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Panel on Welfare Services

Background brief prepared by the Legislative Council Secretariat for the meeting on 8 November 2010

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

Purpose

This paper summarises past discussions by the Panel on Welfare Services ("the Panel") and the Subcommittee on Review of the Comprehensive Social Security Assistance ("CSSA") Scheme ("the CSSA 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 can 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 CSSA 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 during a number of meetings in the Third Legislative Council and the current term. The concerns expressed by members are summarised in the following paragraphs.

The Administration's proposals

6. The Administration sought the views of the CSSA 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 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 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 ("SWD") to make the necessary adjustment to its computer system to ensure correct payment to the CSSA and DA recipients.

Methodology for adjustment

10. Some members expressed concern about the methodology for adjusting the CSSA and SSA 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 affected adversely during inflationary period if their CSSA or SSA 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 CSSA 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 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.

18. Similar concerns were raised by members at subsequent Panel meetings, and the Administration had reaffirmed its stance and rationale for the methodology for adjustment. It stressed that the current annual adjustment of the CSSA standard payment rates had worked effectively, and it did not see the need for a change.

Level of CSSA standard payment rates

19. At various Panel meetings, members pointed out that they could not comment on or raise objection to the proposed adjustment for the CSSA standard

payment rates under the automatic annual adjustment mechanism. However, they expressed concern about the adequacy of the standard payment rates to meet the basic needs of the social security recipients, given that the 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 access charges in the last decade. Some members took the view that the CSSA payment rates were adjusted downward by 11.1% in 2003, the Administration should consider restoring the payment rates to the 2003-level. They urged the Administration to conduct a comprehensive review of the CSSA standard payment rates.

20. 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 CSSA Subcommittee on 21 August 2006 issued 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 had worked effectively, the Administration did not see the need for conducting a fresh review of the CSSA standard payment rates.

21. 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 was 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 payment rates. To ensure that the CSSA standard payment 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.

22. At the Panel meeting on 10 November 2008, members were advised that the relative weighting of individual items of goods and services covered by SSAIP would be updated in the forthcoming HES on CSSA households to be conducted in 2009-2010. In addition, to reflect the latest needs of CSSA

households, the Administration would collect information on the expenditure on all commodities and service (including Internet access charges) consumed by CSSA households in the forthcoming HES on CSSA households. Members subsequently noted that the preparatory work for the new round of HES on CSSA households had started and was expected to be completed in 2010-2011.

Adjustment cycle

23. The CSSA Subcommittee revisited the adjustment mechanism at the meeting on 29 October 2007 having regard to the high inflation as shown by the economic indicators. Members enquired whether the Administration would consider making corresponding adjustment to the CSSA standard rates ahead of the annual adjustment cycle so as to maintain the purchasing power of the payments.

24. The Administration explained that having regard to the impact of seasonal factors on the prices of consumer goods, the 12-month moving average SSAIP would form a better basis for determining the level of CSSA standard payment rates. Approval for additional inflationary adjustments to the standard payment rates ahead of the annual adjustment cycle would be sought if inflation was raging at a high level.

25. Members strongly urged the Administration to make adjustment to the CSSA standard payment rates ahead of annual adjustment cycle at times of high inflation. The CSSA Subcommittee passed a motion on 29 October 2007 urging the Administration to 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, and to adjust the CSSA rates immediately according to the latest SSAIP.

26. When the Panel was briefed on 12 November 2007, 10 November 2008 and 9 November 2009 on the Administration's plan to make annual adjustments to the CSSA rates in accordance with the established mechanism, members raised concern that under the current adjustment mechanism which took into account the SSAIP movements in the past 12 months, CSSA recipients had to catch up with past inflation. The Administration reiterated that the existing adjustment mechanism had worked effectively, and there was no need for a change. The Administration was fully aware of the difficulties faced by those in need, and would monitor closely the SSAIP movements and consider seeking approval for any inflationary adjustments to the standard payment rates ahead of the annual adjustment cycle if recent movements in SSAIP and other economic indicators pointed to likely high inflation.

27. Expressing dissatisfaction at the Administration's reluctance to accede to members' request for reviewing the adjustment mechanism for social security payments, members passed a motion at the Panel meeting on 12 November 2007 urging the Administration to adjust the CSSA rates according to the year-on-year

movement of SSAIP of the latest month, make adjustments every half year and introduce a catch-up mechanism.

28. The Administration subsequently announced in the 2008-2009 Budget that to ease the impact of rising prices on CSSA households, it proposed to adjust the CSSA standard payment rates in accordance with the existing mechanism ahead of the normal schedule on 1 August 2008. The adjustment would take into account the movement of SSAIP up to April 2008. FC approved on 6 June 2008 the increase of CSSA standard payment rates by 4.4%, and the new rates took effect on 1 August 2008.

29. While welcoming the proposal, members were concerned that under the existing adjustment mechanism of CCSA, the CSSA payments were adjusted based on the actual SSAIP movements in the previous year. To relieve the burden of inflation on CSSA recipients, members remained of the view that the interval of each adjustment cycle of CSSA should be shortened so as to reflect more accurately the impact of price changes faced by CSSA recipients. They also urged the Administration to review expeditiously the adequacy of the CSSA standard payment rates and the items to be included in SSAIP.

30. The Administration responded that while it could consider additional adjustments to the CSSA standard payment rates at times of persistently high inflation, the technical feasibility of conducting the adjustments at an interval shorter than half a year would need to be further studied. The Administration reiterated that it had been adjusting annually the standard rates of CSSA and SSA in accordance with the movement of SSAIP. On top of the annual adjustment, the weighting system of SSAIP was updated once every five years to ensure that up-to-date expenditure patterns of CSSA households were accurately reflected in the compilation of SSAIP.

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

31. The Financial Secretary ("FS") proposed in the 2007-2008 Budget Speech on 28 February 2007 the provision of one additional month of standard payment rates for CSSA recipients and one additional month of allowance for SSA recipients.

32. To share the fruits of the economic prosperity, the Administration further proposed in the 2008-2009 Budget to provide social security recipients with one additional month of CSSA standard rate payments and one additional month of DA. The additional month of CSSA and DA payments was allocated in June 2008. In order to further relieve the pressure on the CSSA and SSA recipients in meeting daily expenses, the Administration further provided one additional month of the standard rate payments to CSSA recipients, one additional month of allowance to DA recipients in September 2008.

33. On 26 May 2009, FS announced a package of additional relief measures which included, among other things, the provision of one additional month of the standard rate of CSSA payment to CSSA recipients and one additional month of allowance to SSA recipients. According to the Administration, this one-off measure was proposed in consideration of the profound impact of the financial turmoil and the fact that many at the grassroots level had also been affected. The additional payment was effected in September 2009.

34. FS also announced in the Budget Speech for the 2010-2011 financial year the provision of an additional one-month payment to recipients of CSSA and SSA.

35. While expressing support for providing additional relief measures for the disadvantaged when the Panel was briefed on the various proposals, 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 payment rates.

Recent development

36. The Administration will brief the Panel on 8 November 2010 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 2011 subject to FC's approval being obtained in December 2010.

Relevant papers

37. 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>.

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
	15 December 2006	Minutes of meeting LC Paper No. FC50/06-07
	20 April 2007	Minutes of meeting LC Paper No. FC100/06-07
	6 June 2008	Minutes of meeting LC Paper No. FC14/08-09
	Panel on Welfare Services	14 June 1999
2 July 1999		Administration's paper LC Paper No. CB(2)2250/98-99(05) 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	Administration's paper LC Paper No. CB(2)298/05-06(03) Minutes of meeting LC Paper No. CB(2)605/05-06
	13 November 2006	Administration's paper LC Paper No. CB(2)263/06-07(04) Minutes of meeting LC Paper No. CB(2)553/06-07
	30 March 2007	Administration's paper LC Paper No. CB(2)1305/06-07(02) Minutes of meeting LC Paper No. CB(2)2182/06-07
	12 November 2007	Administration's paper LC Paper No. CB(2)254/07-08(07) Minutes of meeting LC Paper No. CB(2)521/07-08
	12 June 2008	Administration's paper LC Paper No. CB(2)2162/07-08(03) Minutes of meeting LC Paper No. CB(2)2754/07-08
	10 November 2008	Administration's paper LC Paper No. CB(2)190/08-09(03) Minutes of meeting LC Paper No. CB(2)472/08-09

	8 June 2009	Administration's paper LC Paper No. CB(2)1711/08-09(05) Minutes of meeting LC Paper No. CB(2)2119/08-09
	9 November 2009	Administration's paper LC Paper No. CB(2)179/09-10(05) Minutes of meeting LC Paper No. CB(2)449/09-10
	12 April 2010	Administration's paper LC Paper No. CB(2)1195/09-10(05) Minutes of meeting LC Paper No. CB(2)1489/09-10
Subcommittee on Review of the Comprehensive Social Security Assistance Scheme	22 July 2005	Administration's paper LC Paper No. CB(2)2310/04-05(01) Minutes of meeting LC Paper No. CB(2)2498/04-05
	22 November 2005	Administration's paper LC Paper No. CB(2)397/05-06(06) 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	Administration's paper LC Paper No. CB(2)643/06-07(01) 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) Minutes of meeting LC Paper No. CB(2)420/07-08
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