

ITEM FOR FINANCE COMMITTEE

HEAD 63 – HOME AFFAIRS DEPARTMENT

Subhead 000 Operational expenses

Subhead 700 General non-recurrent

Members are invited to approve improvements to the remuneration package for members of the District Councils, by two phases, with effect from 1 January 2007 and 1 January 2008 respectively.

PROBLEM

We need to improve the remuneration package for District Council (DC) members to enable them to discharge their enhanced role arising from the implementation of the recommendations in the 2006 DC Review.

PROPOSALS

2. We propose to introduce the following improvements to the remuneration package for DC members –

(a) with effect from 1 January 2007 –

- (i) to increase the level of the Operating Expenses Allowance (OEA) by 10% and to expand its ambit to include agency fees for the lease of ward offices and audit fees, and to allow DC members without a ward office to claim publicity expenses;
- (ii) to introduce a new accountable Winding-up Allowance of \$72,000 per term to cover expenses required by the outgoing DC members to wind up a ward office, including severance pay for their staff;

/(b)

- (b) with effect from 1 January 2008 –
- (i) to increase the level of DC members' honorarium by 10%;
 - (ii) to further modify the ambit of the OEA to cover only office accommodation expenses, employment of assistants, audit fees, printing, publicity expenses and communication charges;
 - (iii) to provide a new non-accountable Miscellaneous Expenses Allowance (MEA) of \$4,000 per month to cover items like entertainment expenses, self-development courses and minor purchases, and to delegate to the Secretary for Financial Services and the Treasury the authority to approve future revisions of the MEA annually on 1 January by reference to the movement of Consumer Price Index (A) (CPI(A)), be it an inflation or deflation year; and
 - (iv) to introduce a new accountable Setting-up Allowance of \$100,000 per term to cover the cost of setting up a DC member's ward office, such as renovation of premises, purchase of furniture and equipment. The existing Information Technology and Other Support Grant (ITOSG) of \$10,000 per DC term will be abolished accordingly.

3. On the introduction of the new Winding-up Allowance and Setting-up Allowance as set out in paragraphs 2(a)(ii) and 2(b)(iv) above, we propose to create a non-recurrent commitment of \$79 million under Head 63 Subhead 700 General non-recurrent for expenses to be incurred for the existing and next DC terms.

JUSTIFICATION

4. Over the years, DC members have expressed the view that carrying out DC duties demands a significant input of time and effort, and that the level of honorarium for DC members should be raised to reflect the increase in their workload over time. Many of them have commented that the current remuneration package is inadequate to support them in carrying out DC duties effectively. Taking into account DC members' views and the proposed strengthening of the functions of DCs in the DC Review, we consider that there is a need to improve DC members' remuneration package.

/New

New Remuneration Package for DC Members

Honorarium

5. We propose to increase the level of DC members' monthly honorarium by 10% (i.e. from \$17,040 to \$18,700 if based on the existing honorarium level^{Note 1}) with effect from 1 January 2008. This, if approved, will be the first real increase in members' honorarium since 1986 as since then the honorarium has been adjusted mainly for inflation or deflation only. As with the current practice, the revised honorarium will be subject to annual adjustments in accordance with the movement of CPI(A) in January each year.

6. Since April 1982, with Members' approval, we have been paying an honorarium to each member of the DCs (former District Boards (DBs)), upon claim, on a monthly basis. The honorarium is intended to ensure that DC members will not suffer any pecuniary embarrassments due to time spent in community service and that they have sufficient resources to cover expenses arising from their DC duties. As DC members tend to claim their honorarium in full over the past years, the requirement for payment of the honorarium to be made upon claim on a monthly basis seems superfluous. We therefore propose to waive this requirement and to ask DC members to submit their claims for the honorarium at the beginning of each four-year DC term or when they first join a DC in the middle of a term. To streamline the administrative procedures, we also propose to arrange for payment of the honorarium to the existing DC members direct on the last working day of a month with effect from January 2007.

Operating Expenses Allowance

7. We propose to raise DC members' monthly OEA (which is a fully accountable allowance) by 10% (i.e. from \$16,348 to \$18,000 if based on the existing OEA level^{Note 2}) with effect from 1 January 2007. This would address concerns from DC members that the existing level of OEA is inadequate for them to cover the expenses they need to incur in order to discharge their duties effectively.

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Note 1 Under current arrangements, the honorarium is subject to annual adjustments in accordance with the movement of CPI(A) in January each year. In addition, DC Chairmen and Vice Chairmen are eligible for a special allowance equivalent to 100% and 50% of a member's honorarium respectively.

Note 2 Under current arrangements, the OEA is subject to annual adjustments in accordance with the movement of CPI(A) in January each year. In 2001, Members approved to merge the monthly provisions under the OEA (the then Accountable Allowance) into an annual provision for the period from January to December each year. This arrangement of providing annualised amount of OEA would be maintained.

8. Taking into account suggestions from DC members, we also propose to include agency fees for the lease of ward offices and audit fees as reimbursable items under the OEA with effect from 1 January 2007. Currently, DC members not operating any ward offices are not eligible to claim reimbursement for expenses on publicity items under the OEA. Some 48 DC members (around 10% of the total) do not operate any ward offices at present. These members will however need to incur expenses in the promotion of their role and duties as a DC member, through various publicity channels (such as display of banners and placards in public places), and to maintain liaison with their constituents. To better meet the needs of DC members, we propose to relax the requirement so that DC members without ward offices can also claim reimbursement for expenses on publicity items for the purpose of conducting DC business. The proposed ambit of the OEA to be adopted with effect from 1 January 2007 is at Enclosure 1. All expenses to be claimed under the OEA should be incurred by the members wholly and necessarily for discharging DC duties. A list of non-reimbursable items under the OEA adopted since 2003 is at Enclosure 2. We will review the list from time to time in line with the remuneration package for the DC members and taking into account the recommendations of the Independent Commission on Remuneration for the members of the District Councils of the HKSAR (the "Independent Commission").

Encl. 1

Encl. 2

9. We have proposed in the DC Review that upon the introduction of a new non-accountable MEA (para. 10 below) to cover minor expenses such as stationery and entertainment, and a new accountable Setting-up Allowance to cover items like furniture and equipment, the ambit of the OEA could be confined to cover only office rental, employment of assistants and related expenses such as office insurance and auditing expenses. However, during public consultations, some DC members opined that communication with voters in the form of printing newsletters and postal expenses constituted significant financial outlay and should be qualified for reimbursement under the OEA. Taking account of the views collected, we now propose to retain some expenditure items currently reimbursable under the OEA, namely expenses on printing, publicity, and communication charges for DC members to maintain contacts with their constituents. The proposed ambit of the OEA to be adopted with effect from 1 January 2008 is at Enclosure 3.

Encl. 3

Miscellaneous Expenses Allowance

10. In response to DC members' requests for additional support to cover expenses associated with their work to serve their constituents, we propose to provide a non-accountable MEA of \$4,000 per month to DC members with effect from 1 January 2008. This is intended to assist DC members in covering items such as entertainment, self-development courses, minor purchases, personal insurance and organising activities for residents in the district.

11. We propose that similar to the arrangements for the honorarium and the OEA, the monthly rate of the MEA would be subject to annual revision on 1 January each year according to the movement of CPI(A), be it an inflation or deflation year. DC members with concurrent membership in the Executive Council (ExCo) and/or Legislative Council (LegCo) would be eligible for only two-thirds of the amount of the MEA, as in the case for the honorarium.

12. We also propose that in line with the present practice of annual revision of DC members' honorarium and OEA, the Secretary for Financial Services and the Treasury be delegated the authority to approve future adjustments to the level of the MEA on an annual basis by reference to the movement of CPI(A).

Setting-up and Winding-up Allowances

13. We have proposed in the DC Review to provide two new fully accountable allowances to address DC members' long-standing concerns that the existing OEA and the one-off ITOSG are insufficient to cover the cost of setting up and operating their ward offices. These include for each DC term –

- (a) a Setting-up Allowance of \$100,000 for renovation and refurbishment of a ward office, procurement of furniture and equipment, creation of a website for communication with voters, and other legitimate expenses that are wholly and necessarily for the conduct of DC business; and
- (b) a Winding-up Allowance of \$72,000 for paying severance pay to assistants engaged with the OEA, reinstatement of the ward office as required by the landlord upon termination of tenancy, and other legitimate expenses that are wholly and necessarily for the conduct of DC business.

Setting-up Allowance

14. Taking into account the feedback from DC members during the public consultations on the DC Review and given that the Setting-up Allowance, if approved, is a newly introduced allowance, we consider it justified to revise the original proposal to give re-elected or re-appointed members who have used the OEA for running a ward office only 50% of the Allowance. We now propose that all DC members using the Setting-up Allowance for the first time should be eligible for the full rate. Thereafter, DC members who have already claimed the Allowance in a previous term will only be eligible for 50% of the Allowance (i.e. \$50,000) in subsequent DC terms. Members joining the DC in the middle of a term and claiming the Setting-up Allowance for the first time will also be eligible for the full rate of \$100,000. We propose to introduce the Allowance with effect from 1 January 2008.

/Winding-up

Winding-up Allowance

15. The Winding-up Allowance of \$72,000 per DC term will cover expenses of DC members arising from cessation of office if they choose not to stand for re-election or for reasons such as death, serious illness or injury or defeat in an election. However, members who have resigned, or who are removed from DCs for reasons under the District Councils Ordinance (Cap. 547), will not be eligible for the allowance. We further propose that a DC member should not be eligible for the Winding-up Allowance simply for the closure or relocation of a ward office within a term whilst maintaining his DC membership. We propose to introduce the Allowance with effect from 1 January 2007.

Timing of Implementation

16. As regards timing for implementing the new remuneration package for DC members, it has been our intention to bring the proposed new remuneration package into operation in the new DC term starting on 1 January 2008. We consider it more prudent to adhere to the well rehearsed principle, as in the case of LegCo, that any substantial changes to the remuneration of LegCo Members, particularly those relating to LegCo Members' own benefits, proposed in one LegCo term will only be implemented in the following term to preserve the credibility of the remuneration regime and for better public reception.

17. However, taking into account the views expressed by DC members and the public during the public consultations on the DC Review, as set out above, we propose to raise DC members' OEA by 10% from 1 January 2007. This aims to address, without delay, the long-standing concerns of DC members that the existing level of the OEA is inadequate for them to effectively discharge their duties and maintain close liaison with their constituents. There is also a precedent in the 2001 DC Review^{Note 3}.

18. In line with the recommendations from the Independent Commission to enhance accountability in the use of public funds, we propose to include audit fees and agency fees for lease of members' ward offices as reimbursable items under the OEA as soon as possible, i.e. with effect from 1 January 2007. We also propose, with effect from 1 January 2007, to relax the existing requirement to allow DC members not operating a ward office to claim reimbursement for expenses on publicity items under the OEA so as to facilitate their liaison with their constituents

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^{Note 3} In the 2001 DC Review conducted following the dissolution of the Municipal Councils, proposals to increase DC members' OEA were implemented within the same term, benefiting the then existing DC members.

through channels like publicity banners and placards. In addition, in view of the widespread support for the early introduction of the newly created Winding-up Allowance, which like the OEA, is a fully accountable allowance, and is payable only when DC members step down from office and have to disband their staff and/or close their ward offices, we propose to advance the introduction of this allowance to the current DC term as well. We will streamline the procedures for payment of the honorarium to DC members with effect from January 2007.

19. As regards the remaining components of the proposed remuneration package including the 10% increase in honorarium as well as the new non-accountable MEA and the accountable Setting-up Allowance, we propose that these should take effect from the new DC term starting on 1 January 2008.

20. We have consulted the Independent Commission and obtained its endorsement of the proposed remuneration package and implementation plan outlined above.

FINANCIAL IMPLICATIONS

Recurrent Expenditure

21. The financial implications of increasing the OEA for DC members by 10% will be about \$2.6 million in 2006-07 (covering the period from January to March 2007). We will absorb the additional costs so incurred in the 2006-07 Estimates.

22. Our proposals to re-define the ambit of the OEA and provide direct payment of the honorarium for DC members are primarily administrative improvements and do not carry any additional financial implications.

23. For the financial year 2007-08, on the assumption that there are no DC members with concurrent membership in the ExCo and/or LegCo, we estimate that the financial implications for increasing the level of the OEA by 10% and effecting the 10% increase in the honorarium and introducing the new MEA (covering the period from January to March 2008) will be about \$20 million. Thereafter, on a full year basis, the proposals will cost about \$47 million per year. We will include sufficient provision for the implementation of these proposals in the annual draft Estimates from 2007-08 onwards.

/Non-recurrent

Non-recurrent Expenditure

24. It would be difficult for us to come up with the precise amount of the additional expenditure incurred for introducing the new Winding-up Allowance as the exact number of DC members leaving the DCs at the end of the current term is not known. However, on the basis of the number of DC members retiring from the DCs in previous DC terms and on the assumption that all eligible members will claim their maximum entitlement, our estimation is that the Winding-up Allowance arising from the current term and the coming DC term from 2008 to 2011 will cost a one-off expenditure of \$24 million. Regarding the Setting-up Allowance, assuming all the DC members in the next term will claim the full amount, the proposal will cost \$55 million. To cater for the cash flow requirement for the current and the next DC terms, we propose to create a new non-recurrent commitment of \$79 million for these two allowances under Head 63 Home Affairs Department Subhead 700 General non-recurrent.

PUBLIC CONSULTATION

25. On 27 April 2006, the Home Affairs Bureau and the Constitutional Affairs Bureau jointly released a consultation document on the DC Review for a three-month consultation. During the consultation period, a delegation of senior officials led by the Secretary for Home Affairs attended meetings of the 18 DCs. We also organised three public forums, created a dedicated website and attended meetings of the LegCo Panel on Constitutional Affairs and various consultation sessions organised by different organisations to listen to public views. By the end of the public consultation period on 31 July 2006, we received a total of 162 written submissions.

26. On completion of the public consultation, the Administration announced on 28 September 2006 the way forward for implementing the recommendations contained in the 2006 DC Review consultation document and issued a LegCo Brief to Members on these recommendations on the same day. We have also briefed the LegCo Panel on Home Affairs on the implementation plan of the DC Review at its meeting on 10 November 2006. Members have raised no objection to the proposals to improve the remuneration package for the DC members outlined above.

BACKGROUND

27. We regularly review, in consultation with the Independent Commission, the components of the remuneration package for the DC members including the ambit of the OEA to ensure that it is in line with present-day circumstances.

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28. In 1987, Members approved that individuals holding multiple membership in the ExCo, LegCo and DCs (the then DBs) should be eligible to receive in full the highest of the member's allowances, any special allowance, and two-thirds of the other allowances, for which they were eligible.

29. Members delegated to the Secretary for Financial Services and the Treasury (the then Secretary for the Treasury) the authority to approve future revisions in the monthly rates of the honorarium and the OEA (the then office rental allowance) for DC members by reference to the movement in the Hang Seng Consumer Price Index in 1992 and 1996 respectively. Members subsequently approved to change the basis for the annual adjustment to CPI(C) in 1999 and CPI(A) in 2001.

30. In 2001, Members approved the introduction of an ITOSG of up to \$10,000 to each DC member per DC term. This is a one-off reimbursable grant for assisting DC members to improve the information technology support and other necessary facilities for use in their ward offices.

31. On completion of the public consultation exercise, the Administration has recommended that all proposals contained in the DC Review to enhance district work and strengthen the role of the DCs would be implemented, except for the proposal to postpone polling day from late November to early December and other minor revisions. These revisions involve the relaxation of the requirement to set up a separate District Facilities Management Committee under each DC and the fine-tuning of the improvements to the remuneration package to better support the DC members in assuming their enhanced role taking account of feedback received during the public consultation from April to July this year.

**Proposed List of Reimbursable Items
under the Operating Expenses Allowance with effect from 1 January 2007**

1. Office accommodation expenses, including –
 - Rentals
 - Management fees
 - Rates and Government rent
 - Office insurance premium
 - Utility charges (including electricity, water and sewage)
 - Stamp duty for rental agreements
 - Cleaning service charges
 - Agency fees for leasing members' ward office*
2. Expenses on employment of assistants
 - Staff remuneration
 - Medical benefits
 - Insurance payments
 - Provident fund contributions
 - Statutory payments under labour laws
 - Recruitment expenses
 - Training expenses for the DC member's assistants
3. Audit fees*
4. Printing
5. Expenses on publicity items promoting the DC member's role and duties for the purpose of conducting DC business
6. Communication charges
7. Equipment and furniture
8. Repair and maintenance of equipment and furniture purchased with OEA or ITOSG

9. Stationery
10. Periodicals, newspapers and publications
11. 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)

* Proposed new reimbursable items.

Note – This list is for reference only. All expenses incurred should be wholly and necessarily for discharging DC duties.

**Existing 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 wholly and necessarily for discharging DC duties.

**Proposed List of Reimbursable Items
under the Operating Expenses Allowance
with effect from the coming DC term in 2008-2011**

1. Office accommodation expenses
 - Rentals
 - Management fees
 - Rates and Government rent
 - Office insurance premium
 - Utility charges (including electricity, water and sewage)
 - Stamp duty for rental agreements
 - Cleaning service charges
 - Agency fees for leasing members' ward office

2. Expenses on employment of assistants
 - Staff remuneration
 - Medical benefits
 - Insurance payments
 - Provident fund contributions
 - Statutory payments under labour laws
 - Recruitment expenses
 - Training expenses for the DC members' assistants

3. Audit fees

4. Printing expenses
(e.g. newsletters, annual reports, business cards)

5. Publicity expenses for promoting members' role and duties for the purpose of conducting DC business
(e.g. signboards, placards, banners)

6. Communication charges
(e.g. postage, internet charges, telephone charges, fax charges as well as expenses on design and maintenance of websites)

Note – This list is for reference only. All expenses incurred should be wholly and necessarily for discharging DC duties.