

Review of Civil Service Allowances :
First-phase Review of Fringe Benefit Type of Allowances

This note sets out the proposals in respect of the first phase review of fringe benefit type of civil service allowances and invites the staff sides' views.

Background

2. At present, there are a variety of civil service allowances which were introduced at different junctures for officers on different appointment terms. Some of these allowances are provided as fringe benefits and some are related to the performance of duties. The 2003-04 actual expenditure of these allowances are \$5,708M, about 80% of which (\$4,486M) is attributable to allowances that are fringe benefits.

3. To tackle our serious fiscal deficit, the Government is committed to achieving significant economy in its operating expenditure in the next few years. In order to contribute towards the Government's overall efforts in reducing its operating expenditure and to control expenditure on personnel-related expenses, we are pursuing a number of initiatives, including a significant reduction in the civil service establishment and the introduction of a more rational remuneration system. In connection with the latter, we are developing an improved civil service pay adjustment mechanism which will facilitate both upward and downward adjustment to civil service pay in future. In parallel, in line with the stated Government policy to keep our civil service management system under review and to ensure that the provision of various allowances is justified and in line with present day circumstances, we have undertaken a comprehensive review of civil service allowances, including those related to the performance of duties and those provided as fringe benefits.

4. Our objectives in pursuing the review of civil service allowances are three-fold, namely –

- (a) to ensure that payment of civil service allowances is in line with present day circumstances;
- (b) to enhance control over government expenditure on civil service allowances and to achieve substantive savings in this regard in the next few years; and

- (c) to identify scope for improving efficiency in the administration of civil service allowances.

5. Regarding allowances related to the performance of duties, we keep them under review on an on-going basis to improve their administration in line with today's circumstances. Since the announcement of the comprehensive allowance review last year, we have completed two phases of the review on job-related allowances (JRAs) payable to civilian grades and have just completed the review on acting allowance. We aim to complete the review on JRAs payable to disciplined services grades and the third-phase review on JRAs payable to civilian grades within this year. We shall continue to closely monitor the payment of duty-related allowances and keep them under review in order to ensure that their continued payment is justified and to enhance administrative efficiency.

6. As for fringe benefit allowances, we have been taking proactive steps over the years to modernise the provision of fringe benefits to civil servants. We introduced a more streamlined package of fringe benefits in June 2000 in line with the prevailing private sector practice for new recruits joining Government after that date. In view of the foregoing, the current review principally focuses on identifying feasible ways to further rationalise the payment of various allowances to officers who are currently or potentially¹ eligible for these allowances as fringe benefits under their terms of employment.

7. To facilitate progress, we have decided to take forward the review exercise in two phases. Under the first phase, we shall pursue change proposals for those allowances that affect relatively fewer civil servants and those change proposals that are less complicated, with a view to implementing the change measures at an early date. Under the second phase which will proceed later this year, we shall tackle those change proposals which are likely to have a more extensive impact within the civil service (e.g. change proposals concerning education allowances and housing allowances).

¹ The payment of fringe benefit type of allowances is normally pegged to an officer's salary point. Thus, an officer who is not currently receiving an allowance may become eligible for it at a future date through salary progression or promotion.

Change proposals under the first phase

8. The allowances covered under phase one of the review include –
- (a) *passage and related allowances*, namely leave passage allowance², sea passage and sea baggage allowance²; and
 - (b) *housing-related allowances and benefits*, namely provision of hotel accommodation², hotel subsistence allowance², provision of furniture and domestic appliances, furniture and domestic appliances allowances, removal allowance and air-conditioning allowance.

9. The background to the allowances referred to in paragraph 8 above and our proposed changes are set out at **Annex A**. A summary of the proposals is at **Annex B** for easy reference.

10. In taking forward the review exercise, we are guided by the principles of lawfulness, reasonableness and fairness. The Department of Justice has advised that there is some scope under the Basic Law and the employment contracts for serving officers for rationalising the terms of provision of civil service allowances and that the change proposals set out at the annexes are lawful. Following staff consultation, we shall consult the relevant advisory bodies on civil service salaries and conditions of service, i.e. the Standing Commission on Civil Service Salaries and Conditions of Service, the Standing Committee on Disciplined Services Salaries and Conditions of Service and the Standing Committee on Directorate Salaries and Conditions of Service. We shall take due account of all relevant considerations before making a final decision on the change measures for implementation.

Views sought

11. The staff sides are invited to let us have their views in writing by **15 July 2004**.

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² These allowances/hotel accommodation are also payable/available to officers on external posting. Such provision arises from the external postings and is not intended as fringe benefits. We are separately reviewing the terms of provision of these allowances/hotel accommodations under the External Service Regulations.

**Review of Civil Service Allowances :
First Phase Review of Fringe Benefit Type of Allowances**

Proposed Change Measures

PASSAGE AND RELATED ALLOWANCES

(A) Leave Passage Allowance (LPA)

Background

Before 1981, leave passages were provided only to overseas terms officers for travelling to their country of origin to renew home ties. The benefit was extended to local directorate officers starting from 1 November 1981 on grounds of parity of treatment between overseas terms and local terms officers. LPA is currently payable to directorate officers on local terms, common terms and new terms, and all officers on overseas terms. The eligibility cycles and the current LPA rates are shown in **Appendix 1**.

2. Eligible officers appointed on local terms, common terms and overseas terms may claim LPA for themselves and their family members (i.e. spouse and dependent children under the age of 19, or under 21 if receiving full-time education). Each dependent child is entitled to a proportion of the adult rate depending on his/her age. The total amount an officer may claim is capped by the LPA amount for six adults. For every child in receipt of the School Passage Allowance, the LPA amount available to the officer concerned will be correspondingly reduced by one adult's entitlement. Overseas terms officers are entitled to the single LPA rates appropriate to their salary band for their final leave cycle before leaving the service. For eligible officers appointed on new terms, LPA is provided to the officers only, and not their family members. A breakdown of officers eligible for LPA as at 31 March 2004 is shown at **Appendix 2**. The 2003-04 actual expenditure on LPA was \$60.4M¹.

¹ The expenditure includes that in respect of judicial and ICAC officers, but excludes that payable for officers on external posting.

3. Before 1 January 1998, an overseas terms officer could either request an air ticket for a standard leave passage (i.e. a direct route of the appropriate class between Hong Kong and his country of origin) or claim an LPA pegged to the published air fares of the relevant route in a class of travel appropriate to their salary band to cover non-standard travel arrangements. Local directorate officers were provided with LPA at the appropriate rates and could not request air tickets in lieu of LPA. Starting from 1 January 1998, leave passage benefits are provided to all eligible officers in the form of LPA instead of air tickets. Overseas terms officers appointed before 1 January 1998 may, however, request the provision of an air ticket if the LPA is insufficient for procuring a direct passage of their entitled class between Hong Kong and their country of origin.

4. The LPA for officers appointed on local terms, common terms or overseas terms is fully accountable. It may be claimed for all travel-related expenses incurred outside Hong Kong (except insurance premium) supported by certified receipts. The LPA for officers on new terms is non-accountable, and is paid to eligible officers at the end of each 12-month cycle.

Proposed Change Measures

Measure 1: turn LPA into a non-accountable allowance payable at the end of each 12-month cycle with a reduction in the LPA rates to reflect the enhanced flexibility in the use of the allowance

5. The current LPA rates were initially set at the prevailing rates payable to eligible officers as at 1 January 1998. In the case of the LPA rates for local directorate officers and overseas terms officers from the UK who are eligible for Economy Class travel, they were pegged to the discounted Business Class contract fares between Hong Kong and London under the Air Passage Agreement concluded between the Government and two airline companies. From 1999, the LPA rates have been adjusted annually on 1 April according to changes in package tour prices, as measured by the year-on-year change in such prices in the Hang Seng Consumer Price Index.

6. LPA is fully accountable except for officers on new terms. To streamline administration and to achieve economy, we propose to turn LPA into a non-accountable allowance for all eligible officers payable at the end of each 12-month cycle². To reflect the enhanced flexibility in the use of LPA and in view of the competitive air fares available in the market nowadays, we propose to revise the LPA rates downwards by 15%. A proposed new scale of allowance rates for eligible officers (for each eligible adult recipient³) is as follows -

- (a) \$33,670 for local terms/overseas terms/common terms/new terms officers on D7 and above for every 12-month cycle, except those in category (e) below;
- (b) \$17,740 for local terms/common terms/new terms officers on D4 to D6 and overseas terms officers on D6 and below for every 12-month cycle, except those in categories (d), (f) and (g) below;
- (c) \$8,870 for local terms/common terms/new terms officers on D3 and below for every 12-month cycle;
- (d) \$11,100 for overseas terms officers on MPS 34 to 44 taking annual leave for every 12-month cycle, except those in category (g) below;
- (e) \$19,680 for overseas terms officers on D7 and above taking homeward passage;
- (f) \$10,460 for overseas terms officers on D6 and below taking homeward passage, except those in category (g) below; and
- (g) \$6,130 for overseas terms officers on MPS 34 to 44 on annual leave terms taking homeward passage.

² In the case of local terms and common terms officers on D1 to D3, their LPA cycle will be shortened from 24 months at present to 12 months. The LPA rate for these officers and for new terms officers on D1 to D3 will be half of that for local terms and common terms officers on D4 or above whose LPA cycle will remain at 12 months.

³ The proposed LPA rates will be suitably discounted for eligible dependent children. Based on the existing discount factors, the LPA rates for eligible dependent children at age 12 and over will be at the full adult rate at the same LPA Level as the officer, except that children of an officer eligible for LPA Level 3 will receive the adult rate at Level 2; children aged 2 and over will receive 50% of the adult rate at the same LPA Level as the officer; and those aged under 2 will receive 10% of the adult rate at the same LPA Level as the officer. Separate provision for the Hong Kong Security Service Charge will cease.

The above rates for overseas terms officers apply to those whose country of origin is the UK. Rates for officers from other countries of origin are to be similarly adjusted downwards by 15%. A table setting out the existing and the proposed LPA rates is at **Appendix 3**.

7. The reduction in the LPA rates is balanced by enhanced flexibility in the use of the allowance. We consider such an approach reasonable. The estimated savings arising from the proposal are about \$5.7M in the first year and \$32.8M over five years. There would also be savings in administrative costs.

Measure 2: for local terms/common terms officers who are appointed/promoted to the directorate from a prospective date, cease LPA for the family members

8. In line with the arrangements for new terms officers introduced in 2000, we propose that the family members of local terms/common terms officers who are appointed/promoted to the directorate from a prospective date should not be eligible for LPA. For overseas terms officers, non-directorate officers are currently eligible to claim LPA for their family members. We propose that these officers should retain such eligibility when they are appointed/promoted to the directorate in future.

9. The estimated savings arising from the proposal are about \$1.2M in the first year and \$17.4M over five years.

(B) Sea Passage

Background

10. Sea passage was originally provided only to overseas officers appointed to the permanent establishment before 1 January 1958, who were on old leave terms. In those days, air travel was less common and air fares were quite high compared to sea travel. These officers normally travelled by sea to assume office in Hong Kong and were provided with sea passages for vacation leave and retirement. Overseas terms officers who were appointed on or after 1 January 1958 were offered new leave terms. Air passage, instead of sea passage, was provided for first appointment, vacation leave and retirement. In February 1972, the Finance Committee of the Legislative Council approved the

provision of sea passages to overseas terms officers who retire at the age of 50 or above and, for agreement officers, on satisfactory completion of not less than 15 years of public service in Hong Kong or another UK dependent territory. In 1984, following a review, the Government decided that new recruits appointed on or after 1 December 1984 would cease to be eligible for sea passage on final departure from the service.

11. For officers eligible for sea passage, the Government bears the cost of a standard sea passage⁴ for the officer himself and his eligible family members⁵. In 2004, the average cost to the Government for an officer who took the sea passage (including family members) was \$123,400. A breakdown of the claimants for sea passage in 2004 and the expenditure incurred are set out at **Appendix 4**.

12. Officers eligible for sea passage and their family members may, at their choice, opt to claim a single LPA in lieu of sea passage. The single LPA rates are currently \$13,650 to \$15,390 for those taking non-standard sea passage⁶, or \$7,210 to \$23,150 for those taking air passage (i.e. same as the single LPA for officers who are not eligible for sea passage).

Proposed Change Measure

Abolish sea passage and substitute it with LPA

13. Sea passage has outlived its original purpose of providing a means, at reasonable cost to the Government, for retiring overseas terms officers to return to their country of origin, typically in the UK, now that air transport has become a more cost-effective substitute. For illustration, the 2004 sailing from Hong Kong to Southampton was a 29-night cruise with 11 stops, costing around \$71,000 per head on First Class (Higher) and \$62,000 per head on First Class (Lower). Over time, the gap between the cost of a sea passage and the

⁴ A standard sea passage is a passage by a direct route approved by the Director of Accounting Services between Hong Kong and an officer's country of origin, of a class/grade according to his pay point (i.e. First Class (Higher) for officers on MPS 44 or above; First Class (Lower) or Tourist Class for officers below MPS 44).

⁵ Eligible family members include spouse and dependent children under the age of 19, or under 21 if receiving full-time education.

⁶ A non-standard sea passage is a sea passage by a non-direct route to the officer's country of origin, or a passage to a country other than the officer's country of origin, or a passage in a class other than that to which the officer is entitled.

LPA has widened⁷ and such disparity is set to further widen as sea transport in the form of sea cruises has become a luxurious pursuit. Apart from the escalating costs, as sailings between Hong Kong and the UK have become fewer, the retiring officers are often unable to find a suitable sailing that takes place before the expiry of their final leave.

14. In view of the foregoing, we propose that eligible officers and their family members should cease to be provided with sea passage and LPA for non-standard sea passage from a prospective cut-off date. Instead, they should be provided with a final homeward air passage, like other overseas terms officers, at the LPA rates appropriate to their salary point.

15. Sea passage is out of step with present day circumstances. The provision of LPA offers a reasonable substitute which fully serves the original purpose of sea passage. For overseas terms officers who retired in 2003-04, 50% of them took up sea passage. The take-up rates for the past five years fluctuated between 21% and 50%, with an average of 38%. In other words, for various reasons, many eligible officers have of their own accord opted for LPA. Based on the average take-up rate of sea passage over the past five years and the proposed LPA rates, the estimated savings of the proposed cessation are about \$1.9M in the first year and \$9.5M over five years.

(C) Sea Baggage Allowance

Background

16. Sea Baggage Allowance is payable as a fringe benefit to the following officers on overseas terms for transportation of baggage by sea when they leave the service –

- (a) officers on retirement, except those who are required to retire in the public interest or on disciplinary grounds;
- (b) officers who resign with an entitlement of deferred pension under the New Pension Scheme; and

⁷ A sea passage on First Class (Higher) (for which most officers taking sea passage are eligible) in 1984 cost \$31,684, which was 3.37 times the corresponding LPA at \$9,410; a sea passage on the same class in 2004 was \$71,461, which was 5.26 times the corresponding LPA at \$13,580.

- (c) officers on agreement or temporary transfer terms who leave the service on grounds other than misconduct.

17. The amount of Sea Baggage Allowance is determined by the cost of transportation of baggage by sea up to the officer's maximum volume entitlement with reference to his years of service, salary and marital status. The average claim in 2003-04 was \$55,500. The Government also meets the cost of insurance of the sea baggage at a premium rate not exceeding 3.5%, subject to a maximum insurance value of \$108,000 for the first three years of service, with an increase of \$7,200 for each subsequent year. The expenditure on Sea Baggage Allowance and insurance premium subsidy in 2003-04 was \$1.1M⁸.

Proposed Change Measure

Freeze the volume entitlement for Sea Baggage Allowance and the maximum insurance value for each eligible officer

18. We propose to freeze each eligible officer's entitlement to Sea Baggage Allowance and insurance premium subsidy at the levels to be calculated under existing rules at a prospective cut-off date. For illustration, for a married officer on or below MPS 49 with 20 completed years of service at the cut-off date, his entitlements to Sea Baggage Allowance and insurance premium subsidy will be frozen at the allowance for shipping 17.8 cubic metres of baggage and the insurance premium, not exceeding 3.5%, of a maximum insurance value of \$230,400 of his baggage, regardless of any additional years of service he may render after the cut-off date.

19. Officers eligible for the benefits will retain their eligibility. Based on the current profile of overseas terms officers, Sea Baggage Allowance and the provision of subsidy of insurance premium would be retained for another 30 years before they completely phase out. But the Government's financial liability for such benefits could be ascertained at the cut-off date and frozen at that level. The proposal would bring about estimated savings of about \$0.8M in the first year and \$3.2M over five years.

⁸ The expenditure includes that in respect of judicial and ICAC officers, but excludes that payable to officers on external postings.

HOUSING-RELATED ALLOWANCES AND BENEFITS

(A) Provision of Hotel Accommodation

Background

20. The provision of hotel accommodation to eligible officers dated back several decades. At present, hotel accommodation as a fringe benefit is provided mainly to overseas officers who are eligible for NDQ when they proceed on final leave. The number of claimants varies from year to year. For 2004-05, we estimate that about 30 eligible overseas terms officers will apply for provision of hotel accommodation on final departure from the service. The expenditure in 2003-04 was \$82,000.

Proposed Change Measures

Measure 1 : Reduce the duration of hotel accommodation provision

21. At present, eligible overseas terms officers proceeding on final leave are provided with three to seven nights of hotel accommodation, depending on their length of service. Taking account of the practical need for hotel accommodation upon vacating the NDQ, we propose that all eligible overseas terms officers proceeding on final leave should be provided with hotel accommodation for a maximum of three nights.

22. Eligible overseas terms officers proceeding on, or returning from, annual or curtailed leave lasting less than 60 days and who signify their intention to return to their quarters after their leave, may be provided with hotel accommodation for one night before proceeding on and returning from leave. In practice, we have not received any such application from eligible officers since 1999. To streamline administration, we propose to remove such provision.

23. We do not envisage that the reduced duration for which hotel accommodation is provided to eligible overseas terms officers proceeding on final leave will have any material impact on the concerned officers. Taking account of the impending adjustment to the ceiling rates for hotel accommodation (see paragraph 24 below), based on the 2004-05 estimates, the estimated savings are about \$0.22M in the first year and \$1.1M over five years.

Measure 2 : Adjustment of ceiling rates for hotel accommodation

24. The ceiling rates for hotel accommodation are adjusted from time to time under the existing arrangement. We do not propose to make any changes to the existing rate adjustment mechanism. As the last rate adjustment took place in 1997, we have reviewed the existing ceiling rates and shall adjust them in accordance with the existing arrangement with effect from 1 July 2004. The revised rates are set out at **Appendix 5**.

(B) Hotel Subsistence Allowance

Background

25. Hotel subsistence allowance, introduced in March 1972, is payable as a fringe benefit to officers offered appointment before 1 May 1999 who are eligible for hotel accommodation. Due to a shortage of NDQ in the early 70s, officers appointed on overseas terms often had to stay in hotels for a long period before they were allocated quarters and as a result incurred extra expenditure because of a prolonged stay in hotel accommodation. The current rates of the allowance are \$85 per night for an adult and a child aged four or above, and \$35 per night for a child aged below four. We have not received any claims from officers eligible for this fringe benefit in recent years.

Proposed Change Measure

Cease the hotel subsistence allowance

26. We propose to cease the hotel subsistence allowance since the original justification for introducing the allowance no longer prevails. We do not anticipate that the proposal would have any material impact on officers eligible for the allowance.

27. The savings obtained from this proposal are insignificant. But the proposal would help streamline the administration of civil service housing-related benefits.

(C) Provision of Furniture and Domestic Appliances and Furniture and Domestic Appliances Allowances

Background

28. Furniture and domestic appliances are provided to officers eligible for NDQ, officers directed by their heads of departments to occupy post-tied quarters, and officers who were offered appointment on local terms or common terms before 1 May 1999, receiving a substantive salary on MPS 17 – 44 or equivalent and are occupying departmental quarters. If for any reason no furniture or domestic appliances are supplied, they are eligible for the furniture and domestic appliances allowances. The furniture and domestic appliances allowances are also payable to officers not occupying quarters if they were offered appointment on local terms or common terms before 1 May 1999 and are receiving a substantive salary on MPS 34 – 44 or equivalent before 1 July 2000, provided that they are not otherwise debarred from receiving the benefit (e.g. they have forfeited their eligibility for housing-related benefits). The current rate of the furniture allowance is \$100 a month and that of the domestic appliances allowance is \$50 a month. We have ceased to provide furniture and domestic appliances and the related allowances to officers offered appointment on or after 1 May 1999, except officers directed to occupy post-tied quarters. The furniture and domestic appliances allowances have also ceased to be payable to serving officers offered appointment before 1 May 1999 who are not occupying quarters and who receive a substantive salary on MPS 34 – 44 or equivalent on or after 1 July 2000. The expenditure on the provision of furniture and domestic appliances and on the payment of furniture

and domestic appliances allowances in 2003-04 was \$6.9M and \$15.5M respectively.

Proposed Change Measure

Cease the provision of furniture and domestic appliances and the payment of the furniture and domestic appliances allowances

29. We propose to cease payment of furniture and domestic appliances allowances to all officers from a specified prospective date. As regards furniture and domestic appliances, those items already provided to occupants of NDQ and departmental quarters may be retained, but they will not be replaced. On changing quarters, the outgoing occupants are not allowed to move the existing government furniture and domestic appliances to the new quarters. The incoming occupants may retain the existing furniture and domestic appliances in the quarters if they so wish, or ask the relevant departments to remove them. The Government will not provide any new furniture and domestic appliances, nor will it replace the existing items. For officers who are directed to move from one quarter to another as a result of the quarters disposal programme, the occupants may ask the relevant departments to provide additional furniture and domestic appliances or replacement items if they still have stock. Otherwise, they will only be provided with those furniture and domestic appliances that are already in the quarters. The Government will cease to acquire new/replacement furniture and domestic appliances.

30. We anticipate that the proposal to cease provision of furniture and domestic appliances will not have a big impact on existing occupants of government quarters. As regards the proposal to cease payment of the furniture and domestic appliances allowances, we do not expect it to have any significant impact on the existing claimants (about 12 000) in view of the small monetary value of the allowances. On the other hand, based on the 2004-05 estimates, the proposals to cease provision of furniture and domestic appliances and payment of the furniture and domestic appliances allowances will achieve estimated savings of about \$8M and \$16.1M respectively in the first year, and about \$40M and \$80.5M respectively over five years. The administration of civil service housing-related benefits will also be streamlined.

(D) Removal Allowance

Background

31. Removal allowance is payable to officers who are directed to move from one quarter to another, or directed to move from private accommodation to a quarter, or directed to vacate a quarter to return to private accommodation. It is also payable to disciplined services officers who move from departmental quarters into Housing Authority accommodation under the Special Quota of the Civil Service Public Housing Quota (CSPHQ). For occupants of government quarters affected by the quarters disposal programme, removal allowance is normally payable within 12 months before the vacation deadline. The allowance comprises an accountable component and a non-accountable component. The non-accountable component covers essential expenses normally incurred when moving house (e.g. removal/re-installation of telephone, re-direction of mail, etc.). Any other removal expenses (e.g. packing and transportation of household effects, etc) are covered by the accountable component. The existing allowance rates are shown at **Appendix 6**. The number of claimants for removal allowance varies from year to year. The expenditure in 2003-04 was \$3.9M.

Proposed Change Measure

Turn the allowance into a non-accountable allowance at a reduced rate

32. To improve administrative efficiency and to achieve savings for the Government, we propose to make the allowance fully non-accountable and to reduce the rates of the existing accountable component for each of the four salary bands by 25%. The overall reduction rates range from 14.5% to 17.8%. The proposed allowance rates are set out at **Appendix 6**. We also propose that in respect of occupants of government quarters affected by the quarters disposal programme, the allowance should in future be payable within six months before the vacation deadline.

33. The proposals will affect only those officers who are under direction to move, occupants of government quarters affected by the quarters disposal programme and occupants of departmental quarters who move into Housing Authority accommodation under the Special Quota of the CSPHQ. The reduction in the rates of allowance is to an extent balanced by greater flexibility in using the allowance. We envisage that the proposed allowance rates after reductions would broadly be able to cover the expenses arising from the removal. The administration of removal allowance would be streamlined under the proposal. Based on the claiming pattern in 2003-04, the estimated savings for 380 claimants are about \$0.65M in the first year and \$3.3M over five years.

(E) Air-conditioning Allowance

Background

34. Air-conditioning Allowance was introduced in 1973, having regard to a common practice in the private sector then to provide air-conditioners or some form of air-conditioning allowance/subsidy to expatriate employees and senior local employees. The allowance is payable to eligible directorate officers for the purchase of air-conditioners. It is fully accountable and is payable on a reimbursement basis, subject to a ceiling of \$3,135 per air-conditioner. Each eligible officer may claim the allowance for up to two air-conditioners for every 60-month period. Allowance for the second air-conditioner is payable only if the officer has one or more dependent children under 21 years of age, provided that the children remain in Hong Kong for the period covered by the allowance.

35. Following a review in 1999, the allowance has been ceased for officers occupying substantively a post in the directorate on or after 1 May 1999.

36. As at 31 March 2004, about 970 officers⁹ were eligible for the allowance, of whom 75 officers claimed the allowance in 2003-04 with a total expenditure of \$0.2M. As eligible officers are allowed to claim the allowance only once every five years, we estimate that about 500 officers claim the allowance in a 5-year cycle.

Proposed Change Measure

Abolish the Air-conditioning Allowance without substitute

37. The Air-conditioning Allowance is clearly out of step with present day circumstances. We propose abolishing the Air-conditioning Allowance from a prospective date without substitute. Irrespective of whether an eligible officer has received the allowance before, payment would cease from a specified prospective date.

38. The estimated savings as a result of the proposed abolition are about \$0.2M in the first year and \$1M over five years. There would also be savings from administrative costs. Given the small monetary value of the allowance, the proposed abolition would have minimal impact on the concerned officers.

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⁹ Include judicial and ICAC officers.

Leave Passage Allowance (LPA) : Eligibility Cycle and Allowance Rates

(a) LPA eligibility cycle

- (i) 12 months for local terms and common terms officers on or above D4, all new terms officers (but those on D1 to D3 receive half the amount of allowance payable to those on D4 to D6), overseas terms officers on or above MPS 45, and overseas terms officers on MPS 34 to 44 taking annual leave;
- (ii) 24 months for local terms and common terms officers on D1 to D3; and
- (iii) 30 months for overseas terms officers below MPS 34, and overseas terms officers on MPS 34 to 44 taking vacation leave.

(b) LPA rates

Terms	Pay points	LPA level	LPA rate (\$) w.e.f. 1.4.2004		Eligibility period
overseas terms ¹ (except those taking non-standard sea passage)	D7 & above	3	Single	23,150	on departure from service
			Return	39,610	12 months
	Below D7, except those on MPS 34 to 44 taking annual leave	2	Single	12,300	on departure from service
			Return	20,870	12 months ²
	MPS 34 to 44 taking annual leave	1	Single	7,210	on departure from service
			Return	13,060	12 months
overseas terms taking non-standard sea passage	MPS 44 & above	13	Single	15,390	on departure from service
	Below MPS 44 & above the 'mark time' point	12	Single	14,650	
	On or below the 'mark time' point	11	Single	13,650	
local terms, common terms	D7 & above	3	39,610		12 months
	D4 to D6	2	20,870		12 months
	D1 to D3	2	20,870		24 months
new terms ³	D7 & above	23	39,610		12 months
	D4 to D6	22	20,870		12 months
	D1 to D3	21	10,435		12 months

Notes :

- 1 These LPA rates apply to officers whose country of origin is the UK. Separate rates apply to an officer whose country of origin is outside the UK.
- 2 An officer below MPS 34 is entitled to one return leave passage on completion of a 30-month tour/agreement.
- 3 The LPA for officers on new terms is non-accountable.

**Leave Passage Allowance :
Number of Eligible Officers as at 31 March 2004**

Category of Officers	No. of Eligible Officers as at 31.3.2004
D7 and above	40
D4 to D6	82
D1 to D3	1 110
MPS 45 to 49	175
MPS 44 and below	280
Total :	<hr/> 1 687 <hr/>

Note :

The figures include judicial and ICAC officers, but not officers who are provided with leave passage due to their external postings.

Existing and Proposed Leave Passage Allowance (LPA) Rates

Terms	Pay points	LPA level	Journey	LPA rates (\$) for each eligibility period ¹	
				Existing	Proposed
overseas terms ²	D7 & above	3	Single	23,150	19,680
			Return	39,610	33,670
	Below D7, except those on MPS 34 to 44 taking annual leave	2	Single	12,300	10,460
			Return	20,870	17,740
	MPS 34 to 44 taking annual leave	1	Single	7,210	6,130
			Return	13,060	11,100
local terms, common terms	D7 & above	3	N.A.	39,610	33,670
	D4 to D6	2	N.A.	20,870	17,740
	D1 to D3	2	N.A.	20,870	8,870
new terms	D7 & above	23	N.A.	39,610	33,670
	D4 to D6	22	N.A.	20,870	17,740
	D1 to D3	21	N.A.	10,435	8,870

Notes :

- 1 The eligibility period is 12 months, except for –
 - (a) overseas terms officers on MPS 34 to 44 on vacation leave terms and overseas terms officers below MPS 34, who are entitled to one return leave passage on completion of a 30-month tour/agreement; and
 - (b) local terms/common terms officers on D1 to D3, whose eligibility period is 24 months at present and is proposed to be shortened to 12 months in future.
- 2 These LPA rates apply to officers whose country of origin is the UK. For officers whose country of origin is outside the UK, the LPA rates will be similarly adjusted downwards by 15%.

Claimants for Sea Passage in 2004

Class of sea passage	Fare per person (\$)	No. of officers¹	No. of family members	Total fares (\$M)	Actual payment² (\$M)
First Class (Higher)	71,461	11	11	1.57	1.50
First Class (Lower)	62,305	8	8	1.00	0.84
Total :		19	19	2.57	2.34

Notes:

- 1 Including judicial and ICAC officers.
- 2 The actual payment was less than the listed fares due to discount for early booking/payment.

Ceiling Rates for Hotel Accommodation

(I) Existing ceiling rates for hotel accommodation per night

Grade	Single Occupancy (\$)	Double Occupancy (\$)
AA	1,500	1,580
A	1,360	1,400
B	1,290	1,360
C	1,190	1,230
CD or below	990	1,030

(II) Revised ceiling rates for hotel accommodation with effect from 1 July 2004 per night

Grade	Single Occupancy (\$)	Double Occupancy (\$)
AA	1,400	1,400
A	1,100	1,110
B	955	995
C	830	830
CD or below	715	745

Removal Allowance : Existing and Proposed Rates¹

Pay point	Existing and Proposed Rates (\$)		Total (\$)	
	Non-accountable component ²	Accountable component ³	Existing rates	Proposed Rates ⁴
D2 and above or equivalent	5,535 [5,600]	16,575 [12,580]	22,110	[18,180]
MPS 38-49 and D1 or equivalent	5,010 [5,070]	11,785 [8,945]	16,795	[14,015]
MPS 17-37 or equivalent	4,190 [4,240]	6,795 [5,155]	10,985	[9,395]
MPS 16 and below or equivalent	1,825 [1,845]	3,345 [2,540]	5,170	[4,385]

Notes :

1. The existing rates (in bold) have been effective since 1.1.2003. They have been grossed up for tax on the basis of the standard tax rate of 15% prevailing at the last revision. The proposed new rates (in square brackets) have been grossed up for tax on the basis of the standard tax rate of 16% for 2004-05.
2. The figures in square brackets under the column for the non-accountable component are derived by using the new gross-up factor corresponding to the standard tax rate of 16%.
3. The figures in square brackets under the column for the accountable component are derived by reducing the existing rates by 25% and using the new gross-up factor corresponding to the standard tax rate of 16%.
4. We propose to make the allowance fully non-accountable.

**First-phase Review of Fringe Benefit Type of Allowances :
Proposed Change Measures**

Allowance	Proposed change measures
(A) Passage and related allowances	
Leave Passage Allowance (LPA)	<p>1. Turn LPA into a non-accountable allowance payable at the end of each 12-month cycle with a 15% reduction in the LPA rates to reflect the enhanced flexibility in the use of the allowance.</p> <p>A proposed new scale of allowance rates for existing LPA claimants (for each eligible adult recipient) applicable from their LPA cycles commencing on or after the implementation date of the proposed LPA scale is as follows :</p> <p>(a) \$33,670 for local terms/overseas terms/common terms/new terms officers on D7 and above for every 12-month cycle, except those in category (e) below;</p> <p>(b) \$17,740 for local terms/common terms/new terms officers on D4 to D6 and overseas terms officers on D6 and below for every 12-month cycle, except those in categories (d), (f) and (g) below;</p> <p>(c) \$8,870 for local terms/common terms/new terms officers on D3 and below for every 12-month cycle;</p> <p>(d) \$11,100 for overseas terms officers on MPS Points 34 to 44 taking annual leave for every 12-month cycle, except those in category (g) below;</p> <p>(e) \$19,680 for overseas terms officers on D7 and above taking homeward passage;</p>

Allowance	Proposed change measures
	<p>(f) \$10,460 for overseas terms officers on D6 and below taking homeward passage, except those in category (g) below;</p> <p>(g) \$6,130 for overseas terms officers on MPS Points 34 to 44 on annual leave terms taking homeward passage.</p> <p>2. Cease LPA for the family members of local terms/common terms officers who are appointed/promoted to the directorate from a prospective date. For overseas terms officers, they may continue to be eligible to claim LPA for their family members on future promotion/appointment to the directorate as at present.</p>
Sea Passage	Abolish sea passage and substitute it with LPA (subject to the review outcome for LPA)
Sea Baggage Allowance	Freeze the volume entitlement for sea baggage allowance and the maximum insurance value for eligible officers in accordance with the existing rules at a prospective cut-off date.
(B) Housing-related allowances and benefits	
Provision of hotel accommodation	<p>1. Standardise the maximum period for which short-term hotel accommodation is provided to eligible overseas terms officers on final leave at three nights</p> <p>2. Adjust the ceiling rates downwards</p>
Hotel subsistence allowance	Abolish the hotel subsistence allowance

Allowance	Proposed change measures
Provision of furniture and domestic appliances and furniture and domestic appliances allowances	<ol style="list-style-type: none"> 1. Cease the provision of furniture and domestic appliances to occupants of government quarters 2. Abolish furniture and domestic appliances allowances
Removal allowance	<ol style="list-style-type: none"> 1. Turn the removal allowance into a fully non-accountable allowance and to reduce the rates of the existing accountable component of the allowance by 25%. 2. For occupants of government quarters affected by the quarters disposal programme, the allowance will only be payable within six months before the vacation deadline.
Air-conditioning allowance	Abolish the air-conditioning allowance