

**For information
on 5 July 2011**

Legislative Council Panel on Welfare Services

**Impact of statutory minimum wage, rising rentals and inflation on
the operation of private residential care homes**

Purpose

Members have expressed concern over the impact of statutory minimum wage, rising rentals and inflation on the operation of private residential care homes for the elderly and those for persons with disabilities. This paper sets out the Administration's response.

Overview

2. Private residential care homes for the elderly (RCHEs) and those for persons with disabilities (RCHDs) operate on a commercial basis. Wage payments, rentals and inflation are factors affecting operating costs, and it is for the operators to develop business plans that can meet their needs. The current regulatory framework does not require operators to be accountable to the Government for their business decisions. Nonetheless, from the welfare point of view, we have been monitoring closely the operating conditions of the sectors, and have introduced supporting measures as appropriate.

Private Residential Care Homes for the Elderly

3. As at the end of May 2011, there were 587 private RCHEs in Hong Kong. The majority of them operate entirely on a commercial basis without any Government subsidy. As regards the others (139 as at the end of May 2011) which have joined the Enhanced Bought Place Scheme (EBPS), the Government sets the prices for the various types of bought places. The price is made up of two components, i.e. government subsidy and the fee payable by the resident. In determining the purchase prices, the Social Welfare Department (SWD) has duly taken into account the operating expenditure of the RCHEs (including items such as

emoluments and rentals), and will review and adjust the amount of government subsidies annually according to the established mechanism. In accordance with this mechanism, SWD will raise the amount of government subsidies by 3.1% in 2011-12.

4. SWD maintains close contact with these RCHEs and has set up a working group (WG) to explore practicable and feasible measures to improve EBPS as well as the operating environment and service quality of the RCHEs concerned. Members of the WG include representatives of the sector, the Department of Health, Hospital Authority and SWD, academics and independent members of the community.

5. Overall speaking, we note that on average, about 15 private RCHEs closed down per year between April 2008 and March 2011, while an average of 16 RCHEs commenced operation per year in the same period. From January 2011 until now, four private RCHEs (providing 294 places) have closed down, whereas nine private RCHEs (providing 892 places) have commenced operation. The above statistics indicate that the private market is still active.

6. We appreciate that RCHEs do open and close from time to time for various reasons, and we have to respect the operators' commercial decisions. That said, we have to ensure that closures are executed in an orderly manner to minimise disturbance to the residents. According to the Residential Care Homes (Elderly Persons) Regulation (Cap. 459A) and the Code of Practice for Residential Care Homes (Elderly Persons), if an RCHE operator intends to close down the RCHE, he/she should inform SWD and the residents as well as their family members in advance and provide an evacuation plan for the residents. Residents of the RCHE concerned can choose to move to another RCHE run by the same operator (if applicable), to other RCHEs arranged or suggested by the operator, or other RCHEs of their own choice, etc. Past experience shows that all such cases have been handled smoothly.

7. As at 31 May 2011, there were 52 974 private RCHE places (including EBPS places) in Hong Kong, with about 38 788 residents. There were still about 14 200 vacant places, including those provided by 19 new private RCHEs which started operation in 2010-11. This suggests that the private market has the capacity to absorb additional service demand in case of contingencies.

Private Residential Care Homes for Persons with Disabilities

8. The Residential Care Homes (Persons with Disabilities) Ordinance (“RCHD Ordinance”) was enacted on 24 June 2011, providing for the control of RCHDs through a licensing scheme administered by the Director of Social Welfare. Subject to the passage of the Commencement Notice of the RCHD Ordinance and the proposed Residential Care Homes (Persons with Disabilities) Regulation by the Legislative Council (LegCo), the licensing scheme will commence in November 2011. To allow time for individual RCHDs to put in place suitable arrangements for application for a new licence/certificate of exemption (COE) and for SWD to process all applications, there will be a grace period of 18 months starting from the commencement of the Ordinance. During the grace period, no sanction will be imposed on the operation of RCHD without a licence/COE.

9. During the public consultation and the legislative process, while stakeholders generally supported the proposal to introduce a statutory licensing scheme to regulate the operation of all RCHDs, the rehabilitation sector and LegCo Members also raised concerns that some of the private RCHDs might increase their home fees to cover the additional costs for meeting the licensing requirements on building and fire safety. Having regard to the fact that over 90% of the residents of private RCHDs are receiving Comprehensive Social Security Assistance, there may be displacement problems if the residents cannot afford the increased home fees.

10. To address these concerns, the Government has undertaken to introduce suitable complementary measures in tandem with the legislative proposal. A Financial Assistance Scheme will be implemented after commencement of the Ordinance to provide subsidies for private RCHDs to carry out improvement works for meeting the licensing requirements in respect of building and fire safety. The level of grant will be up to 60% of the recognised cost of the improvement works for each private RCHD.

11. Besides, the Government has launched a four-year pilot Bought Place Scheme (the Scheme) for private RCHDs since October 2010 to encourage the operators to upgrade their service standards, to increase the supply of subsidised residential care places and to help the market develop more service options for persons with disabilities. The Scheme targets to purchase 300 places by two phases. Subject to meeting the requirements of the Scheme by the selected operators, we expect to purchase about 100 residential care places in 2011-12. In setting the

contract price of the bought places, we have already taken into account the cost components of rental and statutory minimum wage.

12. SWD will conduct mid-term reviews to keep track of progress of the Scheme and refine the operational details as appropriate. An overall review of the pilot Scheme will also be conducted before the end of the Scheme in 2014 to assess its long-term feasibility including the contract price, amount of government subsidies and the number of places to be bought.

13. As at 31 May 2011, there were 71 private RCHDs known to SWD, providing about 3 700 places, with an average enrolment rate of 65%. By comparing the figures of the same period in 2009 and 2011, we note that there is a trend of steady increase both in the number and capacity of private RCHDs (i.e. increased by 24 RCHDs and 1 250 places). We anticipate that the private market has the capacity to absorb decanted residents, if any, resulting from closure of private RCHDs owing to different reasons.

Advice Sought

14. SWD will continue to monitor the market situation closely and keep in contact with the operators of RCHEs and RCHDs with a view to safeguarding the interests of the residents.

**Labour and Welfare Bureau
Social Welfare Department
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