

ITEM FOR FINANCE COMMITTEE

HEAD 170 – SOCIAL WELFARE DEPARTMENT

Subhead 179 Comprehensive social security assistance scheme

Members are invited to approve the improvement measures to the provision of disregarded earnings (DE) under the Comprehensive Social Security Assistance (CSSA) Scheme and to note the financial implications estimated at \$30 million in annual recurrent expenditure.

PROBLEM

We propose to introduce improvements to DE arrangements following the completion of a review.

PROPOSAL

2. As announced in the 2007-08 Budget, we propose to improve DE arrangements for CSSA recipients by –

- (a) raising the “no-deduction” limit for DE from \$600 to \$800; and
- (b) relaxing the criteria for allowing CSSA recipients to be eligible for DE from not less than three months on CSSA to not less than two months.

3. As the CSSA Scheme is an administrative scheme, no legislative amendment is necessary.

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4. If Members approve the proposal, we plan to implement the proposed measures as soon as possible.

JUSTIFICATION

Improvements on the DE arrangements under the CSSA Scheme

Encl. 5. The existing arrangements of DE are provided at Enclosure. The justifications for the proposed improvements are set out below:

Raise the “no-deduction” limit from \$600 to \$800

6. The current “no-deduction” limit was last raised in June 2003 by 33% from \$451 to \$600. We recommend raising the “no-deduction” limit of monthly DE from \$600 to \$800. With the implementation of the New Dawn Project^{Note} since April 2006, it is expected that more single parents and child carers will find part-time jobs. In recognition of the costs of meals taken at work and other employment-related expenses, a moderate increase of \$200 in the “no-deduction” limit should provide more incentives for CSSA recipients to take up part-time or casual employment if this is all that is available. Part-time and occasional jobs do help welfare recipients maintain contact with the labour market, thus providing them with more opportunities to improve their employability and find a full-time job. It is hoped that through developing a working habit, CSSA recipients will ultimately be self-reliant and leave the CSSA net.

Relax the “no DE for the first three months” rule to a “two-month” rule

7. In the 2003 changes to the DE arrangements, we introduced the rule of allowing no DE for recipients who have been on CSSA for less than three months (the “no DE for the first three months” rule) to prevent those considered to have sufficient means to meet their basic needs from gaining entry into the welfare system. We now recommend relaxing the rule to a “two-month” rule to encourage existing CSSA recipients to seek employment earlier.

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^{Note} Under the New Dawn Project, CSSA single parents and child carers with the youngest child aged 12 to 14 are required to actively seek paid employment with working hours of not less than 32 hours a month.

FINANCIAL IMPLICATIONS

Improvements on the DE arrangements under the CSSA Scheme

8. The recurrent financial implications for implementing the proposed improvements to DE arrangements will be around \$30 million. We estimate that 19 800 recipients would benefit if the proposal is approved.

9. We have not included the provision for the proposal under Head 170 Social Welfare Department Subhead 179 Comprehensive social security assistance scheme in the 2007-08 Estimates. We have earmarked the necessary funds under Head 106 Miscellaneous Services Subhead 251 Additional commitments. In line with our normal practice, we shall seek the total supplementary provision required under the CSSA subhead towards the end of the 2007-08 financial year if necessary.

PUBLIC CONSULTATION

10. We briefed the Social Welfare Advisory Committee (SWAC) on the review on 1 December 2006 and the Commission on Poverty (CoP) on 8 January 2007. Both the SWAC and CoP supported the proposal.

11. We briefed the Legislative Council Panel on Welfare Services (the Panel) on the proposal on 30 March 2007. As requested by the Panel, we provided additional information to the specific points raised by Members at the Panel meeting on 12 April 2007. The specific points made by the Panel Members and our responses are set out below –

(A) Raising the “no-deduction” limit for DE from \$600 to \$1,000

12. Some Members suggested raising the “no-deduction” limit from \$600 to \$1,000, which represents a 66.7% increase in the “no-deduction” limit. We were concerned that the higher increase might act as a greater disincentive for CSSA recipients to leave the CSSA net. The estimated recurrent financial implication for the suggestion would be \$43 million.

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(B) Abolishing the “no DE for the first three months” rule

13. Abolishing the rule altogether might allow those who are in employment and at income level not eligible for assistance under the current arrangement to become eligible as a result of removing the “three-month” rule. (For example, the average monthly CSSA payment for a 4-person family without any income is now about \$9,344. A 4-person family with monthly income of \$9,344 and above is not eligible for assistance under the current arrangement. The proposal would mean that a 4-person family with a monthly income less than \$11,844 (\$9,344 + \$2,500) could qualify for CSSA.) It would not be possible to make an informed guess at the additional expenditure and the number of additional household that would enter the welfare rolls as a result of the higher income limits.

(C) Raising the maximum level of DE from \$2,500 to \$3,500

14. We did not see a case for further raising the maximum level of DE. In 2003, the level of monthly DE was raised by some 40% from \$1,805 to \$2,500 (equivalent to 153% of the current standard rate of \$1,630 for an able-bodied adult). At present, the current benefit levels for larger households are already appreciably higher than market wages for low-skilled jobs. A higher level of monthly DE would further push the total resources of CSSA families with an employed member further above market wages. For example, a 4-member CSSA family would receive \$9,344 (the average monthly CSSA payment) plus \$3,500 (if an adult enjoys maximum DE), i.e. \$12,844, which is higher than the average monthly income (\$9,500) of a 4-member non-CSSA household in the lowest 25% income group. The estimated recurrent financial implication for the suggestion would be \$121 million.

15. We also emphasised to the Panel that the financial implications for the various suggestions would be on a recurrent basis and the combined financial implications for all the suggestions would be more substantial than the aggregation of the respective financial implications because more people might be attracted to enter the welfare rolls.

BACKGROUND

Review of DE under the CSSA Scheme

16. DE refers to the earnings from employment that are disregarded when assessing the income of the CSSA recipients. The provision of DE under the CSSA Scheme is a very complex issue. On the one hand, there appears a case for providing CSSA recipients with more financial incentives through the provision of

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DE to find and remain in employment. On the other hand, more generous DE may render more people eligible for CSSA and delay their exit from the system. We therefore need to strike a balance between providing more financial incentives for CSSA recipients to find and remain in employment, whilst avoiding the DE from becoming a disincentive delaying the exit from the CSSA net.

17. In June 2003, we raised the maximum level of monthly DE from \$1,805 to \$2,500 and its “no-deduction limit” from \$451 to \$600, while at the same time introducing the rule of allowing no DE for CSSA recipients in cases which have been on CSSA for less than three months. These changes were implemented on a time-limited basis for three years subject to review.

18. The total amount of earnings of CSSA recipients that is disregarded has risen significantly over the recent past, because of various improvements on DE and the growing number of CSSA cases involving employable adults benefiting from DE. It soared from \$298.9 million (equivalent to 2.1% of total CSSA expenditure) in 2001-02 to \$830.7 million (equivalent to 4.7% of total CSSA expenditure) in 2005-06, up \$531.8 million or 178%. Over the same period, by comparison, total expenditure on CSSA went up by 23.3%.

Support for Self-reliance (SFS) Scheme

19. DE is only one of the components in the SFS Scheme implemented by the Social Welfare Department (SWD) to assist CSSA recipients to improve their employability and maximise their chances to obtain paid employment. The SFS Scheme comprises three main components –

(a) The Active Employment Assistance (AEA) Programme

Under the AEA programme, personalised employment assistance will be rendered to individual recipients to meet their needs. The programme aims to empower the applicants to overcome their work barriers, enhance their employability and find a paid job.

(b) The Community Work (CW) Programme

The CW Programme aims at helping participants develop work habit, improve socialisation, and increase self-esteem, paving the way for paid employment and serving the community while receiving CSSA.

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(c) **Disregarded Earnings (DE)**

The provision of DE allows recipients who work to be financially better off than those relying entirely on welfare, thus encouraging those who can work to find and remain in employment.

In addition, SWD has also introduced Intensive Employment Assistance Projects to provide tailor-made employment services to help employable CSSA recipients secure gainful employment as early as possible so that they can move towards self-reliance.

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The current arrangements of DE

At present, the monthly earnings of CSSA recipients can be partially disregarded up to a maximum of \$2,500. The first \$600 of the monthly earnings (the “no-deduction” limit) and 50% of the remaining monthly earnings are disregarded up to a maximum of \$2,500 –

Earnings	Level of disregard	Maximum amount to be disregarded
First \$600	100%	\$600
Next \$3,800	50%	\$1,900
\$4,400 or above	The first \$600 and half of next \$3,800	\$2,500

2. All categories of CSSA cases that have been in the CSSA net for not less than three months can benefit from the provision of DE.

3. The first month’s income from a new job can be totally disregarded on condition that the recipient has not benefited from this provision during the past two years. This provides an added incentive for unemployed CSSA recipients to find work.
