

**For discussion
on 1 March 2021**

Legislative Council Panel on Financial Affairs
Mandatory Provident Fund Schemes Authority
Budget for the Financial Year 2021-22

PURPOSE

This paper highlights the main features of the proposed budget of the Mandatory Provident Fund Schemes Authority (“MPFA”) for 2021-22.

BACKGROUND

2. The MPFA is a statutory body established in 1998 under the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (“MPFSO”) to regulate and supervise the Mandatory Provident Fund (“MPF”) schemes, with the following mission:

- (a) to regulate and supervise privately managed provident fund schemes;
- (b) to educate the working population about saving for retirement and the role of the MPF System as one of the pillars supporting retirement living; and
- (c) to lead improvements to provident fund schemes to make them more efficient and user-friendly, and better meet the needs of the working population.

The MPFA’s functions are laid down in section 6E(1) of the MPFSO. The MPFA also acts as Registrar of Occupational Retirement Schemes under section 5(1) of the Occupational Retirement Schemes Ordinance (Cap. 426) (“ORSO”).

3. Section 6J of the MPFSO requires the MPFA to prepare, before the end of each financial year, a corporate plan for its next financial year, which must include a budget of estimated expenditure for achieving the objectives of the

MPFA’s activities for the financial year concerned. The draft corporate plan, together with the budget of estimated expenditure, must be submitted to the Financial Secretary (“FS”) for approval.

FUNDING OF THE MPFA

4. In 1998, the MPFA was provided by the Government with a Capital Grant of \$5 billion for meeting its set-up and operating costs before it could achieve a self-financing basis and recover its costs from collection of statutory and other fees, including the annual registration fees (“ARF”) on MPF registered schemes payable by MPF trustees. The other major source of income would be the investment income from the Capital Grant.

5. Since its establishment, the MPFA has been collecting fee from the retirement schemes under ORSO¹. In relation to the MPF registered schemes, the MPFA started collecting the MPF intermediaries fees in January 2018. Subsequent to the passage of the MPF Schemes (Amendment) Bill 2019 by the Legislative Council (“LegCo”) in July 2020, the charging of the ARF became effective from 1 October 2020, at a rate of 0.03% per annum on the projected net asset value (NAV) of registered MPF schemes. The ARF is expected to finance about half of the MPFA’s expenditure in the initial years², with the shortfall to be met by the balance of the Capital Grant (and investment income therefrom), which stood at \$2.60 billion as at the end of November 2020.

BUDGET FOR 2021-22

6. The proposed budget of the MPFA for 2021-22 is at **Annex I**. It indicates **“zero growth” in the estimated operating expenditure** as compared with the revised estimates for 2020-21, while projecting a **deficit of \$226.60 million** for 2021-22. The main features of the budget are set out in paragraphs 7 to 11 below.

¹ The income and expenditure arising from ORSO schemes are unrelated to MPFA’s exercise and performance of its functions with respect to MPF registered schemes, and should therefore be separately accounted for during the assessment of ARF (paragraph 8).

² With effect from 1 October 2020, MPF trustees pay ARF to the MPFA at a rate of 0.03% p.a. on the respective MPF schemes’ NAV for the first six years. The income from ARF will not be adequate for financing the relevant expenditure in full at the beginning. Under the current plan, the rate will be subject to review and may be revised from the seventh year with a view to achieving full cost recovery for the MPFA.

Income

7. The estimated total income for 2021-22 is about **\$359.99 million**, which is \$282.78 million (+366.2%) above the revised estimates for 2020-21 (\$77.21 million). The significant increase is mainly due to the inaugural budget for **ARF income (\$293.58 million)** after the fee took effect from 1 October 2020. There are also income from the collection of fees arising from the ORSO schemes (\$7.43 million) and the regulation of MPF intermediaries (\$9.57 million).

8. The level of ARF is governed by section 22B of the MPFSO which stipulates that the amount of ARF must not exceed a level which will enable the MPFA to recover the costs incurred, or likely to be incurred, in exercising and performing its functions with respect to registered MPF schemes. In setting the level of ARF, the MPFA is required to take into account only the costs attributable to exercising and performing its functions with respect to registered MPF schemes (hereunder refer to as “ARF eligible costs”), rather than its operating costs as a whole. Hence, the ARF eligible costs do not include certain costs which are mainly attributable to the ORSO schemes and MPF intermediaries. Under this basis of calculation, the estimated ARF eligible costs for 2021-22 are \$506.72 million, which is higher than the estimated ARF income of \$293.58 million (see **Annex II**).

Operating Expenditure

9. The estimated operating expenditure for 2021-22 is about **\$586.59 million**, representing “**zero growth**” as compared with the revised estimates for 2020-21. The forecast comprises the following key items –

- (a) **Personal Emoluments (“PE”)** – the MPFA maintains the PE provision for regular staff at the 2020-21 level, i.e. \$386.25 million, by making no increase in the total number of budgeted headcounts at the 2020-21 level (i.e. 610) and not including any provision for salary adjustment for 2021-22;
- (b) **Office Accommodation Expenses** – the estimated expenditure for 2021-22 is \$65.46 million, which is \$0.58 million (-0.9%) less than the revised estimates for 2020-21 (\$66.04 million). The reduction is mainly due to the lower estimates for management fees and government rates;
- (c) **One-off projects** – the estimated expenditure for 2021-22 is \$30.22 million, which is \$3.36 million (-10%) less than the revised

estimates for 2020-21 (\$33.58 million). Of the forecast expenditure, some 25 % is earmarked for supporting the eMPF Platform Project by the MPFA relating to the new operating and regulatory framework. The rest concern personnel costs for project implementation involving 22 project posts; various enhancement programmes and a holistic review of the organization structure in relation to the MPFA's transformation to cope with impending changes arising from the eMPF Platform; and creation of temporary posts to counter the impact of the COVID-19 pandemic³, etc.;

- (d) **Other Operating Expenses** – the estimated expenditure for 2021-22 is \$26.04 million, which is \$4.82 million (-15.6%) less than the revised estimates for 2020-21 (\$30.86 million), mainly due to the decrease in fund management fee as more fund will be managed internally;
- (e) **Depreciation** – the estimated expenditure for 2021-22 is \$25.33 million, which is \$4.34 million (+20.7%) more than the revised estimates for 2020-21 (\$20.99 million). The provision is for writing off the costs of fixed assets (such as furniture and fixtures as well as office and IT systems and equipment) over their estimated useful lives of either three or four years; and
- (f) **Member Education and Engagement** - the estimated expenditure for 2021-22 is about \$14.96 million, which is \$0.58 million (+4.0%) above the revised estimates for 2020-21 (\$14.38 million), mainly due to ongoing publicity campaigns on MPF account management and MPF investment education.

Capital Expenditure

10. The estimated capital expenditure for 2021-22 is about **\$26.83 million**, which is \$10.10 million (+60.4%) more than the revised estimates for 2020-21 (\$16.73 million). The increase is mainly arising from several system application development projects for automation (e.g. digital office solution) and transformation of the MPFA's system for connectivity with the eMPF Platform to be built.

³ The provision of \$7.47 million in 2021-22 is to fund the creation of 49 temporary positions, the expenditure of which will be subsequently reimbursed by the Government to the MPFA under the Anti-epidemic Fund 2.0.

Capital and Reserve

11. It is envisaged that the MPFA will incur an **operating deficit of \$226.60 million** in 2021-22. The deficit situation has improved from 2020-21 after the collection of ARF which brings a steady stream of income for the MPFA. As a result of the operating deficit, the balance of the Capital Grant is expected to fall from the level of \$2.08 billion to \$1.86 billion by the end of 2021-22. The current rate of ARF at 0.03% of the projected NAV of registered MPF schemes will be subject to review in 2026 and may be revised from the seventh year of commencement, with a view to achieving full cost recovery for the MPFA.

COMPARISON OF THE APPROVED BUDGET WITH THE REVISED ESTIMATES FOR 2020-21

Income

12. The revised total income for 2020-21 (\$77.21 million) is \$11.59 million (-13.1%) less than the approved budget (\$88.80 million), mainly due to lower budgeted interest and investment income.

Operating Expenditure

13. The revised operating expenditure for 2020-21 is \$586.59 million, which is \$2.7 million (-0.5%) less than the approved budget (\$589.29 million). The revised estimates on PE for 2020-21 is \$386.25 million, which is \$6.45 million less than approved budget (\$392.70 million). The difference is mainly due to the time lag in filling vacancies which have been aggravated by the COVID-19 pandemic, and the lower-than-budgeted salary expenses for some replacements or new appointments. The savings were partially offset by an increase in expenditure on one-off projects, information system and other operating expenses.

Capital Expenditure

14. The revised capital expenditure for 2020-21 is \$16.73 million, which is \$5.9 million (+54.5%) higher than the approved budget (\$10.83 million). The revision is due to the higher spending on some system application development projects to support business continuity under the COVID-19 pandemic, e.g. human resource systems (e-recruitment and learning management), server enhancement for implementing remote access, video conferencing solutions and remote booking system for enquiry service.

THE GOVERNMENT’S VIEWS

15. We have examined the MPFA’s proposed budget for 2021-22 in detail. We note that the MPFA has adopted a prudent approach in making the estimates by achieving “zero-growth” in its operating expenditure, with a headcount and salary freeze. Whilst the steady recurrent income from the collection of ARF will come on stream, thereby improving significantly the financial position of the MPFA and allowing the balance of the Capital Grant to deplete at a slower rate, the fiscal deficit of the MPFA will continue. We consider that MPFA should continue to exercise stringent cost control, optimise the use of existing manpower resources and review and reengineer its processes to cope with the new challenges and opportunities to be brought by the implementation of the eMPF Platform. We will also invite MPFA to review the need for and re-classify those services which are by nature consultancy or advisory services as a separate category in the estimates for better monitoring.

ADVICE SOUGHT

16. Members are invited to note the proposed budget of the MPFA for 2021-22.

**Financial Services Branch
Financial Services and the Treasury Bureau
February 2021**

Mandatory Provident Fund Schemes Authority
Estimates of Income and Expenditure for 2021-22

<i>HK\$ million</i>	2020-21 Approved Budget (a)	2020-21 Revised Estimates (b)	Proposed 2021-22 Budget (c)	Increase/ (decrease) from 2020-21 Revised Estimates (d)=(c)-(b) %		Reference to Explanatory Notes
<u>INCOME AND EXPENDITURE STATEMENT</u>						
<u>INCOME</u>						
Annual Registration Fee	-	-	293.58	293.58	N/A	1
Fee Income	16.99	16.98	17.00	0.02	0.1%	2
Recoveries from MPF Compensation Fund	1.00	1.12	1.20	0.08	7.1%	3
Interest Income on Bank Deposits	3.34	2.28	8.47	6.19	271.5%	4
Investment Income	67.47	56.83	39.74	(17.09)	(30.1%)	5
TOTAL INCOME	88.80	77.21	359.99	282.78	366.2%	
<u>OPERATING EXPENDITURE</u>						
Personal Emoluments	392.70	386.25	386.25	-	-	6
Hire of Services	6.71	7.67	8.30	0.63	8.2%	7
Office Accommodation Expenses	66.04	66.04	65.46	(0.58)	(0.9%)	8
Information System-Related Expenses	10.32	11.32	13.15	1.83	16.2%	9
Public Relation Expenses	6.90	5.66	7.95	2.29	40.5%	10
Member Education and Engagement	14.38	14.38	14.96	0.58	4.0%	11
Legal and Professional Expenses	9.54	9.84	8.93	(0.91)	(9.2%)	12
Other Operating Expenses	28.82	30.86	26.04	(4.82)	(15.6%)	13
Depreciation	20.99	20.99	25.33	4.34	20.7%	14
One-off Projects	32.89	33.58	30.22	(3.36)	(10.0%)	15
TOTAL OPERATING EXPENDITURE	589.29	586.59	586.59	-	-	
RESULT FOR THE YEAR	(500.49)	(509.38)	(226.60)	(282.78)	(55.5%)	
BALANCE OF CAPITAL GRANT	2,092.82	2,083.93	1,857.33			
<u>CAPITAL EXPENDITURE STATEMENT</u>						
Leasehold improvement, Office equipment and Furniture	1.38	2.78	2.83	0.05	1.8%	16
Information System Capital Expenditure	9.45	13.95	24.00	10.05	72.0%	17
TOTAL CAPITAL EXPENDITURE	10.83	16.73	26.83	10.10	60.4%	

Explanatory Notes to the Budget of the Mandatory Provident Fund Schemes Authority for the financial year 2021-22

INCOME

1. Annual Registration Fee (ARF) (\$293.58 million)

ARF income from registered Mandatory Provident Fund (MPF) schemes is estimated at \$293.58 million¹.

2. Fee Income (\$17.00 million)

The fee income includes fee income from Mandatory Provident Fund MPF intermediaries (INT) (\$9.57 million) and Occupational Retirement Schemes Ordinance (ORSO) schemes (\$7.43 million).

3. Recoveries from MPF Compensation Fund (\$1.20 million)

Recoveries from the MPF Compensation Fund are expected to generate an annual income of \$1.20 million.

4. Interest Income on Bank Deposits (\$8.47 million)

Interest income on bank deposits is estimated at \$8.47 million, based on the following assumptions: Hong Kong dollar interest rate of 1% and the implementation of a new investment strategy with cash weighting of 40% starting from December 2020.

5. Investment Income (\$39.74 million)

With an expected return of 3.48% for 2021-22 based on the advice of the external fund manager, investment income from the externally managed portfolio is estimated to be \$39.74 million, which is \$17.09 million (-30.1%) lower than the 2020-21's revised forecast.

¹ ARF income is projected at a rate 0.03% of the latest projected net asset value of registered MPF schemes in the coming years based on their distribution as at the end of March 2020, with an assumed long-term net investment return of 3%. As set out in the Mandatory Provident Fund Schemes Ordinance, MPF trustees will have a six-month window to settle their ARF payable to the MPFA, and thus the initial financial impact to the MPFA is expected to surface in the financial year 2021-22.

OPERATING EXPENDITURE

6. Personal Emoluments (PE) (\$386.25 million)

There will be “zero growth” as compared with the provision of \$386.25 million for the 2020-21 revised estimates. Neither will there be any increase in the total number of budgeted headcounts, nor budgetary provision for salary adjustment.

7. Hire of Services (\$8.30 million)

The provision of \$8.30 million is mainly for paying contractors for outsourced services (including office assistants, receptionists, technicians and IT helpdesk), plus some provision for temporary staff including summer interns and MPF ambassadors.

8. Office Accommodation Expenses (\$65.46 million)

The provision caters for the rents, management fees and electricity expenses for MPFA offices.

9. Information System-Related Expenses (\$13.15 million)

The provision of \$13.15 million is mainly for maintenance of business operation systems and security equipment, investment information service charges, and data communication line charges.

10. Public Relation Expenses (\$7.95 million)

The provision of \$7.95 million is mainly for ongoing publicity activities (including production of education materials and other promotional materials, Good MPF Employer Award, etc.), as well as productions and postings of videos on the MPFA corporate social media platforms.

11. Member Education and Engagement (\$14.96 million)

The provision of \$14.96 million is mainly for ongoing publicity campaigns on MPF account management and digital transformation, and for ongoing programmes on MPF messages, MPF investment education, etc.

12. Legal and Professional Expenses (\$8.93 million)

The provision of \$8.93 million covers professional fees for legal, audit and consultancy services.

13. Other Operating Expenses (\$26.04 million)

The provision of \$26.04 million is mainly for –

- (a) office expenses covering telephone maintenance and mobile phone, postage and courier services, and office supplies;
- (b) personnel-related expenses covering staff training and development, recruitment agency services;
- (c) travelling and transport expenses;
- (d) fixed assets-related expenses covering repair and maintenance of office equipment and furniture, acquisition of low-value IT equipment and software;
- (e) investment expenses and general bank charges for banking services; and
- (f) regulatory and supervisory expenses covering investigation and litigation-related expenses in respect of tracing default MPF contributions.

14. Depreciation (\$25.33 million)

Depreciation is calculated to write off the cost of fixed assets (such as furniture and fixtures as well as office and IT systems and equipment) using the straight-line method over their estimated useful lives of either three or four years.

15. One-off Projects (\$30.22 million)

The provision of \$30.22 million is mainly for –

- (a) seeking external legal advice on handling of contentious ORSO schemes and new requirement under ORSO Amendment Ordinance 2020;
- (b) supporting the Government's Anti-epidemic Fund 2.0 for countering the impact of the COVID-19 pandemic on the Hong Kong economy through the provision of temporary positions, with subsequent reimbursement of

expenditure from the Government;

- (c) various enhancement programmes to organization and leadership capabilities for the future MPFA after the organization culture mapping project and a holistic review of the future role and organization structure of the MPFA after transformation to cope with the impending impact of the eMPF Platform;
- (d) hiring project personnel in 2021-22 for supporting various projects across Divisions / Departments; and
- (e) engagement of regulatory advisory service for advising on and drafting the relevant documentation underpinning the implementation of the overall framework of the eMPF Platform in contemplation of the legislative overhaul of the Mandatory Provident Fund Schemes Ordinance.

CAPITAL EXPENDITURE

16. Leasehold Improvement, Office Equipment and Furniture (\$2.83 million)

The provision of \$2.83 million is mainly for replacement of obsolete office furniture and equipment, replacement of audio-visual system, and enhancing office solutions.

17. Information System (\$24.00 million)

The provision of \$24.00 million is mainly for enhancement of existing system and/or development of new application framework for MPFA's system transformation to support the launch of the eMPF Platform, and for various system application enhancement projects and system application development, and for replacement of obsolete servers and personal computers.

February 2021

Mandatory Provident Fund Schemes Authority

Estimated Annual Registration Fee Income

Section 22B of the Mandatory Provident Fund Schemes Ordinance (Cap. 485)

To comply with the statutory requirement as provided under section 22B of Cap. 485, only the costs attributable to exercising and performing its functions with respect to registered MPF schemes should be recovered by Annual Registration Fee (ARF) ("ARF Eligible Costs"). The ARF Eligible Costs for 2021-22 is \$506.72 million.

Costs which are not eligible for recovery by ARF are: (a) costs relating to the regulation of the Occupational Retirement Schemes Ordinance ("ORSO"); and (b) costs of operating MPF intermediaries functions already recovered by the intermediaries fees. The estimated amount for these areas in 2021-22 is \$69 million.

	2021-22 Estimated ARF Income
<i>HK\$ million</i>	
ARF Income (a)	293.58
ARF Eligible Cost (b)	506.72
Over / (Under) (c) = (a) - (b)	(213.14)

February 2021