

**For information
on 22 July 2005**

LEGCO PANEL ON WELFARE SERVICES

Subcommittee on Review of the Comprehensive Social Security Assistance Scheme

Annual Adjustment of the Standard Payment Rates under the Comprehensive Social Security Assistance Scheme and the Social Security Allowance Scheme

PURPOSE

This paper briefs members on the latest position of the Social Security Assistance Index of Prices (SSAIP), and the annual adjustment timetable for Comprehensive Social Security Assistance (CSSA) and Social Security Allowance (SSA) standard payment rates.

THE ADJUSTMENT MECHANISM

2. Standard payment rates under the CSSA and SSA Schemes are adjusted according to the movement of the SSAIP, which is specially compiled by the Census and Statistics Department on a monthly basis to measure price changes on the goods and services consumed by CSSA households.

3. In June and July 1999, the Administration advised the Panel on Welfare Services and subsequently the Finance Committee (FC) that in view of repeated discrepancies between the forecast SSAIP and the actual SSAIP movements noted from 1989-90 onwards, the forecast method of adjusting CSSA and SSA rates would be replaced by an adjustment method based on the actual price movements of the SSAIP in the previous year. Such discrepancies were also noted by the Director of Audit when he carried out an audit investigation on the administration of the CSSA and SSA schemes from late 1998 to early 1999 when he noted that the combination of over-estimation of the SSAIP and deviations from the stated annual inflationary adjustment mechanism in the past years had a significant impact on government expenditure.

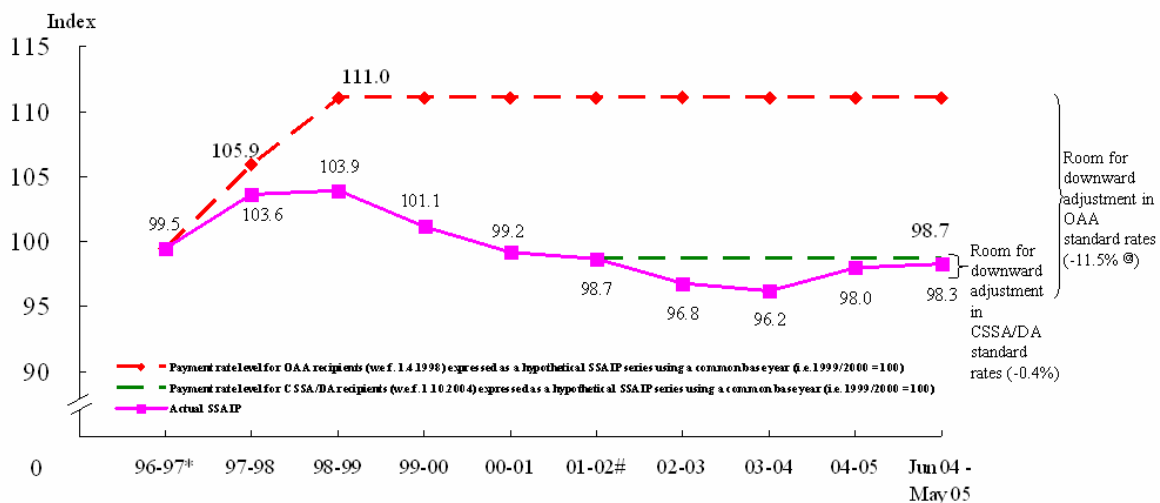
4. With the onset of deflation from 1999, the Administration informed the FC in 1999, 2000 and 2001 that CSSA and SSA standard payment rates would be kept frozen, to be off-set by inflation when it returned. In July 2002, the Administration informed FC that the rates would be kept at their current levels until March 2003, pending a review of the payment rates and related matters. In February 2003, the Administration advised the Panel on Welfare Services that in view of prolonged deflation and the need to ensure resources will be

able to help vulnerable members of the community, ExCo approved a downward adjustment of 11.1% to the standard payment rates of CSSA and the Disability Allowance under the SSA Scheme. No similar adjustment was made to the OAA rates. The downward adjustment took account of over-adjustment arising from the previous forecast method of adjusting CSSA and SSA rates and deflation as recorded by the SSAIP up to March 2002. The financial provisions for the CSSA and SSA Scheme were subsequently approved by LegCo via the 2003 and 2004 Appropriation Bills respectively, on the basis of the adjusted rates.

PRESENT POSITION OF THE SSAIP

5. The deflationary adjustment made in 2003 reflected only the SSAIP changes up to March 2002. As at May 2005, the 12-month moving average SSAIP still registered a cumulative decrease of 0.4%, which means that there still exists room for a downward adjustment for CSSA and DA rates of 0.4%. The Administration has no plan to further adjust the CSSA and DA rates downwards in 2005-06. In terms of financial implications, taking the May 2005 figure as an example, maintaining the CSSA and DA rates at their current levels means that the government will have to incur expenditure of about \$61 million annually that can otherwise be saved.

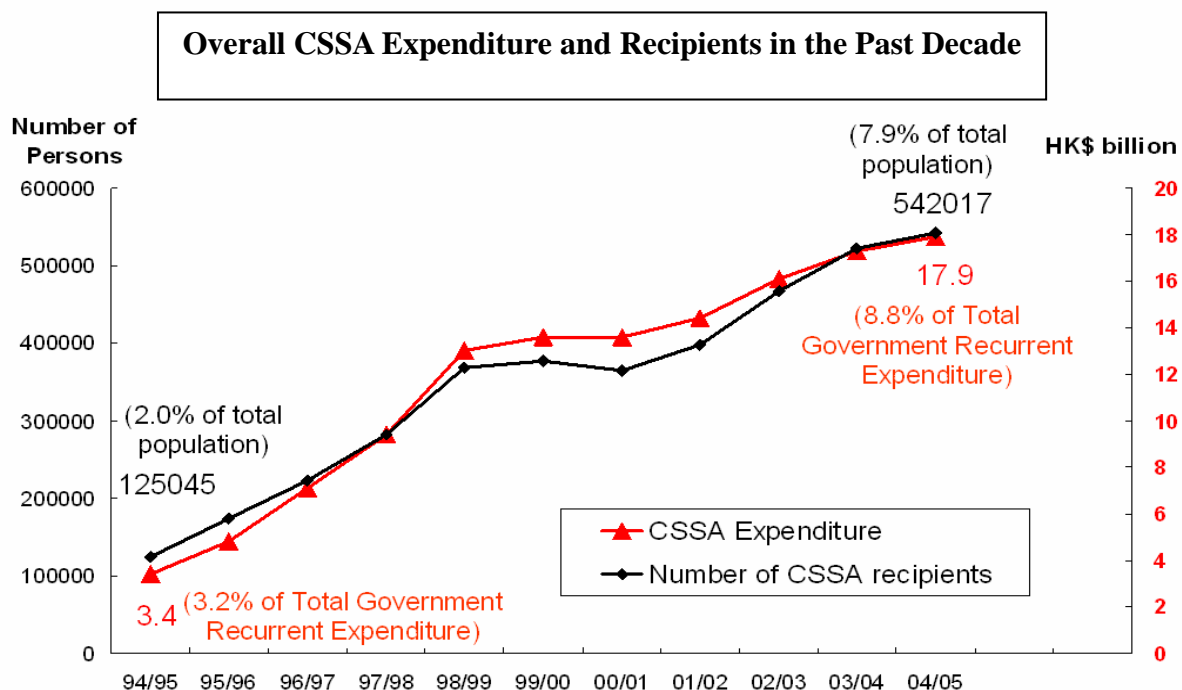
Chart 1 : Room for downward adjustment to the CSSA/SSA standard rates



Notes: * The prevailing set of CSSA standard rates was determined as a result of the 1996 CSSA Review. Changes in CSSA/SSA rates and price changes since 1996-97 are therefore presented to depict the room for adjustment to the CSSA/SSA standard rates.
 # Upon effecting the full implementation of the 11.1% rate reduction to the CSSA/DA rates, 2001-02 becomes the base year for measuring subsequent price changes and a horizontal line at the index of 98.7 is therefore extrapolated from 2001-02 indicating the room for further adjustments in the CSSA/DA standard payment rates.
 © Since OAA rates will be frozen until inflation catches up, a line (showing the adjustments to OAA rates since 1997-98 and maintained at the index of 111.0 as from 1998-99) is drawn to show the buffer for not adjusting the OAA rates.

6. The total expenditure on CSSA in 2004/05 was \$17.9 billion. The figure for DA was \$1.6 billion. For illustration purpose, it is estimated that a 1% increase in CSSA standard payment will incur about \$130 million additional expenditure.

7. In the past ten years, the total expenditure on CSSA increased from \$3.4 billion in 1994-95 to \$17.9 billion in 2004-05, the average annual rate of increase is 18%. The estimated total expenditure on CSSA for 2005-06 is \$18.6 billion, and have not taken into account the possible change in the price index.



NEW ANNUAL ADJUSTMENT CYCLE

8. We considers that as a matter of principle, the standard payment rates of CSSA and SSA should be adjusted regularly on an annual basis according to the established mechanism described in paras 2 and 3, taking into account the inflation/deflation reflected by the SSAIP. To this end, we intends to adopt, starting from this year (2005-06), an annual adjustment cycle that takes into account the SSAIP movement for the past 12 months ending at October, approval by the FC in December, and new rates effected in February of the following year. This approach has the benefit of providing certainty and ensuring objectivity in the adjustment. Such a timetable would also allow sufficient time for the Social Welfare Department to make the necessary adjustment to its computer system to ensure correct payment to over 650 000 recipients (including 540 000 CSSA recipients and 110 000 DA recipients).

ADJUSTMENT OF OAA

9. As stated in paragraph 4, no adjustment was made to the OAA rates during the 2003 rate adjustment exercise. As a result, there exists room for a downward adjustment by 11.5%. The Administration has no plan to adjust the OAA rates until the 11.5% has been fully off-set by inflation. In terms of financial implication, taking the May 2005 figures as an example, maintaining the OAA rates at their existing level means that the Government will have to incur expenditure of about \$431 million that can otherwise be saved.

DELEGATED AUTHORITY

10. As the proposed annual adjustment to the standard payment rates of CSSA and SSA will be automatic on the basis of a fixed cycle and taking into account the inflation/deflation reflected by the SSAIP, we also propose to seek delegated authority from FC for approval to be exercised by SHWF in consultation with SFST in accordance with established mechanism for routine periodic review.

WAY FORWARD

11. To tie in with the above new annual adjustment cycle, we aim to present the up-to-date SSAIP figures ending October 2005 to the Panel on Welfare Services and FC in December 2005. Should the figures suggest then that the CSSA and DA standard payment rates should be revised, we will seek the necessary approval for the new rates to be effected in February 2006, and delegated authority for FC for future adjustment on the proposed basis.

ADVICE SOUGHT

12. Members are invited to note the content of this paper.

**Health, Welfare and Food Bureau
July 2005**