

立法會
Legislative Council

LC Paper No. CB(2)213/14-15(08)

Ref : CB2/PL/WS

Panel on Welfare Services

**Updated background brief prepared by the Legislative Council
Secretariat for the meeting on 10 November 2014**

**Annual adjustment of payment rates under the Social Security
Allowance Scheme and the Comprehensive Social Security Assistance
Scheme and issues relating to rent allowance under the latter Scheme**

Purpose

This paper summarizes past discussions by the Council and relevant committees relating to the annual adjustment of the standard payment rates under the Social Security Allowance ("SSA") Scheme and the Comprehensive Social Security Assistance ("CSSA") Scheme, and issues relating to rent allowance under the latter Scheme.

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"). SSAIP is compiled by the Census and Statistics Department 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 on Welfare Services ("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, however, 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. 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. Members expressed concern about the methodology for adjusting the CSSA and SSA payment rates. They 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. Members had time and again urged the Administration to consider reverting to the inflation

forecast methodology for adjusting CSSA and SSA rates.

8. The Administration advised that reverting to the inflation forecast methodology 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.

9. 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.

10. 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.

11. Similar concerns were raised by Members from time to time, 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

12. 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. The basic needs referred to in the review were considered outdated. Besides, Members found it

unacceptable to have about half of CSSA households living below the poverty line. They urged the Administration to conduct a comprehensive review of the CSSA standard payment rates and implement measures to lift the CSSA households above the poverty line.

13. The Administration explained that there were certain CSSA households bound to be below the poverty line because it adopted the concept of relative poverty and set the poverty line at 50% of the median monthly domestic household income, which was comparable to the approach adopted by the Organisation for Economic Co-operation and Development. The poverty line was not a "poverty alleviation line". Since only household income was counted while assets were not counted in setting the poverty line, the poor population, particularly the poor elderly population, could have been overstated by including the "asset-rich, income-poor" retirees. The Administration's poverty alleviation measures would be targeted at the needy groups.

14. As to the CSSA standard payment rates, the Administration advised that they 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 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.

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 with the average CSSA monthly household expenditure, as it was impossible for CSSA households to spend more than the monthly CSSA payments.

16. According to the Administration, with the completion of the latest round of HES in 2009-2010, a new series of SSAIP with 2009-2010 as the base period had been compiled. The adoption of the new series could reflect more accurately the impact of price changes on CSSA recipients. Members, however, maintained the view that SSAIP could only reflect the price changes in the past 12 months. They urged the Administration to conduct an overall review of the CSSA Scheme as early as practicable.

Additional adjustment ahead of the normal adjustment cycle

17. Members raised concerns time and again that under the current adjustment mechanism which took into account SSAIP movements in the past 12 months, CSSA recipients had to catch up with past inflation. 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, or providing an inflationary adjustment allowance on a quarterly basis, 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. In 2008, the Administration adjusted ahead of the normal schedule the CSSA standard payment rates by 4.4% to ease the impact of rising prices on CSSA households.

20. While welcoming the adjustment, Members maintained 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.

21. The Administration explained that 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

22. The Administration, in each of the eight consecutive Budget years from 2007-2008 to 2014-2015, 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.

23. While expressing support for providing additional relief measures for the disadvantaged, Members were concerned about the long-term effectiveness of the proposed one-off measure to assist the CSSA recipients. They reiterated their request for the Administration to conduct a comprehensive review of the CSSA and SSA payment rates.

Rent allowance

24. Under the CSSA Scheme, rent allowance is payable as a standard special grant to all CSSA recipients to meet the cost of accommodation. The amount of allowance is the actual rent paid or the prescribed maximum level of rent allowance ("MRA") by household size, whichever is the less. Members were concerned that the adjustment of MRA based on the movements of the Consumer Price Index (A) ("CPI(A)") rent index for private housing was unable to reflect changes in the rental expenditures by CSSA households. They called on the Administration to review the adjustment mechanism of MRA in a bid to ensure that the rent allowance would not be lower than the actual rent paid by CSSA households. In this

connection, Members suggested that MRA be adjusted with reference to the expenditure level of households in the lowest 5% expenditure group. Given that the rental in urban areas was higher than that in other districts, Members held the view that different rates of rent allowance should be provided according to the district or location in which the CSSA recipients were living.

25. According to the Administration, adjusting MRA on the basis of the rent index was able to reflect the movement of private housing rent faced by the relatively low expenditure group of households and had therefore been used as an objective basis for updating MRA since its endorsement by the legislature in 1998. Increasing the rent allowance in accordance with the actual rent paid by CSSA households might induce an increase in the rentals for private housing. Moreover, it was difficult to further categorize recipients according to districts and apply a different rate of rent allowance for each category.

26. Members noted that in September 2013, the Community Care Fund ("CCF") had re-launched the "Subsidy for CSSA Recipients Living in Rented Private Housing" programme ("the Rent Subsidy Programme"), under which the one-off subsidy had been doubled, viz \$2,000 and \$4,000 for each eligible one-person and two-or-more-person CSSA household respectively. In response to Members' request for regularizing the Rent Subsidy Programme to relieve the rental burden of CSSA households living in private housing, the Administration advised that the supply of public rental housing ("PRH") should be increased and accelerated in the long run in order to address the housing needs of the needy groups.

27. In reply to a written question on the provision of the rent allowance for CSSA recipients to cover the actual rent raised at the Council meeting on 9 October 2013, the Administration advised that as at June 2013, 63% of CSSA recipients receiving the rent allowance lived in PRH and 15% in private housing. MRA could fully cover the actual rent paid by the majority of CSSA households living in PRH (98%) and 48% of those living in private housing. SWD had increased MRA by 5.7% and 7.8% in 2012 and 2013 respectively. Members were gravely concerned that more than 50% of CSSA households living in private housing were unable to cover the actual rent by the rent allowance. At the FC meeting on 20 December 2013, the Administration advised that after increasing MRA by 6.5% in 2014 and the re-launch of the Rent Subsidy Programme under CCF, it was expected that there would be around 10 363 CSSA cases with rental expenses exceeding the rent allowance-cum-CCF subsidy.

Recent development

28. The Administration will brief the Panel at its meeting to be held on 10 November 2014 regarding the latest position of SSAIP and the estimated corresponding adjustment for standard rates under the SSA and CSSA Schemes, as well as the latest position of the CPI(A) rent index for private housing and the estimated corresponding adjustment to MRA. Under the current annual adjustment cycle, the revised rates will take effect from 1 February 2015 subject to FC's approval in December 2014.

Relevant papers

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

Council Business Division 2
Legislative Council Secretariat
5 November 2014

**Relevant papers on Annual adjustment of payment rates under
the Social Security Allowance Scheme and
the Comprehensive Social Security Assistance Scheme
and issues relating to rent allowance under the latter Scheme**

Committee	Date of meeting	Paper
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
Subcommittee on Review of the Comprehensive Social Security Assistance Scheme	22 November 2005 (Item II)	Agenda Minutes
	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

Committee	Date of meeting	Paper
Subcommittee on Review of the Comprehensive Social Security Assistance Scheme	29 October 2007 (Item II)	Agenda Minutes
Panel on Welfare Services	12 November 2007 (Item VII)	Agenda Minutes
	14 April 2008 (Item IV)	Agenda Minutes
	8 May 2008 (Item III)	Agenda Minutes
Finance Committee	6 June 2008	Minutes
Panel on Welfare Services	12 June 2008 (Item II)	Agenda Minutes
	10 November 2008 (Item IV)	Agenda Minutes
	8 June 2009 (Item V)	Agenda Minutes
	9 November 2009 (Item V)	Agenda Minutes
	12 April 2010 (Item V)	Agenda Minutes
	8 November 2010 (Item V)	Agenda Minutes
	18 January 2011 (Item I)	Agenda Minutes
	14 November 2011 (Item V)	Agenda Minutes
	12 April 2012 (Item VI)	Agenda Minutes

Committee	Date of meeting	Paper
Panel on Welfare Services	12 November 2012 (Item V)	Agenda Minutes
	21 May 2013 (Item IV)	Agenda Minutes
Legislative Council	9 October 2013	Official Record of Proceedings Pages 123 – 128
Panel on Welfare Services	11 November 2013 (Item IV)	Agenda Minutes
Finance Committee	20 December 2013	Minutes

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