

NOTE FOR FINANCE COMMITTEE

Advance Payment of Operating Expenses Allowance to District Council Members

PURPOSE

This paper informs Members of the creation of an advance account with a maximum limit of \$20 million for the purpose of granting advance payment of Operating Expenses Allowance (OEA) to District Council (DC) members.

BACKGROUND

2. The purposes of granting advance payment of OEA to DC members are to help relieve the cash flow problem of some DC members when they set up new ward offices and give DC members more flexibility in the discharge of their DC duties.

3. The OEA for DC members is fully accountable and payable on a reimbursable basis. DC members will be reimbursed for the expenses they incur wholly and necessarily for discharging their DC duties on production of certified receipts. Some DC members have experienced cash flow problems because they had to incur a substantial amount of out-of-pocket expenses in setting up their ward offices.

4. At the Finance Committee meeting held on 19 December 2003, Members approved to adjust the annualised amount of OEA for DC members according to the movement of CPI(A) from November 2001 to November 2003 and to adjust in future the OEA annually according to the movement of CPI(A). The current annualised amount of OEA for DC members is \$192,120. Members suggested that consideration be given to providing certain amount of OEA upfront to DC members to alleviate their financial burden. The request was raised again on 9 January 2004 when the Secretary for Home Affairs attended a Legislative Council meeting for the discussion of CE's Policy Address.

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5. In response to this request, the Director of Home Affairs proposes to allow DC members to obtain a one-off advance payment of the OEA in the first year of a DC's term of office. In accordance with section 20 of the Public Finance Ordinance, we obtained approval from the Secretary for Financial Services and the Treasury to the proposed creation of an advance account subject to the limit of the advance account not exceeding \$20 million at any one point in time. The \$20 million was proposed having regard to the current rate of the OEA and possible adjustments to the OEA in accordance with the movement of CPI(A) in the coming years.

6. The new arrangements will take effect in April 2004 and the application period will extend from April to October 2004. We have agreed with the Director of Accounting Services on the detailed accounting procedures which are briefly set out as follows -

- (a) in making the application, a DC member will complete an application form and sign an undertaking to the effect that any unspent balance of the advance payment will be duly returned to Government at the end of 2004 or immediately before he/she ceases office, whichever is the earlier;
- (b) upon approval, a DC member will be given a one-off advance payment which is equivalent to one-sixth of the annualised amount of reimbursable OEA;
- (c) the advance payment will be offset by subsequent claims for reimbursements based on expenses actually incurred by the DC member from April to December 2004. Any further OEA will be payable only when the advance sum has been fully claimed by the DC member with receipted bills/relevant supporting documents; and
- (d) any unspent balance of the advance payment will have to be returned to the Government, by 31 December 2004 at the latest.

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7. We will take all necessary steps to ensure proper use of public funds and full recovery of advance payments made to DC members. We will devise an internal monitoring mechanism, step up internal audit control and regularly review related accounting procedures.

Home Affairs Bureau
April 2004