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LegCo Panel on Welfare Services

Minutes of meeting
held on Friday, 2 July 1999 at 8:30 am
in Conference Room A of the Legislative Council Building

Members Present	**:**	Hon CHAN Yuen-han (Chairman) Hon HO Sai-chu, SBS, JP (Deputy Chairman) Hon Cyd HO Sau-lan Hon LEE Kai-ming, SBS, JP Hon Fred LI Wah-ming, JP Hon YEUNG Yiu-chung Hon CHOY So-yuk Hon LAW Chi-kwong, JP
Members Absent	**:**	Hon David CHU Yu-lin Hon LEE Cheuk-yan Hon Eric LI Ka-cheung, JP Hon Ronald ARCULLI, JP Dr Hon YEUNG Sum
Public Officers Attending	**:**	*Item I - Annual inflation adjustment of the standard payment rates under the Comprehensive Social Security Assistance Allowance Scheme and the Social Security Allowance Scheme* Mr HO Wing-him, JP Deputy Secretary for Health and Welfare 2 Mrs Marion LAI, JP Deputy Director of Social Welfare(Admin) Mrs Rachel CARTLAND Assistant Director of Social Welfare (Social Security)

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Clerk in Attendance	**:**	Ms Doris CHAN Chief Assistant Secretary (2) 4
Staff in Attendance	**:**	Ms Joanne MAK Senior Assistant Secretary (2) 4

I. Annual inflation adjustment of the standard payment rates under the Comprehensive Social Security Assistance (CSSA) Scheme and the Social Security Allowance (SSA) Scheme
(LC Papers No. CB(2) 2250/98-99(05) and CB(2) 2302/98-99(01))

At the Chairman's invitation, Deputy Secretary for Health and Welfare 2 (DSHW2) briefed members on the salient points of the Administration's paper. He pointed out that the combined inflation adjustments in 1997/1998 and 1998/1999 had been higher than the actual increase in the Social Security Assistance Index of Prices (SSAIP) for the two years by 6.5%, and the movement of SSAIP for 1999/2000 was forecasted to be -1.3%. Hence, if the Administration were to follow the established mechanism for annual inflation adjustment, it would have to reduce the current CSSA and SSA standard payments by 7.8% for 1999-2000. However, balancing the interest of CSSA and SSA recipients and the financial implications, the Administration proposed not to implement the downward adjustment for 1999-2000. Instead, it proposed to freeze the standard payment rates under the CSSA and SSA Schemes at their present levels until inflation in subsequent years caught up and the effects of the over-projection were fully offset. DSHW2 pointed out that the 6.5% over-projection would cost the Government $3 billion extra in the next few years.

2. DSHW2 further said that the Administration also proposed to discontinue the current practice of adjusting standard payment rates under the CSSA and SSA Schemes according to the forecast inflation for the following year. It proposed that in the future, when the effects of the over-projection were fully offset, adjustments to the standard payment rates should be based on the actual year-on-year SSAIP movement. The adjustment would then be made in the following year to take into account the actual inflation rate of the preceding year.

3. Mr LAW Ch-kwong said that in view of the over-projection of SSAIP in the past two years, he agreed to freeze the standard payment rates under the CSSA and SSA Schemes at their present levels until inflation in subsequent years caught up. He estimated that the effects of the over-projection would not be fully offset until April 2002. However, he did not accept the proposed mechanism for adjusting the standard payment rates, which he considered should continue to be adjusted in advance

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according to the forecast inflation for the following year. He pointed out that as the standard rates for CSSA payments were only meant to cater for the basic needs of the recipients, it was necessary to adjust the rates in advance based on inflation forecast to maintain the purchasing power of CSSA. He pointed out that in retrospection, the inflation problem in Hong Kong had been serious in general and for some years even two-digit inflation rates had been found. Moreover, due to various circumstantial factors, Hong Kong could not control inflation effectively. Therefore, if the Administration's proposed new mechanism were adopted, the livelihood of the CSSA recipients, especially the vulnerable elderly, would be seriously affected.

4. In response, DSHW2 said that the views expressed by Mr LAW on this issue when it was last discussed at the meeting on 14 June 1999 had been well considered by the Administration. However, the Administration maintained the view that the existing inflation forecast methodology should cease to be used in view of the significant impact on Government expenditure caused by discrepancies between the forecast and the actual SSAIP movements. DSHW2 added that the total CSSA and SSA spending was so large that it had amounted to $20.4 billion in 1999-2000, that is, 11.4% of the total Government recurrent expenditure. Hence, every 1% of over-projection would mean that the Government had to over-spend $161 million a year, which could not be clawed back from the recipients in any way. He appealed to members to consider the issue from the perspective of the overall interests of taxpayers and the financial burden borne by the Government.

5. DSHW2 further pointed out that in the past 10 years, the Government had made considerable improvements in the levels of CSSA payments, which had registered almost a 100% real increase over the period. For example, there was an increase of 191% in the standard rate for an able-bodied single adult as compared to inflation over the period of only 117%. In addition, there was also a 3.6% discrepancy between the actual and forecast SSAIP movement for 1996/1997, resulting in extra Government expenditures of $600 million on the CSSA Scheme annually. Furthermore, taking into account that there would be -1.3% SSAIP movement for 1999-2000, there was an overshoot of more than 11% in total. In view of the substantial improvements made to the levels of CSSA payments over the years, DSHW2 expressed doubt as to whether the CSSA recipients would really be unable to cope with mild inflation without inflationary adjustments made to their standard payments in advance. He pointed out that in fact, it had been reported in the media that a CSSA recipient was found in possession of two properties on the Mainland and other luxurious electrical appliances.

6. Mr YEUNG Yiu-chung asked whether the Administration would still try to claw back the extra Government expenditures of $3 billion from the CSSA/SSA recipients when the effects of the over-projection were fully offset according to the Administration's current proposal of freezing the standard payment rates. In reply, DSHW2 explained that there was no way to claw back the $3 billion from the CSSA/SSA recipients. He said that this further highlighted the need for a more effective methodology for adjusting the standard payment rates.

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7. Mr LEE Kai-ming welcomed the proposal of freezing the standard payment rates under the CSSA and SSA Schemes at their present levels until inflation in subsequent years caught up. He would like to know if the Administration's proposed mechanism were adopted, what assistance would be provided to the CSSA recipients when inflation rate climbed up to two digits again. DSHW2 said that the question was actually quite hypothetical as he noted that at least for the current year, Hong Kong would continue to have deflation. It was also highly unlikely that Hong Kong would have the problem of high inflation again for the next three years. Moreover, he pointed out that if the new methodology was adopted, the Administration would keep it under review and revise it if necessary. Furthermore, as he had earlier explained, CSSA and SSA recipients had benefited from the 3.6% over-projection for 1996/1997 which had not been made up for in subsequent years.

8. Mr LEE Kai-ming considered that the Administration should explore a mechanism which would really make accurate projection on SSAIP movement. DSHW2 explained the practical difficulties involved and pointed out that it was almost impossible for a mechanism, which operated on the basis of forecast inflation methodology, to be fully accurate and for this reason, the Administration had proposed the new methodology for adjusting the standard payment rates.

9. Mr Fred LI Wah-ming pointed out that the abolition of special grants to some categories of CSSA recipients since 1 June 1999 had generated substantial savings for the Government and indirectly made up for the extra Government expenditures on CSSA arising from the 6.5% projection discrepancies. He took the view that as the standard rates of CSSA were very low, it was necessary to adjust the standard payment rates in advance according to the forecast inflation for the following year. He further pointed out that under the proposed mechanism, the impact on the CSSA recipients, especially on the elderly and the disabled, would be severe when there was inflation of, say, 3-4%.

10. In response, Deputy Director for Social Welfare (Administration) (DDSW(A)) pointed out that the current forecast inflation methodology had been adopted in 1989 when the standard payment rates under the social security schemes were low. However, over the years, the improvements made to the levels of CSSA payments had been so substantial that the increases had actually exceeded the inflation rate of the same period. She requested members to note that on top of the 3.6% over-projection for 1996/1997, the accumulated real increases to CSSA payments had been quite substantial. In response to Mr Fred LI wah-ming's question, DSHW2 said that for those special grants which had upper limits imposed, the amounts of the limits, under the current proposal, would also be frozen to take into account the over-projection on SSAIP movement for the last two years.

11. Miss Cyd HO Sau-lan considered that abuse of the CSSA scheme was a separate

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matter which should not be confused with the issue under discussion. She also pointed out that since many public utilities had not applied for price increases for two years, she believed that their next increases would be quite substantial which would surely exceed 3.6%. She considered that the Administration should take into consideration the expenditure pattern of the CSSA recipients in order to understand their needs. In response, DSHW2 explained that SSAIP measured inflation according to the expenditure pattern of the CSSA recipients. When the prices of basic necessity items rapidly increased, the rise in SSAIP would be even larger than that of the Consumer Price Index and vice versa. Therefore, by using SSAIP as a reference point in setting the standard payment rates and their adjustments, the expenditure pattern of CSSA recipients had been taken into consideration.

12. Mr HO Sai-chu said that the Liberal Party welcomed the proposal of freezing the standard payment rates under the CSSA and SSA Schemes at their present levels. However, he considered that in the future when there was inflation, the Administration should take appropriate measures to help the CSSA recipients. He further said that as long as the inflation rate was below 5%, the Administration's proposed methodology for making annual adjustments to the standard payment rates was acceptable to him. However, he considered that if the inflation rate exceeded 5%, the Administration should review the mechanism and ensure that the basic needs of the CSSA recipients were met. Mr HO Sai-chu further suggested that the Administration should start to explore the appropriate mechanism for adjusting the standard payment rates at times of high inflation. He himself suggested that when there was high inflation, the Administration could consider making adjustments to the standard payment rates more than once a year in order to catch up with inflation. DSHW2 agreed to give thought to the suggestion.

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13. Assistant Director of Social Welfare (Social Security) (ADSW(SS)) invited members' attention to enclosure 1 of the Administration's paper and pointed out that in the earlier years when inflation was very high, the forecast inflation methodology was actually of no real help to the CSSA recipients. As an example, she said that in 1991/1992, the actual SSAIP movement turned out to be higher than the SSAIP forecast increase for that year. As a result, the CSSA recipients got a lower increase on the basis of the forecast and the Administration had to make it up afterwards.

14. The Chairman recalled that the Administration had proposed in March 1998 to defer the commencement date of the annual inflation adjustments of CSSA payments by four months in a bid to offset the over-projection in respect of SSAIP for 1997/1998. The proposal, however, was not supported by members of the Welfare Services Panel of the then Provisional Legislative Council. She pointed out that actually it had been an established practice for the Administration not to make adjustments in a new fiscal year to offset the effect of over-projection on SSAIP for the previous year. She found that the Administration's proposed mechanism was inconsistent with the established practice in that the new one sought to make up for any extra Government expenditures on social security schemes arising from projection discrepancies on SSAIP.

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15. In response to the Chairman's comments, DSHW2 explained that with the rapid growth in the CSSA caseload and public expenditures on CSSA, there was a pressing need especially in the midst of economic downturn for the Administration to improve the mechanism to better control expenditures on CSSA. He pointed out that in fact public expenditure on CSSA had increased from $7 billion in 1996/1997 to some $13 billion in 1998/1999 and it was projected to be $15 billion for the current year. He said that the total Government income drawn from salary tax this year was coincidentally $20 billion. He highlighted that for every 1% of over-projection, it would mean that the Government had to spend unjustifiably about $160 million a year. However, the Chairman pointed out that the large increase in public expenditure on CSSA was attributed to the lack of social assistance and protection schemes provided by the Government to people in need such as the disabled, single parents and the unemployed. She considered that the Administration failed to present the full picture. In response, DSHW2 explained that the figures he quoted in relation to CSSA were objective facts and he agreed to relay the concerns of the Chairman to the Health and Welfare Bureau.

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16. Mr LAW Chi-kwong pointed out that so long as the Government did nothing else to help the vulnerable groups in the society, demands for CSSA inevitably would be on the rise. In addition, he pointed out that enclosure 1 of the Administration's paper also showed that the actual SSAIP movements had been very high for many years (from 1989 to 1995). He considered that this proved that there was a genuine need for maintaining the existing forecast inflation methodology. Mr LAW agreed with Mr HO Sai-chu that the Administration should now explore an appropriate mechanism for adjusting the standard payment rates as he considered that the reappearance of high inflation in Hong Kong was not at all hypothetical. He added that he had made his suggestion on the appropriate mechanism at the last meeting.

17. Referring to the mechanism proposed by Mr LAW Chi-kwong, DSHW2 explained that the Administration had reservations about it because it suggested to offset the effects of any over-projection on SSAIP only by freezing the levels of standard payment rates and this would incur considerable extra costs to the Government. He reiterated that the Administration's proposed methodology was more widely used such as in the adjustments to Legislative Council and District Board members' honoraria, student financial assistance and so on.

18. Mr LAW Chi-kwong said that apart from his proposal, there were also other suggestions made to the Administration on the appropriate mechanism for adjusting the standard payment rates. For example, it was suggested that adjustments should be made to the standard payment rates once every six months based on the forecast inflation methodology. DSHW2 replied that the Administration had also considered the suggestion. However, it was not adopted because by this methodology, any extra Government expenditures arising from projection discrepancies on SSAIP could not be made up for by the Government. As a result, the financial loss incurred would be

great especially at times when the economic environment changed from inflation to deflation.

19. Except for Mr HO Sai-chu who accepted the Administration's proposals as set out in its paper, members considered that the proposed new mechanism was unacceptable. The Chairman requested the Administration to consider members' views expressed at the meeting.

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20. At the request of Mr Fred LI Wah-ming, the Chairman agreed to discuss the effects of the tightening of CSSA on the elderly and the disabled at the next meeting scheduled for 12 July 1999.

21. The meeting ended at 9:55 am.

Legislative Council Secretariat
29 December 1999