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Panel on Welfare Services

**Updated background brief prepared by Legislative Council Secretariat
Adjustment of the Standard Payment Rates under the Comprehensive Social
Security Assistance and the Social Security Allowance Schemes**

Purpose

This paper gives an account of the background on and the recent development of the adjustment of the standard payment rates under the Comprehensive Social Security Assistance (CSSA) and the Social Security Allowance (SSA) Schemes.

2. This paper also provides a summary of the discussion of the Subcommittee on Review of the Comprehensive Social Security Assistance Scheme of the Panel held on 22 July 2005 on the Administration's proposals to adjust the CSSA and SSA standard payment rates (paragraphs 16 to 21).

The adjustment mechanism

3. The provision of standard payment rates under the CSSA and SSA Schemes is to provide a safety net of last resort for those in need so that they could 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 specially compiled by the Census and Statistics Department on a monthly basis to measure inflation according to the expenditure pattern of CSSA households.

4. The inflation forecast methodology for adjusting social security payments was introduced in 1989. The practice of making increases to CSSA and SSA standard payments based on a projected rate of inflation was intended to avoid putting CSSA recipients in the position of only catching up with past inflation. As discrepancies between the forecast inflation and the actual outturn are

inevitable, a well established principle of this methodology is that if the forecast increase in SSAIP proves to be different from the actual increase, the differences would be taken into account in calculating the adjustment for the following year. This is to ensure that from a public spending point of view, the payment rates would not be pitched at levels above the intended assistance levels through over-estimation.

5. 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.

6. The problem highlighted in paragraph 5 above and its consequential impact on public spending was pointed out by the Director of Audit in his Report No. 32 published in March 1999. In his 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 combination of the over-estimation of the 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 the Finance Committee (FC) of the Legislative Council (LegCo).

Level of standard payment rates

7. The CSSA/SSA standard rates were revised upwards by 6.5% in 1997-98 and 4.8% in 1998-99 on the basis of the then forecast SSAIP. Taken together, the payment rates were increased by 11.6%. However, the SSAIP increased only by 4.2% and 0.3% respectively during these two periods and a negative change in the SSAIP for 1999-2000 was anticipated. In the light of the Director of Audit's observations and recommendations (paragraph 6 above refers) and in order to balance the interests of CSSA and SSA recipients and the financial implications, the Administration consulted the Panel on Welfare Services (the Panel) on 14 June and 2 July 1999 on the following arrangements -

- (a) the standard payment rates under the CSSA and SSA Schemes would be maintained at their prevailing rates for 12 months as from August 1999;
- (b) the standard payment rates would remain unchanged in subsequent years until inflation caught up; and

- (c) the past practice of adjusting the standard payment rates according to the forecast inflation for the following year would discontinue. In return, inflationary adjustments to the CSSA and SSA standard payment rates would be based on actual price movements in the previous year.

8. While members of the Panel welcomed the freezing of the standard payment rates at their prevailing levels until inflation in subsequent years caught up, they expressed concern about the discontinuation of the forecast methodology. Some members were particularly worried that the adoption of an adjustment mechanism based on actual price movements would put CSSA recipients in a vulnerable position at times of high inflation.

9. To address the concerns of Panel members outlined in paragraph 8 above, the Administration agreed to -

- (a) put in place an internal procedure to monitor and review the actual SSAIP movement on a half-yearly basis;
- (b) consider seeking approval for any inflationary adjustments to the standard payment rates ahead of the annual cycle if recent movements in the SSAIP and other economic indicators point to likely high inflation; and
- (c) submit an Information Note on an annual basis to FC to facilitate its monitoring of this adjustment exercise in the intervening years when the rates are frozen.

10. The arrangements set out in paragraphs 7 and 9 above were set out in an Information Note to FC members vide FCRI (1999-2000)⁶ on 8 July 1999. Similar Information Notes were submitted to FC on 23 June 2000 and 31 July 2001 vide FCRI(2000-01)⁹ and FCRI(2001-02)⁷ respectively informing Members of the Administration's decision to freeze the standard payment rates for 12 months despite continued deflation. On the last occasion, the Administration informed FC, vide an Information Note FCRI(2002-03)⁹ issued in July 2002, of its decision to maintain the CSSA and SSA standard payment rates at their current levels up to March 2003, pending a review of the payment rates and related matters.

11. The Administration briefed the Panel on 11 November 2002 on the reasons for having a 11.1% room of adjusting the CSSA standard payment rates downwards. The Administration pointed out that against the general economic

situation and high unemployment, the number of families and individuals requiring financial support by Government was bound to increase. To sustain this safety net, there was a need to ensure that existing resources could go further to meet the increasing demand. The Administration also pointed out that prices for goods and services had come down considerably even as measured specifically by the SSAIP. Any downward adjustment to CSSA rates based on the movements in the SSAIP was no more than returning the buying power of those benefits to their original level and should not cause recipients undue hardship. The Administration also highlighted that adjusting the CSSA rates downwards was not intended to address the deficit problem, as savings achieved from deflationary adjustments were intended to remain in the CSSA Scheme. Despite the aforesaid, the majority of members and deputations attending the meeting remained opposed to the Administration's intention to adjusting the CSSA standard payment rates downwards by 11.1%. In response to members' enquiry, the Administration advised that it had not yet come to a view on adjusting the rates downwards after March 2003. The Administration reaffirmed the same to members at the meeting of the Panel on 10 February 2003.

Adjusting the CSSA/SSA rates downwards by 11.1%

12. Despite the opposition expressed by members of the Panel and parties concerned outlined in paragraph 11 above, the Administration issued a press release and the attached LegCo Brief entitled "The Way Forward for the Social Security System" on 25 February 2003 announcing the endorsement by the Executive Council to adjust CSSA/SSA standard rates downwards as follows -

- (a) the standard payment rates for non able-bodied CSSA recipients, namely, the elderly, the disabled and those medically certified to be in ill health, be adjusted downwards by 11.1% in two phases over two years, first by 6% in 2003-04 from October 2003, followed by the second phase adjustment effective from October 2004; and
- (b) the standard payment rates for able-bodied CSSA recipients, and those of Disability Allowance under the SSA Scheme be adjusted downwards by 11.1% from June 2003, and other standard payment rates under CSSA such as maximum rent allowance be reduced in accordance with the established adjustment mechanism for all categories of recipients from June 2003.

13. The aforesaid downward adjustments were effected through the enactment of the 2003 Appropriation Bill which included provisions for CSSA in accordance with the adjusted rates. At the special FC meeting on 26 March 2003, the

Administration stressed that the decision of CSSA downward adjustment was reached after detailed analysis and careful deliberations by the Administration, taking into account views expressed by different sectors of the community and balancing all relevant factors, including fiscal and welfare considerations.

14. Members may wish to note that although it was mentioned in the LegCo Brief mentioned in paragraph 12 above that FC had agreed in July 1999 to change the adjustment mechanism of CSSA to one based on actual price changes in the SSAIP in the previous year and that no upward adjustment would be made until after future inflation has fully offset the over-adjustment accumulated, FC Members were only informed of these changes by a series of Information Notes prepared by the Administration from 1999 to 2002 (paragraph 10 above refers).

15. A motion debate without legislative effect on opposing cutbacks in welfare benefits for the elderly, the vulnerable and the disabled moved by Hon WONG Sing-chi was passed by the Council at its meeting held on 26 February 2003.

Recent development

Annual adjustment timetable for the CSSA and SSA standard payment rates

16. The Administration sought the views of the Subcommittee on Review of the Comprehensive Social Security Assistance Scheme under the Panel (the Subcommittee) on 22 July 2005 on the following proposals to adjust the CSSA and SSA standard payment rates -

- (a) to adopt, starting from 2005-2006, an annual adjustment cycle that took into account the SSAIP movement for the past 12 months ending at October, approval by FC in December, and new rates effected in February of the following year; and
- (b) to seek delegated authority from FC for approval of the new rates to be exercised by the Secretary for Health, Welfare and Food (SHWF) in consultation with the Secretary for Financial Services and the Treasury, as the proposed annual adjustment to the standard payment rates of CSSA and SSA would be automatic on the basis of a fixed cycle and taking into account the inflation/deflation reflected by the SSAIP.

17. The Subcommittee did not object to the automatic adjustment mechanism. Most members, however, were opposed to the proposal of delegating the authority

from FC to SHWF to adjust the standard payment rates of CSSA and SSA. They considered that such an arrangement could only work if there was mutual respect and trust between the Executive and the Legislature. Past experience, however, showed that this was not the case. They pointed out, as an example, the reduction of the monthly standard rate for households comprising three and more than three able-bodied adults/children by 10% and 20% respectively was effected through the enactment of the 1999 Appropriation Bill, instead of through FC.

18. Members also expressed concern that SHWF might not always adjust the CSSA and SSA standard payment rates according to established mechanism. If the established mechanism was the only basis for making adjustment, the Administration should have already adjusted the Old Age Allowance rate downwards, instead of not making any changes to it until the 11.5% over-adjustment had been fully offset by inflation.

19. The Administration explained 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 to make the necessary adjustment to its computer system to ensure correct payment to over 650 000 recipients (including 540 000 CSSA recipients and 110 000 Disability Allowance recipients). The Administration further explained that under the delegated authority, SHWF could only adjust the CSSA and SSA standard payment rates in accordance with the established mechanism relating to the SSAIP changes. Any changes outside the aforesaid scope to the CSSA and SSA Schemes would need approval from FC. The delegation of authority from FC to the Executive was not new. For instance, FC had delegated its authority to the Secretary for Education and Manpower to grant education subsidy to students.

20. As regards the reduction of the monthly standard rate for households comprising three and more than three able-bodied adults/children, the Administration advised that this was in fact made in response to the growing public concern that the levels of CSSA benefit for larger families was high as compared with market wages. The reduction was one of the recommendations of the 1998 review of the CSSA Scheme which underwent wide public consultation and effected through the enactment of the 1999 Appropriation Bill with wide scrutiny by FC.

21. A member was of the view that the Administration should not rule out the adoption of the forecast method in times of high inflation. The Administration advised that if recent movements in the 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.

Relevant papers

22. Members are invited to access to the LegCo website (<http://www.legco.gov.hk>) to view the following papers -

- (a) minutes of meetings of the Panel held on 14 June 1999, 2 July 1999, 11 November 2002 and 10 February 2003;
- (b) minutes of the special FC meeting held on 26 March 2003;
- (c) minutes of the meeting of the Subcommittee held on 22 July 2005;
- (d) proceedings of the motion debate on opposing cutbacks in welfare benefits for the elderly, the vulnerable and the disabled held on 26 February 2003; and
- (e) Information Notes mentioned in paragraph 10 above.

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