

ITEM FOR FINANCE COMMITTEE

HEAD 63 – HOME AFFAIRS DEPARTMENT

Subhead 110 Honoraria for members of committees

Members are invited to approve, with effect from 1 January 2001, changes to the following aspects of the existing mechanism –

- (a) the Consumer Price Index (A) be used as the basis for the annual adjustment of the honorarium and accountable allowance for District Council members; and
- (b) any annual downward adjustment of the accountable allowance be deferred and effected when there is an annual upward adjustment of the allowance.

PROBLEM

At its meeting on 1 December 2000, the Legislative Council (LegCo) House Committee, by consensus, urged the Administration to review the current adjustment mechanism for honorarium and accountable allowance (AA) for District Council (DC) members and to freeze the AA pending the completion of the review. In addition, a majority of the Members present at the LegCo House Committee meeting voted in favour of freezing the honorarium of DC members pending the completion of the review.

/PROPOSAL

PROPOSAL

2. We propose, with effect from 1 January 2001, to –
 - (a) replace the Consumer Price Index (C) (CPI(C)), which is the current basis for the annual adjustment of the honorarium and AA for DC members, by the CPI(A); and
 - (b) defer any annual downward adjustment of the AA and effect the adjustment only when there is an upward adjustment of the AA by offsetting the reduction carried forward against the increase.

JUSTIFICATION

3. On 2 July 1999, Members agreed, among other things, that the rate of the honorarium and the ceiling of the AA for DC members should be revised annually with reference to the movement of CPI(C) and that the authority for making such adjustments should be delegated to the Secretary for the Treasury. Accordingly, starting from 1 January 2000, DC members receive a monthly honorarium of \$18,190 and a monthly AA of up to \$10,000 to cover the actual expenses for hiring assistants and running local offices. These rates are due for their first annual adjustment in January 2001 in accordance with the established mechanism outlined above.

4. It has been the Administration's intention to examine comprehensively all the relevant issues relating to the provision of financial and other assistance to DC members in the context of the overall review of the roles and functions of the DCs. However, in view of the concerns of the LegCo House Committee, the Administration has conducted a focussed review of the annual adjustment mechanism, ahead of the overall DC review. The Home Affairs Bureau will continue to study the suggestions put forward by Members and DCs regarding the adequacy of the honorarium and the AA as well as other issues in the context of the overall review.

5. We agree with the views that the CPI(C), which covers households with an average monthly expenditure of \$34,000 to \$68,700 is not the appropriate index for adjusting DC members' honorarium which stands at \$18,190. We **propose** that with effect from 1 January 2001, the CPI(A), which covers

/households

households with an average monthly expenditure below \$18,000, should be used as the basis for adjusting the honorarium for DC members. Based on the movement of the CPI(A) from November 1999 to November 2000, the honorarium for DC members will be reduced by 1.3% with effect from 1 January 2001, to \$17,950 per month (as compared with a 2.7% reduction to \$17,700 per month if CPI(C) is used as the basis for adjustment).

6. We also **propose** that with effect from 1 January 2001, the CPI(A) should be used for adjusting the AA. This will mean that the ceiling of the AA will need to be reduced by 1.3% with effect from 1 January 2001, to \$9,870 (as compared with \$9,730 if CPI(C) is used as the basis for adjustment). However, we propose that the reduction should be deferred and dealt with as discussed in the following paragraphs.

7. We consider there is a case not to effect forthwith a reduction of the AA in accordance with the movement of the CPI(A) because the AA is used by DC members primarily to meet rental charges and staff salaries, which are usually governed by contracts and the payment levels do not change annually in accordance with price movements. In a deflation year, the downward movement of the CPI(A) would result in a reduction of the ceiling of the AA in the following year, which may render the AA insufficient to meet the contractual obligations of DC members. However, we do not think this consideration applies for DC members' honorarium, which is to cover the expenses arising from, and compensating them to some extent for the time spent on, council business.

8. Accordingly, we **propose** that with effect from 1 January 2001, any annual downward adjustment of the AA should be deferred, and that the adjustment should be effected only when there is an annual upward adjustment of the AA by offsetting the reduction carried forward against the present increase. In effect, this means that the ceiling of the AA will be frozen in deflation years and the deductions will only be effected when they are offset by upward adjustment in subsequent inflation years.

9. If the mechanism proposed above is approved by Members, the 1.3% downward adjustment of the ceiling of the AA (referred to in paragraph 6 above) will be withheld and be effected when there is upward adjustment of the AA in future years. To illustrate by way of example, if the CPI(A) increases by 4% from

November 2000 to November 2001, the ceiling of the AA will be adjusted upward by 2.648%, [i.e. $(1 - 1.3\%) \times (1 + 4\%)$] in January 2002 rather than 4%. The upward adjustment of 2.648% is in effect equal to the movement of the CPI(A) during the two-year period from November 1999 to November 2001. If the CPI(A) increases by 1% only from November 2000 to November 2001, only 1% out of the 1.3% reduction will be offset against the increase in 2002, leaving 0.3% outstanding reduction to be offset against another future year of upward adjustment.

10. This proposed mechanism for adjusting the AA offers a practical and immediate solution to the problems faced by DC members during deflation years. As opposed to maintaining the AA at the same level throughout the four-year DC term, the proposed mechanism provides for the possibility of upward adjustments of the ceiling of the AA at times of inflation. It also represents the least deviation from the current mechanism, and should in the long run be largely cost-neutral except for the savings foregone (see paragraph 12 below).

11. As mentioned earlier, the Administration will conduct an overall review of the roles and functions of the DCs and the support to be given to DC members. Having regard to the experience of the arrangements for LegCo, we intend to appoint an **independent commission** shortly to make recommendations on remuneration matters concerning DC members. The commission will carry out periodic reviews of the remuneration package for DC members. The proposal, which will enable recommendations on remuneration matters be made in a more independent manner, is likely to be welcomed by DC members.

FINANCIAL IMPLICATIONS

12. The financial implication of the proposals set out in paragraph 2 above is the savings in expenditure foregone during the year(s) when the reduction of the AA is not effected. In general, the magnitude of the savings foregone will depend on the CPI(A) movements and on the actual amount of AA claimed by DC members. For 2001, for example, assuming that the total of 519 DC members claim the full rate of the AA throughout the year, deferring the 1.3% downward adjustment of the ceiling of AA will result in savings foregone of around \$809,640 ($\$10,000 \times 519 \times 12 \times 1.3\%$). The replacement of CPI(C) by CPI(A) as the basis for adjusting the honorarium and AA for DC members should be cost-neutral in the long run.

BACKGROUND INFORMATION

13. We consulted the LegCo Panel on Home Affairs on 9 January 2001 on this proposal.

14. In 1981, Members approved the introduction of an honorarium at the rate of \$2,000 per month for District Board (DB) members with effect from April 1982. The honorarium was to meet, in part, earnings forgone due to time spent on DB matters and expenses incurred in connection with DB business.

15. On 24 July 1992, Members delegated to the Secretary for the Treasury the authority to approve annual revisions of the honorarium by reference to the movement in the Hang Seng CPI.

16. On 8 March 1996, Members approved the introduction of an Office Rental Allowance (ORA) with a ceiling of \$4,500 per month payable to DB members with effect from 1 April 1996. Revisions of the ORA would be made by reference to the movement of the Hang Seng CPI. The allowance was fully accountable and payable on a reimbursement basis on production of certified receipts.

17. In recognition of the enhanced role of the DCs, Members approved on 2 July 1999, among others, a new AA replacing the ORA for DC members with effect from 1 January 2000 and the AA was raised to a ceiling of \$10,000 per month. Apart from meeting the expenses incurred by DC members related to the running of their offices, the AA also covers the expenses for members to employ assistants for discharging DC duties in the district. The AA is reimbursable, on production of certified receipts, to meet the expenses incurred wholly and necessarily for discharging DC duties.