Appendix K

16 September 1994

The Right Honourable Christopher Patten
Governor of Hong Kong
Government House
Hong Kong

Dear Sir,

Review of Home Financing Scheme

We have been invited by the Administration to advise, under Clause 1(e) of our Terms of Reference, on a revised proposal under the Home Financing Scheme.

BACKGROUND

2. At the Commission's meeting on 2 June 1994, we considered and supported the Administration's revised package of proposals for the Home Financing Scheme (HFS). This included, inter alia, the proposal to remove the trading-up provision under which an HFS recipient may draw a higher HFA rate after each rate review, provided he disposes of his first property and ploughs back all the sale proceeds into his second property. As a quid-pro-quo, HFS recipients would be allowed to trade down without the need to plough back the sale proceeds, although these officers would not be entitled to the revised and higher rates. Details of our advice were contained in our letter to you of 20 June 1994.

3. Subsequently, in response to staff requests, the Administration decided to withhold submission of the revised package of proposals to the Executive Council and the Finance Committee, pending further discussion with the Staff Side of the Senior Civil Service Council which had strongly objected to the removal of the trading-up provision. The Administration indicated that it would consult us again if, following discussion with the Staff Side, changes were made to the package of proposals.

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THE ADMINISTRATION'S PROPOSALS

4. Following staff consultations, the Administration proposes that the trading-up provision be reinstated for existing HFS recipients, subject to the following conditions -

(a) they may trade up once and claim the revised HFA rates for existing recipients subject to the normal sale proceeds rules and forfeiture of the right to trade down; or

(b) they may trade down but with the right to trade up forfeited.

The Administration further proposes that the revised HFA rates for existing recipients upon trading up should be increased initially by 8.5%, based on the average increase of Consumer Price Index (A) [CPI(A)] for January to December 1993. Thereafter the rates will be adjusted annually on 1 April according to property price movements but capped by the CPI(A).

5. As for future HFS recipients, the Administration suggests that the original proposals already endorsed by this Commission should remain unchanged. In other words, the HFA rates for future recipients will be increased initially by 35% and adjusted annually thereafter on 1 April similar to the arrangement for existing recipients . Once locked into the scheme, however, future recipients will not be allowed to trade up and claim the further adjusted rates.

STAFF CONSULTATION

6. The Administration has earlier informed the Staff Side of the Senior Civil Service Council of the above proposals, stressing that they represented the Administration's bottomline position. The Staff Side did not, however, find the proposals acceptable. It counter proposed that a single adjustment rate of 35% be given to both future and existing HFS recipients, and that the sale proceeds rules for the latter group be removed if trading-up was to be on a one-off basis.

7. These counter proposals were considered unduly generous by the Administration and hence unacceptable. It has since informed the Staff Side that the revised package is the best that could be offered.

FINANCIAL IMPLICATIONS

8. According to the Administration, the net savings to be achieved in 20 years from the additional number of officers joining the HFS resulting in reduced expenditure on Non-Departmental Quarters (NDQ) and Private Tenancy Allowance (PTA) will be around $3.5 billion. By offering an option for existing recipients to

trade up once at the new rate of 8.5% increase, the cost in 10 years (all existing recipients will have left the HFS in 10 years from now) will be around $355 million. This cost will be increased to $1,336 million, if existing recipients are allowed to claim the new rate of 35% increase.

IMPLEMENTATION

9. The Administration has indicated that it intends to seek approval and funding support from respectively the Executive Council and the Finance Committee soon so that the revised package may be in place on 1 November 1994.

COMMISSION'S VIEWS AND RECOMMENDATIONS

10. The current proposal of allowing trading-up for existing HFS recipients is a departure from the Administration's earlier position. As the proposal is a concession made exceptionally by the Administration on staff relations grounds, we do not wish to stand in the way of the execution of this proposal. We would, however, like to make a number of observations. These are outlined in the following paragraphs.

Trading-up on a one-off basis

11. We have been given to understand that the one-off trading-up option for existing HFS recipients falls short of staff expectation. Indeed, we are not entirely convinced if sufficient justifications other than financial considerations have been advanced by the Administration in imposing the restriction. On the other hand, we note that trading-up is not normally available to employees receiving comparable housing benefits in the private sector. On balance, we see no objection to the Administration limiting the opportunity for trading-up in the way intended, although we would caution that this may result in potential staff relations problems.

Rates of increase

12. We should point out that the methodologies adopted by the Administration in revising the HFA rates for future and existing recipients are different and devoid of consistency. While the proposed increase of 35% for future recipients is based on the cumulative increase of Private Tenancy Allowance between 1990 and 1993, the proposed increase of 8.5% for existing recipients is based on the average increase of CPI(A) for January to December 1993. In coming up with this proposed increase of 8.5% for existing recipients, the Administration was apparently constrained by its concern about the financial implications of any increase larger than this percentage point. In the light of this and the fact that the

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present proposal represents an improvement in that trading-up will be reinstated, we support, albeit with reluctance, the 8.5% increase proposed.

Staff representations

13. From staff representations made to us, we understand that there are probably some hardship cases involving existing recipients who, having been renting accommodation with the allowance during the two-year renting period permitted under the scheme, will not be allowed to claim the revised HFA rates upon purchase of accommodation. It has been represented to us that some officers, especially those on probation, had no choice but to opt for rental accommodation because of their ineligibility for a downpayment loan. With the sharp rise in property prices during the past few years, officers living in rental accommodation would find it difficult to purchase their own homes on the basis of their existing HFA rates.

14. At the same time, we have been given to understand by the Administration that it is aware of a survey being undertaken by the Senior Non-Expatriate Officers Association to ascertain the impact of the current proposals on its members. The Administration has assured us that the Association's survey findings (expected to be available in mid-September) will be given due consideration before it finalises its recommendations for consideration by the Executive Council and Finance Committee, where appropriate. We endorse this arrangement.

CONCLUSION

15. In conclusion, we support the Administration's proposal to reinstate the trading-up provision for existing Home Financing Scheme recipients on conditions as set out in paragraph 4 above.

Yours faithfully,

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