

ITEM FOR FINANCE COMMITTEE

HEAD 63 – HOME AFFAIRS DEPARTMENT

Subhead 000 Operational expenses

Subhead 700 General non-recurrent

New item “Reimbursement of Setting-up Expenses and Winding-up Expenses for District Council members of the 2016–2019 term”

Members are invited to approve with effect from
1 January 2016 –

- (a) the proposed enhancements to the remuneration package and introduction of a new provision for duty visits for District Council members as set out in paragraph 2 below; and
- (b) a new commitment of \$47,090,000 under Subhead 700 General non-recurrent for reimbursing the Setting-up and Winding-up Expenses for District Council members for the 2016–2019 term.

PROBLEM

There is a need to (a) enhance the remuneration package of District Council (DC) members¹ to better enable them to discharge their increasing responsibilities; and (b) provide for reimbursement of expenses relating to the setting up and winding up of ward offices of DC members for the new DC term.

/PROPOSAL

¹ There are 507 seats and 458 seats in the fourth (2012–2015) and fifth (2016–2019) DC terms respectively.

PROPOSAL

2. We propose, with effect from 1 January 2016 (i.e. commencement of the 2016–2019 DC term) to –

- (a) increase the honorarium for DC members by 15%, from \$25,760 to \$29,620 per month at 2015 price level;
- (b) introduce a new provision, capped at \$10,000 per member per term, to finance DC members’ duty visits; and
- (c) expand the remit of the accountable Operating Expenses Reimbursement (OER) to cover procurement of furniture and equipment (F&E) and associated repair and maintenance costs while maintaining the entitlement ceiling of OER.

3. We also propose to create a non-recurrent commitment of \$47,090,000 under Head 63 Home Affairs Department (HAD) Subhead 700 General non-recurrent to provide Setting-up Expenses Reimbursement (SER) and Winding-up Expenses Reimbursement (WER) to DC members for the next DC term starting from 1 January 2016.

JUSTIFICATION

4. It is the Government’s established practice to review the remuneration package for DC members and announce the new package before the commencement of the next DC term, so that potential candidates are aware of the package before deciding whether to run in the election.

5. The purpose of the review is to ensure that DC members are provided with sufficient resources to cover expenses for discharging their DC-related functions and duties. A holistic approach has been adopted as in previous reviews, having regard to a host of factors including past expenditure patterns.

Monthly Honorarium

6. We propose to increase the monthly honorarium for DC members by 15% in real terms starting from the next DC term commencing on 1 January 2016, that is, from \$25,760 to \$29,620 at 2015 price level. As with the current practice, the revised honorarium will be subject to annual adjustments in accordance with the movement of Consumer Price Index (CPI) (A) each year.

7. DCs have been playing a unique and important role in district administration. They have been increasingly invited by the Government and various authorities to advise on the planning and implementation of public policies and programmes affecting the well-being of the community. These include, among others, land resumption and reclamation, rezoning of sites for residential development, implementation of major works projects and columbarium development. These issues not only involve complex political and technical considerations, but also lengthy consultation and dialogues between DCs and local residents/stakeholders and with different government departments.

8. In line with the concept of “addressing district issues at the local level and capitalizing on local opportunities” as advocated by the Chief Executive, DCs have been entrusted with new and increased responsibilities. These include spearheading and implementing Signature Projects² which require substantial planning and co-ordination work involving multiple stakeholders, promotion of district arts and culture, advising on street management issues, etc.

9. The responsibilities of DCs and DC members are expected to further increase in the coming years. This could be illustrated by the following two major initiatives to be undertaken by DCs –

- (a) Following the announcement in the 2014 Policy Address, a Pilot Scheme to enhance district administration was launched in April 2014 in two districts, namely, Sham Shui Po and Yuen Long, providing District Management Committees chaired by District Officers with decision-making power to tackle priority district management and environmental hygiene problems identified by the respective DCs through inter-departmental efforts. As announced in the 2015 Policy Address, we will conduct a review upon completing the Pilot Scheme in August this year with a view to considering how best to implement the Scheme in all 18 districts starting from the next DC term.
- (b) DCs have been provided with additional resources since 2013-14 to promote and support arts and cultural development at the district level. As announced in the 2015 Policy Address, in the coming five years, the Government will provide additional resources for community involvement programmes to further strengthen DCs’ work in this regard.

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² Under the Signature Project Scheme, each district is given a one-off allocation of \$100 million for implementing one or two large scale projects that will cause a significant and lasting impact on the district.

10. In view of the above developments, we see the need for increasing the honorarium of DC members by 15% in the new term. This should better enable DC members to deliver their enhanced role and responsibilities. This should also be conducive to attracting talents from different sectors who wish to serve the public as DC members.

New Provision for Duty Visits

11. We propose to introduce with effect from 1 January 2016 a new provision for duty visits whereby each DC member will have up to \$10,000 per term to cover expenses incurred in duty visits endorsed by the DC.

12. To enhance the quality of district administration, it would be beneficial for DC members to visit local authorities and relevant institutions outside Hong Kong, so that they can gain first-hand experience and exchange views with their counterparts in handling district matters such as environmental hygiene, promotion and development of district arts and sports, street management, etc. Such visits would give DC members new insights on handling matters relating to district administration and better enable them to discharge their duties. In the last DC term (2008–2011), 14 visits had been organized by seven DCs to nearby cities (e.g. Zhuhai, Guangzhou) at Members' own expenses. DC members considered duty visits highly beneficial to their work.

13. In view of the above, we consider it appropriate to introduce a new provision for DC members to cover expenses incurred in duty visits **directly** related to DC work. Such visits should also be endorsed and organized by the DC or its committees having regard to, for example, the work priorities of the DCs. The proposed provision would cover such necessary expenses as passage, accommodation, local transportation expenses, meals and minor incidental out-of-pocket expenses, etc. With the proposed provision of \$10,000 per term, a DC member may conduct, in each term, one to two visits to nearby or Asian cities.

Expansion of Remit of OER

14. DC members are currently provided with an accountable OER to meet operational expenses incurred in discharging DC duties. Prior to January 2008, the remit of OER covered, among others, office accommodation expenses, salaries of assistants, audit fees, printing and publicity expenses, communication charges, F&E and associated repair and maintenance costs, etc.

/OER

OER is currently set at \$456,624 per annum and the surplus in one year can be rolled over to the following year until the end of a term. As with the honorarium, OER is adjusted annually in accordance with the movement of CPI(A).

15. Since January 2008, an accountable SER was introduced to cater for expenses arising from the setting up, renovation and refurbishment of DC members' ward offices, procurement of F&E and the associated repair and maintenance costs, as well as other legitimate expenses that are wholly and necessary for the conduct of DC business. At present, the SER is pitched at \$100,000 per member per DC term subject to the following –

- (a) 100% entitlement for newly-elected or newly-appointed DC members;
- (b) 100% entitlement for re-elected or re-appointed DC members who have claimed SER in the previous term but have relocated ward offices; and
- (c) 50% entitlement (i.e. up to \$50,000 per term) for re-elected or re-appointed members who have claimed SER in the previous term but have not moved ward offices.

With the introduction of the SER, the expenses of F&E and the associated repair and maintenance costs in relation to the renovation and refurbishment of ward offices originally chargeable to OER have been directed to SER for reimbursement purpose.

16. On 6 February 2015, we consulted the Panel on Home Affairs on the proposed increase in the monthly honorarium and the new provision for duty visits for DC members. While Members unanimously supported the proposals, some suggested that DC members should be allowed to claim reimbursement of expenses of F&E and the associated repair and maintenance costs under OER, while keeping the entitlement ceilings of OER and SER unchanged.

17. According to records of DC Secretariats, up to 31 December 2014 (i.e. the third year of the current DC term), 366 re-elected or re-appointed members are eligible for claiming up to 50% (i.e. \$50,000) of the SER in this DC term. Of these 366, 144 have already spent at least 90% of their SER entitlement, including 38 who have fully used up their entitlement. These members have encountered

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difficulties in meeting their operational needs to carry out necessary renovation and refurbishment of their existing ward offices, and/or replace or repair obsolete equipment or worn-out furniture. On the other hand, the utilization rate of OER for elected members has fallen from 96% in 2013 to 85% in 2014 following its enhancement by 34% since 1 January 2014. We therefore consider it reasonable to expand the remit of the accountable and enhanced OER to cover F&E expenses and the associated repair and maintenance costs starting from the new DC term, while keeping the entitlement ceilings of OER and SER unchanged. The proposed expansion, if approved, will allow additional flexibility for DC members, particularly those re-elected members who have not relocated their ward offices in the new term to deploy their OER resources to meet operational needs. This proposal would also be in line with the arrangement applicable to Members of the Legislative Council (LegCo)³.

WER and SER

18. The accountable WER, currently set at \$72,000 per member per DC term, was introduced since January 2007. It 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 ward offices as required upon termination of tenancy, and other legitimate expenses that are wholly and necessary for the conduct of DC business.

19. Given that the SER and WER are for meeting the actual operational needs of DC members, we propose to continue providing them to DC members at the existing rates in the next DC term starting from 1 January 2016.

Other Components of the Remuneration Package

20. Following the completion of the mid-term review in 2013, the OER has increased by 34% in real terms with effect from 1 January 2014. We consider that the current levels of OER and other components of the remuneration package for DC members (such as Miscellaneous Expenses Allowance (MEA), Medical Allowance (MA) and end-of-term gratuity for all DC members, as well as Entertainment Expenses Reimbursement for DC Chairmen) generally appropriate and should remain unchanged.

/IMPLEMENTATION

³ LegCo Members are currently allowed to claim reimbursement of F&E expenses and associated repair and maintenance costs either under Office Operation Expenses Reimbursement or Setting-up and Information Technology Expenses Reimbursement.

IMPLEMENTATION PLAN

21. In line with established practice, proposals involving substantial changes to the remuneration package for DC members will take effect in the following DC term. Accordingly, we propose that the increase in the honorarium for DC members, the introduction of a new provision for duty visits, and the modification of the remit of the OER be implemented with effect from the next DC term commencing on 1 January 2016.

FINANCIAL IMPLICATIONS

Recurrent Expenditure

22. With 458 DC seats for the 2016–2019 term, the proposed 15% increase in honorarium for DC members, save for any annual price adjustments to be made, will entail an additional expenditure of about \$5.6 million in 2015-16 (from January to March 2016), and about \$22.5 million from 2016-17 onwards. There will also be a consequential increase of about \$13.5 million in end-of-term gratuity for the next DC term, the amount of which is linked to the level of honorarium⁴. We will include the necessary provision for implementing this proposal in the annual Estimates of the relevant financial years. The proposed expansion of the remit of the OER will have no additional financial implications as the entitlement ceilings for DC members will remain unchanged.

Non-recurrent Expenditure

23. Based on past experience and spending pattern, the estimated expenditure for the SER and WER is \$36.7 million and \$10.4 million respectively. To cater for the cash flow requirement for the next DC term, we propose to create a new non-recurrent commitment of \$47,090,000 for these two reimbursement items under Head 63 HAD Subhead 700 General non-recurrent.

24. The estimated expenditure for the new provision for duty visits is around \$4,740,000 for the new DC term (i.e. four years). We will deal with the creation of a new commitment under Head 63 HAD Subhead 700 General non-recurrent under delegated authority.

/PUBLIC

⁴ The end-of-term gratuity payable at the end of a DC term is pitched at 15% of the total honorarium received during the term.

PUBLIC CONSULTATION

25. We conducted four focus group meetings with DC members to gauge their views on the remuneration package in June and July 2014. The Independent Commission on Remuneration for Members of the District Councils of the Hong Kong Special Administrative Region (the Independent Commission) has been consulted and given its full support to the proposals of increasing the monthly honorarium and introduction of a new provision for duty visits. On 6 February 2015, we consulted the LegCo Panel on Home Affairs which fully supported the above two proposals. Some Members suggested that the remit of the accountable OER should be expanded to allow DC members to claim reimbursement of F&E expenses and associated repair and maintenance costs. We subsequently consulted the Independent Commission which has rendered support for the proposal of modifying the remit of OER.

BACKGROUND

26. 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.

27. The components of the current remuneration package for DC members are set out below –

- (a) a monthly honorarium at \$25,760 (\$51,520 for Chairman and \$38,640 for Vice-chairman);
- (b) an annual provision of accountable OER at \$456,624, reimbursable on production of certified receipts to meet expenses incurred, and the surplus of each year to be rolled over to the following year until the end of a term;

/(c)

- (c) a non-accountable monthly provision of MEA at \$5,240 to cover minor expenses;
- (d) an accountable SER at \$100,000 per DC term to cover the cost of setting up ward offices, such as renovation of premises, purchase of furniture and equipment. Except that those re-elected or re-appointed members who have claimed SER in the previous term and have not relocated ward offices can only claim up to 50% of entitlement, the other DC member can claim up to 100% of the entitlement;
- (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 MA at \$31,610 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 \$34,990 per annum to meet entertainment expenses incurred on behalf of their respective DCs.

28. The honorarium, OER and MEA for DC Chairmen and members, and Entertainment Expenses Reimbursement for DC Chairmen are subject to annual adjustments in accordance with the movement of CPI(A). The level of MA is adjusted annually in line with the annual rate of adjustment of MA for LegCo Members.

Home Affairs Bureau
Home Affairs Department
June 2015