

ITEM FOR FINANCE COMMITTEE

HEAD 63 – HOME AFFAIRS DEPARTMENT

Subhead 000 Operational expenses

Subhead 700 General non-recurrent

Members are invited to approve the proposed enhancements of the remuneration package for members of the District Councils, by two phases, with effect from 1 January 2011 and 1 January 2012 respectively.

PROBLEM

There is a need to improve the remuneration package for members of the District Councils (DCs).

PROPOSAL

2. We propose to introduce the following enhancements to the remuneration package for DC members –

(a) with effect from 1 January 2012 –

(i) to introduce an accountable Medical Allowance (MA) of \$26,970 per annum for DC members to pay the premium of their personal medical and/or dental insurance cover, or actual medical and dental expenses, or both; and to delegate to the Secretary for Financial Services and the Treasury (SFST) the authority to approve future revisions of the MA in line with that for Members of the Legislative Council (LegCo);

(ii) to introduce an end-of-term gratuity equivalent to 15% of the honorarium when DC members complete their term of office;

/(iii)

- (iii) to introduce an Entertainment Expenses Reimbursement (EER) of \$30,000 per annum for DC Chairmen to meet entertainment expenses incurred on behalf of their respective DCs; and to delegate to SFST the authority to approve future revisions to the EER annually on 1 January by reference to the movement of Consumer Price Index (A)(CPI(A)), be it an inflation or deflation year;
- (b) with effect from 1 January 2011 –
- (i) to increase the rate of the accountable Operating Expenses Reimbursement (OER) (formerly known as the Operating Expenses Allowance) by 15% from \$233,544 per annum (i.e. \$19,462 per month) at 2010 prices to \$268,572 per annum (i.e. \$22,381 per month); and
 - (ii) to provide DC members with an option to use up to 50% of the Miscellaneous Expenses Allowance (MEA) for meeting staff and/or rental expenses on an accountable basis before the start of each calendar year, and to exempt that portion of MEA from taxation.

3. We also propose to create a non-recurrent commitment of \$49 million under Head 63 Home Affairs Department Subhead 700 General non-recurrent to continue to provide the Setting-up Expenses Reimbursement (SER) (formerly known as Setting-up Allowance) and Winding-up Expenses Reimbursement (WER) (formerly known as Winding-up Allowance) to DC members for the next DC term starting from January 2012.

JUSTIFICATION

4. It is our established practice to review and announce DC members' remuneration package about one year before the commencement of the DC elections, so that potential candidates are aware of the remuneration package before deciding whether to run in the elections. Taking into account the views of DC members, LegCo Members, and the Independent Commission on Remuneration for Members of the District Councils of the Hong Kong Special Administrative Region (the Independent Commission)¹, we propose to enhance the package as set out in the ensuing paragraphs.

/MA

¹ The Independent Commission advises the Government on matters relating to the remuneration package for DC members, including the level of the remuneration and allowances, and the components of the package. The current term of the Independent Commission comprises a total of five non-official members.

MA for DC Members

5. Following the implementation of measures to enhance the role and functions of DCs since January 2008, the volume and complexity of DC members' work have increased, their responsibilities and time commitments have become heavier, and there are higher expectation and demand on the community services rendered by DC members. The physical well-being of DC members has become more important given the heavier demand placed on them. We note that since the commencement of the current LegCo term in October 2008, LegCo Members have been provided with a medical allowance to help them maintain better health to better serve the community during their term of service. While maintaining that the nature of DC membership is a public service and that DC members have no employment relationship with the Government, the rationale behind the provision of medical benefits to LegCo Members is applicable to DC members. We therefore propose to provide DC members with the MA.

6. We have considered two options of providing medical benefits for DC members, namely procurement of a medical insurance for all DC members by the Government and reimbursement of medical insurance/expenses respectively. We do not favour the first option since DC members have no employment relationship with the Government. We consider that the provision of a lump sum allowance would be more flexible, in that individual DC members could pay for medical and/or dental insurance policies of their own choice, either procured individually or jointly with other DC members, or pay for their actual medical and dental expenses, or both.

7. The package for DC members should provide a reasonable, but not excessive, hospitalisation and out-patient coverage for DC members of different age groups. We note that there is no substantial difference in the current age profiles of LegCo and DC members. As such, we propose to follow the prevailing level of the medical allowance for LegCo Members in setting the MA for DC members, i.e. \$26,970 per annum.

8. We also propose that the level of the allowance should be adjusted in future in line with that for LegCo Members², but the adjusted level will take effect on 1 January, having regard to the timeframe of the annual adjustment of DC members' package. The authority to approve the future adjustments to the level of the MA is proposed to be delegated to SFST, similar to the arrangement for the existing allowances of DC members. Besides, we propose that the MA be disbursed on an accountable and reimbursable basis. If DC members have concurrent membership in LegCo, they should not be eligible for the MA.

/End-of-term

² At present, the level of the medical allowance for LegCo Members is adjusted on an annual basis in accordance with the movement of the CPI(C).

End-of-term Gratuity

9. We propose that DC members be provided with a gratuity at the end of their term of office as recognition of their service to the community. The proposed gratuity might also help DC members tide over a possible period of financial difficulty should they decide not to seek re-election or fail to be re-elected. We consider that the rate of this gratuity should be pitched at 15% of the total honorarium received by a DC member in a DC term, similar to the arrangement for LegCo Members.

10. In addition, we propose that any DC members who resign or who are removed from DCs under the provisions of the District Councils Ordinance (Cap. 547) should not be eligible for the gratuity, save for exceptional circumstances such as death or resignation as a result of serious illness or injury. In the latter cases, the DC members may be granted the gratuity, the amount of which will be calculated on a pro-rata basis according to the time they have served.

EER for DC Chairmen

11. As DC Chairmen shoulder responsibilities of receiving Mainland and overseas delegations, liaison and networking with leaders of district organisations and undertaking ceremonial functions on behalf of their respective DCs, we consider it necessary to reimburse DC Chairmen for entertainment expenses incurred on behalf of their respective DCs. As a point of reference, an annual entertainment expenses reimbursement is currently available to the LegCo President.

12. We propose that the new EER for DC Chairmen be pitched at \$30,000 per annum, having regard to the past spending patterns for providing food and drinks for receiving delegations and floral arrangements and wreaths on ceremonial occasions. We also propose that the expenses be reimbursed with supporting documents. In line with the present practice of annual revision of DC members' honorarium, OER and MEA, we propose that SFST be delegated the authority to approve future adjustments to the EER level on an annual basis by reference to the movement of CPI(A).

Increase in OER

13. OER is provided for DC members to cover expenses arising from their DC-related duties. We note that the major expenditure items include salary for assistant(s), rent for a ward office, utility expenses, publicity and printing. During

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the consultation with DC members, the majority have indicated that the present level of OER (at \$19,462 per month per member) is insufficient and some have to finance the unmet expenditure with their own resources. In this regard, we note that more than 80% of elected DC members claimed over 98% of OER and many even claimed 100% in 2009.

14. Having regard to the expenditure and claim patterns of DC members with a ward office, we propose that OER be increased by 15%, so as to enable DC members to carry out their duties more effectively.

Revised Advance Payment Arrangement for OER

15. At present, in order to help relieve the cash flow problem of DC members when they set up new ward offices and give them more flexibility in the discharge of their DC duties, they may obtain a one-off advance payment equivalent to two months of their OER entitlement within the first year of their term of office. Any further OER will be payable only when the sum of advance payment has been fully claimed by the DC member with relevant supporting documents. Any unspent balance has to be returned to the Government by the end of the third month after approval of the advance payment.

16. The advance payment arrangement for LegCo Members is that a member may keep the advance payment for the whole term and the advance payment will be used to offset the reimbursable operating expenses of the month immediately before he/she ceases office and any reimbursable winding-up expenses.

17. We plan to introduce a revised advance payment arrangement for DC members modeled on that for LegCo Members with effect from 1 January 2011 to provide them with more flexibility in meeting cash flow requirements for operating ward offices and carrying out DC duties. Consequential upon the proposed increase in OER by 15% and the possible increase in the number of DC elected seats³, it will entail an increase of the ceiling of the advance account from \$20 million to \$28 million. We will take all necessary steps to ensure full recovery of advance payments made to DC members.

/Taxation

³ The Constitutional and Mainland Affairs Bureau has conducted a review on the number of DC elected seats. The Bureau has proposed to increase a total of seven elected seats, having regard to the population forecast in Hong Kong in 2011.

Taxation Arrangement for MEA

18. DC members currently receive a monthly MEA of \$4,120. The allowance seeks to cover expenses relating to liaison, entertainment, travelling, minor purchases, self-development as well as personal insurance of DC members.

19. As it is difficult to verify whether certain expenses (e.g. expenses on wedding and funerals) are directly related to DC duties, which account for a significant portion of expenses under the allowance, MEA is given on a non-accountable basis and is taxable. DC members feel strongly that MEA should not be taxed as the expenses incurred are for the discharge of their DC-related duties.

20. To avoid possible abuses on the one hand and to alleviate DC members' tax burden on the other, we propose that DC members be given the following options before the start of each calendar year –

- (a) to continue to receive the total amount of MEA on a non-accountable but taxable basis every month (i.e. status quo); or
- (b) to use up to 50% of MEA to meet staff and/or rental expenses on an accountable basis. As staff and rental expenses are clearly and directly related to DC duties, the portion of MEA for such purposes can be exempted from taxation. We further propose that the above portion of MEA shall be annualised to provide DC members with greater flexibility in deploying their resources. The remaining portion of MEA will continue to be provided to DC members on a non-accountable basis every month and be subject to taxation.

Status quo for SER and WER

21. The accountable SER and WER were introduced to DC members in January 2008 and January 2007 respectively. The SER is pitched at \$100,000 per new member per DC term to cater for renovation and refurbishment of a ward office, procurement of furniture, and other legitimate expenses that are wholly and necessary for the conduct of DC business. DC members who have already applied for SER in a previous term will only be eligible for 50% of the full amount (i.e. \$50,000) in subsequent DC terms. The WER of \$72,000 per member per DC term is for DC members who choose not to stand for re-election or cease their offices for such reasons as death, serious illness or injury or defeat in the election for paying severance payments to assistants, reinstatement of the ward office as required by the landlord upon termination of tenancy, and other legitimate expenses that are wholly and necessary for the conduct of DC business.

22. Given that the SER and WER are for the actual operational needs of DC members, we propose to continue to provide them to DC members in the next DC term starting from 1 January 2012. We do not plan to adjust the level of the SER and WER, as they have only been introduced since the start of the current term. We will continue to monitor their usage pattern.

Schedule of Implementation

23. In line with the established practice that any proposal entailing significant changes to the existing remuneration package for DC members should be implemented with effect from the next DC term, the introduction of the MA, an end-of-term gratuity and the EER for DC Chairmen should be implemented in the next DC term (i.e. starting from January 2012).

24. As the proposed increase in and the new advance payment arrangement for the OER, as well as the tax exemption arrangement for MEA only seek to fine-tune the existing package in the light of the operational experience, we propose that these measures be implemented within the current term (i.e. from January 2011).

FINANCIAL IMPLICATIONS

Recurrent Expenditure

25. The financial implication of increasing OER for DC members by 15% will be about \$4.7 million in 2010-11 (covering the period from January to March 2011). There is sufficient provision for meeting the additional costs so incurred.

26. We estimate that the introduction of MA, EER to DC Chairmen and the increase in OER from the next DC term will cost \$14.6 million, \$0.5 million and \$19.0 million per annum respectively, or about \$34.1 million in total. The proposal to introduce an end-of-term gratuity is estimated to cost about \$83.0 million for every four-year DC term. We will include the necessary provision for the implementation of these proposals in the annual Estimates of the relevant financial years from 2011-12 onwards.

27. The proposal to provide DC members with an option to deploy up to 50% of their MEA for meeting staff and/or rental expenses on an accountable and tax-exempted basis will have no financial implication. This is because staff and

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rental expenses that fall within the ambit of the Operating Expenses Allowance (to be renamed as OER) but exceed the reimbursement limit are currently tax deductible. Treating the same expenses as accountable and non-taxable expenses covered by MEA (up to 50%) will not change the taxable income of DC members.

Non-recurrent Expenditure

28. Based on past experience and spending pattern, SER and WER are estimated to cost about \$37 million and \$12 million respectively. To cater for the cash flow requirement for the next DC term, we propose to create a new non-recurrent commitment of \$49 million for these two reimbursements under Head 63 Home Affairs Department Subhead 700 General non-recurrent.

PUBLIC CONSULTATION

29. In July 2010, we consulted DC members on their remuneration package by convening four focus group meetings. We also sought endorsement of the Independent Commission on the proposals in July 2010. On 12 November 2010, we consulted the LegCo Panel on Home Affairs. Members were in general supportive of the proposal. Some Members expressed concern about the present level of DC members' honorarium and the difficulty of renting offices at the prevailing market rental level. We explained that the Independent Commission had balanced both the operational needs of DC members and public expectation when drawing up the current proposals.

BACKGROUND

30. In reviewing the remuneration package, we have followed the principles and practices as set out below –

- (a) the objective of the remuneration package is to make it possible and attractive for a broad spectrum of individuals from different sectors and all walks of life of the community to serve the public;
- (b) although the remuneration of DC members is funded by the Government, DC members do not have any employment relationship with the Government; and
- (c) any proposal involving substantial changes to the remuneration package for DC members in one term should take effect in the following term.

31. The current remuneration package for DC members was last reviewed in 2006 in the context of the overall review of the functions of DCs. As a result of the last review, the current remuneration package comprises five components as follows –

- (a) a monthly honorarium of \$20,290 (\$40,580 for Chairmen and \$30,440 for Vice Chairmen)⁴;
- (b) an annual provision of OER at the rate of \$233,544, reimbursable on production of certified receipts to meet expenses incurred for discharging DC duties⁵;
- (c) a non-accountable monthly provision of MEA at the rate of \$4,120 to cover expenses like entertainment, self-development, personal insurance and minor purchase;
- (d) an accountable SER of \$100,000 per DC term to cover the cost of setting up a ward office, such as renovation of premises, purchase of furniture and equipment; and
- (e) an accountable WER of \$72,000 per DC term to cover expenses required to wind up a ward office, including severance payments for staff of the DC members.

Home Affairs Bureau
Home Affairs Department
November 2010

⁴ Under the current arrangement, the honorarium is subject to annual adjustment by reference to the movement of CPI(A) in January each year. In addition, DC Chairmen and Vice Chairmen are eligible for a special allowance equivalent to 100% and 50% of a member's honorarium respectively.

⁵ Under the current arrangement, the OER is subject to annual adjustment by reference to the movement of CPI(A) in January each year.