

**For information**

**Legislative Council Panel on Financial Affairs**

**Mandatory Provident Fund Schemes Authority  
Proposed Budget for Financial Year 2022-23**

**PURPOSE**

This paper highlights the main features of the proposed Budget of the Mandatory Provident Fund Schemes Authority (“MPFA”) for the financial year (“FY”) 2022-23.

**BACKGROUND**

2. The MPFA is established under the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (“MPFSO”) to regulate, supervise and monitor the operation of the Mandatory Provident Fund (“MPF”) System. It regulates and supervises MPF schemes and trustees, enforces legislation to protect the interests of MPF scheme members, conducts public education programmes, and pursues measures to improve the MPF System. The MPFA also acts as the Registrar of Occupational Retirement Schemes under section 5(1) of the Occupational Retirement Schemes Ordinance (Cap. 426) (“ORSO”).

3. In 1998, the Government provided the MPFA with a Capital Grant (“CG”) of \$5 billion for meeting its set-up and operating costs before it could achieve a self-financing basis and recover its costs from the collection

of statutory and other fees<sup>1</sup>, including the annual registration fee (“ARF”)<sup>2</sup> on MPF registered schemes payable by MPF trustees. The other major source of income is investment income from the CG. As at the end of FY2021-22, the CG is estimated to be \$2.4 billion.

4. Section 6J of the MPFSO requires the MPFA to prepare, before the end of each FY, a corporate plan for the next FY, which should include a budget of estimated expenditure for achieving the objectives of the MPFA’s activities for the year concerned. The draft corporate plan, together with the budget of estimated expenditure, must be submitted to the Financial Secretary for approval.

## **KEY CORPORATE ACTIVITIES IN FY2022-23**

5. The proposed Budget is to support the MPFA in pursuing its activities planned for FY2022-23. As a matter of top priority, the MPFA, together with its wholly-owned subsidiary, eMPF Platform Company Limited (“Company”), is committed to the timely development of the eMPF Platform which will standardize, streamline and automate MPF scheme administration processes, with a view to enhancing operational efficiency and creating room for fee reduction. The target is to complete the hardware and software development of the eMPF Platform by the end of 2022, for phased onboarding by MPF trustees starting from around April 2023 over a two-year period.

6. The MPFA will supervise the work of the Company in implementing the eMPF Platform project. On the other hand, the MPFA will gear up other areas of preparation as regulator of the MPF System, including amending or making new MPF guidelines for the implementation of the eMPF Platform, and reviewing and approving the Operating Rules to be prepared by

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<sup>1</sup> Apart from the ARF (see footnote 2), the MPFA collects fees from the registered ORSO schemes (since 1998) and MPF intermediaries (since 2018).

<sup>2</sup> In relation to the registered MPF schemes, the MPFA has been collecting the ARF at a rate of 0.03% per annum on the net asset value (“NAV”) of registered MPF schemes since October 2020. The 0.03% rate is applicable for the first six years, and will be subject to review from the seventh year with a view to achieving full cost recovery for the MPFA.

the Company to govern the administration and operation of the eMPF Platform. An extensive public engagement, publicity and education campaign will also be launched in the run-up to the launch of the eMPF Platform.

7. Other priorities of the MPFA for the year include facilitation of MPF investment in debt securities issued by the Central People's Government and its central bank and policy banks, conducting consultation on the review of the minimum and maximum levels of relevant income for MPF contributions, promoting sustainable investing and enhanced investment governance reporting of MPF trustees, as well as raising the standards of trustees and intermediaries.

8. Internally, the MPFA will keep on exploring opportunities to streamline its own operations, re-engineer processes and digitalize daily operations. With the expiry of the current leases in 2022, the MPFA will consolidate its existing main offices in Kowloon in FY 2022-23 to achieve cost savings in rental expenses (see paragraphs 14-15 for the financial implications).

## 2022-23 PROPOSED BUDGET

9. A summary of the MPFA's proposed FY2022-23 Budget is shown below, with details at **Annex I**.

(HK\$ million)	2021-22 Approved Budget	2021-22 Revised Estimates	Proposed 2022-23 Budget	Increase/(decrease) from 2021-22 Revised Estimates	
				\$	%
<b>Income</b>	359.99	468.24	442.81	(25.43)	(5.4%)
<b>Operating Expenditure</b>	586.59	558.49	579.95	21.46	3.8%
<b>Deficit of the Year</b>	(226.60)	(90.25)	(137.14)	46.89	52.0%
<b>Balance of CG</b>	2,264.27	2,400.62	2,263.48	(137.14)	(5.7%)
<b>Capital Expenditure</b>	26.83	29.86	117.79	87.93	294.5%

10. For FY 2022-23, there will be a projected **deficit of \$137.14 million**, showing an improved financial position of the MPFA vis-à-vis the deficit situation (\$226.60 million) under the approved Budget for FY2021-22.

### **Income**

11. The estimated total income for FY2022-23 is about **\$442.81 million**, which is \$25.43 million or 5.4% lower than the revised estimates for FY2021-22 (\$468.24 million). Major sources of income are:

- (i) ARF (\$367.9 million);
- (ii) investment income (\$36.41 million); and
- (iii) fee income from MPF intermediaries and ORSO schemes (\$20.41 million).

12. The decrease in income for FY 2022-23 is mainly due to the decrease in estimated investment income (-\$44.81 million/ -55.2%) as a result of a lower forecast return from 5.66% to 2.9%. The decrease is netted off by the increase in projected ARF income (+\$19.15 million/ +5.5%) as a result of a higher projected NAV of registered MPF schemes for FY2022-23. An assessment of ARF income against the cost which should be recovered by ARF is at **Annex II**.

### **Operating Expenditure**

13. The estimated operating expenditure for FY2022-23 is **\$579.95 million**, which is \$21.46 million or 3.8% higher than the revised estimates for FY 2021-22 (\$558.49 million). The forecast comprises the following key items -

- (i) **Personal Emoluments (“PE”)** – the estimated PE costs for FY2022-23 is \$376.67 million, which is \$2.02 million or 0.5%

lower than that of the revised estimates for FY 2021-22 (\$378.69 million). The estimates represent the PE of a total headcount of 581 for regular positions and a 2% budgetary provision for annual salary adjustment. Taking into account a number of factors including market pay trend, inflation rate, staff retention and staff expectation after a pay freeze in 2021-22, the Management Board of the MPFA recently agreed to increase the salary of its eligible staff by approximately 4.3%<sup>3</sup> with effect from 1 April 2022. The increase in provision due to a higher salary adjustment has not yet been reflected in the proposed Budget, but will be included in the revised estimates for 2022-23;

- (ii) **Office Accommodation Expenses** – the estimated expenditure for FY2022-23 is \$65.86 million, which is \$1.14 million or 1.8% higher than the revised estimate for FY2021-22 (\$64.72 million). The provision caters for the rents, management fees and electricity expenses for MPFA offices. The slight increase is mainly due to general inflation of management fees and other premises expenses;
- (iii) **Depreciation and Amortization** – depreciation and amortization are calculated using the straight-line method over the cost of fixed assets such as furniture and fixtures as well as office and IT systems and equipment, with estimated useful lives of three or four years. The estimated expenditure for FY2022-23 is \$41.83 million, which is \$24.55 million or 142.1% more than the revised estimate for FY2021-22 (\$17.28 million). The higher provision is mainly due to the renovation of the new office (see paragraphs 14-15 below);
- (iv) **One-off Projects** – the provision is mainly for publicity programmes for special cohorts of young self-employed persons, ethnic minorities and new arrivals, and costs for project-based personnel (20 project posts). The estimated expenditure for FY2022-23 is \$17.12 million, which is \$8.71 million or 33.7% less

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<sup>3</sup> The increase will vary depending on performance rating, with a range of 4.3% to 4.8%.

than the revised estimate for FY2021-22 (\$25.83 million). The reduction is mainly due to fewer one-off projects to be carried out in FY2022-23 following a reprioritisation of tasks;

- (v) **Member Education and Engagement** – the provision is mainly for ongoing campaigns on MPF account management and digital transformation, and for ongoing programmes on MPF messages, MPF investment education, etc. The estimated expenditure for FY2022-23 is \$14.87 million, similar to the revised estimate for FY2021-22 (\$14.96 million); and
- (vi) **Information System-Related Expenses** – the provision is mainly for maintenance of business operation systems and security equipment, investment information service charges, and data communication line charges. The estimated expenditure for FY2022-23 is \$14.53 million, which is \$2.33 million or 19.1% more than the revised estimate for FY2021-22 (\$12.20 million), mainly due to the maintenance of more business operation systems and security equipment.

### **Capital Expenditure**

14. The total estimated capital expenditure for FY2022-23 is about **\$117.79 million**, which is \$87.93 million or 294.5% more than the revised estimate for FY2021-22 (\$29.86 million). The major expenditure items include:

- (i) the set-up cost of the planned new consolidated office (\$86.80 million);
- (ii) information system (\$18.60 million); and
- (iii) leasehold improvement, office equipment and furniture (\$12.39 million).

15. Currently, MPFA operates at three locations, with main office premises in Kwai Chung and Kwun Tong. Occasioned by the expiry of the leases in 2022, the MPFA will consolidate the two main offices into one in FY 2022-23 to enhance internal communication and operational efficiency. Upon consolidation, the gross area of the MPFA's office accommodation will be downsized by over 20%. It is currently expected that a saving in rental expenses of \$15.0 million per annum will be achieved from FY2023-24 onwards. To implement the office consolidation plan, a one-off provision for the set-up costs for the consolidated office of \$86.8 million is included in the capital expenditure of the proposed Budget for FY2022-23.

### **Capital and Reserve**

16. In FY 2022-23, the MPFA estimates an **operating deficit of \$137.14 million**. The shortfall in operating expenditure will be financed by the balance of the CG, bringing it from \$2.40 billion to \$2.26 billion by the end of March 2023. To ensure long-term financial sustainability of the MPFA, the current rate of ARF at 0.03% of the NAV of registered MPF schemes will be subject to review in 2026, with a view to achieving full cost recovery for the MPFA.

### **COMPARISION OF THE APPROVED BUDGET WITH THE REVISED ESTIMATES FOR FY2021-22**

17. A comparison of the Approved Budget and Revised Estimates for FY 2021-22 is as follows –

(HK\$ million)	2021-22 Approved Budget	2021-22 Revised Estimates	Increase/(decrease) from 2021-22 Approved Budget	
			\$	%
<b>Income</b>	359.99	468.24	108.25	30.1%
<b>Operating Expenditure</b>	586.59	558.49	(28.10)	(4.8%)
<b>Deficit of the Year</b>	(226.60)	(90.25)	(136.35)	(60.2%)
<b>Balance of CG</b>	2,264.27	2,400.62	136.35	6.0%
<b>Capital Expenditure</b>	26.83	29.86	3.03	11.3%

### Income

18. The revised total income for FY2021-22 (**\$468.24 million**) is \$108.25 million or 30.1% more than the approved Budget (\$359.99 million), mainly due to a higher estimate of ARF income and investment return.

### Operating Expenditure

19. The revised operating expenditure for FY2021-22 is **\$558.49 million**, which is \$28.10 million or 4.8% less than the approved Budget (\$586.59 million), mainly due to the following:

- (i) decrease in PE costs of \$7.56 million attributable to the time lag in filling vacancies and the lower-than-budget salary expenses for some replacements and new appointments;
- (ii) decrease in hire of services of \$2.93 million due to less provision for expenses on temporary staff, the demand for which had been reduced after re-prioritization of one-off projects;
- (iii) decrease in depreciation and amortization of \$8.05 million because of postponement of some non-critical system application developments after re-prioritizing internal resources to support the eMPF Platform project;



- (iv) decrease in other operating expenses of \$2.54 million mainly due to saving in hire of external recruitment agency service (i.e. recruitment using internal resources instead); and
- (v) decrease in one-off projects of \$4.39 million mainly because
  - (i) the budgeted personnel costs for project implementation were reduced by \$2.89 million due to time lag in filling vacancies, and
  - (ii) the budget for external legal consultant was reduced by \$2.00 million after re-assessment of the scope of legal services required.

### **Capital Expenditure**

20. The revised capital expenditure for FY2021-22 is **\$29.86 million**, which is \$3.03 million or 11.3% higher than the approved Budget (\$26.83 million), mainly due to the provision for relocation and renovation of the Hong Kong Island office<sup>4</sup>, netted off by a reduced provision for office equipment and information system.

### **THE GOVERNMENT'S VIEWS**

21. We support the MPFA in exercising financial discipline to control its operating expenditure for FY 2022-23. As the deficit situation remains in the next few years, we suggest the MPFA to continue optimising the use of existing resources to achieve cost efficiency.

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<sup>4</sup> The current downtown office on the Hong Kong side will be relocated to another office premises in Sheung Wan after expiry of the current lease in mid-2022.

## **ADVICE SOUGHT**

22. Members are invited to note the proposed budget of the MPFA for FY 2022-23.

**Financial Services Branch**  
**Financial Services and the Treasury Bureau**  
**March 2022**

**Mandatory Provident Fund Schemes Authority**  
**Estimates of Income and Expenditure for FY2022-23**

	Approved Budget 2021-22	2021-22 Revised Estimates	Proposed 2022-23 Budget	Increase / (decrease) from 2021-22 Approved Budget		Increase / (decrease) from 2021-22 Revised Estimates		Reference to Explanatory Notes
<i>HK\$ million</i>	(a)	(b)	(c)	(d) = (c) - (a)	%	(e) = (c) - (b)	%	
<b><u>INCOME AND EXPENDITURE STATEMENT</u></b>								
<b><u>INCOME</u></b>								
Annual Registration Fee	293.58	348.75	367.90	74.32	25.3%	19.15	5.5%	1
Fee Income	17.00	20.13	20.41	3.41	20.1%	0.28	1.4%	2
Recoveries from MPF Compensation Fund	1.20	1.20	1.20	-	0.0%	-	0.0%	3
Income Recharged from eMPF	-	13.71	13.89	13.89	N/A	0.18	1.3%	4
Interest Income on Bank Deposits	8.47	3.23	3.00	-5.47	(64.6%)	-0.23	(7.1%)	5
Investment Income	39.74	81.22	36.41	-3.33	(8.4%)	-44.81	(55.2%)	6
<b>TOTAL INCOME</b>	<b>359.99</b>	<b>468.24</b>	<b>442.81</b>	<b>82.82</b>	<b>23.0%</b>	<b>-25.43</b>	<b>(5.4%)</b>	
<b><u>OPERATING EXPENDITURE</u></b>								
Personal Emoluments	386.25	378.69	376.67	-9.58	(2.5%)	-2.02	(0.5%)	7
Hire of Services	8.30	5.37	7.23	-1.07	(12.9%)	1.86	34.6%	8
Office Accommodation Expenses	65.46	64.72	65.86	0.40	0.6%	1.14	1.8%	9
Information System-Related Expenses	13.15	12.20	14.53	1.38	10.5%	2.33	19.1%	10
Public Relation Expenses	7.95	7.72	6.53	-1.42	(17.9%)	-1.19	(15.4%)	11
Member Education and Engagement	14.96	14.96	14.87	-0.09	(0.6%)	-0.09	(0.6%)	12
Legal and Professional Expenses	8.93	8.22	11.01	2.08	23.3%	2.79	33.9%	13
Other Operating Expenses	26.04	23.50	24.30	-1.74	(6.7%)	0.80	3.4%	14
Depreciation and Amortization	25.33	17.28	41.83	16.50	65.1%	24.55	142.1%	15
One-off Projects	30.22	25.83	17.12	-13.10	(43.3%)	-8.71	(33.7%)	16
<b>TOTAL OPERATING EXPENDITURE</b>	<b>586.59</b>	<b>558.49</b>	<b>579.95</b>	<b>-6.64</b>	<b>(1.1%)</b>	<b>21.46</b>	<b>3.8%</b>	
<b>RESULT FOR THE YEAR</b>	<b>-226.60</b>	<b>-90.25</b>	<b>-137.14</b>	<b>-89.46</b>	<b>(39.5%)</b>	<b>46.89</b>	<b>52.0%</b>	
<b>BALANCE OF CAPITAL GRANT</b>	<b>2,264.27</b>	<b>2,400.62</b>	<b>2,263.48</b>					
<b><u>CAPITAL EXPENDITURE STATEMENT</u></b>								
Set-up Costs for the Consolidated Office	-	-	86.80	86.80	N/A	86.80	N/A	17
Leasehold Improvement, Office Equipment and Furniture	2.83	7.66	12.39	9.56	337.8%	4.73	61.7%	18
Information System Capital Expenditure	24.00	22.20	18.60	-5.40	(22.5%)	-3.60	(16.2%)	19
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>26.83</b>	<b>29.86</b>	<b>117.79</b>	<b>90.96</b>	<b>339.0%</b>	<b>87.93</b>	<b>294.5%</b>	

March 2022

## **Explanatory Notes to the Proposed Budget of the Mandatory Provident Fund Schemes Authority for Financial Year 2022-23**

### **INCOME**

#### **1. ARF (\$367.90 million)**

ARF income from registered MPF schemes is estimated at \$367.90 million<sup>1</sup>, a higher estimate of ARF income is projected based on the NAV of registered MPF schemes as at end September 2021.

#### **2. Fee Income (\$20.41 million)**

The fee income includes fee income from MPF intermediaries (\$13.49 million) and ORSO schemes (\$6.92 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. Income Recharged from eMPF Platform Project (\$13.89 million)**

Income recharged from eMPF Platform project is estimated at \$13.89 million, comprising (i) a provision of \$11.00 million for recovering the personnel costs of providing middle/back office support by the MPFA for the Company; and (ii) a provision of \$2.89 million for recovering the cost of operating expenditure incurred.

#### **5. Interest Income on Bank Deposits (\$3.00 million)**

Interest income on bank deposits is estimated at \$3.00 million based on the assumption of HKD interest rate being 0.35%.

#### **6. Investment Income (\$36.41 million)**

With an expected return of 2.9% for FY2022-23 based on the advice of the external fund manager, investment income<sup>2</sup> from the externally managed portfolio is estimated to be \$36.41 million, which is \$44.81 million (-55.2%) lower than the revised forecast for FY2021-22.

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<sup>1</sup> ARF income is projected at a rate 0.03% of the projected NAV of registered MPF schemes in the coming years based on their distribution as at end of September 2021, with an assumed long-term net investment return of 3%.

<sup>2</sup> It is estimated on a mark-to-market basis and includes projected investment gain on equities.

## **OPERATING EXPENDITURE**

### **7. Personal Emoluments (\$376.67 million)**

As compared with the provision of \$378.69 million for the FY2021-22 revised estimates, there is a decrease of \$2.02 million. The decrease is mainly due to a reduction of regular positions from 588 to 581 in FY2022-23 netted off by a 2% provision for annual salary adjustment.

### **8. Hire of Services (\$7.23 million)**

The provision is mainly for paying contractors for outsourced services (including office assistants, receptionists, technicians, IT helpdesk and labour for office removal), plus some provision for summer interns and MPF ambassadors.

### **9. Office Accommodation Expenses (\$65.86 million)**

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

### **10. Information System-Related Expenses (\$14.53 million)**

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

### **11. Public Relation Expenses (\$6.53 million)**

The provision 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.

### **12. Member Education and Engagement (\$14.87 million)**

The provision is mainly for ongoing campaigns on MPF account management and digital transformation, and for ongoing programmes on MPF messages, MPF investment education, etc.

### **13. Legal and Professional Expenses (\$11.01 million)**

The provision covers professional fees for legal, audit, consultancy services, recruitment agency services and project management service on office consolidation/set-up.

### **14. Other Operating Expenses (\$24.30 million)**

The provision is mainly for –

- a) office expenses covering telephone maintenance and mobile phone charges, postage and courier services, and office supplies;

- b) personnel-related expenses covering staff training and development, and recruitment advertisement;
- 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, and insurance for fixed assets;
- 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.

**15. Depreciation and Amortization (\$41.83 million)**

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

**16. One-off Projects (\$17.12 million)**

The provision is mainly for –

- a) publicity programmes for special cohorts of young self-employed persons, ethnic minorities and new arrivals;
- 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 the contract of which will last up to the first quarter of FY2022-23, with subsequent reimbursement of expenditure from the Governments; and
- c) costs for project personnel (for 20 project posts) in FY2022-23 for supporting various projects across Divisions / Departments.

## **CAPITAL EXPENDITURE STATEMENT**

**17. Set-up Costs for Consolidated Office (\$86.80 million)**

The provision is for the renovation of the new consolidated office.

**18. Leasehold Improvement, Office Equipment and Furniture (\$12.39 million)**

The provision is mainly for equipment such as enhancement of audio-visual system and security system, visitor management system and replacement of obsolete office equipment.

**19. Information System (\$18.60 million)**

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

March 2022

**Mandatory Provident Fund Schemes Authority (MPFA)****Estimated Income from Annual Registration Fee (ARF)****Statutory Requirement - section 22B of the Mandatory Provident Fund Schemes Ordinance (Cap.485)**

- (1) To comply with the statutory requirement, only the costs attributable to exercising and performing MPFA's functions with respect to registered MPF schemes should be recovered by ARF (ARF eligible costs).
- (2) Costs which are not eligible for recovery by ARF - a) Occupational Retirement Schemes Ordinance (ORSO)-related cost (\$73 million); b) the cost of operating MPF intermediaries functions already recovered by the intermediaries fees (\$13 million); c) cost recovered from the eMPF Platform Company Limited (Company) (\$14 million); and d) cost recovered from MPF Compensation Fund (\$1 million). The proposed estimated amount for FY2022-23 is \$101 million.

	<b>FY2021-22 Revised Estimates</b>	<b>Proposed FY2022-23 Budget</b>
<i>HK\$ million</i>		
ARF Income (a)	349	368
ARF Eligible Cost (b)	462	479
<b>Under (c) = (a) - (b)</b>	<b>-113</b>	<b>-111</b>

Total Operating Expenditure (Annex I)	558	580
Less : ORSO related cost	-68	-73
Cost recovered by the intermediaries fees	-13	-13
Cost recovered from the Company	-14	-14
Cost recovered from MPF Compensation Fund	-1	-1
ARF Eligible Cost	462	479