

ITEM FOR FINANCE COMMITTEE

VARIOUS HEADS OF EXPENDITURE

Subhead 001 Salaries

HEAD 46 - GENERAL EXPENSES OF THE CIVIL SERVICE

Subhead 022 Passages

New Recurrent Account Subhead “Non-accountable Cash Allowance Scheme”

HEAD 120 - PENSIONS

Subhead 026 Employees’ compensation

Members are invited to –

- (a) approve an expansion of the ambit of Head 46 General Expenses of the Civil Service Subhead 022 Passages to cover the provision of a non-accountable leave passage allowance for eligible recruits;
- (b) approve the creation of a new Recurrent Account Subhead “Non-accountable Cash Allowance Scheme” under Head 46 General Expenses of the Civil Service to be controlled by the Director of Accounting Services for the implementation of the Non-accountable Cash Allowance Scheme;
- (c) approve a supplementary provision of \$5 million under the new Recurrent Account subhead in 2000-01;
- (d) approve the mechanism for revising the rates of non-accountable cash allowance under paragraph 16 below and to delegate to the Secretary for the Treasury the authority to approve future revisions

of the allowance according to the proposed mechanism;

- (e) approve the rate of Home Purchase Allowance for the new pay point zero of the Master Pay Scale;
- (f) accept the financial implications of the death benefits for recruits on probationary and agreement terms under the new civil service entry system; and
- (g) approve the revision of the title and ambit of Head 120 Pensions Subhead 026 Employees' compensation to effect payment of death benefits for recruits on probationary and agreement terms,

for the purpose of implementing a new remuneration package for civil service recruits.

PROBLEM

A new remuneration package will be offered to civil service recruits. We need to put in place the financial arrangements for its implementation.

PROPOSAL

2. The Secretary for the Civil Service (SCS) proposes to –
 - (a) implement new leave and leave passage arrangements in lieu of the existing leave and leave passage benefits for eligible recruits;
 - (b) amend the ambit of Head 46 General Expenses of the Civil Service Subhead 022 Passages to cover the payment of the new non-accountable leave passage allowance;
 - (c) create a new Recurrent Account Subhead entitled “Non-accountable Cash Allowance Scheme” under Head 46 General Expenses of the Civil Service to be controlled by the Director of Accounting Services to effect payment of the Non-accountable Cash Allowance (NCA) to eligible recruits in lieu of existing housing benefits;

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- (d) approve a supplementary provision in the sum of \$5 million under the new Subhead, to be offset by deleting an equivalent amount under Head 46 General Expenses of the Civil Service Subhead 039 Rent Allowance Scheme;
- (e) approve the mechanism for future revision of the rates of the NCA and to delegate to the Secretary for the Treasury the authority to approve future revisions according to the proposed mechanism;
- (f) approve the rate of Home Purchase Allowance (HPA) for the new pay point zero in the Master Pay Scale (MPS);
- (g) continue to provide death benefits for recruits on new probationary and agreement terms under the proposed civil service entry system, in addition to statutory injury and death compensation under the Employees' Compensation Ordinance (ECO) (Cap. 282); and
- (h) revise the title and ambit of Head 120 Pensions Subhead 026 Employees' compensation to cover the payment of injury and death related benefits and expenses in addition to compensation under the ECO (Cap. 282) to government employees.

JUSTIFICATION

3. As part of the Civil Service Reform, the Administration is committed to moving in the direction of a "total remuneration" approach to provide fringe benefits for recruits, in line with private sector practice. We have formulated the new leave and leave passage arrangements and a new housing benefits scheme for new recruits to the civil service. Separately, we have also formulated arrangements for death benefits should future recruits die whilst in service. The details of these proposals are set out in the following paragraphs.

Leave and Leave Passage

4. At present, leave earning rates are related to an officer's rank and length of service. While maintaining this principle, we propose to align leave earning rates closer to private sector practices. Maximum accumulation will be limited to two years' entitlement. Leave balance will be encashed when an officer leaves the service except where leave is forfeited.

5. On leave passage, officers at directorate level and their family members now enjoy an annual or biennial leave passage allowance, on an accountable basis, at a rate on a sliding scale commensurate with the officer's rank. We propose to provide an allowance to officers at directorate ranks but only for the

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Encl. 1

officer himself, not for his family. To allow more flexibility to officers, the allowance will be made non-accountable but taxable and be payable at the end of each 12-month cycle. A summary of the current and proposed leave and leave passage benefits for recruits is at Enclosure 1.

6. The existing ambit of Head 46 Subhead 022 covers passage and related expenditure (such as baggage and travelling allowances) in respect of leave passages taken by eligible officers and their family members and school passages taken by eligible children. To cover the payment of the proposed non-accountable leave passage allowance, we propose to amend the ambit of this Subhead to read as follows –

“For the payment of leave passage allowance, passages and related expenditure, including baggage and travelling allowances, in respect of civil servants and their eligible family members, and children of civil servants being educated overseas.”

Housing

7. We have developed new housing benefits for recruits on the basis of the following principles –

- (a) it should be cost neutral when compared with current housing benefits;
- (b) it should be broadly in line with practices and arrangements in the private sector; and
- (c) it should be simple to administer and provide flexibility for staff.

8. We propose to provide a NCA to replace the Home Financing Scheme (HFS) and the Rent Allowance Scheme (RAS) for recruits on or above MPS 34 or equivalent as a condition of service; and to provide a NCA for recruits below MPS 34 or equivalent to replace the Home Purchase Scheme (HPS), subject to the same quota system now in operation under the HPS. For recruits below MPS 22 or equivalent, they will be provided with either a Civil Service Public Housing Quota (CSPHQ) or, if they have at least 20 years of continuous service, a quota place under the NCA Scheme, but not both. However, recruits whose entitlement to civil service housing benefits had been forfeited will not be eligible for the NCA.

9. The NCA will be payable for a maximum aggregate period of 120 months during an officer's service with the Government, irrespective of whether there is a break in service. There will be two scales of rates for the NCA - one for recruits who start to draw NCA on or above MPS 34 or equivalent and one for recruits who start to draw NCA below MPS 34 or equivalent. Those who start to draw NCA from the latter scale will not be allowed to receive rates from the former scale when they subsequently reach MPS 34 or above or equivalent.

Encl. 2

10. The rates of allowances, as set out at Enclosure 2, are drawn up by reference to the existing Home Financing Allowance (HFA) and HPA rates but a 5% discounting factor has been applied to maintain cost-neutrality arising from lifting the rules on prevention of double housing benefits as described in paragraphs 12 to 14 below. NCA recipients will be locked into a fixed scale of allowance. An officer will only enjoy a higher rate when he moves up the pay scale.

11. In line with the spirit of non-accountability of the proposed cash allowance and the principle of simple administration, we will not provide downpayment loans (DPL) under the new housing scheme.

12. At present, unless as specified in the individual housing benefits schemes, an officer is not allowed to receive any civil service housing benefits if –

- (a) he or his spouse is in receipt of any public housing benefits;
- (b) his spouse is receiving any housing benefits from her employer; and
- (c) his spouse has received her full entitlement of housing benefits in the employment with the Government or any publicly-funded organisations.

13. Under the new housing benefits package, we intend to remove these restrictions for NCA recipients. With the introduction of “non-accountable” allowance, it is considered fair and logical to de-link the provision of the new housing benefits with marital status. However, there will be additional cost to the Government if we remove the rules on prevention of double housing benefits for NCA recipients because future recruits will be able to receive NCA even if their spouses have received or are receiving housing benefits from their employers. We need to adjust the rates of NCA to cover the additional cost. To this end, we estimate that the rates of NCA for officers who start to draw the allowance on or above MPS 34 or equivalent will have to be discounted by about 5% from the equivalent HFA rates.

14. For recruits who start to draw NCA below MPS 34 or equivalent, the Administration would in principle be able to maintain cost-neutrality as the NCA

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for these recruits will be subject to the same quota system now in operation for the HPS. However, for the sake of consistency and equity in relation to recruits on or above MPS 34 or equivalent, we also propose to reduce the rates by 5% from the equivalent HPA rates for recruits who start to draw the NCA below MPS 34 or equivalent. As savings will be derived from this reduction, we will correspondingly increase the annual quota so that more officers below MPS 34 or equivalent could benefit.

15. It is proposed that a new Recurrent Account Subhead to be controlled by the Director of Accounting Services be created to effect the payment of the NCA. The ambit of the proposed new Subhead is as follows –

“For the payment of Non-accountable Cash Allowance to eligible officers.”

Adjustment Mechanism for the NCA Scheme

16. In line with current housing benefits schemes, we propose to adjust the rates of NCA annually on 1 April for new recipients. In view of the non-accountable nature of the allowance, we propose to adjust the rates of NCA, upwards and downwards, according to the change of the Composite Consumer Price Index (CPI) over the past 12 months ending 31 December compared with that in the preceding 12-month period. The Composite CPI measures the changes in price level of consumer commodities and services generally purchased by households, including rental cost, over time. Adjustment based on the change in the Composite CPI can maintain the attractiveness and purchasing power of the allowance in general. The Composite CPI is based on expenditure pattern of households with an average monthly expenditure of \$4,500 to \$68,700 at 1999 price level and will cover the expenditure pattern of most NCA recipients.

17. As the revision of rates will be straightforward, we propose to delegate to the Secretary for the Treasury the authority to approve future revisions of the NCA rates in accordance with the proposed revision mechanism.

Rate of Home Purchase Allowance for MPS 0

18. At the meeting held on 18 February 2000, Members approved vide FCR(1999-2000)63 recommendations by the Establishment Subcommittee at its meeting held on 26 January 2000 relating to civil service starting pay (vide EC(1999-2000)37). This included the creation of a new point zero for the Master Pay Scale (MPS 0) with effect from 1 April 2000. For the sake of completeness, we need to determine the rate of HPA for this new point even though the chance for officers remunerating at MPS 0 becoming eligible for HPS is slim. By way of

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extrapolation from the HPA rates for MPS 1 to MPS 8, we propose to set the HPA rate for MPS 0 at \$1,840. This is a technical amendment to preserve the integrity of the HPA scale.

Injury and Death Benefits

19. Recruits appointed on probationary or agreement terms under the new civil service entry system will not be subject to the existing pension schemes. As such, death benefits under the existing pension schemes for officers who unfortunately die whilst in service will not be payable to these recruits. In line with the role of the Government as a good employer, we intend to continue to provide these recruits with death benefits at a level broadly comparable to the current provision for existing staff. We thus propose to grant a death payment in the event that a recruit dies whilst in service at a rate of 12 months' final salary of the recruit, having regard to the level of death gratuity under the existing pension schemes for officers on pensionable terms. The death payment will be granted as part of the new fringe benefits package, in addition to the statutory compensation for duty-related injuries and deaths under the Employees' Compensation Ordinance.

20. The grant of this proposed death payment as a contingent liability will require adjustment to the ambit of Head 120 Pensions Subhead 026 Employees' compensation which is the existing expenditure vote for employees compensation, as follows –

“For the payment of compensation to government employees under the Employees' Compensation Ordinance and other injury and death related payments and expenses.”

FINANCIAL IMPLICATIONS

Leave and Leave Passage

21. On leave, assuming around 1 500 new recruits a year, we estimate a total notional saving of \$8.9 million in the initial year of implementation, comprising \$100,000 for directorate appointees, \$4.3 million for appointees to ranks on MPS 14 to 49 and \$4.5 million for appointees to ranks on or below MPS 13 or equivalent. The savings will be reflected in lower salary expenditure over time. As and when eligible officers leave the service, the encashed leave will be payable from the salary provision.

22. On leave passage, assuming a 0.1% direct appointment of eligible officers out of the total strength of 1 371, we expect a saving of \$40,000 in the initial year of implementation.

Housing

23. As pointed out in paragraph 7(a) above, the new scheme is developed on the basis of the guiding principle that it will be cost-neutral as compared with the existing schemes. With the implementation of the new scheme, we anticipate that the expenditure under the new scheme will be offset by a reduction of expenditure under the existing schemes, under which the recruits would otherwise be entitled to receive benefits.

24. For the remainder of 2000-01, due to the current freeze in civil service recruitment (under which only exceptional recruitment for certain grades may be allowed), we anticipate that the number of participants for the NCA Scheme will be very small. For prudent financial planning, we nonetheless propose to provide a provision of \$5 million under the new Subhead "Non-accountable Cash Allowance Scheme" to be offset by deleting an equivalent amount under Subhead 039 Rent Allowance Scheme to cope with any payment as a result of recruits appointed exceptionally in this financial year. For subsequent financial years, we shall include sufficient provision in future Estimates.

25. As the downpayment loan under existing housing benefits schemes are provided on a "no-loss-no-gain" principle, the cessation of the provision of the loan will not generate savings to the Government. With the simplification of the administration of fringe benefits, there will be staff savings in personnel management in the long term.

26. There will be no financial implication associated with the creation of the HPA rate for MPS 0 because its creation will not lead to an increase in the number of eligible officers under the HPS.

Injury and Death Benefits

27. On the basis of the figures of officers who died whilst in service at around 0.12% in 1998-99, we estimate that the potential financial implication for the contingent death payment would be in the order of around \$480,000 if some 1 500 new recruits are to be recruited in 2000-01. The expenditure as a contingent liability will be absorbed under the contingent provisions reserved under Head 120 Pensions Subhead 026 Employees' compensation.

CONSULTATION

28. We have consulted the Central Staff Consultative Councils and four service-wide staff associations on the proposed new fringe benefits for recruits. The Staff Sides considered our proposals on leave and leave passage to be

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acceptable. As regards housing benefits, they have agreed to most of our proposals, but they do not support the proposed cessation of DPL. The Staff Sides considered that DPL is a very important form of assistance for those buying property, in particular for junior staff. They have requested the Administration to consider ways to provide a loan to facilitate home ownership.

29. We are of the view that provision of DPL is inconsistent with the spirit of encashing housing benefit and providing the allowance on a non-accountable basis. It would also defeat the purpose of simplifying the administration of civil service housing benefits. At present, only about 50% of the current HFS/HPS participants apply for the DPL. Besides, civil servants on agreement/probationary terms are not eligible for DPL, and most publicly-funded organisations/private firms do not provide any downpayment loans for their staff. On balance, we have decided to stick with our decision not to provide DPL under the new housing scheme.

30. 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 supported the proposed arrangements on leave/leave passage and housing.

BACKGROUND INFORMATION

Leave and Leave Passage

31. Since the introduction of a common set of terms of appointment and conditions of service with effect from 1 January 1999, leave has been provided on a working day instead of calendar day basis to simplify leave administration. Furthermore, leave accumulation has also been reduced to an officer's two years' entitlement. The current proposed leave package which is designed on a similar basis aims to further align the leave earning rates closer to the private sector provision and to allow a clean break when an officer leaves the service by encashing all untaken leave as at the last day of his/her service.

32. A Leave Passage Allowance (LPA) was introduced in July 1992 to directorate officers and their eligible family members. It is fully accountable but non-taxable. Since 1 January 1999, a new basis for revising the rates of LPA according to changes in package tour prices within the Consumer Price Index C (formerly known as Hang Seng Consumer Price Index) has been adopted. Under the "total remuneration" approach, we propose to provide LPA on a non-accountable but taxable basis to the officer only. This would help streamline administrative arrangements and at the same time provide recipients with greater flexibility.

Housing

33. At present, local officers offered appointment on or after 1 October 1990 on or above MPS 34 or equivalent are eligible for assistance under the HFS. Participants are eligible for a monthly 50% accountable 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.

34. Officers offered appointment on or above MPS 34 or equivalent on agreement terms on or after 1 January 1999 are eligible to join the RAS. Under this scheme, they will be eligible for a fully accountable monthly allowance for a maximum of 120 months to rent accommodation. The rate of allowance is pegged to the HFA.

35. As regards officers below MPS 34 or equivalent, they may apply for assistance under the HPS to 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 fully accountable monthly allowance for up to 120 months and may also apply for a downpayment loan.

36. Officers below MPS 22 or equivalent may also apply for assistance under the CSPHQ. The CSPHQ provides various housing options (i.e. public rental flats, Home Ownership Scheme flats, Home Purchase Loan Scheme and Buy-or-rent Option) for these staff.

Injury and Death Benefits

37. At present, all civil servants are entitled to the statutory employees compensation under the ECO for duty-related injuries or deaths. In addition, civil servants on pensionable terms are eligible for injury and death benefits under the pension legislation. These benefits include a death gratuity for an officer who dies whilst in service. Civil servants are also eligible for statutory employees' compensation under the Employees' Compensation Ordinance for duty-related death or injury, or alternatively dependant pension and additional pension as additional pension benefits under the pension legislation if they so choose.

Proposed Leave and Leave Passage Benefits for Recruits

Leave

DPS/MPS/ MOD 1 or equivalent	Leave earning rates (working days per year)			
	Existing provision under Common Terms		Proposed provision for recruits	
	Less than 10 years of service	10 years of service and over	Less than 10 years of service	10 years of service and over
Directorate	27	34	22	26
MPS 14 - 49	27	34	18	22
MPS 1 - 13	21	27	14	18
MOD 1	14	21	14	18

Leave Passages

DPS or equivalent	Current Leave Passage Allowance Rates for serving officers	Proposed Initial Leave Passage Allowance Rates* for recruits for each 12-month cycle
D7 and above	\$42,060 per 12 months	\$42,060 per 12 months
D4 to D6	\$22,150 per 12 months	\$22,150 per 12 months
D1 to D3	\$22,150 per 24 months	\$11,075 per 12 months

Notes :

DPS - Directorate Pay Scale

MPS - Master Pay Scale

MOD 1 - Model Scale 1 Pay Scale

** Rates to be pegged to the prevailing rates payable to serving officers as at the date of implementation of the scheme.*

**Proposed Rates of NCA for those who start to draw NCA
on or above MPS 34 or equivalent**

DPS/MPS or equivalent	Rates of HFA (w.e.f. 1.4.2000) (a)	Proposed Rates of NCA (b) = (a) x 95%
Pay points	\$	\$
D6 - D10	41,600	39,520
D2 - D5	31,200	29,640
MPS45 - D1	27,730	26,340
MPS41 - 44B	19,650	18,670
MPS38 - 40	17,330	16,460
MPS34 - 37	15,020	14,270

Notes:

Rates of allowances are rounded to the nearest \$10.

DPS - Directorate Pay Scale

MPS - Master Pay Scale

HFA - Home Financing Allowance

NCA - Non-accountable Cash Allowance

**Proposed Rates of NCA for those who start to draw NCA
below MPS 34 or equivalent**

DPS/MPS or equivalent	Rates of HPA (w.e.f. 1.4.2000) (a)	Proposed Rates of NCA (b) = (a) x 95%
Pay points	\$	\$
D10	18,950	18,000
D9	18,020	17,120
D8	17,210	16,350
D7	17,210	16,350
D6	16,360	15,540
D5	15,420	14,650
D4	15,420	14,650
D3	14,650	13,920
D2	13,760	13,070
D1	13,340	12,670
MPS49	13,120	12,460
MPS48	13,120	12,460
MPS47	12,810	12,170
MPS46	12,610	11,980
MPS45	12,310	11,690
MPS43, 44, 44A & 44B	11,930	11,330
MPS42	11,680	11,100
MPS41	11,370	10,800
MPS40	10,730	10,190
MPS39	10,010	9,510
MPS38	9,370	8,900
MPS37	9,070	8,620
MPS36	8,560	8,130
MPS35	8,310	7,890
MPS34	7,790	7,400
MPS33, 33A, 33B & 33C	7,280	6,920
MPS32	6,860	6,520
MPS31	6,340	6,020
MPS30	5,960	5,660
MPS29	5,710	5,420

DPS/MPS or equivalent	Rates of HPA (w.e.f. 1.4.2000) (a)	Proposed Rates of NCA (b) = (a) x 95%
Pay points	\$	\$
MPS28	5,530	5,250
MPS27	5,320	5,050
MPS26	5,200	4,940
MPS25	4,900	4,660
MPS24	4,810	4,570
MPS23	4,550	4,320
MPS22	4,390	4,170
MPS21	4,260	4,050
MPS20	4,180	3,970
MPS19	4,050	3,850
MPS18	3,920	3,720
MPS17	3,870	3,680
MPS16	3,750	3,560
MPS15	3,710	3,520
MPS14	3,620	3,440
MPS13	3,540	3,360
MPS12	3,360	3,190
MPS11	3,290	3,130
MPS10	3,240	3,080
MPS9	3,110	2,950
MPS8	2,990	2,840
MPS7	2,850	2,710
MPS6	2,600	2,470
MPS5	2,470	2,350
MPS4	2,290	2,180
MPS3	2,220	2,110
MPS2	2,080	1,980
MPS1	1,960	1,860
MPS0	1,840	1,750

Notes:

Rates of allowances are rounded to the nearest \$10.

DPS - Directorate Pay Scale

MPS - Master Pay Scale

HPA - Home Purchase Allowance

NCA - Non-accountable Cash Allowance