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Panel on Welfare Services

**Background brief prepared by the Legislative Council Secretariat
for the meeting on 12 November 2007**

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

Purpose

This paper 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 (CSSA) Scheme (the Subcommittee) of the Panel on the Administration's proposals to adjust the standard payment rates under the CSSA and Social Security Allowance (SSA) Schemes.

Background

2. According to the Administration, 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. 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. The rate of the Disability Allowance (DA) under the SSA Scheme is linked to 100% of the single person basic rate under the CSSA Scheme, and the rate of Old Age Allowance under the SSA Scheme is fixed at 50% of DA.

3. 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. 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.

4. To provide certainty and ensure objectivity in making adjustment, the Administration introduced the annual adjustment cycle for standard payment rates of CSSA and SSA in 2005.

Annual adjustment cycle for CSSA and SSA standard payment rates

5. 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 on an annual basis, taking into account the inflation/deflation reflected by SSAIP. The Panel also discussed the subject matter at its meeting on 14 November 2005. The concern expressed by members are summarized in the following paragraphs.

The Administration's proposals

6. 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 the Finance Committee (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 then Secretary for Health, Welfare and Food 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.

7. 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 DA under the SSA Scheme to take effect from 1 February 2006 if the figure indicated that the rates should be revised.

Annual adjustment timetable

8. 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.

9. 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 would take 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

10. 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.

11. 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.

12. 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. The Director of Audit noted, among other things, that the combination of the over-estimation of 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 FC.

13. 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 at the beginning.

14. The Administration agreed that if recent movements in 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.

15. 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 for 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.

16. 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.

17. 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.

Rates of the standard payment under the CSSA and SSA Schemes

18. At the meeting on 13 November 2006, the Panel was briefed on Administration's estimated adjustment for the standard payment rates under the CSSA Scheme and DA under the SSA Scheme from 1 February 2007 and its plan to seek the approval of FC according to the annual adjustment cycle. Some members pointed out that under the automatic annual adjustment mechanism, they could not raise objection to the proposed adjustment for the standard payment rates of CSSA and SSA. They, however, expressed concern about the adequacy of the standard payment rates to meet the basic needs of the CSSA and SSA recipients, given that the standard payment rates were determined on the

basis of a comprehensive review on the CSSA Scheme conducted more than 10 years ago. These members held the view that the basic needs referred to in the review were outdated. For instance, there were no internet service charges in the last decade. They urged the Administration to conduct a comprehensive review of the standard payment rates under the CSSA and SSA Schemes. The Subcommittee followed up the discussion on the subject at its meeting on 19 December 2006.

19. The Administration advised that the CSSA standard payment rates were reviewed annually to reflect more accurately the impact of price changes faced by CSSA recipients. On top of the regular monitoring on the changes of SSAIP, the weighting system of SSAIP was updated every five years on the basis of the findings of the Household Expenditure Survey (HES) on CSSA households. The latest round of survey was conducted in 2004-2005, and the Administration provided a paper on the survey findings to the Subcommittee on 21 August 2006 vide LC Paper No. CB(2)2945/05-06(01). According to the findings, the average CSSA monthly payment was higher than the average monthly CSSA household expenditure. Moreover, the average CSSA monthly payment of CSSA households was comparatively higher than the average monthly income of non-CSSA households in the lowest 25% income group. Considering that the current annual adjustment mechanism of the CSSA standard payment rates had worked effectively, the Administration did not see the need for conducting a fresh review of the adequacy of the CSSA standard rates.

20. Members were dissatisfied at the Administration's reluctance to conduct a comprehensive review of the CSSA standard payment rates, despite their repeated requests. They considered that the updating of the weighting system of SSAIP related to the relative importance of individual items of goods and services consumed by CSSA recipients. As the exercise did not update the basic needs items to be included in SSAIP, it should by no means be regarded as a review of the adequacy of the CSSA standard rates. To ensure that the CSSA standard rates could meet the living expenses of CSSA households, members urged the Administration to review the items of goods and services included in SSAIP and update the expenditure pattern of CSSA households on essential items. Members also considered it meaningless to compare the average CSSA monthly payment and the average CSSA monthly household expenditure, as it was impossible for CSSA households to spend more than the monthly CSSA payments.

21. FC approved on 15 December 2006 the Administration's proposal to increase by 1.2%, with effect from 1 February 2007, the standard payment rates under the CSSA Scheme and DA under the SSA Scheme.

22. Having regard to the likely high inflation as shown by the economic indicators pointed, the Subcommittee held a meeting on 29 October 2007 to discuss with the Administration whether consideration would be given to seeking approval for making inflationary adjustments to the standard payment rates ahead

of the new annual adjustment cycle. The Administration advised that it would seek FC's approval in December 2007 to adjust the standard payment rates of CSSA and SSA in accordance with the annual adjustment cycle. The Administration further advised that the past 12-month moving average SSAIP registered a cumulative increase of 2.3% when compared with the period of November 2005 to October 2006. The latest SSAIP would be provided in its submission to FC.

23. Members of the Subcommittee considered that SSAIP failed to reflect the actual movement of price changes faced by CSSA recipients as the items of goods and services included in the weighting system of SSAIP were outdated. Expressing grave concern about the inadequacy of the CSSA payment rates to meet the basic needs of the recipients, members passed a motion urging the Administration to, among other things, adjust the CSSA rates immediately according to the latest SSAIP and set up a committee (comprising members from the community, academics and CSSA recipients) to examine the establishment of a new mechanism for determining CSSA rates so as to ensure that the rates would be adequate to meet the needs of CSSA recipients.

One-off measure to provide one additional month of standard rates of CSSA and SSA

24. The Financial Secretary proposed in the 2007-2008 Budget Speech on 28 February 2007 to provide one additional month of standard payment rates for CSSA recipients and one additional month of allowance for SSA recipients. The Panel was briefed on 30 March 2007 the details of the proposal. While expressing support for the proposal, some members were concerned about the long-term effectiveness of the proposed one-off measure to assist the CSSA recipients. These members reiterated their request for the Administration to conduct a comprehensive review of the CSSA and SSA standard payment rates.

25. At its meeting on 20 April 2007, FC approved the Administration's funding proposal for the provision of one additional month of the standard rate of CSSA payment for CSSA recipients and one additional month of allowance for SSA recipients.

Recent development

26. The Administration will brief the Panel on 12 November 2007 on the latest position of SSAIP and the estimated corresponding adjustment for standard payment rates under the CSSA and SSA Schemes. Under the current annual adjustment cycle, the revised rates will take effect from 1 February 2008 if FC's approval were obtained in December 2007.

Relevant papers

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

Council Business Division 2
Legislative Council Secretariat
8 November 2007

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
	26 March 2003	Minutes of the special meeting
	16 December 2005	Minutes of meeting LC Paper No. FC45/05-06
	15 December 2006	Minutes of meeting LC Paper No. FC50/06-07
	20 April 2007	Minutes of meeting LC Paper No. FC100/06-07
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
	13 November 2006	Minutes of meeting LC Paper No. CB(2)553/06-07
	30 March 2007	Minutes of meeting LC Paper No. CB(2)2182/06-07
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)
	21 August 2006	Information paper provided by the Administration LC Paper No. CB(2)2945/05-06 (01)
	19 December 2006	Minutes of meeting LC Paper No. CB(2)999/06-07
	29 October 2007	Administration's paper LC Paper No. CB(2)128/07-08 (01)