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Panel on Welfare Services
Subcommittee on Poverty Alleviation

Background brief prepared by the Legislative Council Secretariat
for the meeting on 6 April 2009

Disregarded earnings arrangements
under the Comprehensive Social Security Assistance Scheme

Purpose

This paper gives a brief account of past discussions of the Panel on Welfare Services (the Panel) on the provision of disregarded earnings (DE) under the Comprehensive Social Security Assistance (CSSA) Scheme.

Objective of DE

2. DE refers to the earnings from employment that are disregarded when assessing the amount of CSSA payable. According to the Administration, the provision of DE allows CSSA recipients who can work to be financially better off than those relying entirely on welfare, thus encouraging those who can work to find and remain in employment.

Background

Introduction of the DE arrangements

3. When the Public Assistance (now CSSA) Scheme was first introduced as a cash assistance scheme in 1971, the recipient's earnings were fully taken into account when assessing the amount of assistance payment. The provision of DE was first introduced in 1978 as an incentive to encourage recipients who were not expected to work (for example, the elderly, single parents with small children) to earn some income so as to become more self-reliant. Employable able-bodied adults were not given such a benefit because the intention was that they should be working even without the provision of DE.

4. The provision of monthly DE was extended to able-bodied adults in regular employment in 1988. The first month's income earned by the CSSA recipients from a full-time job was totally disregarded and a recipient could benefit from this provision not more than once during a two-year period.

Changes to the DE arrangements in 2003

5. The Social Welfare Department completed a review of the provision of DE in September 2002. Based on the findings of the review, the Administration raised the maximum level of monthly DE from \$1,805 to \$2,500 and its "no-deduction limit" from \$451 to \$600, while at the same time introducing the rule of allowing no DE for CSSA recipients in cases which had been on CSSA for less than three months. These changes were implemented on a time-limited basis for three years subject to review. The changes to DE arrangements came into operation on 1 June 2003 as part of the Intensified Support for Self-reliance measures. No change was made to the arrangement of allowing the first month's income from a new job to be totally disregarded on condition that the recipient had not benefited from the DE provision during the past two years.

6. When the Panel discussed the changes to the DE arrangements on 13 April 2004, some members pointed out that the new measure of allowing no DE for all categories of recipients in cases which had been on CSSA for less than three months should be reviewed. This was because such a measure was at variance with the objectives of DE to meet employment-related expenses and to allow the CSSA recipients to keep a portion of their earnings, thereby providing an incentive for them to find work and maintain employment. Members also pointed out that as soon as able-bodied persons were on CSSA, they should be encouraged to seek employment. This group of people was more likely to find employment than those who had been on CSSA for a longer period of time.

Review of the DE arrangements

7. At its meetings on 30 March and 13 April 2007, the Panel discussed the outcome of the review of the scope for DE under the CSSA Scheme. Members were informed that –

- (a) as announced by the Financial Secretary in the 2007-2008 Budget Speech on 28 February 2007, the Administration would raise the "no-deduction" limit for DE from \$600 to \$800 and relax the criteria for allowing CSSA recipients to be eligible for DE from not less than three months on CSSA to not less than two months; and

- (b) as to other suggestions on the DE arrangements, the Administration recommended maintaining the maximum level of monthly DE at \$2,500 and no time limit on DE.

8. While welcoming the Administration's proposed relaxation, members considered that the maximum level of DE should be raised from \$2,500 to \$3,500 to provide greater incentive for CSSA recipients to find jobs. Some members suggested that the no-deduction limit should be raised from \$600 to \$1,000 and the "no DE for the first three months" rule should be abolished in order to encourage the employable CSSA recipients to find employment and leave the CSSA net eventually.

9. The Administration explained that the provision of DE was only one of the measures introduced to encourage and assist CSSA recipients to move towards self reliance. A number of schemes had been put in place to improve the employability of CSSA recipients and maximize their chances to obtain paid employment. As a result, there had been a steady decline in CSSA "unemployment" cases from 51 372 in September 2003 to 36 887 in February 2007.

10. The Administration further explained that if the maximum level of DE was raised to \$3,500, more families would enter the welfare rolls. The CSSA payment for larger households was already appreciably higher than the market wage for low-skilled jobs. A higher level of DE would further push the total resources of CSSA family with employed adult(s) further above the market wage level. The Administration did not see a case for further raising the maximum amount of monthly DE.

11. As regards the suggestion of further raising the "no-deduction" limit for DE from \$600 to \$1,000, the Administration advised that this might act as a greater disincentive for CSSA recipients to leave the CSSA net. The estimated recurrent financial implication for this suggestion was \$43 million.

12. Members were also advised that the introduction of the rule of allowing no DE for recipients in cases which had been on CSSA for less than three months was to deter those who would have sufficient means to meet their basic needs from gaining entry into the welfare system. Therefore, abolishing the rule altogether might result in those who were in employment and at income level not eligible for assistance under the current arrangement to become eligible as a result of removing the "three-month" rule.

13. The Administration stressed that the proposals had struck a reasonable balance between providing CSSA recipients with more financial incentives through the provision of DE to find and remain in employment on the one hand, and on the other hand, maintaining DE at a level which would not attract entrance to the CSSA net unless persons were in genuine need or delay the exit

of employable recipients from the system. The Administration also pointed out that the financial implications for the various suggested relaxation to the DE arrangements would be on a recurrent basis.

14. The new arrangements on DE came into operation on 1 December 2007. According to the information provided by the Administration, as at end-January 2009, a total of 36 574 CSSA recipients benefited under the DE arrangements and the average amount of DE was \$1,817 per month. During the period from April 2008 to January 2009, the financial implication of the arrangements was \$709 million.

Relevant papers

15. Members may wish to refer to the Administration's papers for the meetings of the Panel on 13 April 2004, 30 March and 12 April 2007 and the relevant minutes of meetings for details. The papers are available on the Council's website at <http://www.legco.gov.hk>.

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