

17 March 2000

The Honourable TUNG Chee Hwa
The Chief Executive of the
Hong Kong Special Administrative Region
of the People's Republic of China
Chief Executive's Office
Hong Kong

Dear Sir,

**Civil Service Reform
Proposed Fringe Benefits for Recruits**

We have been invited by the Administration to advise, under Clause 1(e) of our Terms of Reference, on its proposed package of fringe benefits for new civil service recruits including revised leave, leave passage and housing benefits.

Background

2. The Administration wrote to the Commission on 8 October 1999 with an update on the various proposals regarding a new fringe benefits package for recruits. Following discussions between the Civil Service Bureau and representatives from the four Central Staff Consultative Councils and four service-wide staff associations at the Working Group on Entry System and Conditions of Service set up by the Administration in early November 1999, the Administration has now reached agreement with the staff sides on –

- (a) cessation of the Local Education Allowance scheme for new recruits;
- (b) introduction of new leave and leave passage arrangements; and

- (c) introduction of new housing benefits arrangements, subject to further consideration of two related issues.

The Administration is of the view that further consideration is needed before a decision could be made on whether and if so what recommended scheme for provision of medical and dental benefits should be and how injury and death benefits should be pursued. The Administration now invites the Commission's advice on proposed arrangements under (b) and (c) above.

The Administration's Proposals and the Commission's Views and Recommendations

Leave

3. The new leave earning rates proposed by the Administration are as follows –

Rank	Proposed Leave Earning Rates (working days per year)	
	Less than 10 years of service	10 years of service & over
Directorate	22	26
MPS 14 – 49	18	22
MOD 1 and MPS 1-13	14	18

The accumulation of earned leave will be limited to two years' entitlement; and leave balance of an officer on his/her leaving the service will be encashed.

4. In devising the new leave arrangements, it is the Administration's intention to better align them to similar provisions in the private sector and to move towards the 'total remuneration' approach practised by private companies.

5. We support this approach. We note that the new proposals are less generous than those for existing civil servants but more in line with the practice in the private sector. On account of this, we agree that the Administration's proposals could be supported, notwithstanding that new recruits will still be more favourably treated than their counterparts in the private sector in terms of the leave earning rates and the maximum rate of leave accumulation.

Leave Passage

6. The Administration proposes that as with existing arrangement, leave passage will only be provided to new recruits at directorate level as follows –

Rank	Current Leave Passage Allowance Rates
D7 & above	\$41,440
D4 to D6	\$21,820
D1 to D3	\$21,820*

* Officers on D1-D3 currently receive leave passage benefits once every two years. As new recruits will be granted the allowance on a yearly basis, the initial rate of allowance for this category of officers will be half of that payable to serving officers.

The allowance will be fully non-accountable and payable at the end of each 12-month cycle. It will be taxable. Under the “total remuneration” approach, the allowance will be payable to the officer only and he/she will not be subjected to the double benefits rule.

7. Making the leave passage allowance non-accountable is a welcome step. By limiting the allowance to new recruits only will considerably reduce the value of the allowance which is presently paid to all family members of serving staff. We see no objection to the proposed arrangements which we support.

Housing

8. We have been informed by the Administration that in devising the new package of housing benefits, the Administration has had regard to the need to provide more flexibility and choice to civil servants and to move towards the ‘total remuneration’ concept as practised in the private sector. It is the Administration’s intention to develop the civil service housing benefits along this direction to bring them closer to the equivalent levels in the private sector.

9. Against these considerations, the Administration agreed with the staff sides that the new arrangements for housing benefits should be developed on the basis of the following principles –

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

10. The salient features of the new arrangements proposed by the Administration consist of the following –

- (a) the housing allowance will be a totally non-accountable cash allowance (NCA). Because of this, eligible officers will not be subjected to the prevention of double housing benefits rules (DBR);
- (b) for recruits on or above MPS 34 or equivalent, the NCA will be granted as a condition of service to replace the existing Home Financing Scheme (HFS) and the Rent Allowance Scheme (RAS);
- (c) for recruits between MPS 22 to 33, the NCA will be granted to replace the existing Home Purchase Scheme (HPS), subject to a quota system;
- (d) the NCA will be payable for a period of up to 10 years; and
- (e) the NCA rates will be similar to those under the current HFS and HPS, subject to a discount by 5% to cover the additional costs arising from the lifting of the DBR.

11. We see no objection to these arrangements, in particular, the proposal to make the allowance non-accountable. At present, under the prevention of double housing benefits rules, serving staff are prevented from receiving housing benefits if their spouses are in receipt of such benefits or have received their full entitlement of housing benefits from their employment either with the government (or any public-funded organisations), in the private sector or being themselves recipients of any public housing benefits. Following the introduction of the NCA, we agree with the Administration that it would be fair and logical to de-link the provision of the new housing benefits with marital status. Hence, we support the proposed

removal of the DBR. We have, however, reservations on the discounting proposal.

Discounting

12. The removal of DBR will result in additional costs. In line with the principle of cost-neutrality, the Administration proposes that the NCA rates be discounted by about 5% on its estimation that about 5% of eligible staff at present do not receive any housing benefits probably due to DBR. This is tantamount to taking from all in order that some could enjoy twice the benefit. We cannot see the logic of this arrangement which, we think, is unfair to staff. In the interest of fairness and good staff relations, we urge the Administration to re-consider the discounting proposal.

Two outstanding issues

13. There are two housing benefits related issues on which the Administration has not yet reached any agreement with the staff sides –

- (a) whether recruits below MPS 22 or equivalent should be provided with an option of either Civil Service Public Housing Quota (CSPHQ) or NCA; or be provided with both CSPHQ and NCA as requested by some representatives of the staff sides; and
- (b) whether the provision of downpayment loans under the existing HFS/HPS should cease for new recruits.

14. We note that on (a), the Administration is prepared, having regard to staff representations, to be flexible by providing new recruits with an option of either CSPHQ or NCA. We see no objection to this, although as the Administration noted from the Fringe Benefit Survey 1999 (conducted by the Pay Survey & Research Unit) very few companies in the private sector provided any housing benefits for junior staff.

15. On (b), we agree with the Administration that in the absence of pensions as security for loans and in the interest of simplifying the administration of civil service benefits, downpayment loans should not be provided to recruits under the new housing benefits scheme.

Conclusion

16. In conclusion, we support the Administration's proposed fringe benefits package for new recruits including –

- (a) the revised leave and leave passage (as set out in paragraphs 3 to 7 above); and
- (b) the revised housing benefits (including, inter alia, the introduction of NCA, the removal of DBR, the cessation of downpayment loans), subject to our observation on the discounting proposal (as set out in paragraphs 10 to 15 above).

Yours faithfully,

(Sidney Gordon)
Chairman
for and on behalf of
Members of the Standing Commission
on Civil Service Salaries and Conditions of Service