

## **ITEM FOR FINANCE COMMITTEE**

### **HEAD 63 – HOME AFFAIRS DEPARTMENT**

#### **Subhead 000 Operational expenses**

#### **Subhead 700 General other non-recurrent**

Members are invited to approve modifications to the remuneration package for members of the District Councils with effect from 1 January 2004.

### **PROBLEM**

We need to give members of the District Councils (DCs) greater flexibility in the use of their allowances to assist them in discharging their duties. We also need to modify the adjustment mechanism of the allowances.

### **PROPOSAL**

2. We propose, with effect from 1 January 2004, to -
  - (a) adjust the current annualised amount of reimbursable Operating Expenses Allowance (OEA) (\$204,000) for DC members according to the movement of Consumer Price Index (A) (CPI(A)) from November 2001 to November 2003 and expand the ambit of the OEA;
  - (b) adjust the OEA annually according to the movement of CPI(A), be it an inflation year or a deflation year; and
  - (c) make available a one-off reimbursable Information Technology and Other Support Grant (ITOSG) of up to \$10,000 to each DC member for the 2004-2007 term.

**/JUSTIFICATION .....**

**JUSTIFICATION**

3. The Independent Commission on Remuneration for Members of the District Councils of the HKSAR (the Commission) is tasked to carry out a review of the remuneration package for DC members before the start of the new DC term. The Commission completed its review in October 2003 and submitted recommendations to modify the remuneration package of DC members. The Administration has accepted the recommendations made by the Commission.

4. In this review, the Commission upheld the following principles -

- (a) DC membership is a form of service to the public and hence the honorarium should not be regarded as a salary reward for the services provided;
- (b) it would be against public interest to deter candidates who are less well-off from participating in public affairs. DC members should be reasonably and adequately remunerated to ensure that they do not suffer pecuniary embarrassments due to time spent on community service; and
- (c) DC members should be personally accountable for all their claims, which should be credible and reasonable.

**(A) Honorarium**

5. Since 1 January 2003, the monthly honorarium for DC members has been pitched at \$17,000. Although the honorarium is not a salary, it helps to ensure that DC members do not suffer pecuniary embarrassments after spending time on community service. Moreover, the monthly honorarium also helps DC members meet travelling, out-of-pocket and related expenses incurred in connection with their DC duties.

6. In determining whether the current rate of honorarium is pitched at the right level, the Commission has made reference to the following factors -

- (a) the honorarium for DC members has been revised annually in accordance with the movement of CPI(A); and
- (b) the relativity between DC members and Legislative Council (LegCo) Members in terms of honorarium has remained more or less unchanged after a lapse of two years.

/7. ....

7. Having regard to the above, the Commission considers that the existing rate of honorarium for DC members is appropriate and the existing mechanism for adjusting the honorarium annually according to the movement of CPI(A) should be maintained.

8. The Commission also considers that the current practice of offering higher rates of honorarium for DC Chairmen and Vice Chairmen to reflect their heavier responsibilities should be maintained.

**(B) Operating Expenses Allowance (formerly known as Accountable Allowance)**

**Adjustment Mechanism**

9. The existing adjustment mechanism uses CPI(A) as the basis for making revisions and allows any downward adjustment of the OEA in a deflation year to be deferred to a subsequent inflation year.

10. The Commission notes that this mechanism has attracted public criticism that DC members will never have to face any reduction in OEA in deflation years. Moreover, this arrangement is not in line with the arrangement for LegCo Members under which revisions are made in both inflation and deflation years. The Commission therefore recommends that for the 2004-2007 DC term, the amount of OEA should be revised annually according to the movement of CPI(A), be it an inflation year or a deflation year.

**Ambit**

11. The Commission notes that many DC members have proposed to further expand the ambit of the OEA to cover other expenses. The Commission recommends that the ambit of the OEA be expanded to include the payment of stamp duty which is chargeable under the Stamp Duty Ordinance (Cap. 117) in respect of an agreement for a lease. The Commission also recommends that the list of reimbursable items should include miscellaneous items such as light bulbs/fluorescent tubes, door locks, cleansing tools and materials, tools for doing basic repair work, basic office renovation, etc. which are essential for the smooth running of ward offices. A proposed list of reimbursable items is at Enclosure 1.

Encl. 1

/12. ....

Encl. 2

12. For the avoidance of doubt, the Commission recommends that a list of items which should not be allowed for reimbursement under the OEA should be compiled. A proposed list of non-reimbursable items is at Enclosure 2. To further guard against abuse, the Commission considers that DC members should be advised that the list is not exhaustive in the sense that all claims should be reasonable and solely for the discharge of their DC duties.

### **(C) Information Technology (IT) and Other Support Grant**

13. In the previous review conducted in 2001, the Commission recommended the provision of a one-off reimbursable ITOSG of \$10,000 for individual DC members during the 2000-2003 DC term to assist them to improve the IT support and other necessary facilities for use in their ward offices. The Commission notes that the scope of the OEA has been widened in mid-2002 to cover equipment and furniture items reimbursable under the ITOSG. DC members may choose to cover expenses on equipment and furniture items under the OEA or ITOSG. The Commission recommends that the provision of the ITOSG at the rate of \$10,000 for the 2004-2007 DC term should be maintained.

## **FINANCIAL IMPLICATIONS**

14. Based on past expenditure patterns, we estimate that the proposed reduction in OEA will result in savings of about \$5.2 million for 2004. The widening of the ambit of the OEA will carry no additional financial implication. Provision of the one-off reimbursable ITOSG will involve a non-recurrent expenditure of up to \$5.3 million for the new DC term on the assumption that all DC members will claim up to the maximum of their entitlement. Subject to Member's approval, we shall approve this new commitment under Head 63 Subhead 700 General other non-recurrent and supplementary provision required in 2003-04 under delegated authority.

## **BACKGROUND INFORMATION**

15. We consulted the LegCo Panel on Home Affairs on 28 November 2003 on this proposal. Most Members raised no objection to the new adjustment mechanism proposed by the Commission.

16. On 23 October 2001, the Commission recommended to the Administration a remuneration package for the DC members of the outgoing term (2000-2003), which had been fully adopted by the Administration. The existing remuneration package of DC members covers the following -

- (a) a monthly honorarium of \$17,000 for DC members - the honoraria for DC Chairmen and Vice Chairmen are \$34,000 and \$25,500 respectively. The ratio of the rates of honorarium for DC members, Vice Chairmen and Chairmen is 1 : 1.5 : 2. The honorarium is adjusted annually according to the movement of CPI(A), which covers the cost of living of households with an average monthly expenditure of \$4,500 - \$18,499 (at 1999/2000 prices);
- (b) an annual provision of OEA at the rate of \$204,000, reimbursable on production of certified receipts to meet expenses incurred wholly and necessarily for discharging DC duties. Annual adjustments are made according to movements of CPI(A). However, any downward adjustment of the OEA in a deflation year is deferred to a subsequent inflation year; and
- (c) a one-off reimbursable ITOSG of \$10,000. The grant is fully accountable.

17. During the past two years, the Commission has examined a wide range of issues related to the remuneration package. In examining these issues, the Commission has given due regard to the views collected by the Administration through various channels, including press interviews, DC meetings, discussions with the LegCo Member representing the District Council Functional Constituency, proposals raised by some LegCo Members during the 2003-04 Budget consultation, DC secretariats' contacts with DC members, press commentaries, etc.

-----

**Proposed List of Reimbursable Items  
under the Operating Expenses Allowance**

**I. Expenses on Employment of Assistants**

- Staff remuneration
- Medical benefits
- Insurance payments
- Provident fund contributions
- Statutory payments under labour laws
- Recruitment expenses
- Training expenses for DC member's assistants

**II. Other Expenses**

- Office accommodation expenses, including -
  - ❖ rentals
  - ❖ management fees
  - ❖ rates and Government rent
  - ❖ office insurance
  - ❖ cleaning service charges
  - ❖ water and sewage charges
  - ❖ electricity charges
  - ❖ stamp duty for rental agreements#

- Communication charges
- Equipment and furniture
- Repair and maintenance of equipment and furniture purchased with OEA and ITOSG and located in the DC member's ward offices
- Expenses on publicity items promoting DC member's ward office for the purpose of conducting DC business
- Stationery
- Periodicals, newspapers and publications
- Printing
- Miscellaneous items essential for the smooth running of ward offices (e.g. basic office renovation, tools for doing basic repair work, light bulbs/fluorescent tubes, door locks, cleansing tools and materials)#

# New reimbursable items.

Note - This list is for reference only. All expenses incurred should be essential and solely for discharging DC duties.

**Proposed List of Non-reimbursable Items  
under the Operating Expenses Allowance**

- Refundable deposits
- Penalties
- Cooking utensils and appliances (other than kettle, distilled water dispenser, refrigerator and microwave oven)
- Decorative items, such as paintings, photo frames, flowers, etc.
- Greeting cards, X'mas cards, etc.
- Sponsorship
- Entertainment (including food and beverage) and travelling expenses
- Medical and dental expenses for the DC member himself or herself
- Insurance plans for the DC member himself or herself
- Remuneration and benefits for the DC member himself or herself
- Training for the DC member himself or herself
- Expenses arising from non-DC related duties

Note - This list is not exhaustive and is for reference only. All expenses incurred should be essential and solely for discharging DC duties.