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Panel on Welfare Services

Updated background brief prepared by the Legislative Council Secretariat for the meeting on 12 November 2018

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 on 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 CSSA 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 that delegating the approval authority to the Administration was inappropriate.

Level of standard payment rates of Comprehensive Social Security Assistance

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 nearly two decades ago. The basic needs referred to in the review were considered outdated. These Members also considered that the Administration should provide information on how the increase in standard payment rates could improve the livelihood of CSSA households. 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. An increase in the standard payment rates in accordance with the movement of SSAIP would enable CSSA recipients to catch up with inflation. Irrespective of household sizes, the average monthly CSSA payments were higher than the average monthly expenditure of non-CSSA households in the lowest 25% expenditure 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.

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, it took account of the movement of SSAIP and adjusted standard payment rates under the CSSA Scheme on an annual basis. In accordance with this mechanism, SWD had adjusted upward the standard payment rates under the CSSA Scheme by more than 18% from 2014 to 2018. Moreover, with the completion of the latest round of HES, a new series of SSAIP with 2014-2015 as the base period had been compiled. The adoption of the new series would reflect more accurately the impact of price changes faced by CSSA recipients. 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 had provided additional payments for CSSA and SSA recipients consecutively since the 2007-2008 financial year. While expressing support for providing additional relief measures for the disadvantaged, some Members were concerned about the long-term effectiveness of the one-off measure to assist the CSSA and SSA recipients. They reiterated their request for the Administration to conduct a comprehensive review of social security payment rates.

19. The Administration advised that the decision to provide additional one-off payments in the past years was based on individual circumstances on each occasion. This did not mean that the Administration considered the existing CSSA and SSA payment rates inadequate. The standard payment rates of CSSA and SSA rates would continue to be reviewed annually in accordance with the established adjustment mechanism.

Review of the Comprehensive Social Security Assistance Scheme

20. Some Members considered that the CSSA Scheme had not been reviewed for years and the contents of the CSSA Scheme failed to keep up with changes in the community as well as the living pattern of CSSA households. For example, targeted assistance was not provided for meeting prevailing learning needs of children from CSSA families. They urged the Administration to conduct a review of the CSSA Scheme.

21. According to the Administration, while it had no plan to conduct a comprehensive review of the CSSA Scheme at the moment, it would keep in view the various components and arrangements of the Scheme so as to address the needs of CSSA recipients in a more effective manner. It would continue to monitor the relevant situation with a view to strengthening the support for needy persons under the CSSA Scheme through targeted measures as appropriate. For example, it had increased the grants for school-related expenses for primary and secondary students of CSSA families by \$1,000 since the 2014-2015 school year.

22. Some Members took the view that CSSA recipients should be encouraged to move towards self-reliance. These Members suggested that the disregarded earnings ("DE") arrangements should be improved to provide an incentive for CSSA recipients to take up employment. They called on the Administration to increase the amount of DE on a yearly basis and peg such amount with the duration of employment, i.e. the longer the duration of employment, the higher amount of earnings would be treated as DE.

23. The Administration advised that while the arrangement of DE provided economic incentive to encourage recipients to find and sustain employment, it might delay recipients' exit from the CSSA net if it was too generous. The Administration must therefore strike a balance between encouraging recipients to work and ensuring effective use of public funds. In this connection, SWD had implemented a three-year pilot scheme entitled "Incentive Scheme to Further Encourage CSSA Recipients of the Integrated Employment Assistance Programme for Self-reliance to Secure Employment" under the Community Care Fund ("CCF") in 2014 to provide incentive grants to CSSA recipients when their accumulative earnings above the maximum level of DE reached a prescribed target. After the expiry of the Incentive Scheme in 2017, SWD was currently conducting an evaluation study of the Scheme and the evaluation results would be reported to the CCF Task Force in future. Besides, the Administration implemented a three-year pilot scheme from October 2016 under CCF to encourage disabled CSSA recipients to engage in employment by raising the maximum level of DE by 60% from \$2,500 per month to \$4,000 per month.

Rent allowance¹

24. Noting that the maximum rates of the rent allowance ("MRA") under the CSSA Scheme could cover the actual rent paid by 97.7% of CSSA households living in public rental housing ("PRH"), some Members called on the Administration to increase MRA to cover the actual rent paid by all CSSA households living in PRH. The Administration advised that among the CSSA households who were living in PRH and were paying an actual rent higher than MRA, some were elderly persons or families who did not wish to move to a smaller PRH unit although some of the family members had moved out. The Administration would consider exploring whether there was room for bringing down the number of CSSA households living in PRH who were paying an actual rent higher than MRA.

25. 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.

¹ 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 by household size, whichever is the less.

26. According to the Administration, adjusting MRA on the basis of the CPI(A) rent index for private housing 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. Although rental of private housing in urban areas was higher, CSSA recipients generally preferred to live in urban areas to have more convenient access to workplace. CSSA recipients were free to choose the districts to live and it was difficult to further categorize recipients according to districts and apply a different rate of rent allowance for each category.

27. Some Members expressed concern that MRA could only cover the actual rent paid by about 50% of CSSA households living in rented private housing. They 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. At its meeting on 13 November 2017, the Panel passed a motion urging the Administration to immediately review the adjustment mechanism for rent allowance, so that the level of rent allowance could cover the actual rent paid by 90% of CSSA households living in private housing.

28. 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. The Administration would continue to assist the housing needs of persons who were unable to afford private housing through boosting the supply of PRH. The arrangement of compassionate rehousing was also in place to recommend PRH allocation for families with genuine and imminent long-term housing needs but unable to solve their housing needs on their own. Besides, CCF had relaunched the Subsidy for CSSA Recipients Living in Rented Private Housing ("the Programme") to provide a one-off subsidy to CSSA households living in rented private housing and paying rent which exceeded MRA. Under the Programme, the maximum level of subsidy provided for eligible one-person households and two-or-more-person households had been increased from \$2,000 to \$3,300 and \$4,000 to \$11,400 respectively. The Programme would last for two years until 29 November 2019 and the Administration would keep in view its implementation with a view to regularizing the Programme in future.

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
6 November 2018

**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
Panel on Welfare Services	12 November 2012 (Item V)	Agenda Minutes LC Paper No. CB(2)396/12-13(01)
Panel on Welfare Services	21 May 2013 (Item IV)	Agenda Minutes
Panel on Welfare Services	11 November 2013 (Item IV)	Agenda Minutes LC Paper No. CB(2)530/13-14(01)
Panel on Welfare Services	12 May 2014 (Item III)	Agenda Minutes
Panel on Welfare Services	10 November 2014 (Item VI)	Agenda Minutes
Panel on Welfare Services	13 April 2015 (Item IV)	Agenda Minutes LC Paper No. CB(2)1853/14-15(01)
Panel on Welfare Services	9 November 2015 (Item IV)	Agenda Minutes
Panel on Welfare Services	11 April 2016 (Item V)	Agenda Minutes
Panel on Welfare Services	14 November 2016 (Item IV)	Agenda Minutes LC Paper No. CB(2)447/16-17(01)

Committee	Date of meeting	Paper
Legislative Council	8 February 2017	Official Record of Proceedings (Pages 59-69)
Panel on Welfare Services	13 March 2017 (Item IV)	Agenda Minutes
Panel on Welfare Services	13 November 2017 (Item V)	Agenda Minutes LC Paper No. CB(2)449/17-18(01)
Panel on Welfare Services	12 February 2018 (Item VI)	Agenda Minutes LC Paper No. CB(2)1227/17-18(01)
Panel on Welfare Services	19 March 2018 (Item I)	Agenda Minutes LC Paper No. CB(2)1939/17-18(01)
Panel on Welfare Services	9 April 2018 (Item III)	Agenda Minutes

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