

ITEM FOR FINANCE COMMITTEE

HEAD 46 - GENERAL EXPENSES OF THE CIVIL SERVICE

Subhead 014 Home purchase allowance

Subhead 033 Home Financing Scheme

HEAD 190 - UNIVERSITY GRANTS COMMITTEE

Subhead 529 Home Financing Scheme

Members are invited to approve a reduction in the rates of Home Financing Allowance and Home Purchase Allowance by 14.4% with effect from 1 April 2000.

PROBLEM

Under the established mechanism for annual adjustments, the rates of Home Financing Allowance (HFA) and Home Purchase Allowance (HPA) are adjusted according to movements of property prices but capped by the increase in Consumer Price Index (A) (CPI(A)). We need to consider the appropriate level of adjustment to the allowances from 1 April 2000 given the drop in the property market over the past 12 months ending 31 December 1999.

PROPOSAL

2. The Secretary for the Civil Service proposes to reduce the rates of HFA and HPA by 14.4% with effect from 1 April 2000 in accordance with the movement of property prices in the past 12 months ending 31 December 1999. The revised rates will also apply to the Home Financing Scheme (HFS) for eligible staff in institutions funded by the University Grants Committee (UGC).

JUSTIFICATION

3. At present, the rates of HFA and HPA are adjusted annually on 1 April according to the property price movements over the past 12 months ending 31 December, as indicated by the Private Domestic - Price Indices compiled by the

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Rating and Valuation Department, but capped by the increase in CPI(A) in the corresponding period to contain cost to public funds. This mechanism was approved by the Finance Committee and has been used since 1994 (see details in paragraphs 12 to 14). As a result, increases in the rates were capped by movements in the CPI(A) when the property market rose considerably during the years 1995 to 1998.

4. In March 1999, we sought Finance Committee's approval *vide* FCR(98-99)81 to reduce the rates in the light of the adjustments that had taken place in the property market. Members noted that the average property prices in 1998 had fallen by 29% to almost identical levels to those in 1994 and accepted the Administration's proposal to reduce the rates by 13.7% so that the rates would be brought back to the 1994 level with the aim of maintaining roughly the same buying power in the property market. It was also agreed that we would seek Members' approval for further reductions in rates.

5. The Rating and Valuation Department has advised that for the 12-month period 1 January to 31 December 1999, the average quarterly Private Domestic - Price Index has decreased by 14.4% as compared to the average quarterly Private Domestic - Price Index for the 12-month period 1 January to 31 December 1998. We consider it appropriate to reduce the rates by 14.4% on 1 April 2000 to reflect the full extent of the decrease in property prices over the last 12-month period so as to maintain the purchasing power of these allowances. We believe that the proposed reduction will still provide a reasonable level of housing benefits for civil servants while maintaining prudent management of public funds. The proposed rates of HFA and HPA with effect from 1 April 2000 are set out in the Enclosure. The same reduced HFA rates will also apply to new participants in the HFS for eligible staff in UGC-funded institutions.

Encl.

FINANCIAL IMPLICATIONS

6. Based on the projected number of new participants in the schemes, we estimate that there would be savings in the region of \$17 million and \$10.8 million respectively in 2000-01 if the proposed downward adjustment of 14.4% in the rates of HFA and HPA is approved. As regards the UGC sector, the proposed downward adjustment of 14.4% is estimated to result in savings of about \$5 million.

Staff Consultation

7. We have consulted the four central staff consultative councils on the proposed downward adjustment of HFA and HPA rates. Two of the councils object to it because they feel that this adjustment will erode the value of these allowances

/and

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

BACKGROUND INFORMATION

Home Financing Scheme

8. The HFS was introduced on 1 October 1990 for officers on Master Pay Scale (MPS) 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 a downpayment loan to help them acquire residential properties in Hong Kong.

9. Throughout their entitlement period, participants in the HFS are locked into the scale of rates 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, 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)

10. 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.

11. 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.

Annual Adjustment

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

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

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

Home Financing Scheme for staff of UGC-funded institutions

15. 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.

Civil Service Bureau
March 2000

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

<i>Pay Points DPS/MPS or equivalent</i>	<i>Existing Rates w.e.f. 1.4.1999 (\$ per month)</i>	<i>Proposed Rates w.e.f. 1.4.2000 (\$ per month)</i>
D 6 - 10	48,600	41,600
D 2 - 5	36,450	31,200
MPS 45 - D 1	32,400	27,730
MPS 41 - 44	22,950	19,650
MPS 38 - 40	20,250	17,330
MPS 34 - 37	17,550	15,020

DPS – Directorate Pay Scale

MPS – Master Pay Scale

Special Rates of Home Financing Allowance
(for existing participants who joined before 1.11.94 and
trade up on or after 1.4.2000)

<i>Pay Points DPS/MPS or equivalent</i>	<i>Existing Rates w.e.f. 1.4.1999 (\$ per month)</i>	<i>Proposed Rates w.e.f. 1.4.2000 (\$ per month)</i>
D 6 - 10	39,060	33,440
D 2 - 5	29,300	25,080
MPS 45 - D 1	26,040	22,290
MPS 41 - 44	18,450	15,790
MPS 38 - 40	16,280	13,940
MPS 34 - 37	14,110	12,080

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

<i>Pay Points DPS/MPS or equivalent</i>	<i>Existing Rates w.e.f. 1.4.1999 (\$ per month)</i>	<i>Proposed Rates w.e.f. 1.4.2000 (\$ per month)</i>
D10	22,140	18,950
D9	21,050	18,020
D7 & 8	20,110	17,210
D6	19,110	16,360
D4 & 5	18,010	15,420
D3	17,120	14,650
D2	16,070	13,760
D1	15,580	13,340
MPS 48 & 49	15,330	13,120
MPS 47	14,970	12,810
MPS 46	14,730	12,610
MPS 45	14,380	12,310
MPS 43, 44, 44A & 44B	13,940	11,930
MPS 42	13,640	11,680
MPS 41	13,280	11,370
MPS 40	12,540	10,730
MPS 39	11,690	10,010
MPS 38	10,950	9,370
MPS 37	10,600	9,070
MPS 36	10,000	8,560
MPS 35	9,710	8,310
MPS 34	9,100	7,790
MPS 33, 33A, 33B & 33C	8,510	7,280
MPS 32	8,010	6,860
MPS 31	7,410	6,340
MPS 30	6,960	5,960
MPS 29	6,670	5,710
MPS 28	6,460	5,530
MPS 27	6,220	5,320
MPS 26	6,080	5,200
MPS 25	5,720	4,900
MPS 24	5,620	4,810
MPS 23	5,320	4,550

Enclosure to FCR(1999-2000)74

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<i>Pay Points DPS/MPS or equivalent</i>	<i>Existing Rates w.e.f. 1.4.1999 (\$ per month)</i>	<i>Proposed Rates w.e.f. 1.4.2000 (\$ per month)</i>
MPS 22	5,130	4,390
MPS 21	4,980	4,260
MPS 20	4,880	4,180
MPS 19	4,730	4,050
MPS 18	4,580	3,920
MPS 17	4,520	3,870
MPS 16	4,380	3,750
MPS 15	4,330	3,710
MPS 14	4,230	3,620
MPS 13	4,130	3,540
MPS 12	3,930	3,360
MPS 11	3,840	3,290
MPS 10	3,780	3,240
MPS 9	3,630	3,110
MPS 8	3,490	2,990
MPS 7	3,330	2,850
MPS 6	3,040	2,600
MPS 5	2,890	2,470
MPS 4	2,680	2,290
MPS 3	2,590	2,220
MPS 2	2,430	2,080
MPS 1	2,290	1,960

DPS – Directorate Pay Scale

MPS – Master Pay Scale