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Panel on Welfare Services

**Updated background brief prepared by the Legislative Council
Secretariat for the meeting on 9 November 2015**

**Annual adjustment of social security 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 social security payment rates under the Social Security Allowance ("SSA") Scheme and the Comprehensive Social Security Assistance ("CSSA") Scheme ("social security payment rates"), 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 payment rates was introduced in 1989. The practice of making increases to social security payment rates 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 social security payment rates 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.

Deliberations by Members

Annual adjustment cycle for social security payment rates

Methodology for adjustment

5. Members in general did not object to adopting an automatic adjustment mechanism for the social security payment rates on the basis of a fixed cycle. Some Members, however, expressed concern about the three-month gap in effecting the revised payments under the current annual adjustment mechanism. 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 annual adjustment mechanism 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 CSSA and SSA recipients.

6. Some Members had time and again expressed concern that under the current annual adjustment mechanism, the CSSA standard payment rates lagged behind the prevailing inflation and thus failed to keep up with the pace of changes in living costs. The livelihood of the poor would be affected adversely during inflationary period if the social security payment rates were based on actual SSAIP movements in the previous year. Members urged the Administration to revert to the inflation forecast

methodology for adjusting social security payment rates.

7. The Administration advised that in an audit investigation into the administration of the CSSA and SSA Schemes from late 1998 to early 1999, the Director of Audit noted, among other things, that the Administration had over-estimated the upward movement of SSAIP in the previous years and, as a result, there was a significant impact on the Government's expenditure. The Administration further advised that where the upward movement of SSAIP was significantly over-estimated, the social security payment rates would need to be reduced so as to offset the over-estimated increase. The recipients might find it difficult to adapt. Against the above background, the Administration did not consider it appropriate to resume the previous practice of adjusting social security payment rates according to the forecast on inflation. It stressed that the current annual adjustment mechanism had worked effectively, and it did not see the need for a change.

Timely adjustment of social security payment rates

8. Some Members were of the view that the Administration should review the adjustment mechanism and make corresponding adjustment to the CSSA standard payment 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.

9. 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.

10. 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 its meeting on 12 November 2007 urging the Administration to adjust the CSSA standard payment 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.

11. While welcoming the adjustment, some Members maintained the

view that the interval of each adjustment cycle of CSSA standard payment rates should be shortened so as to reflect more accurately the impact of price changes faced by CSSA recipients. 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.

12. At the Panel meeting on 10 November 2014, some Members expressed concern that the backlog of funding proposals awaiting consideration by FC would render the funding proposal on annual adjustment of social security payment rates unable to obtain FC's approval in December 2014 and the new rates unable to take effect from 1 February 2015 as scheduled. They suggested that the Administration should seek delegated authority from FC to ensure that social security payment rates could be adjusted timely according to the established mechanism in the future. The Administration was of the view that the suggestion was worth considering. Some other Members, however, objected to the suggestion. They took the view that as the annual adjustment mechanism for social security payment rates had all along been a concern of Members, they considered delegating the approval authority to the Administration was inappropriate.

Level of CSSA standard payment rates

13. Some Members pointed out that they could not comment on or raise objection to the proposed adjustment for the CSSA standard payment rates under the annual adjustment mechanism. However, they were concerned about the inadequacy 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, some Members found it unacceptable to have about half of the 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.

14. 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 but not assets were 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 further advised that in the light of economic situations, poverty alleviating measures on promoting employment and upward mobility of young people, as well as certain enhancement measures on the CSSA Scheme had been implemented.

15. 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 to ensure that up-to-date expenditure patterns of CSSA households were accurately reflected in the compilation of SSAIP. In households of various sizes, the average monthly CSSA payments granted to CSSA recipients were all higher than the average monthly expenditure of non-CSSA households whose spending was the lowest 25% in Hong Kong. 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.

16. Some 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, some 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. A study on the basic needs of CSSA households should also be carried out.

17. According to the Administration, the 2014-2015 HES was underway. Adjustments to the CSSA standard payment rates would be made according to the updated weighting system of SSAIP in due course. Some 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 provision for social security recipients

18. The Administration, in each of the nine consecutive Budget years from 2007-2008 to 2015-2016, provided one additional month of standard payment for CSSA recipients and one additional month of allowance for SSA recipients. In 2009 and 2015, as a one-off measure, the Administration provided one further month of social security payment to CSSA and SSA recipients.

19. While expressing support for providing additional relief measures for the disadvantaged, some 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 social security payment rates.

Rent allowance

20. 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. Some Members were concerned that under the established mechanism, the annual 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. Given that the rental of private housing in different districts varied, some Members took the view that different rent indices should be adopted for different districts to ease the rental pressure faced by CSSA households living in different districts.

21. 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. Moreover, it was difficult to further categorize recipients according to districts and apply a different rate of rent allowance for each category.

22. Noting that MRA could only cover the actual rent paid by about 50% of CSSA households living in rented private housing, some Members called on the Administration to adjust the amount of MRA with reference

to the expenditure level of households in the lowest 5% expenditure group, or based on the increase in market rent.

23. The Administration advised that increasing the rent allowance in accordance with the actual rent paid by CSSA households might induce an increase in the rentals for private housing. In accordance with the established mechanism, SWD had adjusted MRA upward by 5.7%, 7.8%, 6.5% and 6.7% in 2012, 2013, 2014 and 2015 respectively, amounting to a cumulative increase of 29%. In addition, to help CSSA households relieve their financial burden resulting from the periodic increase in rent, the Community Care Fund launched the Subsidy for CSSA Recipients Living in Rented Private Housing Programme ("the Programme") in October 2011, September 2013 and September 2014 respectively to provide a one-off subsidy to the CSSA households living in rented private housing and paying a rent which exceeded MRA. According to the Administration, the number of households benefitted from the Programme had fallen from 22 605 when it was first launched, down to 14 970 (as at end-February 2015) when it was launched for the third time. To a certain extent, these figures reflected a downward trend of the number of CSSA households living in private housing with rent exceeding MRA. The Programme would be launched for the fourth time in the fourth quarter of 2015.

24. In response to some Members' request for regularizing the Programme to relieve the rental burden of CSSA households living in private housing, the Administration advised that the supply of public rental housing should be increased and accelerated in the long run in order to address the housing needs of the needy groups.

Recent development

25. The Administration will brief the Panel at its meeting to be held on 9 November 2015 on the latest position of SSAIP and the estimated corresponding adjustment for social security payment rates, 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 2016 subject to FC's approval in December 2015.

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
4 November 2015

Relevant papers on Annual adjustment of social security 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
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
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
	14 April 2008 (Item IV)	Agenda Minutes
	8 May 2008 (Item III)	Agenda Minutes
Finance Committee	6 June 2008	Minutes
Panel on Welfare Services	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
Panel on Welfare Services	11 November 2013 (Item IV)	Agenda Minutes
Finance Committee	20 December 2013	Minutes
Panel on Welfare Services	10 November 2014 (Item VI)	Agenda Minutes
Finance Committee	2 April 2015	Administration's replies to members' written questions in examining the Estimates of Expenditure 2015-2016 Pages 819-820 Administration's replies to members' supplementary questions in examining the Estimates of Expenditure 2015-2016 Pages 11-12
Panel on Welfare Services	13 April 2015 (Item IV)	Agenda Minutes