

LEGISLATIVE COUNCIL BRIEF

Remuneration Package for Members of the Fifth term Legislative Council

INTRODUCTION

At the meeting of the Executive Council on 13 March 2012, the Council ADVISED and the Chief Executive ORDERED that the following recommendations of the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the Hong Kong Special Administrative Region (the Independent Commission)¹ regarding the remuneration package for Members of the Fifth term Legislative Council (LegCo) should be accepted -

- (a) the monthly remuneration of LegCo Members should be increased by 10%, from \$73,150 to \$80,465 per month. The monthly remuneration of the LegCo President, the President's Deputy and LegCo Members who are also serving on Executive Council should continue to be fixed at 200%, 150% and 2/3 of the remuneration of their fellow LegCo Members respectively;
- (b) the end-of-service gratuity, pitched at 15% of the total remuneration that a LegCo Member receives during a LegCo term, should continue to be payable to LegCo Members at the end of the term;
- (c) the existing amount of the medical allowance, currently at \$28,020 per annum, should be maintained;
- (d) the annual Office Operation Expenses Reimbursement (OOER) should be increased by 20%, from \$1,719,290 to \$2,063,148 per annum;

¹ The Independent Commission is chaired by Mr Vincent CHENG. Other members are Mr Nicky LO, Mr CHOW Chung-kong, Mrs Betty YUEN, Professor CHAN Yuk-shee and Ms Kelly CHAN.

- (e) surplus from a year's OOER entitlement should be allowed to roll over to the following year until the end of a LegCo term to allow LegCo Members more flexibility to use the OOER for payment of salary increments and/or gratuity for staff employed, if they choose to, for retention of experienced staff;
- (f) the existing level of the Entertainment and Travelling Expenses Reimbursement (ETER), currently at \$176,310 per annum, and the LegCo President's entertainment allowance, currently at \$176,480 per annum, should be maintained;
- (g) the existing level of the Setting Up Expenses Reimbursement (SUER), currently at \$150,000 per term (or \$75,000 per term for Members who have claimed setting up expense in the previous term), and the Information Technology and Communication Equipment Expenses Reimbursement (ITER), currently at \$100,000 per term, should be maintained. However, the two allowances should be combined into one provision to allow LegCo Members more flexibility in using the two allowances;
- (h) the existing provision of the Winding Up Expenses Reimbursement, at one-twelfth of the annual OOER plus actual amount of severance payments, should remain unchanged;
- (i) the recommendations above should be implemented with effect from 1 October 2012 upon the commencement of the Fifth Term LegCo; and
- (j) the existing mechanism whereby items (a), (c), (d) and (f) above will be adjusted in October each year in accordance with the movements of the Consumer Price Index (C) (CPI(C)) should continue to apply.

JUSTIFICATIONS

The Review

2. The Independent Commission is tasked, among others, to advise the Administration on the remuneration package for LegCo Members. It is an established practice for the Independent Commission to conduct a comprehensive review of the remuneration package for LegCo Members about a year before the start of a new LegCo term. With the Fifth term

LegCo due to begin in October 2012, the Independent Commission started a review in May 2011. The review is now completed and a copy of the Independent Commission's report is at **Annex A**.

3. At the time when the Independent Commission was about to embark on its comprehensive review, the Subcommittee on Members' Remuneration and Operating Expenses Reimbursement formed under LegCo's House Committee (LegCo Subcommittee) submitted in March 2011 its proposals to increase various components of the Operating Expenses Reimbursement (OER) with effect from 1 October 2011. Major requests of the LegCo Subcommittee are summarised at **Annex B**. In addition, the LegCo Subcommittee has once floated a proposal to peg LegCo Members' remuneration to 30%-50% of that a Director of Bureau (DoB) (i.e. to around \$84,620 to \$141,040 per month). While the LegCo Subcommittee is no longer pursuing this initial proposal and has not submitted any specific proposal regarding LegCo Members' monthly remuneration in the end, it reiterates the need for a long-term mechanism for determining LegCo Members' remuneration; and that the remuneration so determined should be able to reflect the important role of the legislature and the constitutional status of LegCo Members under the Basic Law.

Deliberations of the Independent Commission

4. In conducting its comprehensive review of the remuneration package for Members of the Fifth term LegCo, the Independent Commission has adopted a holistic approach and has taken into account a basket of factors including the role and functions of LegCo Members; utilisation rates of the allowances currently available to Members; the need to nurture political talents; the economic situation of Hong Kong; market rates of salaries and rentals, etc. It has also considered the requests and justifications provided by the LegCo Subcommittee with regard to its proposed increases of various components of the OER. Moreover, the Independent Commission considers it necessary to state its views on the fundamental issues raised in the process of public discussion regarding LegCo Subcommittee's initial proposal to peg Members' remuneration to 30%-50% of the salary of a DoB to enable LegCo and the public to better understand its considerations in the current review. Key deliberations of the Independent Commission are set out in the ensuing paragraphs.

(a) Basic principles

5. The Independent Commission upholds a number of basic principles in conducting its review. In particular, it considers that the main objective of making available a remuneration package to LegCo Members is to make it

possible for a broad spectrum of quality individuals from different sectors of the community to serve the public in the capacity of LegCo Members vis-à-vis other pursuits. The Independent Commission also considers that LegCo membership should not be regarded as a job per se. This is because if it were treated as a full-time job, LegCo Members may need to declare their outside employment and earnings. It would also be reasonable to expect that some restrictions, or at least certain requirements, be imposed on LegCo Members for taking up other employments. Any outside job restrictions may also have implications for those who intend to stand for elections in functional constituencies, since relevant candidates are required under the law to have a substantial connection with the constituencies concerned. Although the Independent Commission considers that LegCo membership is not a full-time job per se, it acknowledges the growing demand and public expectation on LegCo Members in recent years in terms of time and efforts to be spent on LegCo business. It therefore considers that this factor should be taken into account in considering the remuneration package for LegCo Members.

6. In addition, the Independent Commission considers that LegCo Members' monthly remuneration and the salaries of their assistants should not be pegged to that of the civil service since the job nature and responsibilities of the civil service are different from that of Members or their assistants. Another basic principle adopted by the Independent Commission is that notwithstanding the emergence of the new District Council (second) functional constituency, LegCo Members returned from geographical constituencies and functional constituencies should be entitled to the same remuneration package on grounds that all LegCo Members are exercising the same constitutional powers and functions under the Basic Law. As regards the requests of the LegCo Subcommittee to enhance their OER within the current term, the Independent Commission considers that since 2011-12 is the last legislative session of the current LegCo term, to avoid creating any potential unfair advantage for incumbent LegCo Members over other aspiring candidates for the impending LegCo election in 2012, care should be exercised in considering the proposals of the LegCo Subcommittee for a substantial increase in the OER within the current term with a view to avoiding any real or perceived conflict of interest.

(b) Monthly remuneration

7. LegCo Members' monthly remuneration was last enhanced in 2008 where it was adjusted upwards for 15% (in addition to the annual CPI(C) adjustment) to allow Members to share the fruits of Hong Kong's real economic growth for the period from 1991 to 2008. The Independent Commission notes that, for the period from 2008 to 2011, the overall rate of

increase of Members' remuneration marginally lags behind the rate of growth in nominal Gross Domestic Product (GDP) per employed person by 1.45% and lags behind the rate of growth in per capita GDP by 2.3%. In addition, comparing the rate of increase in remuneration of LegCo Members with that of the top 25% of salary earners working as managers and administrators (the median monthly salary of this group is roughly comparable to the remuneration of LegCo Members), the rate of increase of LegCo Member's remuneration from 2008 to 2011 lags behind this group by about 7.57% over the same period.

8. As regards the initial proposal of the LegCo Subcommittee to peg LegCo Members' remuneration to that of a DoB, the Independent Commission considers that there are fundamental problems with this idea given the entirely different roles and responsibilities between DoBs and LegCo Members. Specifically, the Independent Commission considers that the main roles of LegCo Members are to scrutinise and enact laws; approve public expenditure; and monitor the work of the Government. DoBs, on the other hand, have to formulate and champion government policies, ensure smooth implementation of policies and be held accountable for policies under their purview. Another relevant point is that the remuneration package of DoBs requires funding approval of LegCo. If LegCo Members' remuneration were in turn pegged to a certain percentage of that of a DoB, it may raise the question of conflict of interest. Therefore, irrespective of the percentage, the Independent Commission considers it inappropriate to peg LegCo Members' remuneration to that of a DoB.

9. Another important point which the Independent Commission considers relevant is that while it is important to set the monthly remuneration at a level which is sufficient to attract talents and can enable those who regard LegCo membership as their main occupation to have a reasonable standard of living, the Independent Commission maintains that remuneration should not be the single most important factor for those who aspire to be a LegCo Member. The Independent Commission considers that the vision and the desire to serve the community, the interest in pursuing a career in politics, and the high social status enjoyed by LegCo Members are also very important considerations.

10. The Independent Commission notes that the LegCo Subcommittee has made reference to practices of overseas jurisdictions in justifying a higher remuneration level. The Independent Commission has conducted similar research into practices of the same six overseas jurisdictions and its findings tally with that of LegCo's in general. However, the Independent Commission observes that due to different historical background and considerations, there are different practices among the six overseas

jurisdictions in determining and adjusting the remuneration of members of the legislature. Currently, direct linkage with the pay of senior civil servants/cabinet ministers are only found in the case of Australia and Singapore. Besides, any comparison of the mechanism in Hong Kong with that of overseas jurisdictions should be viewed in proper context, considering their very different political systems and the fact that Hong Kong is a Special Administrative Region while the other six overseas jurisdictions are at the federal government or equivalent level. Simply for reference purpose, both the current remuneration of LegCo Members (HK\$877,800 per annum) and the proposed remuneration for the Fifth term (HK\$965,580 per annum) compares well with the annual remuneration of members of the legislature in the UK and New Zealand².

11. Taking into account the above, as well as other factors including the constitutional role and functions of LegCo Members; the increase in workload and the public expectation on LegCo Members in recent years; the objective to enable a wide spectrum of quality individuals from different sectors of the community to serve as LegCo Members for the long term constitutional development of Hong Kong; and to cater for expectation of future economic growth, the Independent Commission recommends to increase the monthly remuneration for Members of the Fifth term LegCo by 10%, from \$73,150 to \$80,465 per month, on top of the annual price adjustment according to the movement of CPI(C), with effect from 1 October 2012. Together with the 15% end-of-service gratuity, the Independent Commission considers that this amount should be adequate to support a reasonable living by the Hong Kong standard. The Independent Commission also considers it appropriate to maintain the existing mechanism by fixing the existing arrangement whereby the monthly remuneration for the LegCo President, the President's Deputy and the LegCo Members who are also serving on ExCo are fixed at 200%, 150% and 2/3 respectively of the remuneration for their fellow LegCo Members.

(c) *End-of-service gratuity*

12. An end-of-service gratuity, pitched at 15% of the total remuneration which a LegCo Member receives during a LegCo term, was introduced in 2008 for Members of the Fourth term LegCo. As this level is adopted by many entities in both the private and the public sectors where an end-of-service gratuity is payable, the Independent Commission recommends

² Remuneration for legislators in the House of Commons of the UK is £ 65,738 per annum (adopting the average exchange rate from February 2011 to January 2012, it is equivalent to about HK\$819,315 per annum). Remuneration for legislators in the Parliament of New Zealand is NZ\$141,800 per annum (again adopting the average exchange rate from February 2011 to January 2012, it is equivalent to about HK\$876,560 per annum).

that this level should be maintained for Members of the Fifth term LegCo.

(d) *Medical allowance*

13. Medical allowance was first introduced in October 2008, and is adjusted annually in October in accordance with movements of CPI(C). The current amount of the medical allowance is \$28,020 per annum. After considering the utilisation rate of the medical allowance, in which the majority of LegCo Members claimed less than 80% of the medical allowance in the past three years, as well as the fact that the current amount is appropriate by market standards, the Independent Commission recommends that the current level of the medical allowance should be maintained for the Fifth term LegCo.

(e) *OOER*

14. The OOER is intended to reimburse LegCo Members' staffing and other operating expenses (such as maintaining their offices, conducting researches, etc). The OOER was last increased by 10% in October 2006, on top of the annual CPI(C) adjustment. The Independent Commission notes that the utilisation rate of the OOER has been consistently high in recent years, at more than 90%. Moreover, the Independent Commission notes that the rental expenses for private offices have been soaring in Hong Kong in recent years. Specifically, the percentage increase in office rental of Grade C office from 2006 (in which the OOER was last increased) to 2011 ranges from 38% to 62%. As for staffing support, as observed from site visits to Members' district offices, the Independent Commission considers that Members may require a degree holder or an experienced staff to help handle LegCo business with policy content and to supervise the operations of the offices. There may be more flexibility regarding the qualifications of the other assistants, who mainly deal with frontline work such as handling complaints and providing miscellaneous support services. Moreover, the Independent Commission acknowledges that the workload of LegCo Members has indeed increased in terms of both volume and complexity over the years, as seen from the increase in the number of meetings; longer hours of meetings; and the complex and controversial nature of issues put to LegCo for examination. All in all, the Independent Commission agrees that the level of the OOER should be enhanced to enable Members more resources to better perform their constitutional role and to better serve the community.

15. However, the Independent Commission has reservation over certain assumptions adopted, and accordingly the amount of increase in OER proposed by the LegCo Subcommittee. Specifically, the Independent Commission considers that given the uniqueness of the civil service pay

mechanism, it is inappropriate to use civil service pay as the basis to work out the amount required to cover salary expenses to be incurred by Members for employment of staff³. The proposed new and separate allowance for research should also be critically examined, considering the fact that currently expenses for research is claimable under OOER, which actually provides more flexibility to cater for different needs of Members, and that the LegCo Secretariat is providing research services to the Council and its panels and committees. The related proposal of the LegCo Subcommittee to lift the current restriction, so that a LegCo Member can engage his/her own political party to conduct research is also not supported given the real or potential conflict of interest.

16. Taking into account the above considerations and the need to maintain maximum flexibility for Members to utilise their OOER, the Independent Commission recommends a lump sum increase of the OOER by 20%, from the current \$1,719,290 to \$2,063,148 per annum. The amount should continue to be adjusted annually in accordance with CPI(C). Since the proposed 20% increase is a substantial enhancement and considering that 2011-12 is the last session of the current LegCo term, to preserve the integrity of the remuneration regime and in order to avoid any real or potential conflict of interest, the Independent Commission recommends that notwithstanding the request of LegCo to increase the OOER with effect from 1 October 2011, the proposed 20% increase in OOER should only take effect from the commencement of Fifth term LegCo (i.e. with effect from 1 October 2012).

17. To address the need of LegCo Members to retain experienced staff, the Independent Commission agrees with the LegCo Subcommittee that it would be reasonable to allow any surplus of a Member's OOER entitlement each year to roll over to the following year until the end of a LegCo term. This would facilitate LegCo Members to retain part of the OOER funding for salary increments and/or payment of gratuity at the end of the four-year term, if they choose to, with a view to retaining experienced staff.

(f) SUER and ITER

18. At present, a newly-elected LegCo Member is entitled to SUER of up to \$150,000 per term to cover expenses for fitting out, purchase of furniture, equipment, software, etc. A re-elected Member may claim up to \$75,000 if he/she has claimed any SUER in the previous term. Separately, a

³ Based on the findings of a survey among LegCo Members, the LegCo Subcommittee adopts the assumptions that each Member will employ seven full-time staff, pitched at the average salary of the first four salary points of "comparable" ranks in the civil service (i.e. one Executive Officer I, two Executive Officers II and four Assistant Clerical Officers); and that each Member will operate one central office and two district offices as the basis to work out its requested increase in OOER.

LegCo Member may also claim ITER of up to \$100,000 per term to cover expenses for the purchase or upgrading of information technology and communication equipment. The LegCo Subcommittee requests to combine the two allowances into one single provision and increase the combined amount from the existing \$250,000 per term to \$482,500 per term. In this connection, the Independent Commission notes that for the Third term LegCo, 38% of Members used less than 50% of the SUER while 31% of Members used less than 50% of the ITER. For the Fourth term LegCo (up to September 2010), 65% of Members used less than 50% of the SUER while 69% of Members used less than 50% of the ITER. Judging from these utilisation rates, the Independent Commission does not consider the proposal of LegCo to increase the amount of the two allowances justifiable. However, to enable more flexibility to Members, the Independent Commission recommends to merge the SUER and the ITER with effect from the Fifth term LegCo, but with no enhancement to the combined amount.

(g) Entertainment and Travelling Expenses Reimbursement and Winding Up Expenses Reimbursement

19. At present, a non-accountable Entertainment and Travelling Expenses Reimbursement (ETER), currently at \$176,310 per annum, is provided to LegCo Members. Up to 50% of the ETER may be deployed for meeting staff expenses, and the portion thus deployed will be accountable. The LegCo President is entitled to an additional entertainment allowance at \$176,480 per annum. Both allowances are adjusted annually in accordance with the movement of CPI(C). Having considered the utilisation rates of the ETER and considering the fact that the current amount should be able to maintain the purchasing power for the intended purpose, the Independent Commission recommends that the current level of the ETER should be maintained for the Fifth term LegCo. The same applies to the President's entertainment allowance. In addition, a LegCo Member may claim Winding Up Expenses Reimbursement (WUER) when he/she ceases to be a LegCo Member. The current provision of the WUER is set at one-twelfth of the annual OOER plus actual severance payment with no pre-set ceiling. The Independent Commission considers the provision to be appropriate and does not propose any adjustment for the WUER for the Fifth term LegCo.

(h) Mechanism to determine LegCo Members' remuneration

20. Contrary to LegCo's view, the Independent Commission considers that an established mechanism to determine LegCo Members' remuneration was already in place, with the Independent Commission examining a basket of factors before submitting its recommendations to the Administration; and for the Administration to consider the recommendations and if appropriate,

submitting them to the Finance Committee for funding approval. The basket of factors which the Independent Commission will examine include the role and functions of LegCo Members; the considerable amount of time which LegCo Members have been spending on LegCo-related work; the complex nature of work which LegCo Members have to handle; the rising public expectation and demand on LegCo Members; the need to nurture political talents; economic factors; views of LegCo Members, etc. The Independent Commission also highlights that all the factors flagged up by the LegCo Subcommittee have been taken into account in the current review before it arrived at the conclusion to recommend increasing LegCo Members' remuneration by 10% with effect from the next LegCo term.

Views of the Administration

21. We are satisfied that the Independent Commission has undertaken the review in a holistic manner. We agree with the analysis of the Independent Commission and consider that the remuneration package for the Fifth term LegCo as recommended by the Independent Commission to be in the right magnitude.

IMPLICATIONS OF THE PROPOSAL

22. The financial implications of the recommendations would be an additional amount of about \$1.8 million per LegCo Member per term⁴, or, on average, an additional amount of about \$452,000 per LegCo Member per annum. The total additional financial implications of implementing the proposals for the Fifth term LegCo, save for any annual price adjustments to be made, will be about \$126.6 million per term⁵. The recommendations are in conformity with the Basic Law, including the provisions concerning human rights, and have no staffing, economic, productivity, environmental or sustainability implications.

PUBLIC CONSULTATION

23. The Independent Commission met with the LegCo Subcommittee in June 2011 and exchanged views with LegCo Members upon receipt of the

4 End-of-service gratuity, SEUR, ITER and WUER are claimable on a per term basis.

5 The total additional financial implications of \$126.6 million equals to \$2.2 million for the President per term; \$2.0 million for the President Deputy per term; and \$1.8 million per LegCo Member per term x 68 Members (the total number of LegCo Members will be increased from 60 to 70 for the Fifth term LegCo).

latter's proposals. It also conducted site visits to the district offices of LegCo Members in July 2011 and listened to views of the assistants employed by LegCo Members. Upon invitation of the LegCo Subcommittee, the Administration Wing attended a meeting of the LegCo Subcommittee in December 2011 to listen to Members' further views.

PUBLICITY

24. We will inform the LegCo Subcommittee of the recommendations of the Independent Commission and the Administration's decision to accept all of them. A press release will be issued and a spokesman will also be made available to respond to enquiries.

BACKGROUND

25. The Independent Commission is appointed by the Chief Executive to advise the Administration on the remuneration package for members of the Executive Council and LegCo, as well as Politically Appointed Officials. The existing remuneration package for LegCo Members is set out at **Annex C**.

ENQUIRIES

26. Enquiries on this brief should be addressed to Mr Howard Lee, Assistant Director of Administration, at 2810 3946.

Administration Wing
Chief Secretary for Administration's Office
March 2012

Annex A

**The Independent Commission on Remuneration for
Members of the Executive Council and the Legislature,
and Officials under the Political Appointment System
of the Hong Kong Special Administrative Region**

**Report on the Review of Remuneration Package for
Members of the Fifth Term Legislative Council**

February 2012

TABLE OF CONTENTS

CHAPTER		PAGE
1.	INTRODUCTION	1
2.	APPROACH AND BASIC PRINCIPLES	5
3.	REMUNERATION AND PERSONAL BENEFITS	8
4.	OFFICE OPERATION EXPENSES REIMBURSEMENT	12
5.	OTHER COMPONENTS OF THE OPERATING EXPENSES REIMBURSEMENT	16
6.	SUMMARY OF RECOMMENDATIONS	18
ANNEX A	TERMS OF REFERENCE OF THE INDEPENDENT COMMISSION	
ANNEX B	MEMBERSHIP OF THE INDEPENDENT COMMISSION	
ANNEX C	COMPARISON OF PER CAPITA GROSS DOMESTIC PRODUCT/GROSS DOMESTIC PRODUCT PER EMPLOYED PERSON AND LEGCO MEMBERS' REMUNERATION	
ANNEX D	COMPARISON OF MONTHLY EARNINGS OF MANAGERS/ADMINISTRATORS AND LEGCO MEMBERS' REMUNERATION	
ANNEX E	UTILISATION RATE OF MEDICAL ALLOWANCE	
ANNEX F	UTILISATION RATE OF OFFICE OPERATION EXPENSES REIMBURSEMENT PER MONTH PER MEMBER	

- ANNEX G** COMPARISON OF PERCENTAGE CHANGE OF OFFICE OPERATION EXPENSES REIMBURSEMENT AND AVERAGE OFFICE RENT (2006-2011)
- ANNEX H** EXAMPLES OF HOW THE PROPOSED AMOUNT OF OFFICE OPERATION EXPENSES REIMBURSEMENT COULD BE UTILISED
- ANNEX I** UTILISATION RATE OF SETTING UP EXPENSES REIMBURSEMENT AND INFORMATION TECHNOLOGY AND COMMUNICATION EQUIPMENT EXPENSES REIMBURSEMENT
- ANNEX J** UTILISATION RATE OF ENTERTAINMENT AND TRAVELLING EXPENSES REIMBURSEMENT
- ANNEX K** COMPARISON OF THE CURRENT AND THE PROPOSED REMUNERATION PACKAGE OF LEGCO MEMBERS

CHAPTER 1: INTRODUCTION

1.1 The Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the Hong Kong Special Administrative Region (the Independent Commission) is appointed by the Chief Executive to, inter alia, advise the Administration of the remuneration packages for Members of the Executive Council (ExCo), the Legislative Council (LegCo) and political appointed officials. The terms of reference and membership of the Independent Commission are at **Annex A** and **Annex B** respectively.

1.2 It is an established practice for the Independent Commission to conduct a comprehensive review of the overall remuneration package for LegCo Members about a year before the start of a new LegCo term. With the Fifth term LegCo due to begin in October 2012, the Independent Commission started a comprehensive review in May 2011 which is now completed.

Current remuneration package for LegCo Members

1.3 The current remuneration package for LegCo Members, after the latest annual price adjustment in accordance with the Consumer Price Index (C) (“CPI(C)”) with effect from 1 October 2011, is as follows -

Remuneration and Benefits

(a) Monthly remuneration	\$146,300 (LegCo President) \$109,730 (President’s Deputy) \$73,150 (Member) \$48,770 (Member also serving on ExCo)
(b) End-of-service Gratuity (per term)	15% of the total remuneration for the term
(c) Medical Allowance (per annum)	\$28,020

Operating Expenses Reimbursement

(d) Office Operation Expenses Reimbursement (per annum)	\$1,719,290
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(e) Entertainment and Travelling Expenses Reimbursement (per annum)	\$176,310
(f) President's Entertainment (per annum)	\$176,480
(g) Setting Up Expenses Reimbursement (per term)	\$150,000 or \$75,000 (for Members who have claimed setting up expenses in the previous term)
(h) Information Technology and Communication Equipment Expenses Reimbursement (per term)	\$100,000
(i) Winding Up Expenses Reimbursement (per term)	One-twelfth of the annual office operation expenses reimbursement (i.e. \$143,274), plus actual severance payments

1.4 Components (a), (c), (d), (e) and (f) as listed in paragraph 1.3 above are subject to annual adjustments in October each year in accordance with movements of the CPI(C)¹. Component (i) above will also be adjusted as a consequence of any adjustment to component (d). The most recent adjustment, representing an upward adjustment of 3.9%, takes effect from 1 October 2011. The figures quoted above have already incorporated this latest price adjustment.

Requests of LegCo

(a) Operating Expenses Reimbursement

1.5 At the time when the Independent Commission was about to embark on its comprehensive review of the remuneration package for the Fifth

¹ The Consumer Price Index (CPI) measures the changes over time in the price level of consumer goods and services generally purchased by households. The year-on-year rate of change in the CPI is widely used as an indicator of the inflation affecting consumers. The CPI(C) is compiled based on the expenditure pattern of households in the relatively high expenditure range.

term LegCo, the Subcommittee on Members' Remuneration and Operating Expenses Reimbursement (the LegCo Subcommittee), formed under the House Committee of LegCo, made a submission to the Independent Commission in March 2011, requesting for enhancement of various components of the Operating Expenses Reimbursement (OER). Major requests of the LegCo Subcommittee are as follows -

- (a) to **increase** the Office Operation Expenses Reimbursement (OOER) by **\$634,091 per annum**, among which \$423,863 is to cater for expenses for engaging staff and for maintaining Members' offices; and the remaining \$210,228 is a new amount proposed to be separately kept and maintained by the LegCo Secretariat for the sole purpose of paying end-of-service gratuity to full-time staff engaged by LegCo Members. In coming up with the proposed amount of increase, the LegCo Subcommittee, based on a survey among LegCo Members, adopts the assumption that each Member will employ a total of seven full-time staff, and uses the average salary of the first four salary points of each of the "comparable ranks"² of the civil service as the base to work out the proposed additional resources required for staffing support;
- (b) based on past expenditure pattern that about 70% of the OOER is spent on staff salary, the LegCo Subcommittee further proposes that **70% of the OOER** should be **adjusted annually in accordance with the civil service pay adjustment**, while the remaining 30% to continue to be adjusted in accordance with CPI(C);
- (c) to provide a **new, separate allowance of \$204,000 per annum** to enable LegCo Members to engage outside parties to conduct **research** and to **lift the current restriction** so that the political parties to which Members are affiliated can also be engaged to conduct such researches;
- (d) to **merge** the existing **Setting Up Expenses Reimbursement** (currently at \$150,000 per term or \$75,000 per term for those who have claimed this allowance in the previous term) and the **Information Technology and Communication Equipment Expenses Reimbursement** (currently at \$100,000 per term) into one single allowance; and to **increase the total amount to \$482,500 per term**; and

² The LegCo Subcommittee pitches these seven full-time staff to the level of one Executive Officer I; two Executive Officers II; and four Assistant Clerical Officers in the civil service.

(e) to implement the above proposals as from 1 October 2011.

As the Winding Up Expenses Reimbursement is set at one-twelfth of the annual OOER, any increase in the annual OOER will also result in a corresponding increase in the Winding Up Expenses Reimbursement.

1.6 The above proposals of the LegCo Subcommittee would amount to a total increase in OER of about \$3.35 million per Member per term, or a 42% increase, when compared with the current remuneration package as at 1 October 2011.

(b) *Monthly Remuneration*

1.7 In the course of the current review, there was active public discussion on a suggestion floated by LegCo to peg LegCo Members' monthly remuneration to 30%-50% of the salary of a Director of Bureau (DoB). Although this suggestion was not pursued by the LegCo Subcommittee in the end, certain fundamental issues were raised in the process. Separately, the LegCo Subcommittee also suggests that an objective mechanism agreeable by all parties concerned should be in place to determine LegCo Members' monthly remuneration.

1.8 Deliberations and recommendations of the Independent Commission on the remuneration package for Members of the Fifth term LegCo, as well as its views on the requests of the LegCo Subcommittee to enhance the OER within the current term, and fundamental issues raised in the course of public discussion on Members' monthly remuneration are set out in the ensuing chapters.

CHAPTER 2: APPROACH AND BASIC PRINCIPLES

Approach

2.1 A well-established mechanism is in place in determining LegCo Members' remuneration package. In short, the Independent Commission will review all relevant factors about a year before the start of a new LegCo term with a view to coming up with recommendations for consideration of the Administration. If the Administration accepts the recommendations and where appropriate, funding approval from LegCo's Finance Committee will be sought for implementation of the recommendations. In conducting its review, the Independent Commission will adopt a holistic approach by examining a basket of factors including the role and functions of LegCo Members; utilisation rates of the allowances currently available to Members; the need to nurture political talents; views of LegCo Members; the economic situation of Hong Kong; market rates of salaries and rentals, etc. In addition, under the established mechanism, Members' monthly remuneration, medical allowance, OER and Entertainment and Travelling Expenses Reimbursement, as well as the President's Entertainment are subject to annual inflation adjustments in October each year in accordance with the movements of the CPI(C). The Independent Commission has conducted the current review in accordance with the established mechanism.

2.2 Upon receipt of the submission of the LegCo Subcommittee on the proposed increase in OER, the Independent Commission met with members of the LegCo Subcommittee in June 2011 to better understand their needs and the justifications of their proposals. The Independent Commission also conducted site visits to district offices of three LegCo Members (from both the geographical and functional constituencies) in July 2011 in order to have first-hand knowledge of the operation of Members' district offices and to listen to the views of the assistants employed by LegCo Members.

Basic Principles

2.3 After thorough examination, the Independent Commission considers that the following basic principles should be upheld in conducting the review -

- (a) the main objective of making available a remuneration package to LegCo Members is to make it possible for a broad spectrum of quality individuals from different sectors of the community to serve the public in the capacity of LegCo Members vis-à-vis other

pursuits;

- (b) LegCo membership should not be regarded as a job per se. If it were treated as a full-time job, LegCo Members may need to declare their outside employment and earnings. It would also be reasonable to expect that some restrictions, or at least certain requirements, be imposed on LegCo Members for taking up other employments. Any outside job restrictions may also have implications for those who intend to stand for elections in functional constituencies since relevant candidates are required under the law to have a substantial connection with the constituencies concerned. That said, the Independent Commission acknowledges that there has been a growing demand and public expectation on LegCo Members in terms of time and efforts to be spent on LegCo business. This factor would need to be taken into account in considering the level of Members' monthly remuneration;
- (c) the monthly remuneration and the various allowances/reimbursements available to Members of the Fifth term LegCo should be considered in totality. The overall remuneration package should also be finalised in good time so that aspiring candidates for the coming LegCo election, to be held in September 2012, can take this factor into account in considering whether or not to enrol for the election;
- (d) notwithstanding the emergence of the new District Council (second) functional constituency, LegCo Members returned from geographical constituencies and functional constituencies should be entitled to the same remuneration package on grounds that they are exercising the same constitutional powers and functions under the Basic Law;
- (e) LegCo Members' monthly remuneration and the salaries of their assistants should not be pegged to that of the civil service since the job nature and responsibilities of the civil service are different from that of Members or their assistants. Besides, the civil service pay mechanism is derived based on very unique considerations;
- (f) LegCo Members' monthly remuneration should not be pegged to that of politically appointed officials given the entirely different roles and responsibilities between the two; and

- (g) considering that 2011-12 is the last legislative session of the current LegCo term, and given the concern to avoid creating any potential unfair advantage for incumbent LegCo Members over other aspiring candidates for the impending LegCo election in 2012, care should be exercised in considering the proposals of the LegCo Subcommittee for a substantial increase in the OER within the current term with a view to avoiding any real or perceived conflict of interest.

CHAPTER 3: REMUNERATION AND PERSONAL BENEFITS

Monthly Remuneration

3.1 After the latest CPI(C) adjustment on 1 October 2011, the monthly remuneration of LegCo Members is now \$73,150 per month. This puts LegCo Members between the top 1% to 2% of salary earners in Hong Kong (i.e. between the 98th percentile (at \$65,000) and the 99th percentile (at \$85,700))³. Apart from the annual CPI(C) adjustment, the last increase of Members' remuneration, at 15%, was made in October 2008⁴ to enable Members to share the fruits of Hong Kong's real economic growth. Using 2008 (when the last adjustment was made) as the base year, it is estimated that the overall rate of increase in Members' remuneration marginally lags behind the rate of growth in nominal Gross Domestic Product (GDP) per employed person by 1.45%; and lags behind the rate of growth in per capita GDP by 2.3% over the period from 2008 to 2011 (see **Annex C** for details). Simply for reference purpose, if we compare the rate of increase in remuneration of LegCo Members with that of the top 25% of salary earners working as managers and administrators (the median monthly salary of this group is roughly comparable to the remuneration of LegCo Members), the rate of increase of LegCo Member's remuneration from 2008 to 2011 lags behind this group by about 7.57% over the same period. Details are at **Annex D**.

3.2 The Independent Commission recognises that given the very unique nature of LegCo membership, determination of the level of Members' monthly remuneration is a complex issue involving a host of factors. Therefore, it is not appropriate or indeed possible to derive a simple or mechanical formula to determine LegCo Members' monthly remuneration. By the same token, it is also not appropriate to compare the remuneration of LegCo Members directly with that of other sectors or to peg it to that of the civil service or politically appointed officials. The Independent Commission considers that while the monthly remuneration should be set at a level which is

³ Data extracted from "Annual Earnings and Hours Survey (AEHS), Q2 2010" compiled by Census and Statistics Department. Employees in AEHS include all employees except Government employees and live-in domestic workers. Wages in AEHS cover basic wage; commission and tips not of gratuitous nature; guaranteed allowances other than guaranteed year-end payment; and overtime payment. Discretionary bonuses and contract gratuity are not covered in the definition of wages in AEHS. Another relevant point to note is that the salary data of all employees including civil servants but excluding foreign domestic helpers is captured by the Population Censuses/By-Census conducted every five years. The relevant detailed income statistics of the 2011 Population Census will not be available until mid 2012. Therefore, the best relevant information currently available is the AEHS, which is different from the reference source adopted in the last round of review in 2007.

⁴ The 15% increase in remuneration was approved by the Finance Committee on 11 January 2008 and took effect in October 2008. The increase was in addition to the annual CPI(C) adjustment in October each year.

sufficient to attract talents and can enable those who regard LegCo membership as their main occupation to have a reasonable standard of living, it maintains its previous view that remuneration should not be the sole or main reason for those who aspire to be LegCo Members. The vision and the desire to serve the community; the interest in pursuing a career in politics; and the high social status enjoyed by LegCo Members are also very important considerations. In considering the appropriate level of the monthly remuneration for LegCo Members, the benchmark remains to be that the remuneration should be reasonably attractive to encourage a broad spectrum of quality individuals from different sectors of the community to come forward to serve the public in the capacity of LegCo Members vis-à-vis other pursuits. Another relevant point is that although LegCo membership is not a full-time job per se, there has been an increasing demand and public expectation on LegCo Members in terms of time and efforts to be spent on LegCo business in recent years. It is but reasonable to ensure that the level of Members' remuneration is commensurate with such demands. A reasonably attractive remuneration would also help attract and nurture political talents for the long term constitutional development of Hong Kong.

3.3 In the course of the current review, there has been active public discussion on a suggestion to peg LegCo Members' remuneration to 30%-50% of that of a DoB⁵. The Independent Commission considers that there are fundamental problems with this idea given the entirely different roles and responsibilities between LegCo Members and DoB. Specifically, the main roles of LegCo Members are to scrutinise and enact laws; approve public expenditure; and monitor the work of the Government. On the other hand, DoB formulate and champion government policies; put forward legislative and public funding proposals to LegCo for consideration; ensure smooth implementation of policies and are held accountable for policies under their purview. Another relevant point is that the remuneration package of DoB requires funding approval of LegCo. If LegCo Members' remuneration were in turn pegged to a certain percentage of that of a DoB, it may raise the question of conflict of interest. Therefore, irrespective of the percentage, the Independent Commission considers it inappropriate to peg LegCo Members' remuneration to that of a DoB.

3.4 The Independent Commission has looked into the practices of six overseas jurisdictions (i.e. Australia, Canada, New Zealand, Singapore, UK and USA) in the course of its review. The Independent Commission notes that the current remuneration level of LegCo Members in Hong Kong

⁵ The currently monthly salary of a DoB is \$282,080 per month. If LegCo Members' monthly remuneration were pegged to 30%-50% of that of a DoB, it would become \$84,620 to \$141,040 per month. In addition, since LegCo Members are also entitled to a 15% end-of-service gratuity, the amount of the gratuity which LegCo Members receive at the end of a four-year term would also increase accordingly.

compares well with that of members of the legislature in the UK and New Zealand. However, while overseas practices can serve as a reference, the Independent Commission maintains its previous view that any direct comparison with practices overseas would not be appropriate given the differences in the political systems of the overseas jurisdictions, and the fact that Hong Kong is a Special Administrative Region while the overseas jurisdictions are at the federal or equivalent level. Besides, due to different historical background and considerations, the practices among the six overseas jurisdictions in determining and adjusting the remuneration of members of the legislature are all very different.

3.5 Taking into account a basket of factors including the constitutional role and functions of LegCo Members; the increase in workload and the public expectation on LegCo Members in recent years; the objective to enable a wide spectrum of quality individuals from different sectors of the community to serve as LegCo Members for the long term constitutional development of Hong Kong; and to cater for expectation of future economic growth, the Independent Commission considers it appropriate to increase the monthly remuneration for LegCo Members by **10%**, from the current \$73,150 to **\$80,465** per month, on top of the annual price adjustment according to the movement of CPI(C). Together with the end-of service gratuity, which is currently set at 15% of the total remuneration which a LegCo Member receives during the four-year term, the Independent Commission believes that the proposed remuneration level should be adequate to support a reasonable living by the Hong Kong standard. In line with the established practice, the Independent Commission further proposes that the increase should take effect from the Fifth term LegCo onwards i.e. from **1 October 2012**.

3.6 In addition, the Independent Commission considers it appropriate to maintain the existing mechanism by fixing the monthly remuneration for the LegCo President, Deputy to the President (i.e. Chairman of the House Committee) and LegCo Members who are also serving on ExCo at 200%, 150% and two-thirds of the remuneration for their fellow LegCo Members respectively.

Medical Allowance

3.7 After considering the justifications put forward by LegCo Members and other factors including the premium of different medical insurance plans generally available in the market, the Independent Commission recommended and the Finance Committee of LegCo approved in January 2008 that a medical allowance of \$25,000 per annum should be provided to Members starting from the Fourth term LegCo in October 2008.

The medical allowance is also adjusted annually in October in accordance with the movement of CPI(C). After the latest price adjustment, the latest amount of medical allowance with effect from 1 October 2011 is \$28,020 per annum.

3.8 According to information provided by the LegCo Secretariat, most LegCo Members (about 72%, 68% and 82% respectively during the past three legislative sessions) claimed less than 80% of the medical allowance (**Annex E**). Considering the utilisation rate and the fact that the current amount is appropriate by market standards, the Independent Commission considers it appropriate to **maintain the current level of the medical allowance** for the Fifth term LegCo.

End-of-service Gratuity

3.9 Following a comprehensive review, the Independent Commission recommended and the Finance Committee of LegCo approved in January 2008 that an end-of-service gratuity, pitched at 15% of the total remuneration which a LegCo Member receives during a LegCo term, would be made available to Members with effect from the current LegCo term. This is to recognise LegCo Members' public service and to assist Members to tide over a period should they decide not to seek re-election or fail to be elected.

3.10 Since the current level, pitched at **15%** of the total remuneration, is adopted by many entities in both the private and the public sectors where an end-of-service gratuity is payable, the Independent Commission considers this level **remains appropriate** and should be maintained for Members of the Fifth term LegCo.

CHAPTER 4: OFFICE OPERATION EXPENSES REIMBURSEMENT

Current situation

4.1 The annual Office Operation Expenses Reimbursement (OOER) is a component of the Operating Expenses Reimbursement (OER) and is intended to reimburse Members' staffing and other operating expenses (such as maintaining their offices or for conducting research) for conduct of LegCo business. The OOER was last increased by 10% in 2006 (on top of the annual CPI(C) adjustment). Following the latest price adjustment in October 2011, the amount of OOER is now \$1,719,290 per annum.

Considerations

4.2 According to information provided by the LegCo Secretariat, the utilisation rate of the OOER has been consistently high in recent years. The overall average utilisation rate per Member is 90% in the 2008-09 session; 93% in the 2009-10 session and 92% in the 2010-11 session (up till April 2011) (see **Annex F** for details). According to the LegCo Secretariat, a few Members have also reported that they have spent more than the reimbursable amount. At the same time, the Independent Commission notes that rental expenses for offices have been soaring in Hong Kong in recent years. As an illustration, the percentage increase in OOER over the period from 2006 (when the OOER was last increased) to 2011 is about 15%; but the percentage increase in office rental of Grade C offices over the same period ranges from 38% to 62% (**Annex G**). This would impose a burden on Members in maintaining their district offices. Moreover, the Independent Commission acknowledges that the workload of LegCo Members has indeed increased in terms of both volume and complexity over the years, as seen from the increase in the number of meetings; longer hours of meetings; and the complex and controversial nature of issues put to LegCo for examination.

4.3 The Independent Commission agrees that research is important in assisting the work of LegCo Members. However, it notes that the LegCo Secretariat is at present providing research service to all Members upon the request of relevant panels and committees. This provides an important backup for LegCo Members. The Independent Commission also notes that under the existing mechanism, research expenses are claimable under OOER.

4.4 Taking into account the above factors, the Independent Commission considers that there is a prima facie case to enhance the level of OOER for the Fifth term LegCo to enable Members to better perform their

constitutional role and to better serve the community. However, the Independent Commission has reservation on certain assumptions adopted, and accordingly the amount of increase in OER proposed, by the LegCo Subcommittee. Specifically, the Independent Commission considers that given the uniqueness of the civil service pay mechanism, it is inappropriate to use civil service pay⁶ as the basis to work out the amount required to cover salary expenses to be incurred by Members for employment of staff. The proposed new and separate allowance for research should also be critically examined, considering the fact that currently expenses for research is claimable under OOER, which actually provides more flexibility to cater for different needs of Members, and that the LegCo Secretariat is providing research services to the Council and its panels and committees. The related proposal of the LegCo Subcommittee to lift the current restriction, so that a LegCo Member can engage his/her own political party to conduct research should not be adopted lightly given the real or potential conflict of interest.

4.5 As observed from site visits to Members' district offices in July 2011, the Independent Commission considers that it may be fair to conclude that in general, Members may require a degree holder or an experienced staff to help handle LegCo business with policy content and to supervise the operations of the offices. There may be more flexibility regarding the qualifications of the other assistants, who mainly deal with frontline work such as handling complaints and providing miscellaneous services to the constituencies.

4.6 The Independent Commission notes that any assumptions adopted in working out a proposed level of the OOER are at best working assumptions. In practice, there is no restriction on how Members apportion the amount of the OOER between staffing, operation and research expenses according to their individual needs and priorities. For instance, Members have full discretion to decide on the exact number of staff to employ, the salary level and benefits of their staff, as well as the number of district offices. They are not bound by the working assumptions adopted by the LegCo Subcommittee for the purpose of working out their intended use of OOER.

4.7 Taking into account the above considerations and the need to maintain maximum flexibility for Members to utilise their OOER, the Independent Commission proposes a **lump sum increase of the OOER by 20%**, from the current \$1,719,290 to **\$2,063,148** per annum, **with effect from the Fifth term LegCo**. Simply for illustration purpose without any intention

⁶ Based on the findings of a survey among LegCo Members, the LegCo Subcommittee adopts the assumptions that each Member will employ seven full-time staff, pitched at the average salary of the first four salary points of "comparable" ranks in the civil service (i.e. one Executive Officer I, two Executive Officers II and four Assistant Clerical Officers); and that each Member will operate one central office and two district offices as the basis to work out its requested increase in OOER.

to stipulate how Members should apportion their OOER, some examples on how this proposed amount could be utilised to cover various expenses are worked out at **Annex H**. Among them, the first example is worked out using the basic assumptions adopted by the LegCo Subcommittee with regard to the number of staff (i.e. seven full-time staff) and the number of district offices (i.e. two district offices), but drawing reference from salaries of the private sector instead of the civil service pay as it would not be appropriate to peg the salary of LegCo Members' assistants to that of civil servants, and also drawing reference from rental rate of private offices.

4.8 To address the concern of Members, the Independent Commission agrees with the LegCo Subcommittee that it would be reasonable **to allow any surplus of a Member's OOER entitlement each year to roll over to the following year until the end of a LegCo term**. This would facilitate Members to retain part of the OOER funding for salary increments for their staff and for payment of gratuity at the end of the four-year term, if they choose to, with a view to retaining experienced staff.

4.9 The Independent Commission considers that the proposed lump sum increase of **20%** in OOER, together with the roll-over arrangement, should adequately meet the needs of Members in terms of resources for staffing support, office operation and research. As such, the Independent Commission considers that the proposed new and separate allowance for research should no longer be necessary. Indeed, the proposed lump sum enhancement of the OOER would provide Members with more flexibility to decide on how much they wish to spend on research according to their own needs and priorities. As for the proposal of the LegCo Subcommittee to adjust 70% of the OOER annually in accordance with the civil service pay adjustment instead of the movement of CPI(C), the Independent Commission does not support this proposal since there is no ground to peg the salary of the assistants employed by Members to that of the civil service given the different job nature of the two and the unique mechanism of the civil service pay structure. In addition, since Members have full discretion to apportion their OOER between staffing and other office expenses, it would be inappropriate to rigidly set 70% of the OOER as the portion for staffing expenses and subject this portion to a different annual adjustment mechanism.

4.10 As for the proposal of the LegCo Subcommittee to enhance the OOER within the current LegCo session (with effect from 1 October 2011), the Independent Commission considers that the proposed increase in OOER by **20%** is a substantial enhancement. Besides, LegCo Members were fully aware of the level of the OOER of the current LegCo term when they made the decision to stand for election in the first place. Although there had been cases of a mid-term increase in the OOER, they were exceptions rather than the rule.

Considering the fact that 2011-12 session is the last session of the current LegCo term, in order to preserve the integrity of the remuneration regime and to avoid any real or potential conflict of interest, the Independent Commission considers it appropriate for the **proposed increase in OOER to take effect from** the commencement of the Fifth term LegCo i.e. with effect from **1 October 2012**.

CHAPTER 5: OTHER COMPONENTS OF THE OPERATING EXPENSES REIMBURSEMENT

Setting Up Expenses Reimbursement and Information Technology and Communication Equipment Expenses Reimbursement

5.1 At present, a newly-elected LegCo Member is entitled to a Setting Up Expenses Reimbursement (SUER) of up to \$150,000 per term to cover expenses for fitting out, purchase of furniture, equipment, software, etc. A re-elected Member may claim up to \$75,000 if he/she has claimed any SUER in the previous term. Separately, a LegCo Member may also claim reimbursement of up to \$100,000 each term for the purchase or upgrading of information technology and communication equipment.

5.2 Based on a survey among Members on their needs for office furniture and equipment; and adopting the assumption that each Member will operate three offices with a staffing complement of seven full-time staff, the LegCo Subcommittee proposes to merge the SUER and the Information Technology and Communication Equipment Reimbursement (ITER) into one single allowance, and to increase the total amount to \$482,500 per term. This represents an increase of \$232,500 per term, or an increase of 93%.

5.3 According to the information provided by the LegCo Secretariat, 38% of LegCo Members used less than 50% of the SUER during Third term LegCo (2004-08), while 31% of Members used less than 50% of the ITER during the same period. During Fourth term LegCo (2008 up till September 2010), 65% of Members used less than 50% of the SUER while 69% of Members used less than 50% of the ITER (see **Annex I**). Judging from these utilisation rates, the Independent Commission has reservation on the need for the proposed 93% increase in the two allowances. That said, to enable more flexibility to Members, the Independent Commission considers it acceptable to accede to the request of the LegCo Subcommittee to **merge the SUER and the ITER** with effect from the Fifth term LegCo, **but with no enhancement** to the combined amount.

Entertainment and Travelling Expenses Reimbursement

5.4 At present, a non-accountable Entertainment and Travelling Expenses Reimbursement (ETER) is provided to each LegCo Member. Up to 50% of the ETER may be deployed for meeting staff expenses, and the portion thus deployed will be accountable. The LegCo President is entitled to an additional entertainment allowance. Both allowances are adjusted annually in

October in accordance with the movement of CPI(C). Following the latest price adjustment with effect from 1 October 2011, the amount of the ETER is now \$176,310 per annum while the President's entertainment allowance is \$176,480 per annum.

5.5 According to statistics provided by the LegCo Secretariat, about 13%, 11% and 18% of Members claimed less than 80% of the ETER during the past three legislative sessions respectively (**Annex J**). Considering the utilisation rate and the fact that the annual CPI(C) adjustment to the ETER should be able to maintain the purchasing power for the intended purpose, the Independent Commission considers it appropriate to **maintain the current level of the ETER for the Fifth term**. The same applies to the President's entertainment allowance.

Winding Up Expenses Reimbursement

5.6 A LegCo Member may claim Winding Up Expenses Reimbursement (WUER) when he/she ceases to be a LegCo Member, either because he/she does not seek re-election or for reasons over which he/she has no control (e.g. death, defeat in re-election or dissolution of LegCo). The current provision of the WUER is set at one-twelfth of the annual OOER (currently at \$143,274), plus actual severance payments with no pre-set ceiling. With the proposed increase in the annual OOER, the WUER will also be increased accordingly. The Independent Commission considers the current provision to be appropriate and **does not propose any adjustment** for the Fifth term LegCo.

CHAPTER 6: SUMMARY OF RECOMMENDATIONS

To sum up, the Independent Commission recommends –

- (a) the monthly remuneration for LegCo Members should be increased by **10%**, from the current \$73,150 to **\$80,465** per month;
- (b) the monthly remuneration for the LegCo President, the President's Deputy and LegCo Members who are also serving on ExCo should continue to be fixed at 200%, 150% and 2/3 of the remuneration for their fellow LegCo Members respectively;
- (c) **the end-of-service gratuity, pitched at 15%** of the total remuneration that a LegCo Member receives during a LegCo term, should continue to be payable to LegCo Members at the end of the term;
- (d) **no change to the amount of the annual medical allowance**, currently at \$28,020 per annum;
- (e) the annual OOER should be increased by **20%**, from the current \$1,719,290 to **\$2,063,148** per annum;
- (f) **allowing surplus from a year's OOER to be rolled over to the following year until the end of a LegCo term.** This is to allow more flexibility for LegCo Members to use the OOER for payment of salary increments and/or gratuity for staff employed if they choose to;
- (g) **maintaining the existing amount of the Entertainment and Travelling Expenses Reimbursement** for Members and the LegCo President's entertainment allowance;
- (h) **maintaining the existing amount of the Setting Up Expenses Reimbursement and the Information Technology and Communication Equipment Expenses Reimbursement.** However, **the two allowances should be combined** to allow LegCo Members more flexibility in using the two allowances;
- (i) maintaining the existing provision of the Winding Up Expenses Reimbursement;
- (j) implementing the recommendations above with effect from **1 October 2012** upon the commencement of the Fifth term LegCo; and

- (k) the existing mechanism whereby items (a), (d), (e) and (g) above will be adjusted in October each year in accordance with movements of CPI(C) should continue to apply.

The above recommendations would entail an additional amount of about \$1.8 million per LegCo Member per term, or, on average, an additional amount of about \$452,000 per Member per annum. A comparison of the existing remuneration package and the recommended package is set out at **Annex K**.

Terms of Reference of the Independent Commission

The Independent Commission -

- (a) considers the system of remuneration for Members of the Executive Council and the Legislative Council, and Officials under the Political Appointment System of the Hong Kong Special Administrative Region (HKSAR), taking into account any factor that may affect the level of such remuneration and allowances;
- (b) carries out periodic review of the remuneration package for Members of the Legislative Council of the HKSAR, say once every three to five years and normally about a year before the start of a new Legislative Council term;
- (c) carries out periodic review of the remuneration package for Officials under the Political Appointment System, say once every five years and normally about a year before the start of a new term of the HKSAR Government;
- (d) considers the appropriate level of remuneration for those with multiple membership on the Executive Council and the Legislative Council of the HKSAR in deliberating on the above issues; and
- (e) advises the Administration on any matter relating to the remuneration package for Members of the Executive Council and the Legislative Council, and Officials under the Political Appointment System of the HKSAR which the Administration may refer to the Independent Commission from time to time.

Membership of the Independent Commission

Chairman

Mr Vincent CHENG Hoi-chuen, GBS, J.P.

Members

Mr Nicky LO Kar-chun, SBS, J.P.

Mr Chow Chung-kong

Mrs Betty Yuen So Siu-mai

Professor Chan Yuk-shee, BBS, J.P.

Ms Kelly Chan Yuen-sau

**Comparison of Per Capita Gross Domestic Product / Gross Domestic Product Per Employed Person
and LegCo Members' Remuneration**

A. Nominal GDP

Year	Remuneration of LegCo Members (see Note 2 below)		Per capita GDP		GDP per employed person	
	HK\$ per month	Year-on-year % change	HK\$	Year-on-year % change	HK\$	Year-on-year % change
2008 (when the last adjustment to Members' remuneration was made)	68,200	-	240,339	-	476,586	-
2009	69,430	1.80	231,638	-3.62	466,211	-2.18
2010	70,400	1.40	246,733	6.52	499,315	7.10
2011 (see Note 3 below)	73,150	3.91	263,734	6.89	518,603	3.86
2011 as compared to 2008 (%)	+7.26%		+9.73%		+8.82%	

B. Indices (*using 2008 as the base year for which all indices are normalised to 100)

	Remuneration of LegCo Members	Per capita GDP	GDP Per employed person
2008	100.00	100.00	100.00
2009	101.80	96.38	97.82
2010	103.23	102.66	104.77
2011	107.26	109.73	108.82
Difference compared with remuneration of LegCo Members (%)	2.30%		1.45%

Note

- (1) Annual GDP figures above in nominal terms (i.e. at current price) up to 2010 are provided by the Census and Statistics Department.
- (2) Remuneration of LegCo Members in the table refers to the level as at October each year.
- (3) Assumptions for the calculation of per capita GDP and GDP per employed person for 2011 are as follows:
 - (i) Year-on-year growth of nominal GDP for 2011 is assumed to be 7.5%, corresponding to the latest revised forecast of real GDP at 5.0%. The GDP deflator is assumed to increase by 2.5% over the year;
 - (ii) Per capita GDP is derived based on the mid-year population of 2011 (provisional); and
 - (iii) GDP per employed person is derived based on the assumption that employed person would grow by 3.5% year-on-year in 2011, i.e. the average growth of the first three quarters.
- (4) There has been an economic slowdown (hence a negative GDP growth) in 2009, thereby lowering somewhat the cumulative GDP growth over the period of 2008-2011. At the same time, there has been a surge in inflationary pressure in Hong Kong, giving rise to relatively high CPI(C) levels in recent years. As a result, the annual CPI(C) adjustments to LegCo Members' remuneration compares quite favourably with the GDP growth rate over the period of 2008-2011.

Comparison of monthly earnings of managers/administrators and LegCo Members' remuneration

A. Nominal

Year	Remuneration for LegCo Members (see Note 2 below)		Median salary of the top 25% managers and administrators (see Note 3 below)	
	HK\$ per month	Year-on-year % change	HK\$	Year-on-year % change
2008 (when the last adjustment to Members' remuneration was made)	68,200	-	65,000	-
2009	69,430	1.80	80,000	23.08
2010	70,400	1.40	80,000	0
2011	73,150	3.91	75,000	-6.25
2011 as compared to 2008 (%)		+7.26%		+15.38%

B. Indices (*using 2008 as the base year for which all indices are normalised to 100)

	Remuneration for LegCo Members	Median salary of the top 25% managers and administrators
2008	100.00	100.00
2009	101.80	123.08
2010	103.23	123.08
2011	107.26	115.38
Difference compared with remuneration of LegCo Members (%)		7.57%

Note

- (1) Source: Q2 figures in 2008, 2009, 2010 and 2011, Quarterly Report on General Household Survey, C&SD.
- (2) Remuneration of LegCo Members in the table refers to the level as at October each year.
- (3) “Managers and administrators” include administrators, commissioners and directors in government service; directors, chief executive officers, general managers, functional managers, branch managers and small business managers in industry, commerce, import and export trade, wholesale and retail trade, catering and lodging services, transport, electricity, gas, water and other services and agricultural and fishery sectors.

Utilisation rate of Medical Allowance

No. of Members Utilisation Rate (%)	2008/09						2009/10 (see Note 3)						2010/11 (see Note 4)					
	Overall		FC		GC		Overall		FC		GC		Overall		FC		GC	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
>100	0	-	0	-	0	-	2	3.1	0	-	2	5.7	0	-	0	-	0	-
100	9	15.0	4	13.3	5	16.7	10	15.4	4	13.3	6	17.1	8	13.3	3	10.0	5	16.7
99 to <100	1	1.7	1	3.3	0	-	1	1.5	1	3.3	0	-	0	-	0	-	0	-
90 to <99	5	8.3	1	3.3	4	13.3	7	10.8	2	6.7	5	14.3	0	-	0	-	0	-
80 to <90	2	3.3	1	3.3	1	3.3	1	1.5	0	-	1	2.9	3	5.0	2	6.7	1	3.3
70 to <80	2	3.3	0	-	2	6.7	6	9.2	4	13.4	2	5.7	3	5.0	2	6.7	1	3.3
60 to <70	6	10.0	2	6.7	4	13.3	12	18.5	3	10.0	9	25.6	5	8.3	2	6.7	3	10.0
50 to <60	4	6.7	2	6.7	2	6.7	3	4.6	2	6.7	1	2.9	1	1.7	1	3.3	0	-
40 to <50	3	5.0	0	-	3	10.0	4	6.2	1	3.3	3	8.6	4	6.7	1	3.3	3	10.0
30 to <40	3	5.0	1	3.3	2	6.7	3	4.6	1	3.3	2	5.7	3	5.0	3	10.0	0	-
20 to <30	6	10.0	5	16.7	1	3.3	2	3.1	1	3.3	1	2.9	6	10.0	3	10.0	3	10.0
10 to <20	4	6.7	4	13.4	0	-	2	3.1	2	6.7	0	-	8	13.3	2	6.7	6	20.0
0 to <10	15	25.0	9	30.0	6	20.0	12	18.4	9	30.0	3	8.6	19	31.7	11	36.6	8	26.7
Total no. of members	60	100	30	100	30	100	65	100	30	100	35	100	60	100	30	100	30	100

Note

- (1) Source : LegCo Secretariat
- (2) FC = Functional Constituency ; GC = Geographical Constituency
- (3) For the reimbursement of medical expenses, the ceiling is an annual one, which will not be scaled down even if a Member leaves office before the end of the reimbursement year. However, for statistical purposes, the utilisation rate is calculated by expressing the actual expenditure claimed as a percentage of the time-apportioned ceiling (which is based on the period that the Member has served in the reimbursement year). Regarding the utilisation rates exceeding 100%, they are related to reimbursements made to two of the Members who resigned en masse on 29 January 2010.
- (4) Reimbursement position up to 10 August 2011.

**Utilisation rate of Office Operation Expenses Reimbursement (OOER)
per month per Member**

	Oct 2008 to Sep 2009	Oct 2009 to Sep 2010	Oct 2010 to Apr 2011 (see <u>Note 2</u>)
Average reimbursable amount (per month per member)	\$133,588	\$135,992	\$137,896
Average amount claimed (per month per member)	\$120,487	\$126,617	\$126,718
Average utilisation rate	90.2%	93.1%	91.9%

Note

- (1) Source : LegCo Secretariat
- (2) As all 60 Members have submitted their claims for April 2011, Members' reimbursements for the first seven months were used for statistical purposes.

**Comparison of percentage change of Office Operation Expenses Reimbursement
and Average Office Rent (2006-2011)**

A. Average Rent of Grade C Office by District (\$/m² per month)

	Sheung Wan	Central	Wan Chai/ Causeway Bay	North Point/ Quarry Bay	Tsim Sha Tsui	Yau Ma Tei/ Mong Kok
2006	162	279	233	203	262	204
2007	193	318	262	236	298	221
2008	223	380	309	269	338	245
2009	203	346	275	239	297	226
2010	234	408	329	282	327	252
2011 (up till Sept 2011)	262	430	363	303	368	281
% change between 2006 & 2011	62%	54%	56%	49%	40%	38%

B. Comparison of % changes

% change in average rent of Grade C Offices

2006	\$162/m ² ~ \$279/m ²
2011 (up till Sept 2011)	\$262/m ² ~ \$430/m ²
% change between 2006 and 2011	38% ~ 62%

% change in OOER

as at 1 Oct 2006	\$1,498,070 per annum
as at 1 Oct 2011	\$1,719,290 per annum
% change between 2006 and 2011	14.77%

Note

- (1) Source : Hong Kong Property Review – Monthly Supplement (November 2011), Ratings and Valuation Department
- (2) “Grade C office” refers to private office premises situated in buildings designed for commercial/business purpose which are plain with basic finishes; less flexible layout; small floor plates; basic lobbies; generally without central air-conditioning; barely adequate or inadequate lift services; minimal to average management; no parking facilities.

**Examples of how the proposed amount of Office Operation Expenses
Reimbursement could be utilised**

A. Salaries of the private sector as shown in wage and payroll statistics collected by Census & Statistics Department (C&SD) and graduates employment surveys conducted by universities

Occupation	Monthly Salary	Source
Service Workers (e.g. customer service representatives; staff working on user support and helpdesk in the IT industry)	\$9,588*	Quarterly Report of Wage and Payroll Statistics, June 2011, C&SD
Clerical and Secretarial Workers	\$12,768*	
Supervisory and Technical Workers	\$17,913*	
Administration Manager/Company Secretary/Office Manager	\$39,400-\$42,200*	2011 Report of Salaries and Employee Benefits Statistics – Managerial and Professional Employees (Excluding Top Management), C&SD
Building Services Engineer	\$33,200*	
Accountant	\$34,100-\$45,400*	
Structural Engineer	\$36,800*	
Graduates of HKUST	\$13,311*	Graduate Employment Survey, 2010, HKUST
Graduates of PolyU	\$13,279*	Graduate Employment Survey, 2010, PolyU
Graduates of CUHK	\$14,962*	Graduate Employment Survey, 2010, CUHK
Graduates of HKU	\$17,336*	Graduate Employment Survey, 2010, HKU

* Figure refers to average monthly salary

B. Examples (for illustration purpose only) of how the proposed amount of Office Operation Expenses Reimbursement (OOER) could be utilised

Example One

Using basic assumptions adopted by the LegCo Subcommittee with regard to the number of staff (i.e. seven full-time staff) and the number of district offices (i.e. two district offices) but drawing reference from market rates of private sector salaries and average rent of Grade C offices

	Per annum	Per term
Total OOER (with 20% increase)	\$2,063,148	\$8,252,592
<p>A. Staff salaries</p> <ul style="list-style-type: none"> • 1 assistant @ \$40,000⁷ per month • 2 assistants @ \$15,000⁸ each per month • 4 assistants @ \$10,000⁹ each per month <p>(*using market rates and assuming a 3% salary increase per year)</p>	\$1,380,597 on average	\$5,522,388
B. 15% end-of-service gratuity for staff	\$207,090 on average (payable at term end)	\$828,360
<p>C. Office rental</p> <ul style="list-style-type: none"> • 2 Grade C offices¹⁰ with the size of 34 m² each <p>(*34 m² is the existing average size of Members' district offices)</p>	\$273,360	\$1,093,440
D. Other expenses	\$202,101	\$808,404

⁷ With reference to the 2011 Report of Salaries and Employee Benefits Statistics Managerial and Professional Employees (Excluding Top Management) by C&SD, it is estimated that a monthly salary of about \$40,000 should be able to recruit administration managers, accountants, and engineers in the market.

⁸ With reference to the graduates employment surveys conducted by various universities, it is estimated that a monthly salary of about \$15,000 should be able to recruit university graduates in the market.

⁹ With reference to the Quarterly Report of Wage and Payroll Statistics, June 2011, C&SD, it is estimated that a monthly salary of about \$10,000 should be able to recruit general office assistants or customer service representatives/staff working on user support and helpdesk in the market.

¹⁰ Average rent for Grade C office in various districts ranges from \$262/m² to \$430/m²(Annex G refers). The average value in the range (i.e. \$335/m²) is adopted in calculating the rental expenses above.

Example Two

Alternative if Members' priority is to operate more district offices instead

	Per annum	Per term
Total OOER (with 20% increase)	\$2,063,148	\$8,252,592
A. Staff salaries <ul style="list-style-type: none"> • 1 assistant @ \$35,000 per month • 2 assistants @ \$15,000 each per month • 5 assistants @ \$10,000 each per month (*using market rates and assuming a 2% salary increase per year)	\$1,421,955 on average	\$5,687,820
B. 10% end-of-service gratuity for staff	\$142,196 on average (payable at term end)	\$568,782
C. Office rental <ul style="list-style-type: none"> • 3 Grade C offices with the size of 34 m² each (*34 m ² is the existing average size of Members' district offices)	\$410,040	\$1,640,160
D. Other expenses	\$88,957	\$355,830

Annex I

Utilisation rate of Setting Up Expenses Reimbursement (SUER) and Information Technology and Communication Equipment Expenses Reimbursement (ITER)

No. of Members Utilisation Rate(%)	SUER				ITER			
	3 rd Term (Oct 2004 – Sept 2008)		4 th Term (Oct 2008 – Sept 2012) (see <u>Note 2</u>)		3 rd Term (Oct 2004 – Sept 2008)		4 th Term (Oct 2008 – Sept 2012) (see <u>Note 2</u>)	
	No.	%	No.	%	No.	%	No.	%
100%	8	13.1%	2	3.1%	8	13.1%	1	1.5%
90% to <100%	19	31.1%	4	6.2%	16	26.2%	3	4.6%
80% to <90%	2	3.3%	0	-	2	3.3%	0	-
70% to <80%	1	1.6%	4	6.2%	10	16.4%	5	7.7%
60% to <70%	6	9.8%	9	13.8%	2	3.3%	8	12.3%
50% to <60%	2	3.3%	4	6.2%	4	6.6%	3	4.6%
40% to <50%	4	6.6%	6	9.2%	2	3.3%	9	13.8%
30% to <40%	2	3.3%	2	3.1%	4	6.5%	10	15.4%
20% to <30%	2	3.3%	7	10.7%	2	3.3%	5	7.7%
10% to <20%	3	4.9%	2	3.1%	3	4.9%	6	9.3%
>0% to <10%	3	4.9%	9	13.8%	0	-	5	7.7%
0%	9	14.8%	16	24.6%	8	13.1%	10	15.4%
Total	61 (see <u>Note 3</u>)	100%	65 (see <u>Note 4</u>)	100%	61 (see <u>Note 3</u>)	100%	65 (see <u>Note 4</u>)	100%

Note

- (1) Source : LegCo Secretariat
- (2) As the current LegCo term has not yet come to an end, the statistics reflect Members' expenditure up to September 2010 only.
- (3) A Member passed away in August 2007 and a new Member was elected in the by-election held in December 2007.
- (4) Five Members resigned en masse in January 2010 and were re-elected in the by-election in May 2010. They are entitled to the full amount of SUER and ITER (on a reimbursement basis) again upon re-election.

Utilisation rate of Entertainment and Travelling Expenses Reimbursement

Utilisation Rate (%)	No. of Members		2008/09						2009/10 (see Note 3)						2010/11 (see Note 4)					
	Overall		FC		GC		Overall		FC		GC		Overall		FC		GC			
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%		
>100	0	-	0	-	0	-	4	6.1	0	-	4	11.4	26	43.3	12	40.0	14	46.7		
100	33	55.0	11	36.7	22	73.3	37	56.8	13	43.3	24	68.5	0	-	0	-	0	-		
99 to <100	8	13.3	4	13.4	4	13.4	5	7.7	3	10.0	2	5.7	13	21.7	7	23.4	6	20.0		
90 to <99	10	16.7	8	26.7	2	6.7	7	10.8	5	16.7	2	5.7	7	11.7	3	10.0	4	13.4		
80 to <90	1	1.7	1	3.3	0	-	5	7.7	4	13.3	1	2.9	3	5.0	0	-	3	10.0		
70 to <80	2	3.3	1	3.3	1	3.3	0	-	0	-	0	-	2	3.3	2	6.7	0	-		
60 to <70	0	-	0	-	0	-	3	4.6	2	6.7	1	2.9	1	1.7	1	3.3	0	-		
50 to <60	0	-	0	-	0	-	1	1.6	0	-	1	2.9	2	3.3	1	3.3	1	3.3		
40 to <50	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-		
30 to <40	1	1.7	1	3.3	0	-	0	-	0	-	0	-	1	1.7	1	3.3	0	-		
20 to <30	2	3.3	2	6.7	0	-	0	-	0	-	0	-	1	1.7	1	3.3	0	-		
10 to <20	2	3.3	1	3.3	1	3.3	2	3.1	2	6.7	0	-	1	1.7	0	-	1	3.3		
0 to <10	1	1.7	1	3.3	0	-	1	1.6	1	3.3	0	-	3	4.9	2	6.7	1	3.3		
Total no. of members	60	100	30	100	30	100	65	100	30	100	35	100	60	100	30	100	30	100		

Note

- (1) Source : LegCo Secretariat
- (2) FC = Functional Constituency ; GC = Geographical Constituency
- (3) Members have the flexibility to determine the timing of their LegCo activities and the related expenditure, so long as their reimbursement claims do not exceed the ceiling concerned. For the reimbursement of OOER, the ceiling is an annual one, which will not be scaled down even if a Member leaves office before the end of the reimbursement year. However, for statistical purposes, the utilisation rate is calculated by expressing the actual expenditure claimed as a percentage of the time-apportioned ceiling (which is based on the period that the Member has served in the reimbursement year plus the winding up period of one month after resignation). Regarding the utilisation rates exceeding 100%, they are related to reimbursements made to four of the Members who resigned en masse on 29 January 2010.
- (4) As all 60 Members have submitted their claims for April 2011, Members' reimbursements for the first seven months were used for statistical purposes. As such, individual Members' reimbursement can be higher than the time-apportioned provision, so long as the annual reimbursement ceiling is not exceeded.

**Comparison of the current and the proposed
remuneration package of LegCo Members**

Current package		Proposed package for the next LegCo term	
(with effect from 1 October 2011)		(with effect from 1 October 2012)	
<u>Remuneration and Benefits</u>			
(a)	Monthly remuneration	\$146,300 (LegCo President) \$109,730 (President's Deputy) \$73,150 (Member) \$48,770 (Member also serving on ExCo)	\$160,930 * (LegCo President) \$120,698 * (President's Deputy) \$80,465 * (Member) \$53,643 * (Member also serving on ExCo)
(b)	End-of-service Gratuity (per term)	15% of the total remuneration for the term	15% of the total remuneration for the term
(c)	Medical Allowance (per annum)	\$28,020	\$28,020 *
<u>Operating Expenses Reimbursement</u>			
(d)	Office Operation Expenses Reimbursement (per annum)	\$1,719,290	\$2,063,148 * (Surplus from a year's OOER is proposed to be allowed to roll over to the following year until the end of a LegCo term)
(e)	Entertainment and Travelling Expenses Reimbursement (per annum)	\$176,310	\$176,310 *

Current package		Proposed package for the next LegCo term	
(with effect from 1 October 2011)		(with effect from 1 October 2012)	
(f)	President's Entertainment (per annum)	\$176,480	\$176,480 *
(g)	Setting Up Expenses Reimbursement (SUER) (per term)	\$150,000 or \$75,000 (for Members who have claimed setting up expenses in the previous term)	\$150,000 or \$75,000 (for Members who have claimed setting up expenses in the previous term) (SUER and ITER are proposed to be combined to allow LegCo Members more flexibility in using the two allowances)
(h)	Information Technology and Communication Equipment Expenses Reimbursement (ITER) (per term)	\$100,000	\$100,000 (SUER and ITER are proposed to be combined to allow LegCo Members more flexibility in using the two allowances)
(i)	Winding Up Expenses Reimbursement (per term)	One-twelfth of the annual office operation expenses reimbursement, plus actual severance payments	One-twelfth of the annual office operation expenses reimbursement, plus actual severance payments

* The exact amount of items (a), (c), (d), (e) and (f) in the proposed remuneration package for the next LegCo term above will be adjusted on 1 October 2012 in accordance with the movements of CPI(C).

Major requests of the LegCo Subcommittee to increase various components of the Operating Expenses Reimbursement (OER)

- (a) to increase the Office Operation Expenses Reimbursement (OOER)¹ by \$634,091 per annum, among which \$423,863 is to cater for expenses for engaging staff and for maintaining Members' offices; and the remaining \$210,228 is a new amount proposed to be separately kept and maintained by the LegCo Secretariat for the sole purpose of paying end-of-service gratuity to full-time staff engaged by LegCo Members;
- (b) based on past expenditure pattern that about 70% of the OOER is spent on staff salary, the LegCo Subcommittee proposes that 70% of the OOER should be adjusted annually in accordance with the civil service pay adjustment. The remaining 30% should continue to be adjusted in accordance with CPI(C);
- (c) to provide a new, separate allowance of \$204,000 per annum to enable Members to engage outside parties to conduct research and to lift the current restriction so that the political parties to which Members are affiliated can also be engaged to conduct such researches;
- (d) to merge the existing SUER (currently at \$150,000 per term or \$75,000 per term for those who have claimed the allowance in the previous term) and the ITER (currently at \$100,000 per term) into one single allowance and to increase the total amount to \$482,500 per term; and
- (e) to implement the above proposals within the current term, with effect from 1 October 2011.

¹ The annual Office Operation Expenses Reimbursement (OOER) is a major component of the Operating Expenses Reimbursement (OER) and is intended to reimburse Members' staffing and other operating expenses (such as maintaining their offices or for conducting research) for conduct of LegCo business.

**Existing Remuneration Package for LegCo Members
(with effect from 1 October 2011)**

Remuneration and Benefits

- | | |
|---|---|
| (a) Monthly Remuneration | \$146,300 (LegCo President)
\$109,730 (President's Deputy)
\$73,150 (LegCo Members)
\$48,770 (LegCo Members also
serving on ExCo) |
| (b) End-of-service Gratuity
(per term) | 15% of the total remuneration for the
term |
| (c) Medical Allowance
(per annum) | \$28,020 |

Operating Expenses Reimbursement

- | | |
|---|--|
| (d) OOER (per annum) | \$1,719,290 |
| (e) ETER (per annum) | \$176,310 |
| (f) President's
Entertainment
(per annum) | \$176,480 |
| (g) SUER (per term) | \$150,000 or
\$75,000 (for Members who have
claimed setting up expenses in the
previous term) |
| (h) ITER (per term) | \$100,000 |
| (i) WUER | One-twelfth of the annual OOER (i.e.
\$143,274) plus actual severance
payments |

Components (a), (c), (d), (e) and (f) above are subject to annual adjustments in October each year in accordance with movements of the CPI(C). Component (i) above will also be adjusted as a consequence of any adjustment to component (d). The most recent adjustment, representing an upward adjustment of 3.9%, takes effect from 1 October 2011. The figures quoted above have already incorporated this latest price adjustment.