

12 November 1993

The Hon Sir David Ford, KBE, LVO, JP
Deputy to the Governor
Chief Secretary's Office
Government Secretariat
Hong Kong

Dear Sir,

Review of Home Purchase Allowance

We have been invited by the Administration to advise, under clause 1(e) of our Terms of Reference, on a proposal to establish a method for revising the rates of allowance under the Home Purchase Scheme, the proposed level of increase for 1994 and the revised maximum amount of the downpayment loan which forms part of the scheme.

Background

2. The Home Purchase Scheme (HPS) was introduced in 1981 to encourage home ownership among civil servants. Officers on Point 22 to 33 and those below Point 22 of the existing Master Pay Scale (or equivalent) with 20 years' continuous service may apply to join the scheme under an annual quota which is currently set at 200 for Mod 1 staff and 1600 for other staff. On joining the scheme, an officer will receive a monthly Home Purchase Allowance (HPA) according to his salary point for a maximum period of 120 months. In addition, he may apply for a downpayment loan (DPL) which is repayable over ten years at a preferential interest rate.

3. Since the introduction of the scheme in 1981, the rates of HPA have been revised only once. In 1990, they were increased by 40% to reflect Rating and Valuation Department's assessment of property price movements from 1981 to 1988. The DPL was first set at 10% of the purchase price of property or 18 months' salary, whichever was the less, and raised to 20% of the purchase price of the property or 18 months' salary, whichever is the less, in 1985.

Appendix G (Cont'd)

4. Since 1990 property prices have increased sharply. In an attempt to reduce speculative activities, major banks have recently lowered the mortgage ceiling to 70% of the assessed value of the property. As a result, junior officers who have previously enjoyed a mortgage ceiling of a maximum of 90% of the assessed value of the property now find it difficult to acquire their own homes under the HPS.

The Administration's proposal

5. To provide junior officers with more realistic assistance towards home ownership, the Administration proposes to take the following measures:

- (a) to revise HPA rates with effect from 1 January 1994 and annually thereafter according to property price movements, capped by the rate of inflation as represented by the CPI(A) in order to contain cost; and
- (b) from the same date to increase the maximum amount of DPL to 30% of the purchase price of the property or 24 months of the officer's salary, whichever is the less.

6. The Administration has stated that on the basis of the method of revision proposed in paragraph 5(a) above and the average increase in the CPI(A) between 1 October 1992 and 30 September 1993, HPA rates would be increased by 8.7% on 1 January 1994. The proposed revision will result in an additional notional cash outlay of about \$9.4 million a year against a 1993/94 budget of \$1270m for the scheme. The revised rates will not apply to current participants in the Scheme unless they trade up their property in accordance with the existing conditions.

Commission's views and recommendations

7. We have been advised by the Administration that since 1990, property prices increased by some 100% on average. As a result, the value of assistance available to officers under the Scheme has been considerably eroded. We therefore agree that the HPA rates should be reviewed.

8. With the exception of one Member who felt that there should not be any increase in HPA rates when the Government was trying to cool the property market, we support the method of

Appendix G (Cont'd)

revision proposed by the Administration. Since it is based on property price movements, it will reflect property prices to some extent. At the same time, as any increase is capped by the rate of inflation, HPA rates will be protected from the volatility of the Hong Kong property market. The method is also easy to administer. We are aware that it may not preserve the full value of the HPA. However, the Government's long-term financial position and the volatility of the property market make it prudent and necessary to impose a limit on the annual increase. Furthermore, we have taken note of the practice in the private sector where few employees are provided with both a housing allowance and a housing loan. In the light of these considerations, we endorse the proposed method of revising HPA rates annually. The Administration has assured us that if property prices fell drastically, the possibility of reducing HPA rates would be considered.

9. Although we are in support of the method for revising HPA rates, we have reservations about the increase of 8.7% proposed for 1994. As the Administration has pointed out, property prices have increased by almost 100% between 1993 and 1990 when the rates were last revised. The proposed increase in HPA rates falls far short of the actual increase in property prices. We note that HPA rates were revised by 40% in 1990 to reflect Rating and Valuation Department's assessment of property price movements from 1981 to 1988. Furthermore, since the proposed method of revision consists of annual reviews, it is only logical that the increase for 1994 should reflect the rate of inflation between 1990 and 1993.

10. On the other hand, we are conscious that a more substantial increase could impose a financial burden on the Government in the long term and attract adverse public reaction. We have also been given to understand that while staff would wish to have an increase covering the period from 1990 to 1993, they consider that the rates should be increased as soon as possible. In view of this, we recommend that an increase should take effect as from 1 January 1994 and we accept with some reluctance the figure of 8.7%. We may have to revert to this subject when we are asked to advise on the adjustment to be made to the rates of allowance under the Home Financing Scheme following a review of the scheme scheduled for 1994.

11. We support the Administration's proposal to increase the maximum amount of DPL from 20% to 30% of the purchase price of the property or 24 months salary whichever is the less. This should provide some relief for junior officers who have difficulty in meeting the difference between the amount of

Appendix G (Cont'd)

downpayment payable following the recent lowering of the mortgage ceiling and the loan available to them under the scheme.

12. In conclusion, we endorse the Administration's proposal to revise the rates of Home Purchase Allowance annually with reference to property price movements capped by the increase in CPI(A). We recommend that an increase in the rates should take effect as from 1 January 1994 and accept with some reluctance the figure of 8.7%. We also support the proposal to increase the maximum amount of the Downpayment Loan to 30% of the purchase price of the property or 24 months' salary whichever is the less.

Yours faithfully,

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