

## ITEM FOR FINANCE COMMITTEE

### HEAD 63 – HOME AFFAIRS DEPARTMENT Subhead 000 Operational expenses Subhead 700 General non-recurrent

Members are invited to approve the proposed enhancements of the expenses reimbursement and related arrangements for members of the District Councils with effect from 1 January 2014.

#### PROBLEM

There is a need to enhance the expenses reimbursement and related arrangements for members of the District Councils (DC) to facilitate their discharge of DC-related duties.

#### PROPOSAL

2. We propose to enhance the remuneration package for DC members with effect from 1 January 2014 (i.e. within the current DC term), as follows –

- (a) increase the rate of the accountable Operating Expenses Reimbursement (OER) by 34% from \$304,704 per annum (i.e. \$25,392 per month) at 2013 prices to \$408,000 per annum (i.e. \$34,000 per month);
- (b) 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) increase the entitlement of the accountable Setting-up Expenses Reimbursement (SER) from 50% to 100% for DC members who have claimed SER in a previous term but have changed the location of their ward offices in the current term.

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## JUSTIFICATION

3. The Chief Executive announced in his 2013 Policy Address, amongst others, 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 rapid increase in rental for ward offices, salaries for assistants, and other operating expenses, there have been concerns from DC members that their present remuneration package should be enhanced so as to enable them to perform their duties more effectively. This is particularly the case for those members who have to rent private premises for their ward offices.

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

5. It is the Government's established practice to review the remuneration package for DC members and announce the new package about one year before the commencement of a DC election, so that potential candidates can take account of the package before deciding whether to run in the election. Taking into account DC members' imminent concerns that the existing package cannot adequately cover the rental prices for their ward offices and salaries for their assistants, we have advanced the review of allowance and expense reimbursement arrangements by one year, with a view to addressing these specific concerns earlier.

6. In reviewing DC members' remuneration package, we seek to provide sufficient resources to cover expenses for performing their DC-related functions and duties. As in previous reviews, we have adopted a holistic approach, taking into consideration a number of factors including 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.

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Encl.1

8. The current level of OER is \$25,392 per month per DC member. Many DC members have indicated that with the current level of OER, they have encountered major difficulties in meeting the rising rental prices of ward offices, and in recruiting or retaining quality assistants with the current level of OER. As a result, many of them have to finance the unmet expenditure with their own resources. The actual expenditure pattern and the utilisation rate of OER are set out in Enclosure 1.

9. Having regard to the above situation, it is recommended that OER be increased by 34% from \$304,704 per annum (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 the estimated expenditure requirement for DC members 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. Currently, 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 existing arrangement provided 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 setting up a ward office. However, re-elected members who have already claimed SER in a previous term will only be eligible for 50% of the expenses reimbursement, 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 DC members who have claimed SER in a previous term but have changed the location of their ward offices in the current term be increased from 50% to 100%.

***/Other .....***

***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 the end of 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 (MA), 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 OER and SER seek to meet the imminent need for increases in the operation-related expenses of existing DC members, we propose that these measures be implemented with effect from 1 January 2014.

**FINANCIAL IMPLICATIONS*****Recurrent Expenditure***

15. The proposed increase in OER is estimated to cost an additional \$13.1 million in 2013-14 (covering the three-month period from January to March 2014), followed by \$52.4 million per annum in 2014-15, and gradually decreasing to \$47.3 million per annum from 2016-17 onwards mainly due to the abolition of appointed seats from the next DC term onwards. There is sufficient provision for meeting the additional costs incurred in 2013-14. We will separately include the necessary provision in the annual Estimates of the relevant financial years from 2014-15 onwards. The proposed roll-over arrangement of OER will not require additional resources. The detailed breakdown is at Enclosure 2.

Encl. 2

***Non-recurrent Expenditure***

16. On 3 December 2010, the Finance Committee (FC) of the LegCo approved a non-recurrent commitment of \$49 million for providing Setting-up and Winding-up Expenses Reimbursements to DC members for the current DC term (from January 2012 to December 2015) under Head 63 Home Affairs Department Subhead 700 General non-recurrent. The proposed enhancement of SER is estimated to cost an additional \$3.9 million in the current DC term. We will deal with any necessary increase in commitment under delegated authority as appropriate.

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## PUBLIC CONSULTATION

17. 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 the endorsement of the Independent Commission on Remuneration for Members of the District Councils of the Hong Kong Special Administrative Region on 11 July 2013. On 8 November 2013, we consulted the LegCo Panel on Home Affairs. Members were in general supportive of the proposals.

## 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. On 3 December 2010, FC of the LegCo approved an increase in the rate of OER by 15% with effect from 1 January 2011. FC also approved the introduction of MA, end-of-term gratuity equivalent to 15% of the honorarium and Entertainment Expenses Reimbursement (EER) for DC Chairmen with effect from 1 January 2012. The current remuneration package<sup>Note</sup> comprises eight components, as follows –

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<sup>Note</sup> Under existing arrangement, the honorarium, OER, MEA and EER are subject to annual adjustment by reference to the movement of Consumer Price Index (A) (CPI(A)) in January each year, while the level of MA is subject to annual adjustment in January each year, in line with that for LegCo members whose MA level is adjusted on an annual basis in accordance with the movement of CPI(C).

- (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;

*New components with effect from 1 January 2012*

- (f) an accountable MA 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 EER at \$31,260 per annum to meet entertainment expenses incurred on behalf of their respective DCs.

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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>Note</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 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 OER is not to be enhanced.

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<sup>Note</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 District Council (DC) Members**

		Within the current DC term (January 2012 to December 2015)		From the next DC term onwards	
		2013-14 (from January to March 2014) (\$) <sup>1</sup>	2014-15  (\$) <sup>1</sup>	2015-16  (\$) <sup>2</sup>	2016-17 onwards  (\$) <sup>2</sup>
<b>(A)</b>	<b>Items payable on a monthly or annual basis</b>				
1.	Increase in Operating Expenses Reimbursement (OER)	\$13.1M (for three months)	\$52.4M per annum	\$51.1M per annum	\$47.3M per annum
2.	Extension of the roll-over arrangement for OER	-	-	-	-
	<b>Total of (A)</b>	<b>\$13.1M (for three months)</b>	<b>\$52.4M per annum</b>	<b>\$51.1M per annum</b>	<b>\$47.3M per annum</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>	\$3.9M per term		\$5.0M per term	
	<b>Total of (B)</b>	<b>\$3.9M per term</b>		<b>\$5.0M per term</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 basis that all 68 appointed seats will be abolished and the number of elected seats will increase 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.