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Panel on Administration of Justice and Legal Services

Updated background brief prepared by the Legislative Council Secretariat for the meeting on 20 December 2011

Further expansion of the Supplementary Legal Aid Scheme

Purpose

This paper provides background information and summarizes the discussions of the Panel on Administration of Justice and Legal Services ("the Panel") on issues relating to the expansion of the scope of the Supplementary Legal Aid Scheme ("SLAS") in the context of the five-yearly review of the criteria for assessing financial eligibility of legal aid applicants ("five-yearly review").

Background

Government's legal aid policy and framework

2. According to Article 35 of the Basic Law, Hong Kong residents shall have the right to confidential legal advice, access to the courts, choice of lawyers for timely protection of their lawful rights and interests or for representation in the courts, and to judicial remedies. Article 14(1) of the International Covenant on Civil and Political Rights ("ICCPR") guarantees all individuals the right to a fair hearing in both criminal and civil proceedings. Article 14(3) further provides that a person charged with criminal offence shall be entitled to "have legal assistance assigned to him, in any case where the interests of justice so require, and without payment by him if he does not have sufficient means to pay for it." The Hong Kong Bill of Rights Ordinance (Cap. 383) incorporates into Hong Kong law the provisions of ICCPR as applied to Hong Kong.

3. The Government's policy objective on legal aid is to ensure that no one with reasonable grounds for taking legal action in the Hong Kong courts is prevented from doing so because of a lack of means.

4. The Legal Aid Ordinance (Cap. 91) ("LAO"), enacted in 1967, sets out the legal framework for the administration of legal aid. Legal aid is provided by the Legal Aid Department ("LAD") under the Ordinary Legal Aid Scheme ("OLAS")

and SLAS. Legal aid will be granted to applicants who satisfy the means test and the merits test.

5. The Legal Aid Services Council ("LASC") was set up on 1 September 1996 under the Legal Aid Services Council Ordinance (Cap. 489) to supervise the provision of legal aid services provided by LAD and to advise the Government on legal aid policy.

SLAS

6. SLAS is a self-financing scheme introduced in 1984 aiming to provide legal aid for the middle class. The scheme was limited initially to cover claims for damages for personal and fatal injuries. It was subsequently extended to cover employees' compensation claims in 1992 and medical, dental as well as legal professional negligence in 1995. Its current scope covers cases of personal injury or death, medical, dental and legal professional negligence where the claim is likely to exceed \$60,000. It also covers claims under the Employees' Compensation Ordinance (Cap. 282) irrespective of the amount of claim.

7. As a result of the completed five-yearly review, the Administration proposed to raise the financial eligibility limit ("FEL") for SLAS. With effect from 18 May 2011, the scheme is available to those whose financial resources exceed \$260,000 but do not exceed \$1,300,000. The costs of the scheme are met from the Supplementary Legal Aid Fund ("SLAS Fund"), which is financed by the applicants' contributions and damages or compensation recovered. On application, an applicant has to pay an application fee of \$1,000. On approval of the application, the aided person is required to pay an interim contribution calculated at 25% of the FEL for OLAS (i.e. \$65,000). On successful conclusion of the case, the aided person is also required to pay a contribution from any damages recovered. The rates of contribution from damages recovered were reduced twice, in 2000 and 2005, to the present 6% for cases settled before delivery of brief to counsel and 10% for other cases.

Recent discussions of the Panel and related developments

8. The Panel has made long standing calls for expansion of the scope of SLAS. Relevant discussions held by the Panel in the context of the five-yearly review at the meetings on 29 March, 24 May, 21 July, 30 September, 22 November and 21 December 2010 and 24 January and 28 March 2011 are summarized in the following paragraphs.

Expansion of the scope of SLAS

9. The Panel had all along held the view that given the success of SLAS in

widening access to justice, there was a strong case for expanding the scope of the scheme. Both the Hong Kong Bar Association ("Bar Association") and the Law Society of Hong Kong ("Law Society") were supportive of the proposed expansion. In its Report on Conditional Fees published in July 2007, the Law Reform Commission also recommended increasing the types of cases covered under SLAS.

10. When the Administration reported to the Panel on its proposals arising from the five-yearly review on 29 March 2010, it advised the Panel of its recommendation not to expand the scope of SLAS to cover other categories of cases. According to the Administration, any proposal for extending the scope of SLAS must not undermine or jeopardize its financial viability, given its self-financing nature. SLAS was by design aimed at cases which involved monetary claims of a reasonable size, with a high success rate and a reasonably good chance of recovering damages. The Administration stressed that if the scope of SLAS was to be extended to cover cases which did not fulfill such criteria, the SLAS Fund would be exposed to financial risk. The Administration also pointed out that if a legally aided person was unsuccessful in his claim, the SLAS Fund had to pay the legal costs of both parties, which could involve significant sums.

11. Members did not subscribe to the Administration's view and urged the Administration to consider seriously expanding the scope of SLAS to enhance the middle class' access to justice. Some members suggested that the scope of SLAS should be expanded to cover monetary claims arising from systemic financial disputes (such as those relating to Lehman Brothers-related minibonds) and appeals relating to judgments delivered by various tribunals. Members considered that the expansion of SLAS would not have any adverse impact on the financial viability of the scheme, given that only applicants whose case or defence had been assessed to have a reasonable chance of success would be granted assistance under the scheme, and a percentage of damages or compensation would be recovered from successful SLAS cases and paid into the SLAS Fund. They pointed out that the Director of Legal Aid ("DLA") had all along been very prudent in assessing legal aid applications and case monitoring. For cases with a low chance of recovery of damages or low damages to cost ratio, DLA would exercise discretion to reject the applications or ensure early settlements as appropriate. Some members also stressed that the decision on the coverage of SLAS should not be based solely on economic considerations; facilitating access to justice and upholding the rule of law should also be prime considerations.

12. At the meeting on 21 July 2010, members noted the proposals put forward by the Bar Association for expanding the scope of SLAS. The Bar Association set out in its submission [LC Paper No. CB(2)2105/09-10(01)] various types of

cases which were covered by insurance either as a matter of law or practice, including mis-selling of financial and insurance products, claims against other types of professional negligence presently not covered by SLAS (such as services provided by accountants, estate agents, surveyors and engineers) and disputes relating to trusts. The Bar Association proposed that SLAS should be expanded to cover these areas for which recoverability of damages should not be an issue, thereby addressing the Administration's concern that expanding the coverage of SLAS would undermine the financial viability of the scheme. The Panel passed a motion requesting that the Administration should, based on the Bar Association's proposals, conduct a study as soon as possible on the implementation of measures to expand and improve legal aid services.

Recommendations of LASC on the expansion of the scope of SLAS

13. At the meeting on 30 September 2010, members were advised that the LASC's Interest Group on Scope of SLAS ("Interest Group") was studying the Bar Association's proposals along with its own study on the expansion of SLAS. At the meeting on 21 December 2010, LASC briefed the Panel on its recommendations [LC Paper No. CB(2)570/10-11(01)] and held further discussion with the Panel, the legal professional bodies and relevant organizations at the meeting on 24 January 2011. In gist, LASC recommended that SLAS be extended on an incremental basis, starting with cases of lower risk profile. It also recommended that SLAS be divided into Part I and Part II to be administered and monitored separately, with the new types of claims to be included under Part II for which a higher contribution rate would be payable. A summary of LASC's major recommendations on the scope of the expanded SLAS is given in **Appendix I**.

14. While generally welcoming LASC's proposed expansion of SLAS, some members considered LASC's proposals too conservative both in terms of the scope and the pace of the reform. Members noted LASC's view that claims against developers in the sale of new flats should be introduced at a later stage, pending the Government's introduction of new legislation to strengthen regulation over the sale of new flats which would assist in the proof of liability. Some members including Ms Emily LAU and Ms Audrey EU considered that such cases should be included in the first batch, rather than at a later stage as recommended by LASC. These members pointed out that irrespective of whether new legislation would be introduced, the general public could hardly afford to take legal action against developers if they had no recourse to legal aid.

15. Some members including Mr Albert HO, Mr LAU Kong-wah and Mr LEUNG Kwok-hung expressed disagreement with LASC's recommendation that claims arising out of the sale of goods and provision of services should not be included under SLAS on the ground that such claims could be taken care of by

the Consumer Council. These members considered that the mechanism for dealing with consumer claims under the Consumer Legal Action Fund was no substitute for legal aid, as the size of the Fund was small and only cases involving significant public interest might be granted with assistance under the Fund after a rigorous selection process. LASC explained that such cases were not recommended for inclusion in SLAS as they generally involved small amounts of claims and the litigation costs involved usually far exceeded the values of the damages. Dr Margaret NG, however, considered that given the \$60,000 threshold requirement, the small size of such claims was not a valid reason for excluding altogether this type of claims from SLAS.

16. Mr Albert HO also did not subscribe to LASC's view that claims in respect of trusts should not be included in SLAS on the ground that they would probably be covered under professional negligence. He pointed out that not all such claims could be covered under professional negligence, given that trustees and executors of wills were not necessarily professionals.

17. Some members also suggested that SLAS should also be extended to cover monetary claims between buyers and sellers arising from the sale of flats (such as those involving forfeiture of deposits), compulsory land sale cases under the Land (Compulsory Sale for Redevelopment) Ordinance (Cap. 545), provision of legal assistance to Hong Kong residents involved in litigation on the Mainland, and cases where whistleblowers were being sued for defamation and there was great disparity in the financial resources between the two parties. Members also noted the Bar Association's view that SLAS should also be made available for cases concerning class actions and protection of minority rights.

18. On LASC's proposal of dividing SLAS into Part I and Part II and setting higher contribution rates for claims under SLAS Part II, members noted that while the Law Society had no strong objection to having two tiers of SLAS provided that it was to facilitate administration and data collection for future analysis, the Bar Association considered it fundamentally wrong to divide SLAS on the basis of more risky cases or less risky cases as proposed by LASC. In the Bar Association's view, there was no such thing as a risky type of claim but only risky individual cases; risk assessment should be based on the facts and merits of each case, and not the type of claims they belonged to. The Bar Association also objected to LASC's proposal of transferring the professional negligence claims currently covered under the existing SLAS to the proposed SLAS Part II.

The Administration's latest proposal for expanding the scope of SLAS

19. At the meeting on 28 March 2011, the Administration reported to the Panel on its proposals for expanding the scope of SLAS. Having studied the LASC's recommendations and taken into account the views of the Panel and relevant

stakeholders, the Administration proposed that claims of the following categories, with claim amounts exceeding \$60,000, be covered under the expanded SLAS using an enhanced rate of application fee and contribution –

- (a) professional negligence claims against Certified Public Accountants, Architects, Registered Professional Engineers, Registered Professional Surveyors, Authorized Land Surveyors, Registered Professional Planners, Landscape Architects and Estate Agents;
- (b) claims arising from sale of insurance products; and
- (c) claims against developers in the sale of first-hand residential properties.

20. Members noted the submission from the Bar Association [LC Paper No. CB(2)1373/10-11(01)] urging the Administration to further expand the scope of SLAS to cover more types of cases. The Administration, however, did not support other proposals for expanding the scope of SLAS to cover claims against property developers by minority owners in respect of compulsory sales of building units, claims against sale of goods and provision of services, claims in respect of trusts, property damage claims against incorporated owners, claims against small marine boat accidents and claims involving disputes between limited companies and their minority shareholders.

21. Mr LAU Kong-wah expressed disagreement with the Administration's decision of not including claims arising from the sale of goods and provision of services under SLAS on the grounds of low success rate and high cost-to-damages ratio of these claims. The Administration explained that having considered that claims from sale of goods and provision of services involved small amount and the litigation costs involved usually far exceed the values of the damages, and that such claims had a relatively low success rate, the Administration did not seek to expand SLAS to cover such claims.

22. In response to the concern of Mr James TO and Dr Priscilla LEUNG that claims against property developers by minority owners in respect of compulsory sales of building units would not be covered under SLAS, the Administration stressed that the self-financing principle of SLAS should be adhered to in considering the issue. Given that no monetary value was involved in compulsory sale cases and past results of the Lands Tribunal had shown that the chance of it granting a compulsory sale order was very high, the Administration envisaged that the chance of the aided minority owner losing the case and having to bear all the costs would be very high.

23. Regarding money claims in derivatives of securities, currency futures or

other futures contracts, members noted that while the Administration would not seek to expand SLAS to cover derivative claims in the coming exercise, it would conduct a study on amending LAO with a view to enabling money claims in derivatives of securities, currency futures or other futures contracts be covered under OLAS when fraud, misrepresentation/deception was involved at the time of purchase.

Contribution required to be paid by aided persons

Contribution rate

24. Members noted with concern that some applicants had turned down the grant of legal aid and represented themselves in court as they could not afford the cost involved, and sought clarification on whether any adjustments would be made to the contribution rates under OLAS and SLAS following the adjustments of FELs. Some members considered that DLA should be given the discretion to waive the payment of contribution in cases where the legally aided applicants had financial difficulties in making such payment. They also suggested that consideration be given to setting different contribution rates for different types of cases, for instance, a lower contribution rate could apply to appeals relating to Labour Tribunal ("LT") awards.

25. Members noted LASC's proposal that the contributions payable by the aided person for SLAS Part II claims should be higher than those for SLAS Part I claims to reflect the complexity of such claims and the higher risks associated with proceedings, in order that the scheme might be self-financing. Under LASC's proposal, the contribution rate for SLAS Part II should be 20%, or 15% if the claim was settled before delivery of brief to Counsel. Ms Audrey EU, however, considered it unjustifiable to propose that higher contribution rates be charged for cases under SLAS Part II on the ground that they were more risky types of cases. She pointed out that irrespective of the types of claims they belonged to, all legal aid applications had to satisfy the merits test, and cases assessed to have a low chance of success of recovery would not be granted legal aid. Members also noted the Law Society's view that the proposed contribution rates for SLAS Part II at 20% and 15% of the awarded damages were too high which would turn the middle class to engage recovery agents.

26. At the meeting on 28 March 2011, the Administration advised that it proposed the application fee and rates of contribution for the new types of cases to be covered under the expanded SLAS as follows –

- (a) the application fee be increased to \$5,000;
- (b) the interim contribution rate be set at 10% of the assessed financial resources of the aided person, but in any event not less than the

current interim contribution payable by the aided persons under SLAS as set out in Regulation 14(a) of the Legal Aid (Assessment of Resources and Contributions) Regulations (Cap. 91B); and

- (c) the final contribution rate be increased to 20% of the value of property recovered, and to 15% where a claim is settled prior to delivery of a brief for attendance at trial to counsel.

27. According to the Administration, the enhanced application fee and rates of contribution shall also apply to the existing three types of professional negligence claims against the medical, dental or legal professions. However, the Law Society considered that the existing rates of application fee and contribution should be maintained given that the SLAS Fund had all along been making money and there was a current credit balance of \$88 million.

Interim contribution for employee claims on appeal from LT

28. Some members expressed concern about the interim contribution payable for employee claims on appeal from LT proposed for inclusion under SLAS Part I. Members noted that while the interim contribution payable under SLAS (\$43,950 at that time) would be refunded to an aided person who was successful in his proceedings, the aided person was still liable for the legal expenses which were not recoverable from the other party, and this might amount to tens of thousands of dollars. Given the relatively small size of employee claims on appeal from LT, members urged the Administration to consider waiving the payment of interim contribution for such claims. The Administration was requested to provide for members' reference an analysis, with different scenarios, on the total amount of contributions payable for employee claims on appeal from LT should such claims be covered under SLAS Part I as proposed by LASC.

29. Mr IP Wai-ming considered that legal aid should be granted unconditionally to employees for employee claims on appeal from LT. Given that legal representation was not allowed in LT and appeals against LT awards were made on a point of law, and having regard to the implications of the judgments on later cases, he considered it unfair that employees had to shoulder the litigation costs for such appeals.

30. Regarding the interim contribution for employee claims on appeal from LT, the Administration advised that it proposed to cover employees' claims on appeals from LT, regardless of the criteria on claim amounts (i.e. the general requirement that the claim amount should exceed \$60,000), under the expanded SLAS using the existing rates of application fee and contribution. The Administration agreed with the LASC's recommendation to exempt this type of cases from the increased rates of application fee and contribution. The Administration, however, would

not further waive the requirement for interim contributions as this would violate the self-financing principle of SLAS and would have significant read-across implications on other types of SLAS claims.

Injection into the SLAS Fund

31. In his 2010-2011 Policy Address delivered on 13 October 2010, the Chief Executive announced that to complement the SLAS review being conducted by LASC, and to benefit more people from the middle class, the Government would earmark \$100 million for injection into the SLAS fund when necessary to expand the scheme to cover more types of cases. Members generally supported the proposed injection of \$100 million into the SLAS Fund to increase its reserve for use as necessary. Members noted the Administration's view that the proposed sum of \$100 million should presumably be sufficient, having regard to the self-financing nature of SLAS and given that the injection was to provide a cushion for cash flow to support the proposed expansion of the scheme.

Latest position

32. Members agreed that the Panel should continue to monitor closely the work of the Administration in taking forward the legislative proposals for expansion of SLAS and follow up on other proposals not supported by the Administration, particularly the proposed inclusion of claims against property developers by minority owners in respect of compulsory sales of building units and claims against sale of goods and provision of services under SLAS, in the 2011-2012 legislative session.

33. The Administration has been scheduled to brief the Panel on the legislative amendments and submit report on the review of outstanding issues related to SLAS expansion at the upcoming meeting on 20 December 2011.

Relevant papers

34. A list of the relevant papers which are available on the LegCo website is in **Appendix II**.

**Major recommendations of the Legal Aid Services Council
on the expansion of the scope of the
Supplementary Legal Aid Scheme ("SLAS")**

SLAS Part I

- (a) employee claims on appeal from the Labour Tribunal should be included under SLAS Part I without size limit as this was socially deserving;
- (b) medical, dental and legal professional negligence claims be transferred from the existing SLAS to SLAS Part II to align the administration of legal aid for claims against professional negligence and having regard to the complexity and risk profile of such cases;

SLAS Part II

- (c) the types of cases to be covered by SLAS Part II should be introduced on an incremental basis, starting with the less risky types of cases. With this in mind, LASC recommended that SLAS Part II should cover the following types of cases in the first batch: (i) professional negligence claims against accountants, architects, engineers and surveyors; (ii) claims for property damage against incorporated owners of a multi-storey building; and (iii) derivative claims;
- (d) the following types of cases might worth consideration after the first batch was introduced: (i) claims against estate agents, independent financial consultants and insurance agents; (ii) claims against developers in the sale of new flats, offices or shop premises; and (iii) small marine accidents;
- (e) LASC did not recommend the inclusion of the following types of cases under SLAS Part II: (i) claims in respect of trusts; (ii) claims involving disputes between limited companies or their minority shareholders; and (iii) sale of goods and provision of services;
- (f) higher application fees and contribution rates should be adopted for SLAS Part II claims to reflect the complexity of such claims and the higher risks involved; and
- (g) SLAS Part II should be tested for its viability and effectiveness and be reviewed and fine-tuned periodically.

Appendix II

Relevant papers on further expansion of the Supplementary Legal Aid Scheme

Meeting	Date of meeting	Paper
Legislative Council	5.5.2004	Official Record of Proceedings Pages 49 - 50 (Written question)
Panel on Administration of Justice and Legal Services ("AJLS Panel")	23.1.2006 (Item V)	Agenda Minutes
Legislative Council	3.5.2006	Official Record of Proceedings Pages 127 - 141 (Motion)
AJLS Panel	26.3.2007 (Item V)	Agenda Minutes CB(2)1472/06-07(01) CB(2)1472/06-07(02) CB(2)1472/06-07(03)
	26.5.2008 (Item V)	Agenda Minutes CB(2)2090/07-08(01)
	24.11.2008 (Item V)	Agenda Minutes CB(2)2011/08-09(01)
Legislative Council	11.2.2009	Official Record of Proceedings Pages 184 - 258 (Motion)
AJLS Panel	30.3.2009 (Item IV)	Agenda Minutes CB(2)1215/08-09(01)
	--	RP01/08-09
	--	IN01/09-10 FS05/09-10

Meeting	Date of meeting	Paper
	22.10.2009 (Item I)	Agenda Minutes
Legislative Council	6.1.2010	Official Record of Proceedings Pages 70 - 71(Written question)
AJLS Panel	29.3.2010 (Item V)	Agenda Minutes CB(2)1192/09-10(01)
	24.5.2010 (Item IV)	Agenda Minutes
	21.7.2010 (Item I)	Agenda Minutes
	30.9.2010 (Item I)	Agenda Minutes
	22.10.2010 (Item I)	Agenda Minutes
	22.11.2010 (Item V)	Agenda Minutes CB(2)571/10-11(01)
	21.12.2010 (Item IV)	Agenda Minutes
	24.1.2011 (Item IV)	Agenda Minutes
	28.3.2011 (Item IV)	Agenda Minutes