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Panel on Welfare Services

**Updated background brief prepared by the Legislative Council Secretariat
for the meeting on 23 November 2020**

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

Purpose

This paper provides background information and gives an account of the discussions of the Panel on Welfare Services on the annual adjustment of social security payment rates under the Comprehensive Social Security Assistance Scheme ("the CSSA Scheme") and the Social Security Allowance Scheme ("the SSA Scheme"), and issues relating to rent allowance under the CSSA Scheme.

Background

2. Under the established mechanism, the Administration will adjust the standard payment rates under the CSSA Scheme and rates of allowances under the SSA Scheme (namely the Old Age Allowance, Old Age Living Allowance and Disability Allowance) on an annual basis in accordance with the inflation or deflation as reflected by the Social Security Assistance Index of Prices ("SSAIP")¹ for the past 12 months (i.e. from 1 November of a year to 31 October of the following year). Subject to the approval of the Finance Committee ("FC"), the new payment rates will be implemented in February of the following year.

¹ SSAIP is compiled by the Census and Statistics Department on a monthly basis to reflect the impact of price changes on CSSA recipients. Except for items covered by CSSA special grants (e.g. rent) or public services provided free to CSSA recipients, the index covers all items of goods and services consumed by CSSA recipients.

Deliberations of the Panel since 2016-2017 session

Annual adjustment of social security payment rates

Methodology for adjustment

3. 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 would provide certainty and ensure objectivity in the adjustment. It would also allow sufficient time for the Social Welfare Department to make the necessary adjustment to its computer system to ensure correct payment to CSSA and SSA recipients.

4. 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.

5. 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 previous years and, as a result, there was a significant impact on the Government's expenditure. Where the upward movement of SSAIP was significantly over-estimated, the social security payment rates would need to be reduced to offset the over-estimated increase. Against this background, the Administration did not consider it appropriate to resume the previous practice of adjusting social security payment rates according to inflation forecast. 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

6. 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

provide an inflationary adjustment allowance on a quarterly basis, to maintain the purchasing power of the payments.

7. 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.

Review of the Comprehensive Social Security Assistance Scheme

8. Some members considered that the CSSA Scheme had not been reviewed for years and the measures under the CSSA Scheme had failed to keep up with changes in the community as well as the living pattern of CSSA households. They urged the Administration to conduct a comprehensive review of the CSSA Scheme. Some other members held the view that the provision of special grants, such as housing and related grants and dental grant, should be payable to all CSSA recipients. They also suggested that the disregarded earnings ("DE")² arrangement should be enhanced 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.

9. 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. In the 2019 Policy Address, the Chief Executive announced a host of improvement measures for the CSSA Scheme to further encourage abled-bodied CSSA recipients to work, including raising the maximum amount of DE by 60% from \$2,500 to \$4,000 per month, strengthening employment services, extending a range of supplement and special grants (including the monthly telephone grant, the grant to cover cost of glasses and the grant to cover cost of dental treatment, etc.) to eligible non-elderly able-bodied recipients, etc. FC approved the relevant funding proposals in May 2020.

² DE refer to the earnings from employment which are disregarded when assessing the amount of assistance payable to CSSA recipients.

Rent allowance³

10. Noting that the maximum rent allowance ("MRA") under the CSSA Scheme could cover the actual rent paid by 97% of CSSA households residing in public rental housing ("PRH"), some members called on the Administration to increase MRA to cover the actual rent paid by all CSSA households residing in PRH. The Administration advised that among the CSSA households residing in PRH and 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, however, consider exploring measures to reduce the number of CSSA households residing in PRH who were paying an actual rent higher than MRA.

11. Some members were concerned that under the established mechanism, the annual adjustment of MRA which was based on the movement of the Consumer Price Index (A) rent index for private housing was unable to reflect changes in the rental expenditures of CSSA households. Noting that MRA could only cover the actual rent paid by 40% of CSSA households living in rented private housing, they called on the Administration to 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. Some other members suggested that the Administration should implement rental support measures for CSSA recipients in tandem with rent control, which should start with sub-divided units.

12. The Administration advised that as the mode of accommodation of grassroots households had progressively changed from bedspace apartments to cubicle apartments, and then to sub-divided flats in the past two decades, the cumulative increase in MRA based on rent index movements alone could not fully reflect the increase in rental expenses faced by these households. The Administration further advised that as an upward adjustment of MRA might drive recipients' aspirations to improve their accommodation and rent more expensive units, it might give rise to an increase in the number of CSSA recipients whose actual rent paid was higher than MRA. MRA should therefore be set at a reasonable level rather than at a level which could cover the rent paid by most of the CSSA recipients living in private housing. With effect from 1 July 2020, MRA, in addition to its annual adjustment based on the movement of the rent index, had been increased by 2% to 27% on a one-off basis with reference

³ 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 appropriate to the number of eligible members in a family, whichever is the less.

to eligible members in the household.

Relevant papers

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

Council Business Division 2
Legislative Council Secretariat
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Appendix

Relevant papers on annual adjustment of social security payment rates under the Comprehensive Social Security Assistance Scheme and the Social Security Allowance Scheme and issues relating to rent allowance under the Comprehensive Social Security Assistance Scheme

| Committee | Date of meeting | Paper |
|---------------------------|-------------------------------|--|
| Panel on Welfare Services | 14 November 2016 (Item IV) | Agenda Minutes LC Paper No. CB(2)447/16-17(01) |
| | 13 November 2017 (Item V) | Agenda Minutes LC Paper No. CB(2)449/17-18(01) |
| | 12 November 2018 (Item IV) | Agenda Minutes |
| | 11 November 2019 (Item V) | Agenda Minutes |

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