

**The Independent Commission on Remuneration for
Members of the Executive Council and the Legislature,
and Officials under the Political Appointment System
of the Hong Kong Special Administrative Region**

**Report on the Review of Remuneration Package for
Members of the Seventh Term Legislative Council**

May 2020

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CHAPTER 1: INTRODUCTION

1.1 The Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the Hong Kong Special Administrative Region (the Independent Commission) is appointed by the Chief Executive to, inter alia, advise the Government on the remuneration packages for Members of the Executive Council (ExCo), the Legislative Council (LegCo) and political appointed officials. The terms of reference and membership of the Independent Commission are at **Annex A** and **Annex B** respectively.

1.2 It is an established practice for the Independent Commission to conduct a comprehensive review of the remuneration package for LegCo Members about 18 months before the start of a new LegCo term. With the Seventh Term LegCo due to begin in October 2020, the Independent Commission started the review in early 2019, which is now completed.

Current remuneration package for LegCo Members

1.3 The current remuneration package for LegCo Members, after the latest annual price adjustment of 2.5% in accordance with the Consumer Price Index (C) (CPI(C))¹ with effect from 1 October 2019, is as follows –

		Remuneration package with effect from 1 October 2019 (\$)
Remuneration and personal benefits		
(i) Monthly remuneration*	LegCo President	202,000
	President's Deputy	151,500
	Other Members	101,000
	Members also serving on ExCo	67,330 (i.e. 2/3 of \$101,000)

¹ The Consumer Price Index (CPI) measures the changes over time in the price level of consumer goods and services generally purchased by households. The year-on-year rate of change in the CPI is widely used as an indicator of inflation affecting consumers. The CPI(C) is compiled based on the expenditure pattern of households in the relatively high expenditure range.

	Remuneration package with effect from 1 October 2019 (\$)
(ii) End-of-service gratuity (payable at term end per term)	15% of the total remuneration for the term (i.e. item (i) for the Sixth Term LegCo)
(iii) Medical Allowance* (per annum)	35,180
Operating Expenses Reimbursement	
(iv) Office Operation Expenses Reimbursement (OOER)* (per annum)	2,770,970
(v) Entertainment and Travelling Expenses Reimbursement (ETER)* (per annum)	221,310
(vi) President's Entertainment Allowance* (per annum)	221,520
(vii) Setting Up and Information Technology Expenses Reimbursement (SUITER) (per term)	375,000 or 262,500 (for Members who have claimed setting up expenses in the previous term)
(viii) Winding Up Expenses Reimbursement (WUER) (per term)	1/12 of the annual OOER (i.e. 230,914), plus actual severance payments

1.4 Components (i), (iii), (iv), (v) and (vi) as listed in paragraph 1.3 above (marked with an asterisk (*)) are subject to annual adjustments in October each year in accordance with movements of the CPI(C). Components (ii) and (viii) above will also be adjusted as a consequence of any adjustment to components (i) and (iv). Surplus from a year's entitlement of medical allowance and OOER may be rolled over to the following year until the end of a LegCo term.

Requests from the current (Sixth Term) LegCo

1.5 The Subcommittee on Members' Remuneration and Operating Expenses Reimbursement (the LegCo Subcommittee), formed under the House Committee of the current (Sixth Term) LegCo, submitted a report on their proposals to the Independent Commission in July 2019. **The report includes only one proposal, i.e. to adopt a weighted index as the basis for annual adjustment of OOER for LegCo Members of the Seventh Term.** The proposal will be discussed in details at Chapter 4 on OOER.

CHAPTER 2: REVIEW APPROACH AND BASIC PRINCIPLES

Review Approach

2.1 In line with the established mechanism for determining LegCo Members' remuneration package, the Independent Commission will review all relevant factors about 18 months before the start of an upcoming new LegCo term with a view to coming up with recommendations for consideration by the Government. If the Government accepts the recommendations, funding approval from LegCo's Finance Committee will be sought where appropriate for implementation of the recommendations. In conducting this review, the Independent Commission has adopted a holistic approach by examining a basket of factors including the role and functions of LegCo Members; utilisation rates of the allowances currently available to Members; views of LegCo Members and their assistants; the economic situation of Hong Kong and market rates of salaries and rentals, etc. In addition, the Independent Commission has taken into account the established mechanism that Members' monthly remuneration, medical allowance, OOER and ETER, as well as the President's Entertainment Allowance are subject to annual inflation adjustments in October each year in accordance with the movements of the CPI(C). The Independent Commission has also examined the requests of the LegCo Subcommittee afresh in an impartial manner.

2.2 As the annual adjustment to OOER was the only proposal in the LegCo Sub-committee report, the Independent Commission conducted site visits to the LegCo complex/district offices of four LegCo Members² (from both the geographical and functional constituencies) in August 2019 so as to enhance understanding about the operation of LegCo Members' offices. During the visit, members of the Independent Commission met and exchanged views with LegCo Members' assistants to better understand their work and concerns. The Independent Commission also held a meeting with the LegCo Subcommittee in March 2020 to discuss the recommendations in its report submitted earlier³.

² They were Hon Ip Kin-yuen, Hon Yung Hoi-yan, Hon Cheung Kwok-kwan and Hon Kwong Chun-yu.

³ The Chairman of the LegCo Subcommittee, Hon Wong Ting-kwong, and four Members, namely Hon Chan Hak-kan, Hon Ip Kin-yuen, Hon Ho Kai-ming and Hon Jeremy Tam, attended the meeting.

Basic Principles

2.3 The Independent Commission considers that the following basic principles should be upheld in conducting the review –

- (a) the main objective of making available a remuneration package to LegCo Members is to make it possible for a broad spectrum of quality individuals from different sectors of the community to serve the public in the capacity of LegCo Members vis-à-vis other pursuits;
- (b) given the diversified political backgrounds and operational needs of LegCo Members, each Member should be in the best position to decide on the most appropriate set-up in which to discharge his or her core duties as a LegCo Member. This includes the number and size of offices, the number of staff required and their appropriate qualifications and pay. The main objective is to provide a remuneration package, including OOER, for the average LegCo Members to discharge their core duties;
- (c) the monthly remuneration and the various allowances/reimbursements available to Members should be considered in totality. The overall remuneration package should be finalised in good time so that aspiring candidates for the coming LegCo election can take this factor into account in considering whether or not to enrol for the election;
- (d) LegCo Members returned from geographical constituencies and functional constituencies should be entitled to the same remuneration package on the ground that they are exercising the same constitutional powers and functions under the Basic Law;
- (e) LegCo Members' monthly remuneration and the salaries of their assistants should not be pegged to that of the civil service since the job nature and responsibilities of the civil service are different from that of LegCo Members or their assistants. Besides, the annual civil service pay adjustment is a well-established mechanism with features that are unique to the civil service whereas LegCo Members' assistants typically come from a wide

range of backgrounds, in terms of academic qualifications and practical experience;

- (f) LegCo Members' monthly remuneration should not be pegged to that of politically appointed officials given the entirely different roles and responsibilities between the two; and
- (g) given 2019-2020 is the last legislative session of the current LegCo term and the concern to avoid creating any potential unfair advantage for incumbent LegCo Members over other aspiring candidates for the impending LegCo election in 2020, any proposed enhancement to the remuneration package should not be made within the current LegCo term unless with exceptionally strong justifications.

CHAPTER 3: REMUNERATION AND PERSONAL BENEFITS

Monthly remuneration

3.1 The monthly remuneration for LegCo Members was last increased by 10% with effect from the Fifth Term LegCo. With annual adjustment in October each year in accordance with movements of the CPI(C), the monthly remuneration for LegCo Members currently stands at \$101,000.

3.2 In the current LegCo term, LegCo Members' monthly remuneration is broadly in line with that of the top 1% to 2% of salary earners in Hong Kong (Table at **Annex C**).

3.3 In considering the level of the current monthly remuneration for LegCo Members, the Independent Commission is satisfied that it is reasonably attractive to encourage a broad spectrum of quality individuals from different sectors of the community to come forward to serve the public vis-à-vis other pursuits. The Independent Commission also notes that the LegCo Subcommittee has not requested an adjustment to Members' remuneration. The Independent Commission **considers it appropriate to maintain Members' remuneration at the existing level**, which is subject to annual adjustments in October each year in accordance with the movement of the CPI(C).

3.4 In addition, the Independent Commission considers it appropriate to maintain the existing mechanism whereby the monthly remuneration for the LegCo President, Deputy to the President (i.e. Chairman of the House Committee) is fixed at 200% and 150% of the monthly remuneration of their fellow LegCo Members respectively.

Remuneration for LegCo Members who also serve on ExCo

3.5 Under the existing mechanism, an ExCo member who is also serving on LegCo is given two-thirds of the monthly remuneration received by other LegCo Members. The monthly honorarium of non-official ExCo member and monthly remuneration of LegCo Member are \$85,130 and \$101,000 respectively, and two-thirds of a LegCo Member's monthly

remuneration is \$67,330.

3.6 Before the introduction of direct elections to LegCo in October 1991, Members serving on both ExCo and LegCo were eligible for one honorarium only. Recognising that LegCo Members would have to devote more time to LegCo business upon introduction of direct elections to LegCo, persons who were Members of both ExCo and LegCo were entitled to receive the full ExCo honorarium and two-thirds of the LegCo monthly remuneration with effect from 1 October 1991. This was in line with the then arrangement for payments in the case of multiple memberships in that ExCo/LegCo Members serving in Municipal Councils or the District Boards were entitled to their ExCo/LegCo honorarium in full and two-thirds of the allowance in the Municipal Councils or District Boards. It was also considered that there was a certain degree of synergy between the dual membership as the mainstay of both ExCo and LegCo's businesses covered major Government policies, bills and subsidiary legislation.

3.7 In November 2018, the seven LegCo Members who are currently also ExCo members⁴ raised their views to the Government that as a matter of principle, a Member with dual membership in ExCo and LegCo is performing two roles and should be entitled to both honoraria in full. They also consider that the workload of LegCo Members, as evidenced by the number of meetings and the time taken to discuss legislative and funding proposals, has increased significantly with the rapid democratisation of LegCo. The additional workload and political pressure from their role as an ExCo member is tremendous. They also pointed out that the diminished base (i.e. two-thirds) of their LegCo monthly remuneration had resulted in a substantial loss in their gratuity payment since the latter is 15% of the total remuneration that a LegCo Member receives during a LegCo term.

3.8 Having examined the proposal put forth by the seven ExCo members who are also serving on LegCo, the Independent Commission agreed that, as a matter of principle, a member with dual membership in ExCo and LegCo is performing two roles and should therefore be entitled to both honoraria in full. It therefore **recommends abolishing the one-third reduction in LegCo monthly remuneration for Members who also serve on ExCo with effect from the Seventh Term LegCo.** Specifically, the

⁴ Hon Regina Ip, Hon Tommy Cheung, Hon Jeffery Lam, Hon Wong Kwok-kin, Hon Martin Liao, Hon Cheung Kwok-kwan and Hon Kenneth Lau.

Independent Commission considered that Members of ExCo and LegCo perform distinct duties. While the work of ExCo and LegCo is related, ExCo members could not, and do not, devote lesser time in LegCo as compared to their counterparts. The abolition of one-third reduction in remuneration is hence justified as a matter of principle. This would give due recognition to the contribution of these ExCo cum LegCo Members to the community of Hong Kong.

End-of-service Gratuity

3.9 A 15% end-of-service gratuity for LegCo Members was introduced with effect from 1 October 2008. This is to recognise LegCo Members' public service and assist Members to tide over a period should they decide not to seek re-election or fail to be re-elected. Since the current level is adopted by many entities in the private sector as well as those in the public sector where an end-of-service gratuity is payable, the Independent Commission **considers a 15% end-of-service gratuity remain appropriate and recommends maintaining it for Members of the Seventh Term LegCo.**

Medical Allowance

3.10 Medical allowance was introduced with effect from 1 October 2008. With annual adjustments in accordance with CPI(C) movement, the annual medical allowance currently stands at \$35,180. Since the Sixth Term LegCo, any unused balances can be carried forward for use until the end of a LegCo term.

3.11 The average utilisation rates in the Sixth Term LegCo (based on claims processed up to end September 2019) as provided by the LegCo Secretariat is 64.2%⁵, as compared to 54.9% in the Fifth Term LegCo. Taking into account the utilisation rate and that the LegCo Subcommittee did not request an adjustment, the Independent Commission **recommends maintaining the medical allowance at the existing level for the Seventh Term LegCo**, which is subject to annual adjustments in October each year in

⁵ LegCo Members are allowed to submit reimbursement claims within three months from the month the expenditure was incurred.

accordance with the movement of the CPI(C); and continuing to allow the surplus in one year to roll over to the following year until the end of a LegCo term to cater for unforeseen circumstances.

CHAPTER 4: OFFICE OPERATION EXPENSES REIMBURSEMENT

Current Situation

4.1 OOER was last increased by 7%⁶ with effect from the Sixth Term LegCo. With annual adjustment in October in accordance with the movements in CPI(C), the amount of OOER now stands at \$2,770,970 per annum, and any unused balance can be carried forward to the following year until the end of a LegCo term. While OOER is intended to reimburse Members' staffing and other operating expenses (such as office rent, activities relating to LegCo business and expenses on publicity items etc.), there is no restriction on how Members apportion the amount of OOER between different expenditure items. Members have full discretion to decide on the exact number of staff to employ and their salary level, the number of district offices, the number of activities organised, etc. according to their individual needs and priorities. The actual amount of OOER for individual Members would be reimbursed to them based on their actual expenses incurred in discharging their duties. The entire amount is subject to annual adjustments in October each year in accordance with movements of CPI(C). The actual level of OOER in each legislative session of the Sixth Term LegCo is tabulated below –

⁶ In calculating the OOER necessary for an average LegCo Member to discharge their duties, the Independent Commission adopted in 2016 a basket of assumptions regarding Members' staff (assuming each LegCo Member hires seven staff, including a staff at management/professional level to oversee the central office, who will be underpinned by two support workers; and two university graduates with three to five years of experience to oversee the operations of two district offices, with each of them underpinned by one support worker), office accommodation and other office expenses. A 6.95% shortfall was found between the amount calculated with the assumptions adopted by the Independent Commission and the then prevailing OOER. The Independent Commission thus recommended a lump sum increase of OOER by 7%.

	OOER (\$)⁷	CPI(C) Adjustment
Level of OOER recommended by the Independent Commission and endorsed by the Finance Committee in June 2016	2,552,500	-
2016-2017	2,611,210	\$58,710 (↑ 2.3%)
2017-2018	2,650,380	\$39,170 (↑ 1.5%)
2018-2019	2,703,390	\$53,010 (↑ 2.0%)
2019-2020	2,770,970	\$67,580 (↑ 2.5%)

Considerations

4.2 According to information provided by the LegCo Secretariat, the utilisation rates of OOER for the Fifth and Sixth Terms of LegCo are as follows –

Legislative session	Utilisation rate (%)
Fifth Term LegCo	
2012-2013	78.1
2013-2014	87.4
2014-2015	93.4
2015-2016	107.5 ⁸
Sixth Term LegCo	
2016-2017	84.0
2017-2018	88.2
2018-2019	92.6
2019-2020	<i>Not available</i> ⁹

⁷ The adjustments are rounded to the nearest ten dollars.

⁸ Any OOER unused balance from previous legislative session can be carried forward to the following year until the end of a LegCo term. Hence, the utilisation for one legislative session could be over 100%.

⁹ LegCo Members are allowed to submit reimbursement claims within three months from the month the expenditure was incurred. Hence, the utilisation rate of OOER in 2019-2020 legislative session, which ends in September 2020, would only be available in early 2021.

Level of OOER

4.3 One of the basic principles agreed by the Independent Commission is that the remuneration package should be adequate for the LegCo Members to discharge their core duties. However, LegCo Members have all along opined that the level of OOER is insufficient to maintain a quality pool of staff. According to the results of a survey conducted by the LegCo Subcommittee to collect Members' views on their remuneration package in February 2019, a majority of LegCo Members who responded to the survey¹⁰ consider that the current financial provision is insufficient for meeting the expenses required for maintaining an optimal staffing complement. The survey findings show that of the 391 full time staff employed by 49 responding LegCo Members in 2017-2018, 62% received a monthly salary of less than \$20,000. The overall turnover rate was 18% which was on the high side, and 77% of those who left in 2017-2018 (71 staff) received a monthly salary of less than \$20,000. 25% of these 71 staff received an annual pay adjustment of less than 5%, and 14% received an adjustment between 5% and 10%. While the high turnover rates are attributable to a number of factors, enhancing the remuneration package of staff employed by LegCo Members could help recruitment and staff retention. At the Independent Commission's visit to Members' district offices in August 2019, Members noted that there are concerns from staff hired by LegCo Members that the low salary and small annual increments had somehow compelled them to quit their job, and some were forced to work only part-time for LegCo Members.

4.4 Furthermore, Members' OOER were adjusted upward by 1.5%, 2% and 2.5% in October 2017, 2018 and 2019 respectively according to the movement in CPI(C), which fell far short of the average percentage increase of 6.9% in salaries of Members' assistants in 2017-2018 legislative session¹¹. Indeed, some Members of the LegCo Subcommittee claimed that with the current annual adjustment, they were unable to provide a reasonable salary increase to their staff without cutting expenses in other aspects of their work.

4.5 Taking into account the above as well as results of recent visits and exchanges with the LegCo Subcommittee and Members' assistants as set

¹⁰ 30 of the 38 Members who responded to the survey.

¹¹ According to the statistics provided in LegCo Secretariat's reply to special Finance Committee question 5864 during the examination of estimates of expenditure 2019-2020.

out in para 2.2, the Independent Commission has the following observations on OOER –

- (a) The diversity in the set-up of Members’ offices demonstrates that LegCo Members enjoy a high degree of autonomy in the allocation of operating expenses among staff remuneration, rent and other expenses. The OOER provides Members with the flexibility to determine the number of district offices to be established, the number, qualifications and pay levels of staff to be employed, as well as the amount to be spent on publicity, etc. and;
- (b) Members’ assistants are generally aware that their term of employment is tied to the term of office of LegCo Members (i.e. four years) so that they can plan their career accordingly. That said, a number of assistants whom the Independent Commission met have been serving their Members for a long period of time owing to the Members’ consecutive successful re-elections. For those assistants with political aspirations, they tend to see their experience of working in a LegCo Member’s office a good stepping stone to their pursuit of a longer-term career in the political, public administration, public relations and related fields.

4.6 Recognising the importance of having a stable team of quality assistants to facilitate the discharge of their duties by LegCo Members and the varying turnover rates of these assistants, the Independent Commission considers that a case can be made to further enhance the level of OOER for the Seventh Term LegCo. The Independent Commission **recommends a one-off increase of 3% to the level of OOER** upon commencement of the Seventh Term LegCo in October 2020. Based on the current level of OOER, OOER would be increased by \$83,130 from \$2,770,970 in October 2019 to \$2,854,100 in October 2020. The actual amount of the OOER claimable by LegCo Members from October 2020 and thereafter will be further adjusted with the weighted index explained in paragraphs 4.8 – 4.23 below.

4.7 It should be noted that while the proposed increase seeks mainly to address Members’ prevalent request for a greater financial capacity to employ quality staff, it remains Members’ absolute discretion to apportion

OOER with regard to their individual needs and priorities. It must be emphasised that it is the prerogative of individual Member, as an employer, to determine the salary and remuneration package of their staff.

Annual Adjustment Mechanism of OOER

4.8 In the LegCo Subcommittee's report submitted to the Independent Commission in July 2019, the LegCo Subcommittee requested the adoption of a weighted index as the annual adjustment factor of OOER. Details of the proposal are as follows –

- (a) a weighted index, instead of CPI(C), being an across-the-board indicator for annual adjustment to Members' OOER, should be adopted;
- (b) the proposed weighted index is a new composite index comprising the three main expenditure components of OOER, viz. staff expenses, office accommodation expenses and other operating expenses;
- (c) salary expenses, with a relative weight of 70% of OOER, should be adjusted with reference to the annual civil service pay adjustment for the middle and lower salary bands;
- (d) office accommodation expenses, with a relative weight of 10% of OOER, should be adjusted with reference to rental index for Grade C offices published by the Rating and Valuation Department (RVD); and
- (e) other operating expenses, with a relative weight of 20% of OOER, should be adjusted with reference to Composite CPI (CCPI).

4.9 The Independent Commission considers it reasonable to adopt a weighted index as the annual adjustment factor of OOER instead of CPI(C) on the following grounds –

- (a) **CPI(C) cannot accurately reflect the price changes to Members' operating expenditure:** While the year-on-year rate of change in CPI is widely used as an indicator of inflation affecting consumers, staff expenses and office accommodation

expenses which account for approximately 80% of the office operational expenses of LegCo Members in the past three terms (i.e. 2004-2016), are not components of the household consumption basket. In this regard, adjusting OOER with reference to CPI(C) may not reflect accurately adjustments necessary to cope with price changes to Members' expenditure in these areas;

- (b) **A weighted index, which is based on Members' expenditure pattern in the past three terms, allows for more accurate adjustments:** Applying a specific adjustment factor to each of the three expenditure components (vis-à-vis one single across-the-board adjustment factor) could more accurately reflect the different price changes of each expenditure component. The proposed weighting of the three components in the ratio of 7:1:2 is based on Members' utilisation rates of OOER in the past three terms¹² (utilisation rate broken down by category is at **Annex D**). The ratio has been fairly stable and should be a reliable indicator of Members' expenditure patterns;
- (c) **The proposed weighted index does not impose any restriction on Members' use of expenditure:** The proposed weighted index would only serve as a mechanism for adjusting the overall level of OOER available annually. Members remain free to apportion the different expenditure components of OOER according to their needs and remain accountable for claiming the expenses; and
- (d) **Majority support from Members:** 63 out of 67 Members (93%) who responded to the questionnaire conducted by the LegCo Subcommittee in April 2018 agreed to the proposal that a weighted index instead of CPI(C) should be used as the basis for annual adjustment to Members' OOER.

4.10 While the Independent Commission agreed that a weighted index be adopted as the basis of the annual adjustment of OOER, it examined the

¹² The average utilisation rates of the three major expenditure components (i.e. staff expenses, office accommodation and other expenses) in the past three terms (2004-2016) are 73%, 7% and 20%. The LegCo Subcommittee, at its meeting on 4 June 2018, rounded the proposed weightings to 70%, 10% and 20%.

price adjustment mechanism for each of the three major expenditure components (i.e. staff expenses, office accommodation expenses and other operating expenses) to ensure that each index is reasonable, reliable, and can better reflect the price inflation of the relevant expenditure component. The Independent Commission's analysis and recommendations are set out in the ensuing paragraphs.

Staff expenses

4.11 With reference to the utilisation rates of OOER in the previous LegCo terms, a Member on average deploys about 70% of OOER on staff expenses. Members may claim various staff expenses, including staff remuneration (i.e. salaries, leave pay, gratuities, bonuses, provident fund contributions and other employment-related allowances), medical benefits, insurance payments, statutory payments, recruitment expenses, and training expenses etc., under OOER. According to the survey conducted by the LegCo Subcommittee in February 2019¹³, Members have been employing both full-time and part-time staff with diverse qualifications, background and experience to assist them in accordance with their needs. The number of full-time and part-time staff employed by each Member ranged from three to 16 and zero to 11 respectively in 2017-2018. In 2017-2018 legislative session, the salary of Members' full-time assistants ranged from \$6,500 to \$73,950¹⁴.

4.12 According to LegCo Members, CPI(C) adjustments have consistently been lower than the salary adjustments that Members would need to provide to their staff in order to remain competitive. Some Members attribute the high turnover rate of their staff to the small increments of salary that they could offer under the current annual adjustment mechanism. Others claim that they need to cut other expenses in order to provide a reasonable salary adjustment for their staff. They consider the annual civil service pay adjustment for the middle and lower salary bands to be an apt reference indicator to adjust the salary portion of OOER given its well-established mechanism which generally reflects the pay trend in the market. Nevertheless, some other Members were able to retain their staff for a long

¹³ 54 of the 69 Members (one LegCo seat remained vacant in February 2019) responded to the survey.

¹⁴ According to the statistics provided in LegCo Secretariat's reply to special Finance Committee question 5864 during the examination of estimates of expenditure 2019-2020.

period of time.

4.13 Given the different job nature of LegCo Members and their assistants as compared with civil servants, as a matter of principle, the Independent Commission considers that the salary portion of OOER should not be adjusted with reference to the annual civil service pay adjustment. The annual civil service pay adjustment is a well-established mechanism with features that are unique to the civil service, such as civil service morale, pay claims of the staff side, and the “bring-up” arrangement whereby the annual pay adjustment for civil servants in the lower salary band is aligned with that for those in the middle salary band. Furthermore, there may be conflict of interest if the annual adjustment of OOER of LegCo Members is pegged to the annual civil service pay adjustment which requires LegCo’s approval at the Finance Committee.

4.14 The Independent Commission notes that LegCo Members employ staff having varying academic backgrounds and practical experience with a wide salary range, performing diverse duties ranging from managerial to clerical roles. It also recognises the need for the staff portion of OOER to be adjusted with reference to a transparent and appropriate index. In considering the appropriate index to be adopted, the Independent Commission is aware that District Council (DC) made reference to the median monthly employment earnings of full-time employees who are clerical support workers (median earnings), compiled by Census and Statistics Department (C&SD) based on findings of the General Household Survey, in adjusting the staff expenses portion of the Operating Expenses Reimbursement that had taken effect in the new term of DC commencing January 2020. However, given the wide range of staff employed by LegCo Members, it would not be appropriate to adopt an index which focuses on low-income workers. Moreover, as the nature of work of DC was different from that of LegCo, it should not be taken as a direct comparison.

4.15 In light of the above considerations, the Independent Commission **recommends adopting the nominal index of payroll per person engaged (the payroll index) compiled by C&SD based on findings of the Labour Earnings Survey (LES) as the adjustment factor for the salary portion (i.e. 70%) of OOER.** The payroll index is compiled based on findings of LES with a random sample of around 4 000 business establishments in Hong Kong. It covers all cash payments (i.e. payroll)

received by persons engaged in the sampled establishments regardless of their levels/occupations and whether being employed on full-time/part-time basis. It is commonly used as a measure of average labour earnings or employers' average labour cost. It is the most comprehensive and representative index in terms of coverage of employees and wage elements which generally matches with the wide range of qualifications and salaries of the staff employed by LegCo Members. It is thus considered the most objective and appropriate reference indicator for the annual adjustment rate for staff expenses component of OOER.

Office Accommodation

4.16 Based on the utilisation rates of OOER in the previous LegCo terms, a Member on average deploys about 10% of OOER on office accommodation expenses. Members are free to operate any number of district offices having regard to their needs. According to the report of the LegCo Subcommittee¹⁵, the number of district offices operated by LegCo Members varied greatly from zero to nine. Rent of the district offices (based on the tenancy agreements submitted by Members up to October 2017) ranged from \$3,000 to \$40,000 per month. On average, each Member operated 2.3 offices in 2017-2018, and spent \$92,424 per office. 53.1% of their offices were rented from the Housing Authority (HA), 46% from private landlords and 0.9% from LINK REIT. Apart from district offices, Members are entitled to an office of a standard size of 61m² at the LegCo Complex free of charge.

4.17 The LegCo Subcommittee proposes to adopt the rental index for Grade C Offices as the annual adjustment factor for the office accommodation component of OOER. The rental index for Grade C offices is compiled by RVD to reflect the changes in rental for Grade C offices. The category "Grade C offices" refers to private office premises situated in buildings for commercial/business purposes which are plain with basic finishes; less flexible layout; small floor plates; basic lobbies; generally without central air-conditioning; barely adequate or inadequate lift services; minimal to average management; and no parking facilities. As a matter of principle, a rental index would be a more appropriate indication of the market rate movements of offices than CPI(C). Grade C offices, which are of plainer finishes and

¹⁵ Based on the response of 47 LegCo Members in the survey.

equipped with fewer facilities as compared to Grade A or B offices¹⁶, should reflect relatively closely the types of offices rented by Members. This is also generally in line with the Independent Commission's observations of Members' office during its visit in August 2019.

4.18 The use of rental index is not without its limitations. The index excludes offices owned by the Government and offices leased from HA, the latter of which account for around half of Members' offices¹⁷. In this regard, one might argue that the adoption of the rental index might not truly reflect the rental cost of Members. Moreover, rentals charged for office spaces rented from HA are generally not adjusted on an annual basis. Rather, the tenancy agreements with LegCo Members last for the whole term of office of the Members concerned, and the rent is maintained throughout. Hence, using RVD's rental index for Grade C offices as the annual adjustment factor might overestimate the annual rental change of offices rented by LegCo Members. Nevertheless, such shortcoming exists in the current adjustment mechanism of using CPI(C) as well. Given that only about 10% of OOER is adjusted with reference to the rental change in office accommodation, and about 50% of the offices are leased from HA, any overestimation of rental expenses of LegCo Members as a result of using a weighted index should be insignificant in monetary values. Nevertheless, the adjustment index is for calculation of annual adjustment to OOER only and Members are reimbursed with the amount of OOER based on their actual expenditure. We consider that any adjustment factor to be adopted should be a simple one. The Independent Commission **recommends accepting the LegCo Subcommittee's proposal to adopt the rental index for Grade C offices (instead of CPI(C) currently) as the adjustment factor for the office accommodation portion (i.e. 10%) of OOER.**

¹⁶ Grade A offices are those which are modern with high-quality finishes; flexible layout; large floorplates; spacious, well decorated lobbies and circulation areas; effective central air-conditioning; good lift services zoned for passengers and goods deliveries; professional management; parking facilities normally available. Grade B offices are those with ordinary design with good-quality finishes; flexible layout; average-sized floor plates; adequate lobbies; central or free-standing air-conditioning; adequate lift services; good management; parking facilities not essential.

¹⁷ Based on information on district offices operated by Members in 2017-2018.

Other expenses

4.19 Based on the utilisation rates of OOER in the previous three LegCo terms, a Member on average deploys roughly 20% of OOER on expenses other than staff and office accommodations. These other expenses include a wide range of expenditure items, including stationery, printing, publicity, consultancy services, communication charges (e.g. phone and internet charges) etc.

4.20 The Independent Commission **recommends accepting the LegCo Subcommittee’s proposal to adopt CCPI (instead of CPI(C) currently) as the adjustment factor for the “other expenses” portion (i.e. 20%) of OOER.** CCPI is compiled with reference to the expenditure pattern of 90% of households in Hong Kong which seeks to reflect the impact of consumer price changes on the household sector as a whole. When compared with the existing index of CPI(C) which is based on the expenditure patterns of only around 10% of households in Hong Kong, CCPI is a more representative measure of the overall consumer price inflation in the Hong Kong economy.

4.21 A comparison of CPI(C) adjustments and the proposed weighted index in the past two terms of LegCo indicates that the adoption of the weighted index as the basis for annual adjustment would bring about a substantially higher increase in OOER for each term than that under the existing mechanism. Detailed comparison is at **Annex E**.

Reference period of the indices

4.22 Currently, the annual CPI(C) adjustment is based on the change in average CPI(C) for the 12 months ending August each year when compared with that of the same period of the previous year¹⁸. The adjustment is announced in early October and takes effect in the same month. However, as the payroll index is available on a quarterly basis with a three-month time lag (e.g. figures for June are available in September of the same year), we would not be able to adopt the same reference period which ends August each year if the payroll index is to form part of the weighted index.

¹⁸ To illustrate, the adjustment to take effect in October 2019 is based on the average CPI(C) in September 2018 to August 2019 compared with the average CPI(C) in September 2017 to August 2018.

4.23 Since both the rental index and CCPI are available on a monthly basis while the payroll index is available on a quarterly basis, there is a need to align the reference period for the purpose of compiling the weighted index. The Independent Commission **recommends calculating the weighted index based on the changes in the average of the three component indices for the 12 months/four quarters ending June each year, as compared with those of the same period in the previous year.**

CHAPTER 5: OTHER COMPONENTS OF THE OPERATING EXPENSES REIMBURSEMENT

Entertainment and Travelling Expenses Reimbursement (ETER)

5.1 At present, a non-accountable ETER is provided to each LegCo Member. Entertainment, liaison or travelling expenses incurred by a Member or his/her staff for LegCo business can be reimbursed against claims certified by the Member without supporting documents such as receipts. Moreover, up to 50% of ETER can be deployed for meeting staff expenses, but the portion so deployed will be accountable. The President is entitled to an additional entertainment allowance. Both allowances are adjusted annually in October in accordance with the movement of CPI(C). Following the latest price adjustment with effect from 1 October 2019, the amount of the ETER is \$221,310 per annum while the President's additional annual entertainment allowance is \$221,520. According to the LegCo Secretariat, the overall utilisation rate of ETER in the Sixth Term LegCo (up to end September 2019) is 98.5%, as compared to 96.7% in the Fifth Term LegCo.

5.2 While acknowledging that the utilisation rates are on the high side, the Independent Commission considers that the annual CPI(C) adjustment to the ETER should be able to maintain the purchasing power for the intended purpose. Moreover, having regard to the flexibility to fully utilise the amount (such as to meet staff expenses) and that the LegCo Subcommittee did not request an adjustment, the Independent Commission **recommends maintaining the amounts of this non-accountable ETER and the President's additional allowance at their existing levels** for the Seventh Term LegCo, which are subject to annual adjustments in October each year in accordance with the movement of the CPI(C).

Setting Up and Information Technology Expenses Reimbursement (SUITER)

5.3 With effect from the Sixth Term LegCo, a Member is eligible for expenses reimbursement of up to \$375,000 in a term for setting up his/her offices, including the one provided by the LegCo Secretariat, and for the purchase and use of information technology and communications equipment.

For a Member who has claimed any setting up expenses reimbursement in the previous term, he/she may only claim up to \$262,500 in the current term for the purposes of renovation, removal, expansion and/or setting up of additional offices and for the addition or replacement of equipment and furniture. This represents a 50% increase from the provision for the Fifth Term LegCo¹⁹ as recommended by the Independent Commission in the last review.

5.4 According to the information provided by the LegCo Secretariat, with the increased provision, the average utilisation rate of SUITER in the current term (up to end September 2019) is 57.1%, as compared to 73.8% in the entire Fifth Term LegCo. As the current provision could adequately meet Members' expenses and the LegCo Subcommittee did not request an adjustment, the Independent Commission **recommends maintaining the existing level of SUITER.**

Winding Up Expenses Reimbursement (WUER)

5.5 WUER is claimable when a Member ceases to be a Member of LegCo, either because he/she chooses not to stand for re-election or for reasons over which he/she has no control such as death, serious injury, defeat in an election or the dissolution of LegCo.

5.6 The reimbursement consists of two components –

- (a) an amount not exceeding one-twelfth of the annual OOER (i.e. \$230,914, with effect from October 2019); and
- (b) an amount with no pre-set ceiling to cover the actual severance payments made in accordance with the provisions of the Employment Ordinance (Cap. 57) to staff employed.

The average utilisation rate of WUER of the Fifth Term LegCo was 53.9%. As Members usually use WUER towards the end of their term, the data for the Sixth Term LegCo is not available at this stage. Having regard to the relatively low utilisation rate of WUER and the fact that it would increase along with OOER, the current provision of one-twelfth of OOER plus actual

¹⁹ In the Fifth Term LegCo, provision of SUITER was \$250,000 per term, or \$175,000 per term for Members who had claimed the setting-up portion of this allowance in the previous term.

severance payment is considered appropriate. The LegCo Subcommittee did not request an adjustment regarding the level of WUER either. **The Independent Commission recommends that the current level of WUER be maintained.**

CHAPTER 6: SUMMARY OF RECOMMENDATIONS

6.1 To sum up, the Independent Commission recommends implementing the following proposals with effect from 1 October 2020 upon the commencement of the Seventh Term LegCo –

- (a) no change to the monthly remuneration for LegCo Members, currently at \$101,000 per month;
- (b) the monthly remuneration for the LegCo President and the President's Deputy should continue to be fixed at 200% and 150% of the monthly remuneration of their fellow LegCo Members respectively;
- (c) abolishing the one-third reduction in the LegCo monthly remuneration for Members who also serve on ExCo;
- (d) the end-of-service gratuity, at 15% of the total remuneration that a LegCo Member receives during a LegCo term as per (a) to (c) above, should continue to be payable to LegCo Members at the end of the term;
- (e) maintaining the existing amount of the annual medical allowance, currently at \$35,180 per annum, and the arrangement that the surplus from one year to be rolled over to the following year until the end of a LegCo term;
- (f) increasing the level of the annual OOER by 3%, from the current \$2,770,970 to \$2,854,100 per annum; and maintaining the arrangement that the surplus from a year's OOER to be rolled over to the following year until the end of a LegCo term;
- (g) adopting a weighted index, instead of CPI(C), as the annual adjustment factor for OOER. The weighted index should be a composite index comprising the three main expenditure components of OOER –
 - (i) staff expenses (with a weight of 70%) to be adjusted with reference to the nominal index of payroll per person engaged from the LES compiled by C&SD;

- (ii) office accommodation expenses (with a weight of 10%) to be adjusted with reference to the rental index for Grade C offices compiled by RVD; and
- (iii) other operating expenses (with a weight of 20%) to be adjusted with reference to Composite CPI (CCPI);
- (h) maintaining the existing provision of ETER at \$221,310 per annum and maintaining the LegCo President's additional entertainment allowance, currently at \$221,520;
- (i) maintaining the existing provision of SUITER at \$375,000, and for Members who have claimed setting up expenses in the previous term at \$262,500;
- (j) maintaining the existing provision of WUER at one-twelfth of the annual OOER plus actual amount of severance payment; and
- (k) the existing mechanism whereby Members' monthly remuneration, medical allowance, ETER and the LegCo President's additional entertainment allowance will be adjusted in October each year in accordance with movements of CPI(C) should continue to apply.

6.2 A summary of our proposed changes, as compared to the current remuneration package for LegCo Members in the 2019-2020 legislative session is at **Annex F**.

**Terms of Reference of 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 -

- (a) considers the system of remuneration for Members of the Executive Council and the Legislative Council, and Officials under the Political Appointment System of the Hong Kong Special Administrative Region (HKSAR), taking into account any factor that may affect the level of such remuneration and allowances;
- (b) carries out periodic review of the remuneration package for Members of the Legislative Council of the HKSAR, say once every three to five years and normally about a year before the start of a new Legislative Council term;
- (c) carries out periodic review of the remuneration package for Officials under the Political Appointment System, say once every five years and normally about a year before the start of a new term of the HKSAR Government;
- (d) considers the appropriate level of remuneration for those with multiple membership on the Executive Council and the Legislative Council of the HKSAR in deliberating on the above issues; and
- (e) advises the Government on any matter relating to the remuneration package for Members of the Executive Council and the Legislative Council, and Officials under the Political Appointment System of the HKSAR which the Government may refer to the Independent Commission from time to time.

**Membership of the Independent Commission
on Remuneration for Members of the Executive Council and the Legislature,
and Officials under the Political Appointment System of the HKSAR**

(with effect from 1 April 2020)

Chairman: Mr Carlson Tong, GBS, JP

Members: Prof Leonard Cheng Kwok-hon, BBS, JP

Ms Lau Ka-shi, BBS

Ms Elaine Lo Yuen-man

Mr Philip Tsai Wing-chung , BBS, JP

Ms Winnie Wong Chi-shun

**Comparison of LegCo Members' monthly remuneration
with monthly earnings of all employees**

Table: 98th and 99th percentile of monthly earnings of all employees¹

	98th percentile	99th percentile
	\$	\$
2017	86,000	117,000
2018	90,000	125,300
2019	91,300	129,300

¹ Source: Annual Earnings and Hours Survey, the Census and Statistics Department

**Average utilisation rate of
Office Operation Expenses Reimbursement by Category**

I. Utilisation rates of Office Operation Expenses Reimbursement (OOER) in the past three LegCo terms¹

Components	Average Utilisation Rates of OOER (%)			
	Third Term LegCo	Fourth Term LegCo	Fifth Term LegCo	Average
Staff expenses	70.18	74.04	73.5	72.57
Office accommodation expenses	7.68	6.84	6.3	6.94
Other operating expenses	22.14	19.12	20.2	20.49

¹ Figures in this table are extracted from LC Paper No. CRM 198/17-18 of LegCo Subcommittee on Members' Remuneration and Operating Expenses Reimbursement.

II. Utilisation rates of OOER in the Sixth Term LegCo²

Major expenditure components	Average Utilization Rates of OOER (%)			
	Functional Constituencies ("FC")	District Council (second) FC	Geographical Constituencies	Overall
Staff expenses				
2016-2017	71.7	74.1	73.1	72.5
2017-2018	78.0	78.5	75.6	76.8
2018-2019	79.0	78.5	78.4	78.7
<i>Overall average</i>	76.3	77.1	75.9	76.2
Office accommodation expenses				
2016-2017	2.3	4.4	7.6	4.9
2017-2018	2.6	5.8	7.5	5.2
2018-2019	2.5	5.5	8.0	5.4
<i>Overall average</i>	2.4	5.2	7.5	5.1
Other operating expenses				
2016-2017	6.2	6.4	6.8	6.6
2017-2018	7.3	4.2	6.0	6.5
2018-2019	8.0	5.6	9.3	8.5
<i>Overall average</i>	7.5	5.4	7.7	7.4

² Figures in this table are provided by LegCo Secretariat.

Comparison of CPI(C) Adjustments and Proposed Indices for Calculating the Weighted Index

Legislative Session ¹		Indices ² (%)						
		Components of the Weighted index				Weighted index ³		Existing Arrangement
		(A) Staff expenses (70%)		(B) Office accommodation expenses (10%)	(C) Other operating expenses (20%)	Proposal by the Independent Commission	Proposal by the LegCo Subcommittee	
		Proposal by the Independent Commission	Proposal by the LegCo Subcommittee	Rental index of Grade C offices ⁴ (Year-on-year percentage change)	Composite CPI (Year-on-year percentage change)			
		Nominal Index of Payroll per Person Engaged ⁵ (Year-on-year percentage change)	Annual Civil Service Pay Adjustment for the middle and lower salary bands					
5 th LegCo	2012-2013	7.8	5.80	11.5	5.4	7.7	6.3	5.0
	2013-2014	5.6	3.92	9.9	3.7	5.7	4.5	3.5
	2014-2015	5.3	4.71	10.4	4.3	5.6	5.2	3.8
	2015-2016	4.2	4.62	7.4	4.3	4.5	4.8	2.5
6 th LegCo	2016-2017	3.9	4.68	4.6	2.5	3.7	4.2	2.3
	2017-2018	3.8	2.94	1.5	1.7	3.2	2.6	1.5
	2018-2019	3.8	4.51	4.1	2.0	3.5	4.0	2.0
	2019-2020	4.1	5.26	4.1	2.6	3.8	4.6	2.5

¹ The year-on-year changes of the payroll index are calculated by comparing the average index for the 12 months ending June each year with that of the same period in the previous year; while that of CPI(C) is calculated by comparing the average index for the 12 months ending August each year with that for the same period in the previous year. As for civil service pay adjustments, the figures are the adjustment to take effect in April each year.

² The legislative session shown in the left is the year in which the adjustment would take effect. For instance, the CPI(C) adjustment of 2.5% took effect in 2019-2020, and is calculated by comparing the average index for the 12 months ending August 2019 with that for the same period in 2018.

³ The weighted index equals to $(A \times 70\%) + (B \times 10\%) + (C \times 20\%)$.

⁴ Figures compiled by the Rating and Valuation Department.

⁵ Figures compiled by the Census and Statistics Department.

**Summary of Proposed Changes to Remuneration Package for
Members of the Seventh Term LegCo**

		Sixth Term LegCo (as at October 2019) (\$)	Proposed changes in Seventh Term LegCo (\$)
Remuneration and personal benefits			
(i)	Monthly remuneration*		
	LegCo President	202,000	-
	President's Deputy	151,500	-
	Other Members	101,000	-
	Members also serving on ExCo	67,330 (i.e. 2/3 of \$101,000)	Abolish the 1/3 reduction (i.e. receive the same amount as other LegCo Members)
(ii)	End-of-service gratuity (payable at term end per term)	15% of the total remuneration for the term (i.e. item (i) for the Sixth Term LegCo)	-
(iii)	Medical Allowance*# (per annum)	35,180	-
Operating Expenses Reimbursement			
(iv)	Office Operation Expenses Reimbursement (OOER)*# (per annum)	2,770,970	- One-off increase by 3% (i.e. + \$83,130 to \$2,854,100) - Adopt a weighted index as basis of annual adjustment instead of CPI(C)
(v)	Entertainment and Travelling Expenses Reimbursement (ETER)* (per annum)	221,310	-

	Sixth Term LegCo (as at October 2019) (\$)	Proposed changes in Seventh Term LegCo (\$)
(vi) President's Entertainment Allowance* (per annum)	221,520	-
(vii) Setting Up and Information Technology Expenses Reimbursement (SUITER) (per term)	375,000 or 262,500 (for Members who have claimed setting up expenses in the previous term)	-
(viii) Winding Up Expenses Reimbursement (WUER) (per term)	1/12 of the annual OOER (i.e. 230,914), plus actual severance payments	-

* Subject to annual adjustments in October each year in accordance with the movement of CPI(C).

Surplus from a year's entitlement may be rolled over to the following year until the end of a LegCo term.