

**For discussion
on 9 January 2001**

Paper No. CB(2)613/00-01(04)

LegCo Panel on Home Affairs

Annual Adjustment of the Honorarium and Accountable Allowance for District Council Members

Purpose

This paper proposes a revised mechanism for adjusting the honorarium and accountable allowance for District Council (DC) members.

The Problem

2. At its meeting on 1 December 2000, Members of the LegCo House Committee urged the Administration to review the current adjustment mechanism for honorarium and accountable allowance (AA) for DC members and to freeze the ceiling of the AA pending the completion of the review. The proposal to freeze the honorarium of DC members was supported by a majority of the Members present at the meeting.

3. Separately, there were suggestions that the movement of the Consumer Price Index (C) (CPI(C)), which covers households with an average monthly expenditure of \$34,000 - \$68,700, might not be an appropriate basis for adjusting DC members' honorarium and AA.

Background

4. An honorarium was first introduced in 1982 for District Board (DB) members at the rate of \$2,000 per month to cover their expenses arising from, and compensating them to some extent for the time spent on, DB business. In 1996, an accountable Office Rental Allowance (ORA) with a ceiling of \$4,500 per month was introduced to assist DB members to set up ward offices in their districts and to meet the expenses incurred in the running of offices for discharging DB duties.

5. In July 1999, the LegCo Finance Committee (FC) approved, among other things, a new accountable allowance (AA) to replace the ORA with effect from 1 January 2000 and to raise the AA to a ceiling of \$10,000 per month in recognition of the enhanced role of the DCs. Apart from meeting the expenses incurred by DC members in running offices, the AA also covers expenses on the employment of 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.

6. The rates of the honorarium and AA are revised annually with reference to the movement of the CPI(C) and the authority for making such adjustment has been delegated to the Secretary for the Treasury. The mechanism is in line with the revision of the rate of remuneration and operating expenses reimbursement for LegCo members.

Present Position

7. Starting from 1 January 2000, DC members receive a monthly honorarium of \$18,190 and an AA of up to \$10,000 per month. DC members are generally of the view that the AA is insufficient to cover their operational expenses and should be increased. There are also requests for widening the scope of the permissible items for reimbursement.

8. It has been the Administration's intention to examine 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 fast-track and focussed review of the annual adjustment mechanism, ahead of the overall DC review. The Home Affairs Bureau will examine, among other things, the suggestions put forward by Members and DCs regarding the adequacy of the honorarium and the AA in the context of the overall review.

9. Information gathered by the Home Affairs Department from the DC Secretariats during the first six months (January to June 2000) of the current DC term reveals that over 60% of 519 DC members have claimed the full rate of AA (\$10,000) to pay for office rental charges and staff salaries. It is noted that the rental charges and salaries spent by DC members vary significantly: for rental, the claims range from \$1,200 (for joint office) to \$13,000; and for salary, from below \$1,000 (for part-time staff) to \$18,000. It is also noted that some DC members have only set up their offices recently and may not have claimed the AA in full in the first six months, and that some DC members have a practice of making their claims in one go at the end of the year.

10. DC members generally consider that the current adjustment mechanism for honorarium and AA is inappropriate as their contractual obligations, in terms of rental charges and staff salaries, do not change annually in accordance with the movement of the CPI(C). In a deflation year, the downward movement of the CPI(C) would result in a reduction in the ceiling of the AA in the following year, making it insufficient to meet the contractual obligations in respect of the office rental and staff salaries. This view is shared by Members of the LegCo as reflected in their consensus decision at the House Committee (paragraph 2 above).

The Administration's View

11. While we do not share the view that there could only be upward, but not downward, adjustment of the honorarium and the AA, it is recognized that DC members are bound by the terms of the rental and staff contracts they have entered into and cannot adjust them at will or in accordance with the movement of the CPI(C). It is therefore arguable that the current AA, which covers both rental charges and staff costs, should not be adjusted downward at times of deflation. The same argument, however, does not apply in the case of DC members' honorarium which is to cover the expenses arising from, and compensating them to some extent for the time spent on, council business. We consider that the honorarium of DC members should continue to be adjusted with reference to the movement of the CPI.

(a) *Honorarium*

12. While we do not consider it justifiable to freeze the honorarium for DC members at times of deflation, we agree with the suggestions of some Members that the movement of CPI(C), which covers households with an average monthly expenditure of \$34,000 - \$68,700, is not an appropriate basis for adjusting DC members' honorarium. Having considered the current rate of honorarium for DC members (\$18,190 before revision is made on 1 January 2001), we **propose** that **CPI(A)**, which covers households with an average monthly expenditure below \$18,000, should be used as the basis for adjusting the honorarium of DC members. We believe that this is the more likely expenditure range for DC members. Using CPI(A) as the basis, the honorarium for DC members would be reduced by 1.3% with effect from January 2001, to \$17,950 per month (as compared to a 2.7% reduction (to \$17,700 per month) if CPI(C) is used as the basis for adjustment).

(b) *Accountable Allowance*

13. To address the problems faced by DC members who are bound by the terms of the rental and staff contracts they have entered into, we **propose** to defer the downward adjustment of the ceiling of the AA at times of deflation and to effect the deduction only when there is upward adjustment of its ceiling in an inflation year. This will de facto freeze the AA in deflation years but allow the Administration to make up for the deduction later. In line with the proposal for DC members' honorarium (paragraph 12 above), we **propose** that the CPI(A) be used as the basis for adjusting the AA as well.

14. To illustrate the changes by way of example, under the existing mechanism where CPI(C) is used as the basis for adjustment, with a 2.7% downward movement of the CPI(C) during the period from November 1999 to November 2000, the ceiling of the AA (now at \$10,000) would have to be adjusted downwards by 2.7% (to \$9,730) as from 1 January 2001. Under the proposed mechanism, with a 1.3% downward movement of the CPI(A) during the corresponding period, the downward adjustment of the ceiling of AA will be withheld in 2001 and be effected when there is an upward adjustment of the AA in a future year. If the CPI(A) records a 4% increase in 2001, the ceiling of the AA will be adjusted upward by 2.648%, i.e. $[(1-0.013) \times (1+0.04)-1] \times 100\%$ in January 2002 rather than 4%, thereby enabling the Administration to make up for the deduction carried forward from the previous year. The

upward adjustment of 2.648% in effect equals to the movement of CPI(A) during the period from November 1999 to November 2001. The whole or part of the deduction will, as the case may be, be further deferred in cases where there is no upward adjustment in the ceiling of the AA or where the adjustment is insufficient to completely offset the outstanding deduction in the following year.

15. The 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. This approach 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 18 below).

16. If the proposals in paragraphs 13 and 14 above are adopted, the ceiling of the AA for DC members will be maintained at \$10,000 for the year 2001. The outstanding 1.3% deduction will be effected when there is an upward adjustment of the AA in a future year.

(c) *Independent Commission*

17. 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 engage an **independent commission** to make recommendations on remuneration matters concerning DC members. The commission will carry out periodic reviews of the remuneration package for members of the District Councils. The proposal, which would enable recommendations on the remuneration package for DC members to be made in a more independent manner, is likely to be welcomed by DC members.

Financial Implications

18. The financial implication of the proposals set out in paragraphs 12 and 13 above is the saving in expenditure foregone during the year(s) when the reduction of the AA is not fully effected. The magnitude will depend on the rate of the downward adjustment and the actual amount of AA claimed by DC members during that year. With a

total of 519 DC members and assuming that all of them claim the full rate of the AA throughout the year, deferring a 1% downward adjustment of the ceiling of the AA will result in savings foregone of around \$622,800 per year (519 x \$10,000 x 12 x 1%). With a 1.3% deflation rate, the maximum saving foregone in 2001 will be in the region of \$0.8 million. The replacement of CPI(C) with CPI(A) as the basis for adjusting the honorarium and AA for DC members should in the long run be cost neutral.

Way Forward

19. Subject to Members' advice, we shall seek the approval of the LegCo Finance Committee on 12 January 2000 to:

- (a) replace the CPI(C), which is currently adopted as the basis for adjusting the honorarium and AA for DC members, by the CPI(A), as proposed in paragraphs 12 and 13; and
- (b) defer the downward adjustment of the ceiling of the AA at times of deflation and effect the deduction when there is an upward adjustment of the AA, as proposed in paragraph 13.

Advice Sought

20. Members are invited to endorse the recommendations set out in paragraph 19 above.

**Home Affairs Bureau
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