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Panel on Welfare Services

**Updated background brief prepared by the Legislative Council Secretariat
for the meeting on 13 November 2006**

**Adjustment of the Standard Payment Rates under the Comprehensive Social
Security Assistance and the Social Security Allowance Schemes**

Purpose

This paper gives an account of the background on and 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 (paragraphs 3 to 15).

2. This paper also provides a summary of the discussion of the Panel on Welfare Services (the Panel) and the Subcommittee on Review of the Comprehensive Social Security Assistance Scheme (the Subcommittee) of the Panel on the Administration's proposals to adjust the CSSA and SSA standard payment rates (paragraphs 16 to 30).

The adjustment mechanism

3. The provision of standard payment rates under the CSSA and SSA Schemes is to provide a safety net of last resort for those in need so that they could meet their basic and essential needs. The rates are adjusted according to the movement of the Social Security Assistance Index of Prices (SSAIP). The SSAIP is compiled by the Census and Statistics Department on a monthly basis to measure inflation according to the expenditure pattern of CSSA households.

4. The inflation forecast methodology for adjusting social security payments was introduced in 1989. The practice of making increases to CSSA and SSA standard payments based on a projected rate of inflation was intended to avoid putting CSSA recipients in the position of only catching up with past inflation.

As discrepancies between the forecast inflation and the actual outturn are inevitable, the established principle of this methodology is 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.

5. 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.

6. The problem highlighted in paragraph 5 above and its consequential impact on public spending was pointed out by the Director of Audit in his Report No. 32 published in March 1999. 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 full and relevant information to the Finance Committee (FC) of the Legislative Council (LegCo).

Level of standard payment rates

7. The CSSA and SSA standard rates were revised upwards by 6.5% in 1997-1998 and 4.8% in 1998-1999 on the basis of the then forecast SSAIP. Taken together, the payment rates were increased by 11.6%. However, the SSAIP increased only by 4.2% and 0.3% respectively during these two periods and a negative change in the SSAIP for 1999-2000 was anticipated. In the light of the Director of Audit's observations and recommendations (paragraph 6 above refers) and in order to balance the interests of CSSA and SSA recipients and the financial implications, the Administration consulted the Panel on 14 June and 2 July 1999 on the following arrangements -

- (a) the standard payment rates under the CSSA and SSA Schemes would be maintained at their prevailing rates for 12 months as from August 1999;
- (b) the standard payment rates would remain unchanged in subsequent years until inflation caught up; and

- (c) the past practice of adjusting the standard payment rates according to the forecast inflation for the following year would discontinue. Inflationary adjustments to the CSSA and SSA standard payment rates would be based on actual price movements in the previous year.

8. While members of the Panel agreed with the freezing of the standard payment rates at their prevailing levels until inflation in subsequent years caught up, they expressed concern about the discontinuation of the forecast methodology. Some members were particularly worried that the adoption of an adjustment mechanism based on actual price movements would put CSSA recipients in a vulnerable position at times of high inflation.

9. To address the concerns of Panel members outlined in paragraph 8 above, the Administration agreed to -

- (a) put in place an internal procedure to monitor and review the actual SSAIP movement on a half-yearly basis;
- (b) consider seeking approval for any inflationary adjustments to the standard payment rates ahead of the annual cycle if recent movements in the SSAIP and other economic indicators point to likely high inflation; and
- (c) submit an Information Note on an annual basis to FC to facilitate its monitoring of this adjustment exercise in the intervening years when the rates are frozen.

10. The arrangements set out in paragraphs 7 and 9 above were set out in an Information Note to FC members vide FCRI (1999-2000)6 on 8 July 1999. Similar Information Notes were submitted to FC on 23 June 2000 and 31 July 2001 vide FCRI(2000-01)9 and FCRI(2001-02)7 respectively informing Members of the Administration's decision to freeze the standard payment rates for 12 months despite continued deflation. The Administration informed FC, vide an Information Note FCRI(2002-03)9 issued in July 2002, of its decision to maintain the CSSA and SSA standard payment rates at their current levels up to March 2003, pending a review of the payment rates and related matters.

11. The Administration briefed the Panel on 11 November 2002 on the reasons for adjusting the CSSA standard payment rates downwards by 11.1%. The Administration pointed out that against the general economic situation and high unemployment, the number of families and individuals requiring financial support by Government was bound to increase. To sustain this safety net, there was a need to ensure that existing resources could go further to meet the increasing demand. The Administration also pointed out that prices for goods and services

had come down considerably even as measured specifically by the SSAIP. Any downward adjustment to CSSA rates based on the movements in the SSAIP was no more than returning the buying power of those benefits to their original level and should not cause recipients undue hardship. The Administration also highlighted that adjusting the CSSA rates downwards was not intended to address the deficit problem, as savings achieved from deflationary adjustments were intended to remain in the CSSA Scheme. Despite the aforesaid, the majority of members and deputations attending the meeting remained opposed to the Administration's intention to adjusting the CSSA standard payment rates downwards by 11.1%. In response to members' enquiry, the Administration advised that it had not yet come to a view on adjusting the rates downwards until after March 2003. The Administration reaffirmed the same to members at the meeting of the Panel on 10 February 2003.

Adjusting the CSSA/SSA rates downwards by 11.1%

12. Despite the opposition expressed by members of the Panel and parties concerned outlined in paragraph 11 above, the Administration issued a press release and a LegCo Brief entitled "The Way Forward for the Social Security System" on 25 February 2003 announcing the endorsement by the Executive Council to adjust CSSA and SSA standard rates downwards as follows -

- (a) the standard payment rates for non able-bodied CSSA recipients, namely, the elderly, the disabled and those medically certified to be in ill health, be adjusted downwards by 11.1% in two phases over two years, first by 6% from October 2003, followed by the second phase adjustment effective from October 2004; and
- (b) the standard payment rates for able-bodied CSSA recipients, and those of Disability Allowance (DA) under the SSA Scheme be adjusted downwards by 11.1% from June 2003, and other standard payment rates under CSSA such as maximum rent allowance be reduced in accordance with the established adjustment mechanism for all categories of recipients from June 2003.

13. The downward adjustments were effected through the enactment of the 2003 Appropriation Bill which included provisions for CSSA in accordance with the adjusted rates. At the special FC meeting on 26 March 2003, the Administration stressed that the decision of the downward adjustment of CSSA was reached after detailed analysis and careful deliberations by the Administration, taking into account views expressed by different sectors of the community and balancing all relevant factors, including fiscal and welfare considerations.

14. Although it was mentioned in the LegCo Brief that FC had agreed in July

1999 to change the adjustment mechanism of CSSA to one based on actual price changes in the SSAIP in the previous year and that no upward adjustment would be made until after future inflation has fully offset the over-adjustment accumulated, FC members were informed of these changes by a series of Information Notes from the Administration between 1999 and 2002 (paragraph 10 above refers).

15. A motion debate without legislative effect on opposing cutbacks in welfare benefits for the elderly, the vulnerable and the disabled moved by Hon WONG Sing-chi was passed by the Council at its meeting on 26 February 2003.

Annual adjustment timetable for the CSSA and SSA standard payment rates

16. The Subcommittee held three meetings on 22 July, 22 November and 5 December 2005 to discuss the Administration's proposals to adjust the CSSA and SSA standard payment rates. The Panel also discussed the subject matter at its meeting on 14 November 2005. The concerns expressed by members are summarized in the following paragraphs.

Administration's proposals

17. The Administration sought the views of 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 in October, followed by approval by FC in December, and new rates being 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.

18. The Administration further informed the Panel on 14 November 2005 that to tie in with the above new annual adjustment cycle, it intended to present the latest available SSAIP figure to FC in December 2005 and seek FC's approval for the new rates of standard payments of CSSA and Disability Allowance (DA) under SSA Schemes to take effect from 1 February 2006 if the figure indicated that the rates should be revised.

Annual adjustment timetable

19. Members in general did not object to adopting an automatic adjustment mechanism for the standard payment rates of CSSA and SSA on the basis of a fixed cycle. Some members expressed concern about the three-month gap in effecting the revised payments under the proposed new annual adjustment cycle.

20. The Administration explained that any inflation/deflation occurring in the SSAIP from 1 November to 31 January would be made up eventually in the next annual adjustment cycle which took effect in February. The Administration pointed out 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 DA recipients).

Methodology for adjustment

21. Some members expressed concern about the methodology for adjusting the CSSA and SSA standard payment rates. These members considered that the repeated discrepancies between the forecast SSAIP and the actual SSAIP movements noted from 1989-1990 onwards were due to a continuous period of unprecedented deflation brought about by the Asian financial crisis. The livelihood of the poor would be adversely affected during inflationary period if their CSSA or SSA standard payment rates were based on actual SSAIP movements in the previous year. The Administration should consider reverting to the inflation forecast methodology for adjusting social security payments.

22. At the Panel meeting on 14 November 2005, a motion urging the Administration to reinstate the methodology used before 2001 to adjust CSSA and SSA rates was moved by Mr LEE Cheuk-yan and supported by all members present at the meeting with the exception of Mr James TIEN who abstained.

23. As regards the proposal to revert to the inflation forecast methodology for adjusting social security payments, the Administration advised that this was not appropriate having regard to the observations and recommendations made by the Director of Audit in his Report No. 32 published in March 1999 (paragraph 6 refers). The Administration also pointed out that if the forecast method was used, when there was a significant over-estimation, the differences would be taken into account in calculating the adjustment for the following year. It would be difficult for CSSA and SSA recipients to adjust to a significant downward adjustment of rates to make up for the over-adjustment in the beginning.

24. The Administration 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.

25. Despite members' repeated requests for the adoption of a forecast methodology, the Administration reiterated that it did not see the need to change the mechanism. The Subcommittee decided to hold a closed meeting on 5 December 2005 to discuss among themselves on the drawing up of a proposal on adjusting the standard payment rates under the CSSA and SSA Schemes upwards to reflect the inflationary movements in SSAIP ahead of the annual adjustment cycle. Representatives from non-governmental organisations and academics were also invited to give views on the matter.

26. Consequent to the deliberations of the closed meeting, the Subcommittee drew up some suggestions on the adjustment mechanism for the Administration's consideration. These suggestions included, among other things, the development of different SSAIP for children and the elderly in view of their varied special needs, and six-monthly review of CSSA standard payment rates based on the actual price movements of the SSAIP.

27. The Administration provided a response which was circulated to members vide LC Paper No. CB(2)2381/05-06(01) on 11 August 2006. In gist, the Administration held the view that the existing CSSA rates and grants, with their regular review mechanism, could meet the basic needs of CSSA families. The Administration reaffirmed its stance that it would adopt an annual adjustment cycle that took into account the SSAIP movements for the past 12 months ending in October, followed by approval by FC in December, and new rates being effected in February of the following year.

Proposed delegation of authority

28. Most members opposed to the proposal for delegating the authority from FC to SHWF to adjust the standard payment rates of CSSA and SSA. They considered that such an arrangement could only work if there was mutual respect and trust between the Executive and the Legislature. Past experience, however, showed that this was not the case. They pointed out, as an example, that the reduction of the monthly standard rate for households comprising three and more than three able-bodied adults/children by 10% and 20% respectively was effected through the enactment of the 1999 Appropriation Bill, instead of through FC. Members also expressed concern that SHWF might not always adjust the CSSA and SSA standard payment rates according to the established mechanism.

29. The Administration 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 to the

CSSA and SSA Schemes outside the aforesaid scope 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.

Revised rates of standard payments under CSSA and SSA Schemes

30. Although members considered that the methodology for making adjustments to the standard payment rates under CSSA and SSA Schemes was worthy of further discussion, members held the view that the Administration's proposals to adjust the standard payments under CSSA Scheme and DA under SSA Scheme should not be held up. FC approved on 16 December 2005 the Administration's proposals to increase by 0.4%, with effect from 1 February 2006, the standard payments under CSSA Scheme and DA under SSA Scheme.

31. The Administration will brief the Panel on 13 November 2006 on the estimated revised rates of standard payments under the CSSA Scheme and SSA Scheme. The revised rates will take effect from 1 February 2007 after obtaining FC's approval in December 2006.

Relevant papers

32. A list of relevant papers and documents is in the Appendix for members' easy reference. The papers and documents are available on the Council's website at <http://www.legco.gov.hk/english/index.htm>.

Council Business Division 2
Legislative Council Secretariat
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Appendix

Relevant Papers/Documents

<u>Meeting</u>	<u>Meeting Date</u>	<u>Papers/Motion Debate</u>
Legislative Council	26 February 2003	Proceedings of the motion debate on opposing cutbacks in welfare benefits for the elderly, the vulnerable and the disabled held on 26 February 2003
Finance Committee	3 April 1998 - - -	FCRI(1999-2000)6 FCRI(2000-01)9 FCRI(2001-02)7 FCRI(2002-03)9 Annual Inflation Adjustment of the Standard Payment Rates under the Comprehensive Social Security Assistance Scheme and the Social Security Allowance Scheme
	26 March 2003	Minutes of the special meeting
	16 December 2005	Minutes of meeting LC Paper No. FC45/05-06
Panel on Welfare Services	14 June 1999	Minutes of meeting LC Paper No. CB(2)711/99-00
	2 July 1999	Minutes of meeting LC Paper No. CB(2)733/99-00
	11 November 2002	Minutes of meeting LC Paper No. CB(2)568/02-03
	10 February 2003	Minutes of meeting LC Paper No. CB(2)1384/02-03
	14 November 2005	Minutes of meeting LC Paper No. CB(2)605/05-06

Subcommittee on Review of the Comprehensive Social Security Assistance Scheme	22 July 2005	Minutes of meeting LC Paper No. CB(2)2498/04-05
	22 November 2005	Minutes of meeting LC Paper No. CB(2)738/05-06
	5 December 2005	Follow-up to the meeting on 5 December 2005 LC Paper No. CB(2)2381/05-06 (01)