

ITEM FOR FINANCE COMMITTEE

HEAD 46 - GENERAL EXPENSES OF THE CIVIL SERVICE

Subhead 014 Home purchase allowance

Subhead 032 Accommodation Allowance Scheme

Subhead 033 Home Financing Scheme

Subhead 038 Private tenancy allowance

Subhead 039 Rent Allowance Scheme

HEAD 190 - UNIVERSITY GRANTS COMMITTEE

Subhead 529 Home Financing Scheme

Subhead 530 Housing-related expenses other than Home Financing Scheme

Members are invited to -

- (a) approve a revised mechanism for adjusting the rates of Home Financing Allowance, Home Purchase Allowance and Rent Allowance with effect from 1 April 2001;
- (b) approve a reduction in the rates of Home Financing Allowance, Home Purchase Allowance and Rent Allowance by 10.7% with effect from 1 April 2001;
- (c) approve a revised mechanism for adjusting the rates of Private Tenancy Allowance and Accommodation Allowance with effect from 1 April 2001;
- (d) approve a reduction in the rates of Private Tenancy Allowance and Accommodation Allowance by 0.2% to 2.3% with effect from 1 April 2001; and

/(e)

- (e) delegate to the Secretary for the Treasury the authority to approve future revisions of the Home Financing Allowance, Home Purchase Allowance, Rent Allowance, Private Tenancy Allowance and Accommodation Allowance in accordance with the proposed mechanisms.

PROBLEM

The current mechanism for adjusting the Home Financing Allowance (HFA), the Home Purchase Allowance (HPA) and the Rent Allowance (RA) is silent on whether and if so how the allowances should be adjusted when the property prices move downwards or at times of deflation. Also, we need to determine the level of adjustment to the allowances from 1 April 2001.

- 2. Under the current mechanism for adjusting Private Tenancy Allowance (PTA) and Accommodation Allowance (AA), the rates of the allowances are adjusted according to rental movements in selected geographical areas in the third and fourth quarters of the preceding year. We think this is not appropriate. Also, we need to determine the level of adjustment to the allowances from 1 April 2001.

PROPOSAL

- 3. The Secretary for the Civil Service proposes to -
 - (a) revise the current mechanism for adjusting the rates of HFA, HPA and RA in the way set out in paragraphs 5 and 6 below, and to reduce the rates of these allowances by 10.7% according to the decrease in property prices, with effect from 1 April 2001. The revised rates will also apply to the Home Financing Scheme (HFS) for eligible staff in institutions funded by the University Grants Committee (UGC);
 - (b) revise the mechanism for adjusting the rates of PTA and AA according to full-year rental movements in the way set out in paragraph 8 below, and to reduce the rates of these allowances by 0.2% to 2.3% according to the salary bands of the recipients, with effect from 1 April 2001. The revised rates will also apply to the PTA for eligible staff in institutions funded by the UGC; and

/(c)

- (c) delegate to the Secretary for the Treasury the authority to revise the rates of HFA, HPA, RA, PTA and AA in accordance with the revised mechanisms.

JUSTIFICATION

(a) Proposed Mechanism for Adjusting HFA, HPA and RA

4. At present, the rates of HFA, HPA and RA are adjusted according to movements of property prices in the 12 months in the preceding calendar year, as measured by the annual Private Domestic-Price Indices compiled by the Rating and Valuation Department (RVD), but capped by the increase in Consumer Price Index (A) (CPI(A)) in the corresponding period. The mechanism is silent on whether and if so how allowances should be adjusted when the property prices move downwards or at times of deflation. Because of this, in April 1999 and April 2000 we had to seek the Finance Committee's approval to reduce the rates of the allowances.

5. We feel that the adjustment mechanism should be revised to deal with downward adjustments of the rates of the allowances. We should continue with the practice of adjusting the rates according to property price movements and cap any increase to contain government's cost. At the same time, we note that at present, the rates which were capped in previous adjustments form the base for subsequent adjustments, and there is a cumulative capping effect over the years. This situation is not satisfactory and should be rectified. Taking into account these considerations, we propose that the annual adjustment should be made in accordance with the following formula -

$$\text{Revised rates} = \text{Rates in base year} \times \frac{\text{Annual Private Domestic-Price Indices in the past 12 months ending 31 December}}{\text{Annual Private Domestic-Price Indices in base year}}$$

Any increase will be capped by -

$$\frac{\text{Composite CPI in the past 12 months ending 31 December}}{\text{Composite CPI in base year}}$$

The annual Private Domestic-Price Indices and Composite CPI for 1999 and the current rates of allowance (effective from April 2000 which reflect the property prices in 1999), which are the latest figures available, will be used as the base for future adjustments.

6. The proposed mechanism is very similar to the existing mechanism except for the following modifications. First, the rates will be reduced if property prices in the relevant period have decreased. This will be so irrespective of whether consumer prices have increased or decreased in the corresponding period. Conversely, if property prices have increased but consumer prices have decreased, the adjustment will be capped at 0%. Secondly, there will be a constant base year. Under the proposed mechanism, adjustments (both upwards and downwards) will be made with reference to the rates of allowance, the annual Private Domestic-Price Indices and the Composite CPI of a base year. As a result, any capping of upward adjustments in the intervening years since the base year will not affect a subsequent adjustment. Thirdly, CPI(A)¹ is replaced by the Composite CPI² as the cap for increase in rates. This is because Composite CPI better reflects the expenditure pattern of the recipients of the allowances.

(b) Revised Rates of HFA, HPA and RA with effect from 1 April 2001

7. The RVD has advised that, for the 12-month period in calendar year 2000, the annual Private Domestic-Price Indices decreased by 10.7%. Subject to Members' approval of the proposed revision mechanism set out in paragraphs 5 and 6 above, the rates of the allowances will be adjusted downwards by 10.7% with effect from 1 April 2001. The current and proposed new rates of HFA, HPA and RA are set out at **Enclosure 1**. The same reduced HFA rates will also apply to new participants in the HFS for eligible staff in UGC-funded institutions.

Encl. 1

(c) Proposed Mechanism for Adjusting PTA and AA

8. At present, the rates of PTA and AA are adjusted according to rental movements in selected geographical areas in the third and the fourth quarters of the preceding year as measured by rental indices compiled by the RVD. We consider that it is more appropriate to adjust the rates based on full-year rental movements so that any seasonal fluctuations in the year can be reflected.

9. Members may wish to note that as a separate exercise from the current proposal, the RVD will be re-basing all rental indices from those of 1989 to more updated figures of 1999. The RVD has confirmed that this change will not affect the percentage change of rental indices which is the basis for adjustment of the allowances.

/(d)

¹ CPI(A) is based on expenditure of households with an average monthly expenditure of \$4,500 to \$18,000 (at 1999 price level).

² Composite CPI is based on expenditure of households with an average monthly expenditure of \$4,500 to \$68,700 (at 1999 price level).

(d) Revised Rates of PTA and AA with effect from 1 April 2001

10. The RVD has advised that for calendar year 2000, the respective rental indices have decreased by 0.2% to 2.3%, depending on the grade of accommodation, as compared to those for the calendar year 1999. Subject to Members' approval of the proposed mechanism in paragraph 8 above, the rates of the allowances will be reduced by 0.2% to 2.3% with effect from 1 April 2001, depending on the salary bands of the recipients corresponding to the different grade of accommodation. The current and proposed new rates of PTA and AA are set out at **Enclosure 2**. The same reduced PTA rates will also apply to the PTA Scheme in UGC-funded institutions.

Encl. 2

(e) Delegation of Authority

11. At present, the Secretary for the Treasury is delegated with the authority to revise the rates of HFA, HPA, RA, PTA and AA annually in accordance with the current mechanisms. In line with current practice, we propose to continue to delegate to the Secretary for the Treasury the authority to revise the rates of the allowances in accordance with the new revision mechanisms, subject to Members' approval of the proposed mechanisms.

FINANCIAL IMPLICATIONS**(a) HFA, HPA and RA**

12. The financial implications of adopting a base year as the basis for adjustments so as to remove the cumulative effect of capping upward adjustments cannot be quantified, since we cannot forecast when in future years the Composite CPI will increase less than the Private Domestic-Price Indices and by how much. As regards adopting the Composite CPI instead of CPI(A) for the cap for increase in rates, there will be financial implications only when the increase in property prices is greater than the corresponding increase in CPI(A) and the increase in CPI(A) is lower than that of the Composite CPI. When that happens, the additional financial implications will reflect the difference between Composite CPI and the CPI(A). Using the actual profile of current recipients and the differential between Composite CPI and CPI(A) in the past three years as the bases, we estimate that applying the new mechanism to new recipients of the allowances, the additional financial implications involved will be \$11.7 million over the maximum ten year entitlement period of these recipients. An average annual additional expenditure of about \$1.2 million represents only less than 0.03% of the current provision.

13. Based on the projected number of new participants in the HFA, HPA and RA, the Director of Accounting Services (DAS) estimates that there would be savings in the region of \$30.8 million if the proposed reduction of 10.7% with effect from 1 April 2001 is approved. As regards the UGC sector, the proposed downward adjustment of 10.7% is estimated to result in savings of about \$3 million.

(b) PTA and AA

14. The difference between the full-year figures of the rental indices compiled by the RVD and those for the relevant third and the fourth quarters varies for different years and no consistent pattern can be established. Based on the actual figures in the past three years, the average rates of adjustment of the allowances under the existing and the proposed mechanisms are the same. On this basis it is estimated that the additional expenditure for implementing the proposed mechanism, if any, will be insignificant in the long run.

15. Based on the estimated number of the relevant recipients, the DAS estimates that there would be savings of about \$697,000 if the proposed reduction of 0.2% to 2.3% with effect from 1 April 2001 is approved. As regards the UGC sector, the proposed downward adjustment is estimated to result in savings of about \$550,000.

STAFF CONSULTATION

16. We have consulted the four central consultative councils on these proposals. The Staff Sides accept that the new mechanism is reasonable. The Police Force Council has asked the Administration to consider reviewing the base year used for adjusting HFA, HPA and RA every three to five years. We however see no need for the review because the change of base year will not affect the percentage change in the property price indices which is the basis for adjusting the allowances.

17. We have also consulted the Standing Commission on Civil Service Salaries and Conditions of Service, the Standing Committee on Directorate Salaries and Conditions of Service, and the Standing Committee on Disciplined Services Salaries and Conditions of Service. They support the proposed mechanisms. We have also briefed the Legislative Council Panel on Public Service on 19 February 2001. Members did not comment on the proposals.

18. As the HFS and PTA for staff of UGC-funded institutions follows the civil service HFS and PTA insofar as the rates of allowances are concerned, we have also informed UGC and the institutions of the proposed revisions.

BACKGROUND INFORMATION

Encl. 3 19. A description of the various housing allowance schemes and their adjustment mechanisms are set out at **Enclosure 3**.

Civil Service Bureau
March 2001

**Rates of Home Financing Allowance/Rent Allowance
(for new joinees)**

| Pay Points DPS/MPS or equivalent | Existing Rates w.e.f. 1.4.2000 (\$ per month) | Proposed Rates w.e.f. 1.4.2001 (\$ per month) |
|---|--|--|
| D 6 - 10 | 41,600 | 37,150 |
| D 2 - 5 | 31,200 | 27,860 |
| MPS 45 - D 1 | 27,730 | 24,760 |
| MPS 41 - 44 | 19,650 | 17,550 |
| MPS 38 - 40 | 17,330 | 15,480 |
| MPS 34 - 37 | 15,020 | 13,410 |

DPS – Directorate Pay Scale

MPS – Master Pay Scale

**Special Rates of Home Financing Allowance
(for existing participants who joined before 1.11.94 and opted to trade up)**

| Pay Points DPS/MPS or equivalent | Existing Rates w.e.f. 1.4.2000 (\$ per month) | Proposed Rates w.e.f. 1.4.2001 (\$ per month) |
|---|--|--|
| D 6 - 10 | 33,440 | 29,860 |
| D 2 - 5 | 25,080 | 22,400 |
| MPS 45 - D 1 | 22,290 | 19,900 |
| MPS 41 - 44 | 15,790 | 14,100 |
| MPS 38 - 40 | 13,940 | 12,450 |
| MPS 34 - 37 | 12,080 | 10,790 |

Notes :

Officers who have joined the Home Financing Scheme before 1 November 1994 and subsequently trade up their properties may draw allowance at the special rates prevailing at the time of their trading up.

DPS – Directorate Pay Scale

MPS – Master Pay Scale

Rates of Home Purchase Allowance

| Pay Points DPS/MPS or equivalent | Existing Rates w.e.f. 1.4.2000 (\$ per month) | Proposed Rates w.e.f. 1.4.2001 (\$ per month) |
|---|--|--|
| D10 | 18,950 | 16,920 |
| D9 | 18,020 | 16,090 |
| D7 & 8 | 17,210 | 15,370 |
| D6 | 16,360 | 14,610 |
| D4 & 5 | 15,420 | 13,770 |
| D3 | 14,650 | 13,080 |
| D2 | 13,760 | 12,290 |
| D1 | 13,340 | 11,910 |
| MPS 48 & 49 | 13,120 | 11,720 |
| MPS 47 | 12,810 | 11,440 |
| MPS 46 | 12,610 | 11,260 |
| MPS 45 | 12,310 | 10,990 |
| MPS 43, 44, 44A & 44B | 11,930 | 10,650 |
| MPS 42 | 11,680 | 10,430 |
| MPS 41 | 11,370 | 10,150 |
| MPS 40 | 10,730 | 9,580 |
| MPS 39 | 10,010 | 8,940 |
| MPS 38 | 9,370 | 8,370 |
| MPS 37 | 9,070 | 8,100 |
| MPS 36 | 8,560 | 7,640 |
| MPS 35 | 8,310 | 7,420 |
| MPS 34 | 7,790 | 6,960 |
| MPS 33, 33A, 33B & 33C | 7,280 | 6,500 |
| MPS 32 | 6,860 | 6,130 |
| MPS 31 | 6,340 | 5,660 |
| MPS 30 | 5,960 | 5,320 |
| MPS 29 | 5,710 | 5,100 |
| MPS 28 | 5,530 | 4,940 |
| MPS 27 | 5,320 | 4,750 |
| MPS 26 | 5,200 | 4,640 |
| MPS 25 | 4,900 | 4,380 |
| MPS 24 | 4,810 | 4,300 |
| MPS 23 | 4,550 | 4,060 |

Enclosure 1 to FCR(2000-01)81

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| Pay Points DPS/MPS or equivalent | Existing Rates w.e.f. 1.4.2000 (\$ per month) | Proposed Rates w.e.f. 1.4.2001 (\$ per month) |
|---|--|--|
| MPS 22 | 4,390 | 3,920 |
| MPS 21 | 4,260 | 3,800 |
| MPS 20 | 4,180 | 3,730 |
| MPS 19 | 4,050 | 3,620 |
| MPS 18 | 3,920 | 3,500 |
| MPS 17 | 3,870 | 3,460 |
| MPS 16 | 3,750 | 3,350 |
| MPS 15 | 3,710 | 3,310 |
| MPS 14 | 3,620 | 3,230 |
| MPS 13 | 3,540 | 3,160 |
| MPS 12 | 3,360 | 3,000 |
| MPS 11 | 3,290 | 2,940 |
| MPS 10 | 3,240 | 2,890 |
| MPS 9 | 3,110 | 2,780 |
| MPS 8 | 2,990 | 2,670 |
| MPS 7 | 2,850 | 2,550 |
| MPS 6 | 2,600 | 2,320 |
| MPS 5 | 2,470 | 2,210 |
| MPS 4 | 2,290 | 2,040 |
| MPS 3 | 2,220 | 1,980 |
| MPS 2 | 2,080 | 1,860 |
| MPS 1 | 1,960 | 1,750 |
| MPS 0 | 1,840 | 1,640 |

DPS – Directorate Pay Scale

MPS – Master Pay Scale

Rates of Private Tenancy Allowance

| Pay Points DPS/MPS or equivalent | Existing Rates w.e.f 1.4.2000 (\$ per month) | | | Proposed Rates w.e.f 1.4.2001 (\$ per month) | | |
|--|--|----------------------------|---------------------------|--|----------------------------|---------------------------|
| | "Family" Rates (\$) | "Married" Rates (\$) | "Single" Rates (\$) | "Family" Rates (\$) | "Married" Rates (\$) | "Single" Rates (\$) |
| D 2 and above | 28,590 | 25,730 | 22,860 | 28,530 | 25,680 | 22,810 |
| MPS 41 - D 1 | 24,070 | 21,660 | 19,250 | 24,020 | 21,620 | 19,210 |
| MPS 38 - 40 | 19,740 | 17,760 | 15,790 | 19,560 | 17,600 | 15,650 |
| MPS 34 - 37 | 16,710 | 15,030 | 13,360 | 16,560 | 14,890 | 13,240 |
| MPS 30 - 33 | 12,670 | 11,410 | 10,130 | 12,380 | 11,150 | 9,900 |
| MPS 25 - 29 | 10,630 | 9,560 | 8,510 | 10,390 | 9,340 | 8,310 |
| MPS 22 - 24 | 9,060 | 8,140 | 7,240 | 8,850 | 7,950 | 7,070 |
| MPS 17 - 21 | 7,920 | 7,120 | 6,330 | 7,740 | 6,960 | 6,180 |

Notes :

(a) "Family" rates are applicable to -

- (i) married officers (accompanied by spouse) with one or more dependent children;
- (ii) married officers (unaccompanied by spouse) with more than one dependent child; and
- (iii) officers with more than one dependent child and who are separated, divorced or widowed.

(b) "Married" rates are applicable to -

- (i) married officers (accompanied by spouse) without any dependent children; and
- (ii) officers with one dependent child and who are married (unaccompanied by spouse), separated, divorced or widowed.

(c) "Single" rates are applicable to officers without any dependent children and who are single, married (unaccompanied by spouse), separated, divorced or widowed.

DPS – Directorate Pay Scale

MPS – Master Pay Scale

Rates of Accommodation Allowance

| Pay Points DPS/MPS or equivalent | Existing Rates w.e.f. 1.4.2000 (\$ per month) | Proposed Rates w.e.f. 1.4.2001 (\$ per month) |
|---|--|--|
| D 6 - 10 | 48,100 | 48,000 |
| D 2 - 5 | 36,080 | 36,010 |
| MPS 45 - D 1 | 32,080 | 32,020 |
| MPS 34 - 44 | 25,560 | 25,420 |
| Below MPS 34 | 14,710 | 14,370 |

DPS – Directorate Pay Scale
MPS – Master Pay Scale

The Housing Allowance Schemes

Home Financing Scheme (HFS)

The HFS was introduced on 1 October 1990 for officers on Master Pay Scale (MPS) point 34 or above (or equivalent) to promote home ownership among civil servants. Participants are eligible for a monthly HFA for a maximum period of 120 months and may also be eligible for a downpayment loan to help them acquire residential properties in Hong Kong.

2. Throughout their entitlement period, participants in HFS are locked into the scale of rates prevailing at the time they joined the scheme. They may progress to higher rates appropriate to their salary points on the same scale through salary progression or promotion. Notwithstanding this, those who joined the scheme before 1 November 1994 and subsequently trade up their properties, may opt to draw the allowance at the special rates prevailing at the time of trading up.

Home Purchase Scheme (HPS)

3. The HPS was introduced in 1981 to help civil servants below MPS 34 (or equivalent) buy a permanent home in Hong Kong. It is a discretionary benefit which is subject to an annual quota of 1 800 and the availability of funds. Participants may receive a monthly allowance for up to 120 months and a downpayment loan to help them acquire residential properties in Hong Kong.

4. As with the HFS, HPS participants remain, throughout their entitlement period, on the scale of rates of HPA prevailing at the time they join the Scheme. They may progress to higher rates appropriate to their salary points on the same scale through salary progression or promotion. Notwithstanding this, if they subsequently trade up their properties, they may opt to draw HPA at the rates prevailing at the time they change properties.

Rent Allowance Scheme (RAS)

5. The RAS was introduced on 1 January 1999 to assist agreement officers on or above MPS 34 (or equivalent) appointed on Common Terms to rent accommodation in Hong Kong. The RAS is an alternative to the HFS for these

/officers

officers and the rates of RA are pegged to those of HFA. Participants may receive a monthly allowance up to a maximum of 120 months. A RAS participant will receive allowance from the scale of allowance prevailing when he starts to draw the allowance throughout an agreement. He may transfer to the then prevailing scale of allowance on renewal of agreement.

Private Tenancy Allowance (PTA)

6. PTA is applicable to local officers on MPS 34 or above (or equivalent), and all overseas officers irrespective of pay point, who were offered appointment before 1 October 1990. It provides a monthly allowance for renting accommodation in Hong Kong during an officer's employment with the Government. PTA recipients who are on or above MPS 34 (or equivalent) may opt to join the HFS by forfeiting their entitlement to PTA.

Accommodation Allowance Scheme (AAS)

7. Overseas officers offered appointment between 1 October 1990 to 31 December 1998 are only eligible for the AAS which provides a monthly allowance for renting accommodation in Hong Kong during the officers' employment with the Government.

Annual Adjustment

PTA and AA

8. In March 1991, the Finance Committee approved *vide* FCR(90-91)181 a revised mechanism to adjust the rates of PTA annually on 1 April according to the rental movements in selected areas in the third and the fourth quarters of the previous year.

9. In March 1992, the Finance Committee approved *vide* FCR(91-92)176 to adjust the rates of AA annually on 1 April according to the same mechanism as for PTA.

/HFA,

HFA, HPA and RA

10. In November 1993, the Finance Committee approved *vide* FCR(93-94)98 a mechanism to revise the rates of HPA annually on 1 January according to the movements of property prices in the past 12 months ending 30 September, but capped by the increase in the CPI(A) in the corresponding period.

11. In October 1994, the Finance Committee approved *vide* FCR(94-95)58 the mechanism to adjust the rates of HFA annually on 1 April for new joinees and trade-up cases (if applicable) according to the property price movements over the past 12 months ending 31 December, capped by CPI(A) as in the case of HPA.

12. In December 1997, the Finance Committee further approved *vide* FCR(97-98)78 to synchronise the annual adjustment for both HPA and HFA to 1 April each year and by the same rate of adjustment.

13. The rates of RA as approved *vide* FCR(98-99)42 in November 1998 are pegged to those of the HFA and are therefore adjusted in accordance with the mechanism applicable to the HFA.

Home Financing Scheme for staff of UGC-funded institutions

14. On 18 September 1998, Members accepted *vide* FCR(98-99)30 the financial implications of introducing a home financing scheme, similar to the civil service HFS, for eligible staff of the UGC-funded institutions with effect from 1 October 1998. The rates of allowance under the UGC's Scheme follow exactly those adopted in the civil service HFS.

