

29 May 1990

His Excellency Sir David Wilson, K.C.M.G.,
Governor of Hong Kong.

Your Excellency,

Review of Civil Service Housing Benefits

We have been invited by the Administration to advise, under Clause I(e) of our Terms of Reference, whether a revised package of housing benefits for civil servants should be introduced.

Background

2. The Administration began a review of the current civil service housing benefits (a synopsis of which is at the Appendix) in 1987. In October that year, we were invited to comment on some general principles and proposals formulated by the Administration. In response, we raised a number of points for consideration in the review and endorsed the Administration's recommendation to engage a consultant to conduct a financial study of possible options. Our comments were recorded in our Progress Report for 1987 (Report No. 20 published in January 1988). The financial study was completed in December 1988 and the consultant's report was then put to the civil service for consultation. Having regard to this report and to the views expressed during the consultation, the Administration developed a set of preliminary proposals on the future provision of housing benefits for the civil service. After a further round of staff consultation and in the light of comments received, a revised package was formulated.

The Administration's Main Proposals

3. The stated objective of the revised housing benefits package is three-fold : to encourage home ownership among civil servants, to make the most effective use of the available financial resources, and to reduce the Government's long-term expenditure on the provision of

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Private Tenancy Allowance (PTA) and Non-departmental Quarters (NDQ). The Administration's proposed package comprises the following main proposals :-

Home Financing Scheme

- (a) a new Home Financing Scheme (HFS) will be introduced for officers remunerated on MPS 34 and above as a replacement of the existing provisions of PTA, NDQ, Home Purchase Scheme and Housing Loan Scheme for these officers;
- (b) the monthly rates of allowance under the HFS, payable for a maximum period of 10 years, will be as follows:-

D6 - D10	\$36,000
D2 - D5	\$27,000
MPS 45 - D1	\$24,000
MPS 41 - 44	\$17,000
MPS 38 - 40	\$15,000
MPS 34 - 37	\$13,000

- (c) in the initial two years, at least 50% of the HFS allowance must be used to buy a property or to rent accommodation. Thereafter at least 50% of the allowance must be used to buy a property;
- (d) a downpayment loan will be available at a concessionary rate of interest to eligible officers;

Home Purchase Scheme

- (e) the eligibility criteria for the existing Home Purchase Scheme (HPS) will be revised : staff remunerated on MPS 34 and above will be excluded, those remunerated on Model Scale 1 with at least 20 years of service and those on MPS 22 - 24 with less than 20 years of service will become eligible, and for the rest of the staff the eligibility criteria will remain unchanged;
- (f) new rates of allowance under the HPS will be introduced to take account of prevailing property prices;
- (g) the number of places available under the HPS will continue to be subject to an annual quota which will be increased from 1400 to 1800 to take account of the new categories of eligible officers;

Common Conditions under the Home Financing Scheme, Home Purchase Scheme and Housing Loan Scheme

- (h) in future, officers on the HPS or HFS will be eligible for only the rates of allowance under the respective scheme prevailing at the time of their joining the scheme. If new scales of rates are devised subsequently, officers can transfer to the new scales only if they dispose of their existing property and apply the proceeds of the property disposed of to the purchase of another property;
- (i) in future, all officers will be required to execute a legal charge against the property as security for taking out a downpayment loan under the HPS or HFS or a housing loan under the Housing Loan Scheme (HLS);

Accommodation Allowance

- (j) new overseas recruits will be eligible for only an Accommodation Allowance for renting accommodation (but ineligible for HFS and HPS) during the whole of their service, with the following monthly rates :-

D6 - D10	\$36,000
D2 - D5	\$27,000
MPS 45 - D1	\$24,000
MPS 34 - 44	\$20,000
Below MPS 34	\$13,000

- (k) at least 75% of the Accommodation Allowance must be used to rent accommodation;
- (l) a one-off non-accountable settlement grant equivalent to one month's Accommodation Allowance will be payable to new overseas recruits;

Other Housing Benefits

- (m) the existing terms of provision of other housing benefits will remain unchanged;

How Serving Officers will be Affected

- (n) all serving officers will be required to exercise an irrevocable option within a limited period on whether to join the HFS or retain the existing provision of PTA/NDQ/HLS. An option period of three years is proposed for officers on MPS 34

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and above, and a maximum of five years for those below MPS 34 (or three years after reaching this salary point);

- (o) existing HPS participants will be permitted to claim, for the balance of their 10-year entitlement period, their mortgage repayments up to the amount payable under the revised scale of HPS rates of allowance without having to change properties;

Special Arrangements

- (p) existing HPS participants on MPS 34 and above and those reaching MPS 34 in future will be allowed to claim their actual amount of mortgage repayments up to the appropriate HPS rates of allowance for the remainder of their 10-year entitlement period; if a change of property is involved, the sale proceeds have to be applied to the purchase of the new property;
- (q) a special sub-quota under the HPS of up to 200 places each year will be set aside for Model Scale 1 staff who become eligible when the revised package first comes into effect.

The Commission's Comments and Recommendations

4. We have examined the proposals. We are satisfied that the proposed package will encourage and enable more civil servants to own their homes. We note that the terms of provision of some housing benefits have been modernized and that more flexibility has been introduced. These represent a good start towards making more effective use of existing financial resources as well as narrowing the gap between the cost to the Government of these benefits and their perceived value to staff. Indeed, this is in line with our recommendation in respect of civil service benefits in the First Report on the 1989 Salary Structure Review (Report No. 23 published in October 1989). We also recognize that the introduction of the Home Financing Scheme will reduce the Government's long-term expenditure on PTA and NDQ. As regards costs, according to the Administration's estimates, over a 20-year period the revised package will be slightly more expensive than the existing package. We have been advised, however, that the assumptions used in arriving at these estimates have been on the conservative side. We have also been informed that in the long run more savings could reasonably be expected; moreover, the redevelopment potential of NDQ sites has not been taken into account.

5. In the light of these observations, we consider that the proposed package will be able to meet its intended objectives and we endorse it.

6. With regard to the detailed proposals, we have the following observations :-

Home Financing Scheme

- (a) We note that the proposed rates of allowance under the HFS for officers on MPS 45 and above are relatively more favourable than those for officers below. The Administration has explained that serving officers on MPS 45 and above are entitled to NDQ and it is necessary to make the HFS rates more attractive for these officers to give up their NDQ entitlement. We accept this explanation.

Home Purchase Scheme

- (b) We endorse the proposal to expand the existing coverage of the HPS. We have been concerned that the proposed increase in the annual quota is not commensurate with the increase in the number of eligible staff resulting from the expansion of the scheme. We appreciate, however, the financial consideration involved. Having obtained the Administration's assurance that the chance of being allocated a place for officers already eligible will not be affected adversely, we consider the proposed quota appropriate as a starting position. We recommend, however, that the Administration should keep the quota under review and introduce suitable increases as the financial situation permits.

Accommodation Allowance

- (c) We have taken note of the concern expressed by the Association of Expatriate Civil Servants over the proposed Accommodation Allowance not being sufficiently attractive, thus creating difficulty for overseas recruitment in future. The Administration has affirmed, on the other hand, that the proposed rates of allowance will be adequate to enable officers to rent accommodation which is of a reasonable standard and comparable in size to those provided for expatriates in the private sector. On balance, we endorse the Administration's proposal but recommend that the rates of allowance be kept under review to take account of changes in the level of rent and of any emerging expatriate recruitment difficulties attributed to housing provision.

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Special Arrangements for Existing
HPS Participants to Claim HFS Rates

- (d) In view of the strong request from existing HPS participants to be allowed to bridge over to the HFS, we have given very thorough consideration to the issue. The Administration has advised that 85% of the existing HPS participants on MPS 34 and above joined the scheme between 1982 and 1987, when property prices were low, and were able to buy properties of comparable standards to those likely to be purchased by officers under the proposed HFS. Moreover, all officers joined the HPS voluntarily on the clear understanding that they must give up their entitlement to any other housing benefits. Furthermore, under the proposed package, they will be eligible for the substantial increase in HPS rates without having to change properties (paragraph 3(o)). Nevertheless, in the interest of good staff relations, the Administration has proposed to make a concession of allowing existing HPS participants to claim the HFS rates on the condition that they must dispose of their existing property and apply the proceeds to the purchase of another property of no less value. During our deliberation, we have taken the view that those HPS participants whose current mortgage repayments exceed the revised HPS rates should be allowed to receive the higher HFS rates without having to change properties. The Administration has subsequently accepted our suggestion and modified its proposal. We do not consider it appropriate, however, to permit existing HPS participants to bridge over to the HFS without any conditions in view of the prohibitive financial implications as well as the fact that such a further concession would not necessarily be conducive to achieving the objectives of the proposed package.

Special Sub-quota for Model Scale 1 Staff

- (e) We support the proposal to set up a sub-quota for Model Scale 1 staff which is intended to give compassionate treatment to those older Model Scale 1 staff whose length of service well exceeds the 20-year eligibility requirement. We share the Administration's concern that these officers will stand a poor chance of getting a place before their retirement if they are to compete in the general quota. We have nonetheless impressed upon the Administration, and obtained its assurance, that the waiting time for officers already eligible under the HPS

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should not be lengthened by this arrangement, and that no equally deserving Master Pay Scale officers should be unfairly passed over by the arrangement.

7. We have no other specific comments on the remaining aspects of the revised package, which we also support as part of the whole package. We recommend that the revised housing benefits package, if accepted, be introduced from a current date.

We have the honour to be
Your Excellency's obedient servants,

(Sidney Gordon)
Chairman
For and on behalf of
Members of the Standing Commission

Annex to Appendix F

A Synopsis of Current Civil Service Housing Benefits

I. Home Purchase Scheme

A monthly allowance, payable for a maximum period of 10 years, is granted to eligible officers to purchase a property. To be eligible, an officer must either be remunerated on MPS 25 and above or have completed 20 years of service, with the exception of Model Scale 1 staff who, regardless of service period, are ineligible. The eligibility of an officer for other housing benefits is forfeited as from the date he first receives an allowance under the scheme.

II. Housing Loan Scheme

Officers holding established offices and with at least 10 years of service may draw a loan up to the amount of the officer's maximum commuted pension at a concessionary interest rate to purchase a property.

III. Departmental Quarters

Departmental quarters are allocated by individual departments to selected officers in accordance with the department's operational needs.

IV. Non-departmental Quarters

Officers on MPS 45 and above and all overseas officers are eligible for non-departmental quarters.

V. Private Tenancy Allowance

An allowance is payable to local officers on MPS 34 and above and all overseas officers who take up private tenancies.

VI. House Allowance

Officers on MPS 34 and above who live in accommodation owned by themselves or an immediate member of their family may be granted a house allowance.

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VII. Furniture and Domestic Appliances

Local officers on MPS 45 and above and all overseas officers are eligible for the supply of government furniture and domestic appliances or, alternatively, an allowance. Local officers on MPS 34 to 44 are eligible for the allowance only.

VIII. Public Housing Quota for Civil Servants

All officers on MPS 21 and below (including Model Scale 1 staff) are eligible to apply for public housing under a separate quota for the civil service. The normal income criteria set by the Housing Authority are waived.