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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 provides further information on the recent development of the adjustment mechanism of the standard payment rates under the Comprehensive Social Security Assistance (CSSA) and the Social Security Allowance (SSA) Schemes.

The adjustment mechanism

2. The provision of standard payment rates under the CSSA Scheme is to provide a safety net of last resort for those in need so that they could meet their basic and essential needs whilst the provision of the SSA aims to provide a monthly allowance to Hong Kong residents who are severely disabled or who are 65 years of age or above to meet special needs arising from disability or old age. The standard rates of CSSA and SSA Schemes are adjusted according to the movement of the Social Security Assistance Index of Prices (SSAIP). The SSAIP is specially compiled by the Census and Statistics Department on a monthly basis to measure inflation/deflation according to the expenditure pattern of CSSA households. It consists of the same items as the Consumer Price Index, except that items which are covered by special grants under the CSSA Scheme (for example, rent) are excluded. The movement of the index is used as a reference for making adjustments to CSSA/SSA standard payment rates to take account of price changes.

3. The inflation forecast methodology for adjusting social security payments was introduced in 1989. As discrepancies between the forecast inflation and the actual outturn are inevitable, a well established principle of this methodology was that if the forecast increase in SSAIP proves to be different from the actual increase, the differences would be taken into account in calculating the adjustment for the following year. This is to ensure that from a public spending point of view, the payment rates would not be pitched at levels above the intended assistance levels through over-estimation.

4. In the past where there was an under-estimate, the difference was invariably made up in the subsequent year's increase. Adjustments, however, had not been made where there was an over-estimate. A table showing the forecast movement in Public Assistance Index of Prices (PAIP)/SSAIP and the actual movement of PAIP/SSAIP is as follows:

Year	Forecast movement in PAIP*/SSAIP	The actual movement of PAIP/SSAIP	Forecast error in percentage point [over-estimation (+) / under-estimation (-)]
1988-89	10%	13%	-3%
1989-90	8%	9.8%	-1.8%
1990-91	8%	8.1%	-0.1%
1991-92	9%	10.3%	-1.3%
1992-93	9.5%	8.3%	+1.2%
1993-94	9%	7.7%	+1.3%
1994-95	7.7%	7.1%	+0.6%
1995-96	8.5%	6.2%	+2.3%
1996-97	7%	3.4%	+3.6%
1997-98	6.5%	5.0%	+1.5%
1998-99	4.8%	-0.2%	+5.0%

Notes :* PAIP was compiled by the Commissioner for Census and Statistics on the basis of the prices collected each month for a fixed set of commodities and services weighted to reflect the expenditure pattern of Public Assistance households. PAIP was renamed as SSAIP in 1993.

5. The problem highlighted in paragraph 4 above and its consequential impact on public spending was noted by the Director of Audit. In his audit investigation into the administration of the CSSA and SSA Schemes from late 1998 to early 1999, the Director of Audit noted, among other things, that the combination of the over-estimation of the SSAIP and the deviations from the stated annual inflationary adjustment mechanism in the past years had a significant impact on Government expenditure. He

considered that the Administration should adhere to the stated annual inflation adjustment mechanism in future. He further recommended that where there were exceptional circumstances warranting a deviation from the established adjustment mechanism, the Administration should provide relevant information to the Finance Committee (FC) of the Legislative Council (LegCo).

6. In view of the forecast errors and the resulting impacts on public spending, the Administration proposed that from 1999-2000 onwards reference was to be made to actual changes in the SSAIP when revising the CSSA/SSA standard payment rates. The table below summarizes the impacts of over-provision of CSSA/SSA standard payment rates had public spending from 1999-2000 to 2004-05.

Financial year	Because of over-adjustment up to the preceding year, the required rate of downward revision to restore the level set at 1996-97 prices ^	Actual approved revision to the standard payment rates	Additional government expenditure due to over-provision in CSSA/SSA standard payment rates ($ Mn)		
			CSSA standard payment rates*	Old Age Allowance	Disability Allowance
1999-2000	- 6.4%	0%	635	221	90
2000-01	- 8.9%	0%	866	325	136
2001-02	- 10.7%	0%	1,138	379	178
2002-03	- 11.1%	0%	1,322	404	189
2003-04	- 12.8%	-11.1% Note (1)	881	462	57
2004-05	- 2.5% Note (2)	Note (3)	496	494	43

Notes : ^ The prevailing set of CSSA / SSA rates was determined as results of the 1996 CSSA Review. As such, 1996-97 becomes the base year of measuring cumulative SSAIP changes if the intended purchasing power is to be maintained.

* Standard payment rates included standard rate, special diet allowance, long term supplement, single parent supplement and meal allowance.

(1) The rate reduction was implemented by phases. In 2003-04, the first phase covered the standard payment rates for CSSA able-bodied recipients and DA cases which were revised downwards by 11.1% w.e.f. 1.6.2003. (Some standard payment rates such as long term supplement and some

special grants were also revised downwards by 11.1% in this phase.) The second phase covered the standard rates for CSSA elderly / non-able-bodied recipients which were revised downwards by 6% w.e.f. 1.10.2003.

(2) This refers to the room for adjustment after the 11.1% rate reduction was fully implemented.

(3) To fully implement the rate reduction of 11.1% approved in 2003-04, the standard rates for CSSA elderly / non-able-bodied recipients were revised downwards by 5.4% w.e.f. 1.10.2004.

7. In total, the additional government expenditure incurred due to the cumulative over-provision in CSSA/SSA rates was estimated at $8.3 billion for the six years, from 1999-2000 to 2004-05 but this was not carried out until 2003-04 when adjustment to reflect deflation were implemented. It should also be noted that the deflation adjustment had not been implemented to its entirety as deflation persisted after the adjustment.

Proposed annual adjustment timetable for the CSSA and SSA standard payment rates

8. The Administration sought the views of the Subcommittee on Review of the Comprehensive Social Security Assistance Scheme under the Panel (the Subcommittee) on 22 July 2005 on the following proposals to adjust the CSSA and SSA standard payment rates -

(a) to adopt, starting from 2005-2006, an annual adjustment cycle that took into account the SSAIP movement for the past 12 months ending at October, approval by FC in December, and new rates effected in February of the following year; and

(b) to seek delegated authority from FC for approval of the new rates to be exercised by the Secretary for Health, Welfare and Food (SHWF) in consultation with the Secretary for Financial Services and the Treasury, as the proposed annual adjustment to the standard payment rates of CSSA and SSA would be automatic on the basis of a fixed cycle and taking into account the inflation/deflation reflected by the SSAIP.

9. The Subcommittee did not object to the automatic adjustment mechanism. Most members, however, were opposed to the proposal of delegating the authority from FC to SHWF to adjust the standard payment rates of CSSA and SSA.

10. The Administration explained that the proposed annual adjustment cycle had the benefit of providing certainty and ensuring objectivity in the adjustment. It 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 Disability Allowance recipients). The Administration further explained that under the delegated authority, SHWF could only adjust the CSSA and SSA standard payment rates in accordance with the established mechanism relating to the SSAIP changes. Any changes outside the aforesaid scope to the CSSA and SSA Schemes would need approval from FC. The delegation of authority from FC to the Executive was not new. For instance, FC had delegated its authority to the Secretary for Education and Manpower to grant education subsidy to students.

11. The Administration has also agreed that if recent movements in the SSAIP and other economic indicators pointed to likely high inflation, consideration could be given to seeking approval for any inflationary adjustments to the standard payment rates ahead of the new annual adjustment cycle.

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