

**For discussion on
12 November 2010**

Legislative Council Panel on Home Affairs

Review of the Remuneration Package for District Council Members

Introduction

This paper seeks Members' support for the proposed enhancements to the remuneration package for District Council (DC) members.

Proposals

2. We briefed this Panel in July 2010 on the progress in implementing the 2006 review on the role and functions of DCs, and sought Members' views on the on-going review of the remuneration package for DC members. Having further deliberated within the Administration, we propose the following enhancement to DC members' remuneration package –

- (a) an accountable medical allowance of \$26,970 per annum be provided to DC members who do not have concurrent membership in LegCo, for payment of the premium of their personal medical and/or dental insurance cover, or actual medical and dental expenses, or both, and the level of the medical allowance be adjusted in future in line with that of LegCo Members;
- (b) an end-of-term gratuity equivalent to 15% of the honorarium be provided to DC members when they complete their term of office;

- (c) a new entertainment allowance of \$30,000 per annum be provided to DC Chairmen for entertainment expenses incurred on behalf of their respective DC;
- (d) the rates of the accountable Operating Expenses Allowance (OEA) be increased by 15% from \$19,462 per month at 2010 prices to \$22,381 per month;
- (e) flexibility be provided to DC members to opt to use up to 50% of the Miscellaneous Expenses Allowance (MEA) for staff and/or rental expenses on an accountable basis before the start of each calendar year, and these expenses be tax-exempted; and
- (f) the arrangement for advancement for OEA be relaxed so that DC members may keep the advance payment for the whole DC term instead of three months only.

Medical Allowance

3. Since the commencement of the current LegCo term in October 2008, LegCo Members have been provided with medical allowance. The rationale is that the physical well-being of LegCo Members is important given the heavy demands placed on them, and that availability of medical benefits would enable them to better serve the community during their tenure of office. 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 providing medical benefits to LegCo Members is applicable to DC members. It is also relevant to note that 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 heavier, and DC members are subject to higher public expectations.

4. We have considered two alternatives 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 alternative

since DC members have no employment relationship with the Government; it would be inappropriate for the Government to procure medical insurance for DC members. 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.

5. The package for DC members should provide a reasonable, but not excessive, hospitalisation and out-patient coverage for DC members of different age groups. It is noted that there is no substantial difference in the age profiles of LegCo and DC members. As such, we propose to follow the level of medical allowance for LegCo Members in setting the medical allowance for DC members.

6. We also propose that the medical allowance would be on an accountable and reimbursable basis. If DC members have concurrent membership in LegCo, they will not be eligible for the medical allowance. The level of the allowance will be adjusted in future in line with that of LegCo Members.

End-of-Term Gratuity

7. We propose that DC members be provided with a gratuity at the end of their tenure of office as recognition of their service to the community. The proposed gratuity would 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 honorarium, similar to the arrangement for LegCo Members.

8. 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.

Introduction of an Entertainment Allowance for DC Chairmen

9. Currently, DC Chairmen shoulder responsibilities of receiving Mainland and overseas delegations; liaison and networking with leaders of district organisations and undertaking ceremonial functions. We consider it necessary to provide DC Chairmen with a dedicated entertainment allowance, so that they could undertake such functions on behalf of their respective DCs. The allowance would be provided on a reimbursement basis with submission of supporting documents. As a point of reference, an annual entertainment allowance is currently available to the LegCo President.

10. We propose that the new entertainment allowance 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. It would be subject to the annual adjustment of the Consumer Price Index (A), similar to the arrangement of the existing allowances to DC members.

Increase in Operating Expenses Allowance

11. OEA 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 the consultation with DC members, the majority have indicated that the present level of OEA (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 OEA and many even claimed 100% in 2009.

12. Having regard to the expenditure and claim patterns of DC members with a ward office, we propose that OEA should be increased by 15%.

Tax-exemption arrangement for Miscellaneous Expenses Allowance

13. 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 medical, dental and accident insurance of DC members.

14. 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, the MEA is given on a non-accountable basis (i.e. the Government will automatically deposit the full amount of MEA to a DC member's bank account, subject to DC members completing a simple application form at the beginning of a DC term) and is taxable. However, many DC members feel strongly that MEA should not be taxed as the expenses incurred are for the discharge of their DC-related duties.

15. 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) DC members may opt to continue to receive the total MEA on a non-accountable but taxable basis; or
- (b) DC members may opt 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, these expenses should be exempted from taxation. The remaining 50% of MEA will continue to be provided to DC members on a non-accountable basis and be subject to taxation.

Advance Payment Arrangement for Operating Expenses Allowance

16. At present, a DC member may obtain a one-off advance payment equivalent to two months of their OEA entitlement within the first year of his term of office. Any further OEA will be payable only when the sum of advance payment has been fully claimed by the DC

member with receipted bills/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.

17. The advance payment arrangement for LegCo Members is that a member may keep the advance payment for the whole term and use the operation expenses allowance of the month immediately before he ceases office, or he may use his winding up allowance to offset the advance payment.

18. We propose to introduce a revised advance payment arrangement for DC members modeled on that for LegCo Members, given that the revised arrangement would provide DC members with more flexibility in meeting their cash flow requirement for operating their ward offices and carrying out their DC duties.

Schedule of Implementation

19. 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 a medical allowance, an end-of-term gratuity and an entertainment allowance for DC Chairmen should be implemented in the next DC term (i.e. January 2012).

20. As the proposed increase in the OEA and tax exemption arrangement for MEA only seeks to fine-tune the existing package in the light of their operational experience, we propose that these measures should be implemented within the current term (i.e. January 2011).

21. As for the revised advance payment arrangement, we consider that the new arrangement should in principle be implemented in the next DC term (i.e. January 2012), as its main purpose is to relieve DC members' cash flow problem at the start-up period. However, it is technically feasible to implement the arrangement within the current term.

Financial Implications

22. The proposal will have financial implications. The introduction of a medical allowance, an entertainment allowance to DC Chairmen and the increase in OEA will cost an additional sum of about \$33.9 million per annum. The proposal of introducing an end-of-term gratuity is estimated to cost about \$83 million for every four-year DC term. Consequential upon the proposed increase in OEA by 15% and the possible increase in the number of DC elected seats, it will entail an increase of the ceiling of the advance account from \$20 million to \$28 million. The proposal of allowing DC members to deploy up to 50% of their MEA for staff and/or rental expenses will not have any financial implications.

Public Consultation

23. We convened four focus group meetings to gauge DC members' views on their remuneration package in July 2010. We also sought endorsement of the Independent Commission on Remuneration for Members of the District Councils of the Hong Kong Special Administrative Region on the proposals in July 2010.

Advice Sought

24. Members are invited to advise on our proposed enhancement to DC members' remuneration package, including the timeframe for implementing the revised advance payment arrangement. We plan to submit the proposal to the Finance Committee for consideration at its meeting in December 2010.

Background

25. It has been the established practice for the Government to complete the review of DC members' remuneration package and to

announce the package about one year before the commencement of the DC elections, so that potential candidates are aware of the remuneration package in good time before deciding whether to run in the elections.

26. We have followed the guiding principles and practices in reviewing the remuneration package 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.

27. The current remuneration package for DC members is set out at **Annex**.

Home Affairs Department
November 2010

Current Remuneration Package for District Council Members

- (a) A monthly honorarium of \$20,290 (\$40,580 for Chairmen and \$30,440 for Vice Chairmen);
- (b) An annual provision of OEA at the rate of \$233,544, reimbursable on production of certified receipts to meet expenses incurred for discharging DC duties;
- (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 Setting-up Allowance 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 Winding-up Allowance 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.