

CHAPTER 12

HOUSING BENEFITS

12.1 INTRODUCTION

Proposal in Report No. 7

12.1.1 In Report No. 7, we recommended that housing benefits should be included in total packages for the purpose of pay comparisons. Three forms of housing benefits were considered, namely, housing allowances, housing provision and housing loan schemes. We suggested that these benefits should be valued in the following way :

(a) Housing Allowances

The value of a housing allowance in both the public and private sectors should be taken as the rate of the allowance less the employee's contribution, if any.

(b) Housing Provision

Assuming that the standard size of flats occupied by local and expatriate staff was 75m² and 150m² respectively in both the public and private sectors, the benefits should be assessed on the basis of the monthly rental payable for such a flat, less the employee's contribution, if any.

(c) Housing Loan Schemes

The value of Housing Loan Schemes should be assessed as the difference between the cost of a repayment mortgage at the full mortgage rate and the cost of repayment at the reduced mortgage rate.

12.2 WORKING GROUP'S VIEW

12.2.1 The Working Group felt that housing benefits formed a substantial part of the remuneration package for those eligible for the benefit and made the following recommendations on whether and how particular forms of benefit should be taken into account :

(a) Civil Service

(i) Private Tenancy Allowances
and Non-departmental Quarters

The Working Group considered that non-departmental quarters could be regarded as an alternative to Private Tenancy Allowances and suggested that for the purpose of pay level comparisons, the rates of the appropriate Private Tenancy Allowances might be used as the value of housing benefits for officers on or above MPS 38.

(ii) Departmental Quarters

The Working Group proposed that such facilities should not be taken into account in calculating total packages, since departmental quarters were provided mainly for operational reasons.

(iii) Home Purchase Scheme and
Housing Loan Scheme

The Working Group proposed that the Home Purchase and Housing Loan Schemes should not be taken into account in calculating total packages, since eligibility for these forms of benefit depended on the staff's pay and/or length of service and approval was discretionary and subject to the availability of funds at any time.

(iv) Co-operative Housing Schemes

The Working Group proposed that Co-operative Housing Schemes should be excluded from the calculation of total packages, in view of the fact that they had been suspended for some time.

(v) Public Housing Priority Allocation
Quota for Junior Civil Servants

Although a quota of places was reserved, without any rent subsidy, for civil servants outside the context of the normal application procedure, the Working Group considered that any advantage accruing from such an arrangement was slight and very difficult to evaluate.

(b) Private Sector

(i) Cash Allowances/Rental Allowances/Quarters

The Working Group proposed that the value of cash/rental allowances should be taken into account, and the value of quarters should, as in the case of the civil service, be equated with that of the cash/rental allowances for which the employee would be eligible.

(ii) Subsidized Loan Schemes

The Working Group proposed that the value of subsidized loan schemes should be taken into account in total packages.

(iii) Operational Quarters

The Working Group proposed that operational quarters should not be taken into account in calculating total packages.

(iv) Priority Allocation of Housing Units

Provided there was no element of subsidy (e.g. a lower purchase price), the Working Group proposed that this arrangement should not be included in calculating total packages, since comparatively few employees in the private sector were likely to enjoy this benefit and it would be difficult to evaluate.

12.2.2 As regards the method of valuation, the Working Group proposed that :

- (a) For civil service Private Tenancy Allowances, and for cash/rental allowances in the private sector, the maximum entitlement should be used. Where the entitlement varied according to family circumstances, the entitlement appropriate to a family of four persons (i.e. a married couple with two children) should be used; and
- (b) For private sector housing loan schemes, the value should be the difference between the cost of a repayment mortgage at the full market rate and the cost of repayment at the subsidized mortgage rate, taking account of the maximum amount and maximum term of the subsidized loan.

The results of these calculations should then be adjusted to take account of employees' contributions, if any, and, where necessary, expressed as gross figures to allow for tax.

12.3 PAY RESEARCH ADVISORY COMMITTEE'S PRELIMINARY VIEW

General Principles

12.3.1 The Pay Research Advisory Committee noted that the main forms of housing benefit available to civil servants were :

- (a) Non-departmental and departmental quarters;
- (b) Private Tenancy Allowances;
- (c) The Home Purchase Scheme;
- (d) The Housing Loan Scheme;
- (e) Co-operative Housing Schemes; and
- (f) The Public Housing Priority Allocation Quota for Junior Civil Servants.

12.3.2 The level of provision of some housing benefits, such as non-departmental quarters and Private Tenancy Allowances, depended on the salary range of the rank or category of employees; and the provision of other benefits, such as the Home Purchase Scheme or the Housing Loan Scheme, depended on factors such as the employees' length of service. The Pay Research Advisory Committee considered that, in cases where the level of provision of housing benefits varied with salary, the value of housing benefits for the purpose of pay level surveys should be shown as a range related to the minimum and maximum of the salary range of the rank concerned. In cases where eligibility for housing benefits depended on employees' length of service, the benefits should be regarded as entitlements and included in total packages, if the weighted average length of service of serving employees in the rank or category of staff under comparison was not less than the qualifying period, or if the qualifying period was three years or less.

Non-departmental Quarters

12.3.3 The Pay Research Advisory Committee considered that, since the provision of non-departmental quarters constituted a major benefit to those eligible to receive it,

non-departmental quarters should be included in total packages for pay level surveys. The suggested method of valuation would be to select an appropriate sample of the grade B quarters currently available and to assess the market rent for each of them. The average market rent of the sample of quarters could be taken as the average value of quarters and this value, less any contributions paid by officers, could then be included in total packages for pay level comparison purpose.

Departmental Quarters

12.3.4 Since departmental quarters were provided according to the operational needs of the civil service, the Pay Research Advisory Committee considered that they should be excluded from public sector total packages for pay level surveys.

Private Tenancy Allowances

12.3.5 Private Tenancy Allowances were a form of housing benefit commonly used by local civil servants and should therefore be included in total packages for pay level surveys. The Pay Research Advisory Committee considered that the maximum Private Tenancy Allowances to which employees were entitled, less any contributions by the employees, should be taken as the value of that benefit. As the rates of allowances varied with family circumstances, the Pay Research Advisory Committee suggested that the maximum rates for a standard family should be used.

Home Purchase Scheme

12.3.6 The Working Group considered that, for the purpose of pay level comparisons, the Home Purchase Scheme should be disregarded. However, in view of the fact that the Home Purchase Scheme was deemed to be an entitlement, the Pay Research Advisory Committee considered that it should be included in the calculation of total packages in the civil service for pay level surveys. The Pay Research Advisory Committee felt that one possible exception was that in the case of officers below MPS 29, the Home Purchase Scheme should be regarded as a benefit to which they were entitled and should be taken into account in total packages only if the weighted average period of service of officers in the rank under comparison was not less than the minimum qualifying service for the benefit, i.e. 20 years.

12.3.7 The Pay Research Advisory Committee proposed that, for pay level surveys, the value of the Home Purchase Scheme should be taken as the maximum rate for the Home Purchase Allowances to which officers on a particular pay point were entitled. However, as the maximum rate for an allowance might vary with salary, it would be necessary to assess the range of the value of the benefit according to the minimum and maximum of the pay scale of the rank under comparison. To the figure thus obtained should be added the value of the downpayment loan to which participants in the scheme were entitled. This should be taken as the difference between the cost of a repayment mortgage at the full market rate and the cost of repayment at the subsidised mortgage rate, taking into account the maximum amount and the period of repayment of the subsidised loan. In view of the frequent changes in market interest rates, it might be necessary to use a weighted average interest rate during a period of time as the "full market rate" for the purpose of valuation. The maximum downpayment loan that might be granted under the scheme was limited to 10% (20% with effect from 4 December 1985) of the purchase price of the property or 18 months' salary, whichever was the less. However, in most cases, given the salaries of officers likely to join the scheme and the price range of the properties they were likely to purchase, 20% of the purchase price was likely to be less than 18 months' salary. Nevertheless, it would be difficult to assess the value of this benefit on the basis of the purchase price and the Pay Research Advisory Committee therefore considered that it would be more appropriate to take 18 months' salary as the maximum amount of the loan to which eligible officers were entitled.

Housing Loan Scheme

12.3.8 Although the Working Group felt that the Housing Loan Scheme should not be taken into account in calculating total packages, the Pay Research Advisory Committee considered that it should be included, in the case of pay level surveys, for the following reasons :

- (a) Housing loans were one of the most common types of housing benefit provided in the private sector and should therefore be included in private sector total packages. In order to provide a fair comparison, it was necessary to include this benefit in public sector total packages as well, even though its value might be smaller than the other types of housing benefit available to civil servants and the scheme was utilized only by a small number of people; and

- (b) The interest charged under the Housing Loan Scheme was usually lower than the market mortgage rate and the scheme might represent a significant benefit in the case of those civil servants who utilized it, particularly those who were not eligible for other types of housing benefit.

12.3.9 For pay level surveys, the Housing Loan Scheme should not be regarded as an entitlement in the case of those grades and ranks which were not pensionable or where the weighted average period of pensionable service was less than 10 years.

12.3.10 The Pay Research Advisory Committee proposed that loans made under this scheme should be valued by calculating the savings in interest payments which a typical officer in a particular rank would achieve on his mortgage at the time of the survey, assuming that he received the maximum loan to which he was entitled on the basis of a maximum commuted pension gratuity. This was consistent with the method proposed by the Working Group for the valuation of housing loan schemes in the private sector.

Co-operative Housing Schemes

12.3.11 As the formation of new civil service Co-operative Housing Schemes had been discontinued for some time, the Pay Research Advisory Committee agreed with the Working Group that these should be ignored in the calculation of public sector total packages.

Public Housing Priority Allocation Quota for Junior Civil Servants

12.3.12 As no rent subsidy was involved in the scheme and it would be extremely difficult to quantify the value of the priority allocation of housing units, the Working Group proposed that any value which this benefit might have should not be included in total packages in the public sector. The Pay Research Advisory Committee was in agreement with this view.

Valuation of Housing Benefits in the Public Sector

12.3.13 The Pay Research Advisory Committee proposed the following rules for the valuation of housing benefits for pay level surveys :

- (a) For ranks on or above MPS 29 where officers were entitled to only one form of housing benefit, the value of that benefit should be included in total packages;
- (b) For officers in ranks on or above MPS 29 who were entitled to more than one form of housing benefits, the benefit with the greater value should be included in total packages;
- (c) For ranks below MPS 29, the value of housing benefits should be assessed as :
 - (i) nil where the weighted average length of service of officers in that rank was less than 10 years;
 - (ii) the value of the Housing Loan Scheme where the weighted average length of service of officers in that rank was 10 years or more but less than 20 years; and
 - (iii) the value of the Housing Loan Scheme or the Home Purchase Scheme, whichever was the greater, if the weighted average length of service was 20 years or more.
- (d) For ranks which straddled MPS 29, the value of housing benefits at the minimum of the pay scale should be assessed as described in sub-paragraph (c), while the value at the maximum should be assessed as described in sub-paragraph (a) or (b) as the case might be;
- (e) For pensionable ranks on or above MPS 38, where the weighted average age of the officers in the rank was 45 or above and the average length of service of officers in the rank was not less than 10 years, the value of the housing benefits to be included in total packages should be the value as assessed in sub-paragraph (b) plus the value of the Housing Loan Scheme; and
- (f) For ranks which straddled MPS 38, the value of housing benefits at the minimum of the pay scale should be assessed as described in sub-paragraph (a) or (b) as the case might be, and at the maximum of the pay scale as described in sub-paragraph (e), if appropriate.