

For discussion on  
8 November 2013

## **Legislative Council Panel on Home Affairs**

### **Review of Allowance and Expense Reimbursement Arrangements 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 propose the following enhancements to the remuneration package for DC members with effect from 1 January 2014 (i.e. within the current DC term) –

- (a) to increase the rate of the accountable Operating Expenses Reimbursement (OER) by 34% from \$304,704 (i.e. \$25,392 per month) at 2013 prices to \$408,000 per annum (i.e. 34,000 per month);
- (b) to allow surplus from OER entitlement in one calendar year to roll over to the following year until the end of a DC term; and
- (c) to increase the entitlement of the accountable Setting-up Expenses Reimbursement (SER) for a DC member who has claimed SER in a previous term but has changed the location of his ward office in the current term from 50% to 100%.

## **Justifications**

3. The Chief Executive (CE) stated in his 2013 Policy Address the concept of “addressing district issues at the local level and capitalising on local opportunities”, and announced a number of initiatives to enhance district administration, such as earmarking a one-off grant of \$100 million for each district for DCs to carry out signature projects in the current term, and providing an additional \$20.8 million a year to enhance the work of DCs in promoting arts and cultural activities. The CE also announced that the allowance and expense reimbursement arrangements for DC members would be reviewed as appropriate, including the arrangements of renting premises for ward offices.

4. In the light of the rapid increase in rental for ward offices, salaries for assistants, and other operating expenses, there have been concerns from DC members that there is an urgent need for enhancing the OER of their present remuneration package to facilitate them to effectively perform their duties. This is particularly the case for those members who have to rent private premises for their ward offices, the rental expenses of which are much higher than those of public premises.

### **Advancing the Review of Allowance and Expense Reimbursement Arrangements of Remuneration Package**

5. It is the established practice of the Government to complete the review of the remuneration package for DC members and to announce the new package about one year before the commencement of the next DC election, so that potential candidates are aware of the package before deciding whether to run in the election. Taking into account DC members’ concerns that the existing package cannot adequately cover the rental for their ward offices and salaries for their assistants which have increased rapidly over the last few years, we have advanced the current review in respect of allowance and expense reimbursement arrangements by one year, with a view to addressing the concerns relating to increased operation expenses earlier, on an exceptional basis.

6. In reviewing DC members’ remuneration package, we seek to provide sufficient resources to cover expenses arising from their DC-related functions and duties. As in previous reviews, we have adopted a holistic approach, giving consideration to a basket of factors such as

rental trends as well as past reimbursement patterns etc.

### Increase of OER

7. OER is a lump sum provision provided for DC members to cover the expenses arising from their functions and duties. The major expenditure items include salaries for their assistants, rental for ward offices and other operating expenses (for example, utility expenses, publicity and printing). DC members are given the flexibility of deploying their OER according to their operational needs.

8. Many DC members are very concerned that the current level of OER is insufficient and have expressed that they have encountered major difficulties in meeting the rising rental of ward offices and in recruiting or retaining quality assistants. As a result, many of them have to finance the unmet expenditure with their own resources. The actual expenditure pattern and the high utilisation rate of the OER confirm the inadequacy of the current OER rate. (Details at Annex A.)

9. Having regard to the above situation, it is recommended that the OER be increased from \$304,704 (i.e. 25,392 per month) at 2013 prices to \$408,000 per annum (i.e. 34,000 per month). The proposed increase is based on assumptions about the expenditures that DC members need to incur to rent a ward office at market rental; employ a full-time clerical/secretarial assistant and a part-time assistant; and to cover miscellaneous operating expenses.

### Roll-over Arrangement of OER

10. OER is provided on a yearly basis. Any unspent amount cannot be carried forward to the next year. We propose to allow roll-over of OER to subsequent years within a DC term in order to provide members with greater flexibility in deploying their resources. The proposed roll-over arrangement is in line with the arrangement currently available to Legislative Council (LegCo) members.

### Entitlement of SER

11. Under the existing arrangement, the maximum amount of the accountable SER for a new DC member is \$100,000 per term for renovation and refurbishment of a ward office, procurement of furniture and equipment, and other expenses that are necessary for the set-up of a

ward office. However, re-elected members who have already claimed the SER in a previous term will only be eligible for 50% of the expenses reimbursement in the subsequent terms, irrespective of whether they have moved their ward offices to new locations.

12. The current arrangement may not be able to cater for special circumstances, e.g. where landlords refuse to renew tenancies of ward offices, or the DC member has been re-elected in another DC constituency, etc. To cater for the possible need for a higher SER arising from the necessary relocation of ward offices, we propose that the SER ceiling for a DC member who has claimed SER in a previous term but has changed the location of his/her ward office in the current term be increased from 50% to 100%.

### **Other Components of the Remuneration Package**

13. Following established practice, we will review the honorarium for DC members for the next DC term, such that any changes would be announced by end 2014, i.e. about one year before the 2015 DC election. Meanwhile, we consider that the current levels of other components of the remuneration package of DC members (such as Miscellaneous Expenses Allowance (MEA), Medical Allowance, end-of-term gratuity, and Winding-up Expenses Reimbursement (WER) etc.) are appropriate and should remain unchanged.

### **Schedule of Implementation**

14. It has been the established practice that any proposal involving substantial changes to the remuneration package for DC members should take effect in the following term. However, as the proposed enhancements of the OER and SER seek to meet the imminent need for increases in the operation-related expenses for existing DC members, we propose that these measures be implemented within the current term (i.e. with effect from 1 January 2014).

### **Financial Implications**

15. The proposed increase in OER is estimated to cost an additional \$52.4 million per year from 2014 onwards, decreasing to \$47.3 million

per year from 2016 onwards mainly due to the abolition of DC appointed seats from the next DC term onwards. In addition, the proposed enhancement of SER is estimated to cost an additional \$3.9 million in the current DC term, rising to \$5.0 million per term from the next term onwards. The proposed roll-over arrangement of OER will not require additional resources. (Detailed breakdown at Annex B.)

## **Public Consultation**

16. We conducted four focus group meetings with DC members to gauge their views on the current remuneration package in late May and early June 2013. Some DCs have also requested the Government to enhance the remuneration package for DC members to ensure that the arrangements meet the changing circumstances. We also sought endorsement of the Independent Commission on Remuneration for Members of the District Councils of the Hong Kong Special Administrative Region on 11 July 2013.

## **Advice Sought**

17. Members are invited to advise on our proposed enhancements as set out in paragraph 2 above. We plan to submit the proposal to the Finance Committee of LegCo for consideration at its meeting in December 2013.

## **Background**

18. In reviewing the remuneration package for DC members, we have followed the guiding principles and practices 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 to serve the public;
- (b) although the remuneration package 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 for better public perception.

19. The current remuneration package for DC members was last reviewed in 2010. The current remuneration package comprises eight components as follows –

- (a) a monthly honorarium at \$23,020 (\$46,040 for Chairmen and \$34,530 for Vice Chairmen);
- (b) an annual provision of accountable OER at \$304,704, reimbursable on production of certified receipts to meet expenses incurred;
- (c) a non-accountable monthly provision of MEA at \$4,680 to cover minor expenses like entertainment, self-development, personal insurance and minor purchase;
- (d) an accountable SER at \$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;
- (e) an accountable WER at \$72,000 per DC term to cover expenses required to wind up a ward office, including severance payments for staff;
- (f) an accountable Medical Allowance at \$29,420 per annum;
- (g) an end-of-term gratuity, which is equivalent to 15% of the honorarium; and
- (h) for DC Chairmen only: an Entertainment Expenses Reimbursement at \$31,260 per annum to meet entertainment expenses incurred on behalf of their respective DCs.

Home Affairs Bureau/  
Home Affairs Department  
November 2013

**Utilisation Rate of Operating Expenses Reimbursement (OER)**

The utilisation rate of OER over the past years, particularly for elected District Council (DC) members <sup>1</sup>, is as follows -

- (a) Although OER was last increased by 15% in January 2011, the average utilisation rate remained at a high level of 94.8% to 95.1% in 2011 and 2012. A large number of elected members fully used up the OER entitlement (i.e. 140 members (35%) and 126 members (31%) in 2011 and 2012 respectively), and had to meet the shortfall through their own means. Based on the rental increase over the past years, the respective percentage is anticipated to rise further in the latter part of the DC term if the OER is not enhanced; and
- (b) Amongst all DC elected members, 321 members (79%) and 356 members (86%) spent at least 90% of their OER entitlement in 2011 and 2012 respectively. Moreover, 248 members (61%) and 276 members (67%) spent at least 98% of their OER entitlement in 2011 and 2012 respectively. Based on past spending patterns, the percentage of members spending at least 98% of the OER entitlement may likely go up to over 80% by 2015 if the OER is not to be enhanced.

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<sup>1</sup> We focus on the spending pattern of OER of elected DC members owing to the abolition of DC appointment system with effect from the next DC term (2016-2019).

**Financial Implications of  
Enhancements of Remuneration Package for DC Members**

		<b>Within the current DC term (2014 onwards) (\$M)<sup>1</sup></b>	<b>From the next DC term (2016 onwards ) (\$M)<sup>2</sup></b>
<b>(A)</b>	<b>Items payable on a monthly or annual basis</b>		
1.	Increase in Operating Expenses Reimbursement (OER)	\$52.4M	\$47.3 M
2.	Extension of the roll-over arrangement for OER	-	-
	<b>Total of (A)</b>	<b>\$52.4 M</b>	<b>\$47.3 M</b>
<b>(B)</b>	<b>Items payable on a four-year term basis</b>		
1.	Increase in the limit of Setting-up Expenses Reimbursement (SER) for DC members who relocate ward offices <sup>3</sup>	\$3.9 M	\$5.0 M
	<b>Total of (B)</b>	<b>\$3.9 M</b>	<b>\$5.0 M</b>

<sup>1</sup> The cost estimate is based on the number of seats in the current DC term (2012-2015).

<sup>2</sup> The cost estimate is calculated on the assumptions that all 68 appointed seats will be abolished and the number of elected seats will be increased by 19 from the next DC term (2016-2019) onwards.

<sup>3</sup> It is assumed that some of the DC members, who have claimed SER in a previous term, may have their ward offices relocated and be eligible to claim up to 100% of the expenses reimbursement.