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Panel on Welfare Services

Background brief prepared by the Legislative Council Secretariat for the meeting on 14 November 2011

Annual adjustment of payment rates under the Comprehensive Social Security Assistance Scheme and the Social Security Allowance Scheme

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 relating to the annual adjustment of the standard payment rates under the CSSA and the 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 ("C&SD") on a monthly basis to measure inflation according to the expenditure pattern of CSSA households.

3. The inflation forecast methodology for adjusting social security payments was introduced in 1989. The practice of making increases to the standard payment rates of CSSA and SSA based on a projected rate of inflation was intended to avoid putting CSSA recipients in the position of only catching up with past inflation. 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. The Administration introduced the annual adjustment cycle for standard payment rates of CSSA and SSA in 2005. Under the new adjustment cycle, the Secretary for Labour and Welfare would, in consultation with the Secretary for Financial Services and the Treasury, take into account the SSAIP movement for the past 12 months ending in October, and seek the approval of the Finance Committee ("FC") in December, such that the new rates would be effected in February of the following year. The Administration would inform the Panel in November of its intention to present the latest available SSAIP figure to FC.

Annual adjustment cycle for CSSA and SSA standard payment rates

Methodology for adjustment

5. 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.

6. 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 SSA recipients.

7. 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.

8. 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.

9. 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.

10. 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.

11. 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.

12. 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

13. 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.

14. 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. According to the findings of the latest round of survey conducted in 2004-2005, 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.

Updating of the weighting system of SSAIP

15. Members were dissatisfied with 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.

16. 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, which was expected to be completed around October 2011.

Additional adjustment ahead of the normal adjustment cycle

17. In accordance with the established mechanism, the Panel was briefed in November each year on the Administration of its intention to present the latest available SSAIP figure to FC, with a view to seeking FC's approval for making an annual adjustment. Members raised concern time and again 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. Having regard to the high inflation as shown by the economic indicators, members enquired whether the Administration would consider reviewing the adjustment mechanism and making corresponding adjustment to the CSSA standard rates ahead of the annual adjustment cycle so as to maintain the purchasing power of the payments.

18. 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.

19. Expressing dissatisfaction at the Administration's reluctance to accede to members' request for reviewing the adjustment mechanism for social security payments, the Panel passed a motion at the 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.

20. 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.

21. While welcoming the proposal, 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.

22. 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.

Provision of one additional month of CSSA standard rates and SSA

23. The Administration, in each of the five consecutive Budget years from 2007-2008 to 2011-2012, provided one additional month of standard payment rates for CSSA recipients and one additional month of allowance for SSA recipients. In 2009, to further relieve the pressure on the CSSA and SSA recipients to cope with the profound impact of the financial tsunami, the Administration provided one further month of standard payment rates to CSSA and SSA recipients.

24. 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

25. The Administration will brief the Panel on 14 November 2011 on the latest position of SSAIP and the estimated corresponding adjustment for standard rates under the CSSA and SSA Schemes. Under the current annual adjustment cycle, the revised rates will take effect from 1 February 2012 subject to FC's approval being obtained in December 2011.

Relevant papers

26. A list of the relevant papers on the Legislative Council website is in the **Appendix**.

Council Business Division 2
Legislative Council Secretariat
8 November 2011

Appendix

Relevant papers on Annual adjustment of payment rates under the Comprehensive Social Security Assistance Scheme and the Social Security Allowance Scheme

Committee	Date of meeting	Paper
Finance Committee	3 April 1998	Minutes FCR(98-99)10 FCRI(1999-2000)6 FCRI(2000-01)9 FCRI(2001-02)7
Panel on Welfare Services	14 June 1999 (Item V)	Agenda Minutes
Panel on Welfare Services	2 July 1999 (Item I)	Agenda Minutes
Panel on Welfare Services	11 November 2002 (Item III)	Agenda Minutes
Panel on Welfare Services	10 February 2003 (Item V)	Agenda Minutes
Legislative Council	26 February 2003	Official Record of Proceedings Pages 157 - 196
Finance Committee	26 March 2003	Minutes
Subcommittee on Review of the Comprehensive Social Security Assistance Scheme	22 July 2005 (Item III)	Agenda Minutes
Panel on Welfare Services	14 November 2005 (Item IV)	Agenda Minutes

Committee	Date of meeting	Paper
Subcommittee on Review of the Comprehensive Social Security Assistance Scheme	22 November 2005 (Item II)	Agenda Minutes
Subcommittee on Review of the Comprehensive Social Security Assistance Scheme	5 December 2005 (Closed meeting)	CB(2)2381/05-06(01)
Finance Committee	16 December 2005	Minutes
Subcommittee on Review of the Comprehensive Social Security Assistance Scheme	Issued on 21 August 2006	CB(2)2945/05-06(01)
Panel on Welfare Services	13 November 2006 (Item V)	Agenda Minutes
Finance Committee	15 December 2006	Minutes
Subcommittee on Review of the Comprehensive Social Security Assistance Scheme	19 December 2006 (Item II)	Agenda Minutes
Panel on Welfare Services	30 March 2007 (Item II)	Agenda Minutes
Finance Committee	20 April 2007	Minutes
Subcommittee on Review of the Comprehensive Social Security Assistance Scheme	29 October 2007 (Item II)	Agenda Minutes

Committee	Date of meeting	Paper
Panel on Welfare Services	12 November 2007 (Item VII)	Agenda Minutes
Panel on Welfare Services	14 April 2008 (Item IV)	Agenda Minutes
Panel on Welfare Services	8 May 2008 (Item III)	Agenda Minutes
Finance Committee	6 June 2008	Minutes
Panel on Welfare Services	12 June 2008 (Item II)	Agenda Minutes
Panel on Welfare Services	10 November 2008 (Item IV)	Agenda Minutes
Panel on Welfare Services	8 June 2009 (Item V)	Agenda Minutes
Panel on Welfare Services	9 November 2009 (Item V)	Agenda Minutes
Panel on Welfare Services	12 April 2010 (Item V)	Agenda Minutes
Panel on Welfare Services	8 November 2010 (Item V)	Agenda Minutes
Panel on Welfare Services	18 January 2011 (Item I)	Agenda Minutes

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