

# 立法會 *Legislative Council*

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## **Subcommittee on Members' Remuneration and Operating Expenses Reimbursement**

### **Members' Operating Expenses Reimbursement**

#### **Purpose**

This paper provides information on issues relating to Members' Operating Expenses Reimbursement ("OER") raised by members of the Subcommittee on Members' Remuneration and OER ("the Subcommittee") at its meeting in January 2017.

#### **Background**

2. At the Subcommittee meeting held on 20 January 2017, members suggested that the review on the level of Members' OER should cover, among others, the following issues: (a) reimbursement for staff salaries and office rental expenses; (b) travelling expenses reimbursement; (c) whether Consumer Price Index (C) ("CPI(C)") should continue to be used as the basis for annual adjustment of OER; and (d) whether the level of Members' OER should be based on the size of their constituencies. Some members had also suggested that information such as salaries and turnover rate of Members' assistants be compiled to facilitate the review.

#### **Statistics**

3. Statistics on the utilization of Office Operation Expenses Reimbursement ("OOER") and Entertainment and Travelling Expenses Reimbursement ("ETER") in the Fifth Legislative Council ("LegCo") are summarized in paragraphs 4 to 7 below. As the current LegCo term has operated for less than a year and information on Members' utilization of OOER and ETER for one whole reimbursement year<sup>1</sup> is not yet available, statistics of the Sixth LegCo are not included in the analysis below.

##### **(a) Office Operation Expenses Reimbursement**

4. The overall average utilization rate of OOER per Member in the Fifth LegCo was about 92%. Further breakdowns according to the method by which Members were returned<sup>2</sup> and major categories of expenses are in **Appendix I**.

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<sup>1</sup> Members can submit reimbursement claims within three months from the month of expenditure.

<sup>2</sup> i.e. Functional Constituencies, District Council (second) functional constituency and Geographical Constituencies

5. In the Fifth LegCo, the utilization rates of OOER of 51 Members (about 71.9%) were 90% or over. The distribution of utilization rates of OOER are in **Appendix II**.

(b) Entertainment and Travelling Expenses Reimbursement

6. The overall average utilization rate of ETER per Member in the Fifth LegCo was about 96.7%. Further breakdowns according to the method by which Members were returned are in **Appendix III**.

7. In the Fifth LegCo, the utilization rates of of ETER of 64 Members (about 90.2%) were 90% or over. The distribution of utilization rates of ETER are in **Appendix IV**.

(c) Over-ceiling expenses

8. While over-ceiling expenses are not reimbursable, in order to ascertain the total financial provision required by Members to carry out their LegCo duties, Members are invited to report such expenses to the Secretariat. In respect of the Fifth LegCo, over-ceiling expenses were submitted by three Members returned by the District Council (second) functional constituency ("DC (second) FC") and three Members by Geographical Constituencies ("GC"). The amounts reported for the whole term ranged from \$5,000 to \$310,000, with details in **Appendix V**. It should be noted that given the small number of Members providing information on over-ceiling expenses, the information may not fully reflect the level of resources required by Members for carrying out their duties.

(d) Members' staff

9. Based on the claims submitted by Members, Members of the Fifth LegCo and the Sixth LegCo employed a total of 475 and 446 full-time staff respectively. The average number of full-time staff employed by each Member is shown in the table below:

	<b>Fifth LegCo</b> (based on the number of staff employed in June 2016)	<b>Sixth LegCo</b> (based on claims submitted by Members as at 20 March 2017)
<b>Overall average</b>	<b>6.8</b>	<b>6.6</b>
FC average	4.9	5.2
DC (second) FC average	9.3	7.8
GC average	8.0	7.6

10. **Appendix VI** shows the salary ranges of the full-time staff employed by Members. Of the full-time staff employed by Members of the Fifth LegCo and the Sixth LegCo, about 64.7% (307 staff) and 58.5% (261 staff) received a monthly salary of less than \$20,000.

11. Based on the outcome of surveys conducted in the Fifth LegCo, the average turnover rate of Members' assistants in 2012-2013 and 2013-2014 were 21%<sup>3</sup> and 16%<sup>4</sup> respectively.

(e) District offices

12. Based on the rental reimbursement claims submitted by Members, the average number of district offices operated by Members of the Fifth LegCo and the Sixth LegCo are shown in the following table, with further details in **Appendix VII**.

	<b>Number of district offices*</b>	
	<b>Fifth LegCo</b> (based on the number of district offices rented in June 2016)	<b>Sixth LegCo</b> (based on claims submitted by Members as at 20 March 2017)
<b>Overall average</b>	<b>1.6</b>	<b>1.2</b>
FC average	0.5	0.3
DC (second) FC average	1.6	1.3
GC average	2.5	1.9

(\*The central office in the LegCo Complex provided for each Member was excluded.)

## **Level of Operating Expenses Reimbursement for Members**

(a) Level of OER for Members returned by different methods

13. The issue of whether different levels of OER should be provided for Members according to the method by which they were returned or the size of their constituencies had been discussed by the past LegCo, as summarized in paragraphs 14 to 18 below.

14. When the issue was discussed in 2004 and 2005 at meetings of the Subcommittee set up in the Second LegCo, members expressed different views. Some members were of the view that there should not be differential treatment for Members elected through different methods. These Members pointed out that FC Members served their constituents as well as the community, and considered it inappropriate to provide them with less resources. They also considered that the number of offices operated by a Member should not be the only criterion for determining the financial resources required. Given that funding was provided on reimbursement basis, an increased reimbursement ceiling for all would suit whoever requiring more resources.

<sup>3</sup> Of the 416 full-time staff employed by the 67 Members who responded to the survey, 87 left during the period, representing an average turnover rate of 21%.

<sup>4</sup> Of the 320 full-time staff employed by the 36 Members who responded to the survey, 52 left during the period, representing an average turnover rate of 16%.

15. Some other members, however, were of the view that as GC Members had to serve much more constituents than FC Members, more resources should be provided for GC Members to carry out their LegCo duties. Pointing out the different limits of election expenses for candidates of constituencies of different sizes in a LegCo election, these members considered that Members should likewise be provided with different amounts of resources according to the size of their constituencies.

16. In June 2005, the Subcommittee conducted a survey to seek all Members' views on the issue. According to the results of the survey, the majority of Members were of the view that the arrangement for all Members to be provided with the same level of OER, irrespective of the method by which they were returned, should be maintained. While supporting the continuation of the arrangement, some GC Members considered that, in the event of inadequate resources for all Members to be provided with an enhanced level of OER, priority should be given to GC Members because they had to serve a much larger number of constituents.

17. During the Fourth LegCo, the issue was discussed at a Subcommittee meeting in November 2008. Members' views were divided. There was a suggestion that a common ceiling be set for all Members after deciding the maximum number of ward offices that a GC Member could operate. The reimbursable amount for a Member could then be calculated according to the actual number of ward offices operated by the Member, but subject to the same ceiling.

18. The issue of whether different remuneration packages should be provided for Members returned from FC, DC (second) FC and GC had been considered by the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR ("the Independent Commission"). The Independent Commission was of the view that notwithstanding the emergence of the new DC (second) FC, LegCo Members returned from GC and FC should be entitled to the same remuneration package on the grounds that they were exercising the same constitutional powers and functions under the Basic Law.<sup>5</sup>

(b) Mechanism of annual adjustment to the level of OER

*Existing adjustment mechanism*

19. In 1994, the Commission on Remuneration for Members of LegCo recommended that there should be a system of automatic annual adjustment to the level of Members' remuneration and their monthly expenses allowances to ensure that these payments would not be eroded by inflation. It was recommended that the adjustment should be made by reference to movement of the Hang Seng Consumer Price Index

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<sup>5</sup> See para 2.3(d) of the Independent Commission's Report on the Review of Remuneration Package for Members of the Fifth LegCo dated February 2012; and para 2.4(b) of the Independent Commission's Report on the Review of Remuneration Package for Members of the Sixth LegCo dated January 2016.

(renamed CPI(C) in 1999). The recommendation was endorsed by the Finance Committee in July 1995. Since then, Members' remuneration and the reimbursement ceilings for OER and ETER are adjusted annually in October in accordance with the movement of CPI(C).

### *Consumer Price Indices*

20. CPI measures the changes over time in the price level of consumer commodities and services generally purchased by households. The year-on-year rate of change in CPI is widely used as an indicator of the inflation affecting consumers.

21. Four series of CPIs are compiled to reflect the impact of consumer price changes on households in different expenditure ranges. CPI(A), CPI(B) and CPI(C) are compiled based on the expenditure patterns of households in the relatively low, medium and relatively high expenditure ranges.<sup>6</sup> A Composite CPI is also compiled based on the overall expenditure patterns of all households covered by the above three indices to reflect the impact of consumer price changes on the household sector as a whole.<sup>7</sup>

### *Past discussions*

22. In the light of the downward movement of CPI(C) in 1999 and 2000, the Subcommittee formed in the Second LegCo conducted a review of the annual adjustment mechanism of Members' OER in 2000. The Subcommittee noted that as staff salaries and office rentals were bound by contracts or implied moral obligations, Members could not readily cut back on these expenses to cope with the reduction in OER as a result of the downward movement of CPI(C). It was also pointed out that reference to CPI(C) might not be appropriate as the components of CPI(C) and their relative weightings were different from the expenditure items under OER, e.g. CPI(C) did not have a separate weighting for wages and salaries. The Subcommittee therefore recommended that expenses on staff salaries and office accommodation should more appropriately be subject to new annual adjustment mechanism(s) to avoid Members being given a reduced amount of OER for such expenses at times of deflation, while other expenses should continue to be subject to CPI(C).

23. After considering the Subcommittee's views, the Independent Commission recommended in June 2001 that LegCo Members be given the option of an alternative mechanism for annual adjustments to OOER. Under the proposed

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<sup>6</sup> CPI(A), CPI(B) and CPI(C) respectively cover some 50%, 30% and 10% of households in Hong Kong. The average monthly household expenditures of these groups were \$5,700 - \$25,200, \$25,200 - \$45,700 and \$45,700 - \$92,300 respectively at 2016 prices.

<sup>7</sup> CPIs are composed of nine commodity/service sections, namely food; housing; electricity, gas and water; transport; clothing and footwear; durable goods; alcoholic drinks and tobacco; miscellaneous goods and miscellaneous services. For more details on the concepts and methods for compilation of CPIs, please see "Introduction to CPIs" published by the Census and Statistics Department, which is available at <https://www.censtatd.gov.hk/hkstat/sub/sc270.jsp?productCode=B8XX0021>

alternative mechanism, (a) OOER would be divided into two components, one for expenses relating to staff salaries and office accommodation and the other for other operating expenses; (b) the component covering staff and office accommodation expenses would be fixed throughout the entire term of office, while the other variable component would continue to be adjusted annually in accordance with the movement of CPI(C); and (c) the proportion between the fixed and variable components in OER would be determined in consultation with LegCo Members in the light of their expenditure patterns.

24. Some members expressed concern that the proposal of fixing a portion of OOER for four years would offer no flexibility for Members to increase their staff's salaries. These Members suggested adjusting (a) staff salaries in accordance with the annual pay trend survey for civil servants; (b) office rental in accordance with the rental index for private offices (Grade C) compiled by the Rating and Valuation Department or CPI(C); and (c) other expenses in accordance with CPI(C). The Administration advised that there would be technical difficulties in determining the ratios for the different components of OOER, given the great differences in Members' expenditure pattern on staff salaries, office rental and other expenses. A consultation paper was subsequently issued to seek all Members' views on their preference for the existing annual mechanism in accordance with CPI(C) or the alternative adjustment mechanism proposed by the Independent Commission. In view of the stated preference of the majority of Members, the Subcommittee recommended and the House Committee endorsed that the existing annual adjustment mechanism of OER in accordance with CPI(C) should continue.

25. The Subcommittee of the Fourth LegCo had recommended, in its proposals on Members' remuneration package submitted to the Independent Commission in March 2011, that the salary portion of OOER (i.e. 70% of OOER) should be adjusted annually in accordance with the civil service pay adjustment as the movement of CPI(C) could not reflect the rate of salary increase in the labour market. The Independent Commission, however, considered it inappropriate to use civil service pay as the basis to work out the amount required to cover salary expenses for Members' assistants, given the different job nature of the two and the unique mechanism of the civil service pay structure. The Subcommittee of the Fifth LegCo had continued to pursue this proposal with the Independent Commission, but the proposal was not supported.

### **Advice sought**

26. Members are invited to note the information set out in this paper.

**Utilization rates of Office Operation Expenses Reimbursement  
in the Fifth Legislative Council**

	Functional Constituencies ("FC")		District Council (second) FC		Geographical Constituencies		Overall	
	\$	%	\$	%	\$	%	\$	%
<b>Reimbursement ceiling (per term)</b>	9,121,280	100	9,121,280	100	9,121,280	100	9,121,280	100
<b>Average reimbursement total</b>	7,649,949	83.9	8,858,126	97.1	8,944,278	98.1	8,391,311	92.0
(a) Staff expenses	6,437,117	70.6	7,860,078	86.2	6,766,091	74.2	6,704,129	73.5
(b) Office accommodation expenses	318,076	3.5	470,320	5.2	805,902	8.8	576,146	6.3
(c) Equipment and furniture	43,694	0.5	40,533	0.4	70,878	0.8	57,255	0.6
(d) Other operating expenses	851,062	9.3	487,195	5.3	1,301,407	14.3	1,053,781	11.6

**Distribution of utilization rates of Office Operation Expenses Reimbursement  
in the Fifth Legislative Council**

<b>Utilization rate (%)</b> \ <b>No. of Members (%)</b>	<b>Functional Constituencies ("FC") (%)</b>	<b>District Council (second) FC (%)</b>	<b>Geographical Constituencies (%)</b>	<b>Overall (%)</b>
100	2 (6.7)	-	8 (22.2)	<b>10 (14.1)</b>
99 to <100	4 (13.3)	3 (60)	16 (44.4)	<b>23 (32.4)</b>
90 to <99	7 (23.3)	1 (20)	10 (27.8)	<b>18 (25.4)</b>
80 to <90	5 (16.7)	1 (20)	2 (5.6)	<b>8 (11.2)</b>
70 to <80	7 (23.3)	-	-	<b>7 (9.9)</b>
60 to <70	3 (10)	-	-	<b>3 (4.2)</b>
50 to <60	2 (6.7)	-	-	<b>2 (2.8)</b>
<b>Total<sup>Note</sup></b>	<b>30 (100)</b>	<b>5 (100)</b>	<b>36 (100)</b>	<b>71 (100)</b>

( ) Figures in bracket indicate the number of Members expressed as a percentage of all the Members in the corresponding category shown at the bottom of the column.

<sup>Note</sup> Following the resignation of Hon Ronny TONG with effect from 1 October 2015, Hon Alvin YEUNG was returned at a by-election in February 2016. As the utilization rates of both of these two Members (on a time-apportioned basis) were included in the analysis, the statistics of a total of 71 Members are shown in the table.



**Utilization rates of Entertainment and Travelling Expenses Reimbursement  
in the Fifth Legislative Council**

	Functional Constituencies ("FC")		District Council (second) FC		Geographical Constituencies		Overall	
	\$	%	\$	%	\$	%	\$	%
<b>Reimbursement ceiling (per term)</b>	779,490	100	779,490	100	779,490	100	779,490	100
<b>Average reimbursement total</b>	741,198	95.1	775,895	99.5	761,410	97.7	753,890	96.7
(a) Entertainment and travelling expenses	725,843	93.1	707,933	90.8	733,274	94.1	728,349	93.4
(b) Staff expenses <sup>Note</sup>	15,355	2.0	67,962	8.7	28,136	3.6	25,541	3.3

Note: A Member may use up to 50% of the Entertainment and Travelling Expenses Reimbursement to meet staff expenses.

**Distribution of utilization rates of Entertainment and Travelling Expenses  
Reimbursement in the Fifth Legislative Council**

<b>Utilization rate (%)</b> \ <b>No. of Members (%)</b>	<b>Functional Constituencies ("FC") (%)</b>	<b>District Council (second) FC (%)</b>	<b>Geographical Constituencies (%)</b>	<b>Overall (%)</b>
100	5 (16.7)	2 (40)	16 (44.4)	<b>23 (32.4)</b>
99 to <100	7 (23.3)	2 (40)	11 (30.6)	<b>20 (28.2)</b>
90 to <99	13 (43.4)	1 (20)	7 (19.4)	<b>21 (29.6)</b>
80 to <90	4 (13.3)	-	1 (2.8)	<b>5 (7)</b>
70 to <80	1 (3.3)	-	-	<b>1 (1.4)</b>
60 to <70	-	-	1 (2.8)	<b>1 (1.4)</b>
<b>Total</b> <sup>Note</sup>	30 (100)	5 (100)	36 (100)	<b>71 (100)</b>

( ) Figures in bracket indicate the number of Members expressed as a percentage of all the Members in the corresponding category shown at the bottom of the column.

<sup>Note</sup> Following the resignation of Hon Ronny TONG with effect from 1 October 2015, Hon Alvin YEUNG was returned at a by-election in February 2016. As the utilization rates of both of these two Members (on a time-apportioned basis) were included in the analysis, the statistics of a total of 71 Members are shown in the table.

**Office Operation Expenses in excess of the reimbursement ceiling  
submitted by Members of the Fifth Legislative Council**

	Expenses in excess of the ceiling for Office Operation Expenses Reimbursement				
Member	Staff expenses \$'000	Office accommodation expenses \$'000	Other operating expenses \$'000	Total over-ceiling expenses	
				\$'000	%
District Council (second) functional constituency					
1	280	24	6	310	3.4
2	71	14	78	163	1.8
3	0	1	4	5	0.1
Geographical Constituencies					
1	96	17	19	132	1.4
2	187	0	2	189	2.1
3	151	40	10	201	2.2

**Salary distribution of full-time staff employed by  
Members of the Fifth Legislative Council and the Sixth Legislative Council**

Salary range	Number of full-time staff							
	Fifth LegCo (based on the number of staff employed in June 2016)				Sixth LegCo (based on claims submitted by Members as at 20 March 2017)			
	Functional Constituencies ("FC")	District Council (second) FC	Geographical Constituencies	Total	Functional Constituencies ("FC")	District Council (second) FC	Geographical Constituencies	Total
Less than \$10,000	3 (2)	5 (10.7)	19 (6.8)	27 (5.7)	3 (1.9)	1 (2.6)	6 (2.4)	10 (2.2)
\$10,000 to \$14,999	34 (23)	18 (38.7)	116 (41.4)	168 (35.4)	22 (14.2)	12.8 (32.8)	88.2 (35)	123 (27.6)
\$15,000 to \$19,999	23 (15.5)	14 (30)	75 (26.7)	112 (23.6)	30 (19.3)	16.4 (41.9)	81.6 (32.4)	128 (28.7)
\$20,000 to \$24,999	17 (11.5)	3.3 (7.1)	36.7 (13.1)	57 (12)	29 (18.7)	3.3 (8.4)	41.7 (16.6)	74 (16.6)
\$25,000 to \$29,999	17 (11.5)	-	10 (3.6)	27 (5.7)	17 (11)	2 (5.1)	10 (4)	29 (6.5)
\$30,000 to \$34,999	21 (14.2)	4 (8.6)	9 (3.2)	34 (7.1)	17 (11)	1.3 (3.3)	10.7 (4.2)	29 (6.5)
More than \$35,000	33 (22.3)	2.3 (4.9)	14.7 (5.2)	50 (10.5)	37 (23.9)	2.3 (5.9)	13.7 (5.4)	53 (11.9)
<b>Total</b>	148 (100)	46.6 (100)	280.4 (100)	475 (100)	155 (100)	39.1 (100)	251.9 (100)	446 (100)

( ) Figures in bracket indicate the number of full-time staff expressed as a percentage of all full-time staff in the corresponding category shown at the bottom of the column.

## Appendix VII

### Number of district offices operated by Members of the Fifth Legislative Council and the Sixth Legislative Council for which rental reimbursements have been claimed

	Number of district offices							
	Fifth LegCo (based on the number of district offices rented in June 2016)				Sixth LegCo (based on claims submitted by Members as at 20 March 2017)			
	Functional Constituencies ("FC")	District Council (second) FC	Geographical Constituencies	Total	Functional Constituencies ("FC")	District Council (second) FC	Geographical Constituencies	Total
0	16 (53.4)	0	-	16 (22.9)	24 (80)	0	3 (9.1)	27 (39.7)
Over 0 and up to 1	12 (40)	2 (40)	6 (17.1)	20 (28.6)	3 (10)	3 (60)	10 (30.3)	16 (23.5)
Over 1 and up to 2	1 (3.3)	2 (40)	12 (34.3)	15 (21.4)	1 (3.3)	1 (20)	11 (33.3)	13 (19.1)
Over 2 and up to 3	0	0	7 (20)	7 (10)	2 (6.7)	1 (20)	3 (9.1)	6 (8.8)
Over 3 and up to 4	1 (3.3)	1 (20)	9 (25.7)	11 (15.7)	0	0	4 (12.1)	4 (5.9)
Over 4	0	0	1 (2.9)	1 (1.4)	0	0	2 (6.1)	2 (3)
<b>Total</b>	30 (100)	5 (100)	35 (100)	70 (100)	30 (100)	5 (100)	33 (100)	68 (100)

( ) Figures in bracket indicate the number of Members expressed as a percentage of all the Members in the corresponding category shown at the bottom of the column.