wages and employees' entitlement**

Procuring departments have set up monitoring mechanisms, including complaint hotlines, to ensure that contractors comply with the terms of their contracts. The Labour Department has also stepped up enforcement and will promptly investigate complaints to safeguard the workers' rights and benefits under labour laws. Employers will be prosecuted whenever there is sufficient evidence.

- (iii) Abolishing the principles of selecting the lowest tender and giving more weight to bidder's past performance and reputation in the selection of tenders**

Government's procurement is guided by the policy objectives of achieving the best value for money while maintaining transparency and fair competition. For contracts where quality of service is of importance and specific attributes are called for, procuring departments are encouraged to use a marking scheme to assess the technical and fee proposals. The assessment criteria in the technical proposal normally include the experience and performance of the bidders and their record of compliance with the Employment Ordinance, Employees' Compensation Ordinance, Immigration Ordinance, Criminal Procedure Ordinance and contract obligations. Bidders with less

satisfactory past records will receive lower marks in the technical assessment. Only those bidders that have passed the technical assessment will be considered further and their price proposals will then be opened and assessed. Normally the bidder with the highest combined score will win the contract. Procuring department will also evaluate the reasonableness of the price proposal and may reject unreasonably low ones. There is hence no policy on selecting the lowest tender.

(iv) Putting in place sanctions against breaches of contract conditions concerning protection of employees' benefits, e.g. "blacklisting" those contractors who have breached such conditions and disqualifying them from participation in similar tender exercise of all government departments

The Government is very concerned with the rights and benefits of workers employed by government service contractors. In the past few years, a number of measures have been implemented to deter the contractors from adopting any practices that undermine the protection of non-skilled workers. Such measures include mandatory requirements for tender assessments under which a tender offer shall not be considered on account of tenderers' convictions for the relevant offences under the Employment Ordinance, Employees' Compensation Ordinance and the Immigration Ordinance and breaches of contractual obligations relating to wages, working hours and signing of employment contract with their non-skilled workers; a mandatory wage requirement in which a tender offer shall not be considered if the monthly wage offered by the tenderer concerned is less than the average monthly wage rate for the relevant industry/occupation under the latest Census and Statistics Department's Quarterly Report of Wages and Payroll Statistics; and a mandatory condition of contract requiring the contractors to sign with their non-skilled workers a standard employment contract which stipulates clearly the monthly wages, working hours, method of wage payment and other conditions of employment.

Next Step – The Government will continue to be vigilant in ensuring that the rights of employees are adequately protected. An inter-departmental working group has been convened by the Efficiency Unit to examine the issues associated with outsourcing.

Recommendation (e) – Setting a minimum wage and safeguarding employees' benefits

Government Response – The issue of minimum wage is being deliberated at the Labour Advisory Board (LAB), which comprises employers and employee members. The LAB will continue to study the matter in depth. Meanwhile, the Labour Department would continue to safeguard employees' rights and benefits.

Next Step – The CoP noted at its meeting in January 2006 that introducing minimum wage might help improve the income level of the working poor. However, Members also noted that its policy implications on the economy and employment market were complicated and noted the position of the Government above. We shall keep in view the discussion at the LAB.

Recommendation (f) – Enhancing the competitiveness of the working poor through education and training

Government Response –

- Introducing, reviewing and enhancing skills has been an established part of our public policy. For instance, the Government has launched the \$400 million Skills Upgrading Scheme in September 2001 to provide targeted skills upgrading training to the in-service workers of respective industries with lower educational attainment to adapt to the changing environment. The Government subsidises 70% of the course fees and the remaining 30% is to be borne by the trainees and/or their employers.² Those eligible employees with educational attainment level below Form 3 and are aged 30 or above can join retraining courses funded by the Employees Retraining Fund. Eligible retrainees are also granted retraining allowance up to a maximum of \$4,000 per month.
- Where considered effective, the Government already provides subsidies to encourage training/job placement opportunities for the unemployed and the working poor, e.g. Employment Programme for the Middle-aged³, Work Trial Scheme⁴.
- We are also providing subsidies for continuing education through the Continuing Education Fund (CEF)⁵.

Next Step – We share LegCo’s view regarding the importance of effective education and training initiatives as the ultimate key to sustainable poverty alleviation for the able-bodied. As requested by CoP Members at its meeting in January 2006, CoP will examine further on our relevant existing initiatives at a future meeting.

² For those trainees with monthly salary below \$6,333, they can apply for a reimbursement of the remaining 30% of the course fees.

³ An employer can receive a monthly training subsidy of \$1,500 for up to 3 months if he employs a new employee aged 40 or above and provides on-the-job training.

⁴ After completing the one-month work trial period, a worker can receive an allowance of \$5,000 (\$500 paid by the participating organization).

⁵ Eligible applicants will be reimbursed 80% of their fees, subject to a maximum sum of \$10,000, on successful completion of a CEF reimbursable course. Participants of CEF courses who have difficulties to pay the course fees upfront may apply for non-means tested loan administered by the Student Financial Assistance Agency.

Recommendation (g) – Providing financial assistance to the working-poor households e.g. through tax credits

Government Response – Unlike situation in overseas countries, low-income employees (those earning less than 50% of the median employment earnings) are all outside the salaries tax net hence there is little scope to provide “tax credits”.

The Government has nevertheless over the years invested heavily in building a basic safety net which ensures that our people, including working-poor households, can have access to services and support to meet their basic daily living requirements. Of note is that over half of the revised Estimates of 2005/06 and draft Estimates for 2006/07 are expenditures on public housing, education, welfare and public health. In fact, our taxation, education, housing, welfare and public health care policies of Hong Kong all have an income redistributive character. These may be viewed as “social wages” not reflected in our available income statistics, but nonetheless help alleviate the burden of the working poor.

Next Step – The CoP would continue to consider how best to provide additional incentives to encourage low-income employees to find and retain jobs. At the March CoP meeting, Members would discuss possible options to provide transport support. Members would also be briefed on the operation of disregarded earnings and its relationship to work incentives at a future meeting.

Recommendation (h) – Providing support services for working-poor households

Government Response – We recognize the importance of assistance and support for the working poor. Towards this ends, the wide array of services and support currently provided centrally in our safety net and mobilization of community resources in assisting the working poor are equally important. While respective Bureaux and Departments would closely monitor the effectiveness of the services and support provided under various policies and measures, the CoP Task Force on District-based Approach would focus on how district networks and energies could be better harnessed to strengthen support services for the working poor, e.g. by encouraging worthwhile projects facilitating the access by the needy to essential services. The Task Force is also reviewing a District Study on Employment Assistance and the recommendations would be discussed at CoP. The \$150 million earmarked to strengthen the district-based approach in alleviating and preventing poverty should also help encourage projects targeting at the specific needs of the working poor and their families.

Next Step – The CoP Task Force on District-based Approach would continue its work in the above direction.