

ITEM FOR FINANCE COMMITTEE

CAPITAL WORKS RESERVE FUND

HEAD 710 – COMPUTERISATION

Labour Department

New Subhead “Development of the Government Subsidy Scheme Information System to Support the Abolition of the Offsetting Arrangement under the Mandatory Provident Fund System”

Members are invited to approve the creation of a new commitment of \$41,395,000 for developing an information technology system to implement the Government Subsidy Scheme in support of the abolition of using the accrued benefits of employers’ mandatory contributions under the Mandatory Provident Fund System to offset severance payment and long service payment.

PROBLEM

The Government has announced that the abolition of using the accrued benefits of employers’ mandatory contributions under the Mandatory Provident Fund System to offset the severance payment (SP) and long service payment (LSP) (Offsetting Arrangement) will take effect on 1 May 2025. To implement the Government Subsidy Scheme (GSS) in support of the abolition of the Offsetting Arrangement, the Labour Department (LD) needs to develop an information technology system to support the disbursement of government subsidy (GSS System).

PROPOSAL

2. The Commissioner of Labour, with the support of the Secretary for Labour and Welfare and the Government Chief Information Officer, proposes the creation of a new commitment of \$41,395,000 for developing the GSS System to implement GSS.

/JUSTIFICATION

JUSTIFICATION

3. To complement the abolition of the Offsetting Arrangement, the Government will implement GSS with a total commitment of around \$33 billion for 25 years to share out the SP/LSP expenses of employers after the abolition. An employer, after settling SP/LSP to his/her employees in accordance with the Employment Ordinance¹, may apply for subsidy under GSS. LD will aim to disburse the subsidy in a simple, convenient and expeditious way when formulating the operational details including the application and vetting procedures. Our preliminary idea is to engage an outsourced agent to assist in the implementation of GSS, including processing employers' applications, vetting and verifying the subsidy amount and related documents, handling related enquiries, etc. LD will seek the Legislative Council (LegCo)'s funding approval for the total financial commitment of GSS and the relevant expenditure in due course.

4. Apart from disbursing subsidies to employers, if the entitlement of individual employees after the abolition of the Offsetting Arrangement is less than the amount that they would have been entitled to under the current offsetting regime², they may apply to LD for making up the shortfall. They can compare the amounts of entitlement before and after the abolition of the Offsetting Arrangement using the calculating tool on the online portal. Upon receipt of SP/LSP from their employers, these employees may apply to LD for making up the shortfall. Employers and employees may browse related information and submit applications via the same portal.

5. To support the daily operation of GSS, we need to develop the GSS System.

/GSS

¹ Employers are required by the Employment Ordinance to settle their LSP liabilities within seven days after termination of contract. An employee who wishes to claim SP should serve a written notice to the employer within three months after the dismissal/layoff takes effect. The deadline for serving such notice may be extended if approved by the Commissioner for Labour. The employer shall grant SP to the employee not later than two months from the receipt of such notice.

² Under some special circumstances, the amount of aggregate benefits received by an employee could be less than that under the current offsetting regime. For example, if (i) the employee has a substantial pay rise after the transition date, and thus a lower wage level (i.e. the monthly wages immediately preceding the transition date) is used to calculate pre-transition portion of SP/LSP; (ii) the employee's pre-transition employment period is long, and thus the above effect is amplified; and (iii) the employee's post-transition employment period is short, and thus the employee's benefits gained from the abolition are relatively small.

GSS System

6. We propose that LD develops, maintains and supports the GSS System as well as oversees its implementation to ensure that the system complies with the operation requirements, and receives as well as processes applications in a timely manner. The GSS System includes a one-stop online portal and a back-end administration system. Its major functions and components include –

- (a) providing one-stop service to employers applying for subsidy, including account registration, preliminary calculation of subsidy amount, submission of applications³ and uploading of related supporting documents (for example company registration proof, salary and SP/LSP amount of the employee leaving employment, and payment proof), enquiry of application progress, receipt of notifications on disbursement of subsidy, review of subsidy payment history, printing of related documents, etc. We will adopt iAM Smart and a responsive web design to facilitate the public in using the portal through mobile devices;
- (b) automating application processing procedures, such as calculating and verifying subsidy amount, approving applications, handling applications for review of disbursement results, etc., to enhance the accuracy and efficiency in processing applications;
- (c) disbursing subsidies through banks;
- (d) monitoring case progress to ensure efficient and prompt processing of applications;
- (e) identifying applications requiring further follow-up (such as duplicate applications, employees' wages being unreasonably higher than the market level, employment period of the employee concerned has overlapped with that in another application, etc.) to ensure that the applications comply with relevant rules;
- (f) generating management and statistical reports and providing statistical analyses and reports on applications received and processed as well as other follow-up actions to facilitate the review of the implementation of GSS; and
- (g) establishing an electronic publicity channel for disseminating information related to GSS, such as eligibility and submission requirements for application, arrangements for disbursing subsidies and other information.

/Expected

³ Employers may also choose to submit applications in other ways such as by email, fax, post or in person.

Expected Benefits

7. The GSS System will facilitate the effective implementation of GSS and enhance operation efficiency. The envisaged major benefits include –

(a) **Providing a convenient channel for employers to submit applications and the public to access related information**

Employers will be able to submit applications, check the application status, make enquiries etc. via the one-stop online portal. Moreover, the portal will provide an electronic publicity channel for explaining the essential features of GSS, including eligibility and submission requirements for application, arrangements for subsidy disbursement, etc.

(b) **Speeding up processing of employers' applications and disbursement of subsidies**

The GSS System will simplify the steps and procedures in processing applications, including calculation of subsidy amount, seeking of clarification and verification of information with employers and employees (if necessary), disbursement of subsidy, handling of applications for review of disbursement results, etc. A case assignment mechanism will be built into the system to distribute applications to different case teams for processing, thereby enhancing the effectiveness in utilising human resources. Without the aid of the GSS System, all applications will have to be processed manually and the processing time may be substantially lengthened.

(c) **Processing cases reliably, accurately and effectively**

The GSS System will be hosted in the Government Cloud Infrastructure Services, which is a secure and trustworthy environment. Employers' application details, documents and subsidy disbursement records will be kept in the GSS System, thereby obviating the need for manual search among voluminous paper records and enhancing operational efficiency. Automation of case processing will also minimise manual compilation of reports and preparation of general documentation, and reduce human errors as well as the lead time required for processing.

/(d)

(d) Effective monitoring of the GSS operation

The database of the GSS System will assist in identifying duplicate applications and applications requiring further follow-up more effectively and speedily, thus enhancing the efficiency in processing as well as safeguarding the use of public funds. The case management and statistical report compilation functions of the system will assist in monitoring case processing.

(e) Enhancing environmental efficiency

Paperless processing of applications and administrative procedures will reduce consumption of paper, as well as space for storing paper forms, documents and manual records.

FINANCIAL IMPLICATIONS**Non-recurrent Expenditure**

8. In 2023-24 to 2025-26, the development of the GSS System will incur an estimated non-recurrent expenditure of \$41.395 million. The breakdown is as follows –

	Item	2023-24 \$'000	2024-25 \$'000	2025-26 \$'000	Total \$'000
(a)	Hardware	1,000	950	-	1,950
(b)	Software	1,300	1,082	-	2,382
(c)	Communication network	453	655	371	1,479
(d)	Cloud services	500	1,300	300	2,100
(e)	System implementation	1,100	1,600	220	2,920
(f)	Contract staff	8,476	10,302	6,868	25,646
(g)	Site preparation	-	200	320	520
(h)	Training	-	-	35	35
(i)	Others	400	-	200	600
(j)	Contingency	1,323	1,609	831	3,763
	Total	14,552	17,698	9,145	41,395

9. On paragraph 8(a) above, the estimated expenditure of \$1,950,000 is for the acquisition of computer hardware, including security management servers, personal computer workstations, printers and network equipment.

10. On paragraph 8(b) above, the estimated expenditure of \$2,382,000 is for the acquisition of system software.

11. On paragraph 8(c) above, the estimated expenditure of \$1,479,000 is for the rental of data communication lines connecting to the Government Cloud Infrastructure Services.

12. On paragraph 8(d) above, the estimated expenditure of \$2,100,000 is for the charge of hosting the GSS System in the Government Cloud Infrastructure Services.

13. On paragraph 8(e) above, the estimated expenditure of \$2,920,000 is for engaging service providers for implementation services, including system packages subscription, installation and integration.

14. On paragraph 8(f) above, the estimated expenditure of \$25,646,000 is for the engagement of contract staff to support Government staff for the system implementation work, including system analysis and design, development, site preparation, system installation, etc.

15. On paragraph 8(g) above, the estimated expenditure of \$520,000 is for site preparation in respect of cabling work for server rooms and office area.

16. On paragraph 8(h) above, the estimated expenditure of \$35,000 is for providing training for staff.

17. On paragraph 8(i) above, the estimated expenditure of \$600,000 is for engaging services for privacy impact assessment, security risk assessment and audit in various implementation stages.

18. On paragraph 8(j) above, the estimated expenditure of \$3,763,000 is the contingency cost, representing 10% of the total cost set out in paragraph 8(a) to (i) above.

19. In addition, LD will redeploy existing staff for project management, recruiting and monitoring the work of contract staff, formulating user requirements, system analysis and design, user acceptance tests, procurement, etc. This will entail a non-recurrent staff cost of \$19.02 million from 2023-24 to 2025-26.

Recurrent Expenditure

20. During the system development period, the estimated recurrent expenditure for maintaining and supporting the GSS System will be \$449,000 and \$4.67 million in 2024-25 and 2025-26 respectively. From 2026-27 onwards, the relevant recurrent expenditure is estimated to be around \$9.66 million per annum. The breakdown is as follows –

Item	2024-25 \$'000	2025-26 \$'000	2026-27 \$'000	2027-28 \$'000	2028-29 onwards \$'000
(a) Hardware and software maintenance	439	439	439	439	439
(b) Communication network	10	294	665	665	665
(c) Cloud services	-	1,000	1,300	1,300	1,300
(d) System maintenance and contract staff services	-	2,940	7,257	7,257	7,257
Total	449	4,673	9,661	9,661	9,661

21. On paragraph 20(a) above, the estimated annual expenditure of \$439,000 is for hardware and software maintenance to sustain the GSS System.

22. On paragraph 20(b) above, the estimated annual expenditure of \$665,000 from 2026-27 onwards is for rental of data communication lines.

23. On paragraph 20(c) above, the estimated annual expenditure of \$1,300,000 from 2026-27 onwards is for the charge of hosting the GSS System in the Government Cloud Infrastructure Services.

24. On paragraph 20(d) above, the estimated annual expenditure of \$7,257,000 from 2026-27 onwards is for the fees to be paid to service providers and contract staff for system maintenance and support.

/25.

25. In addition, LD will redeploy existing staff for providing system management and administration support, as well as reviewing and refining the functions of the GSS System. A staff cost of \$9.21 million will be incurred in 2025-26 when the system commences operation. From 2026-27 onwards, the relevant recurrent expenditure is estimated to be \$10.05 million per annum.

Cost Avoidance

26. We estimate that the implementation of the GSS System will bring about a total cost avoidance of \$43.24 million per annum from 2026-27 onwards, being –

- (a) a recurrent staff cost of \$12.37 million per annum will be avoided due to manpower saved from enhanced efficiency in the operation of GSS; and
- (b) \$30.86 million per annum will be avoided due to reduction of extra fees required to be paid if the GSS System is not implemented, including the costs of additional manpower for case processing, verification and preparation of statistical reports; paper, printing and postal costs; and cost of renting larger office accommodation for the additional manpower.

Encl. 1 27. A cost and benefit analysis for the implementation of the GSS System is at Enclosure 1.

IMPLEMENTATION PLAN

28. Subject to the Finance Committee (FC)'s approval, the proposed schedule for implementing the GSS System is as follows –

Activity	Target commencement/ Completion date
(a) Project commencement	third quarter of 2023
(i) formulation of project management plan	
(ii) engagement of contract staff	
(b) System development	fourth quarter of 2023
(i) system analysis and design	to April 2025
(ii) system development and testing	
(iii) user acceptance tests	
(c) Starting to receive applications	1 May 2025

/PUBLIC

PUBLIC CONSULTATION

29. We consulted the LegCo Panel on Manpower on the funding proposal on 16 May 2023. Members supported the submission of the proposal to FC.

BACKGROUND

30. LegCo passed the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Bill 2022 on 9 June 2022 to abolish the Offsetting Arrangement. The Government has subsequently announced that the abolition of the Offsetting Arrangement will take effect on 1 May 2025. The Government will implement GSS to share out the SP/LSP expenses of employers after the abolition of the Offsetting Arrangement. The refined GSS was announced in the Chief Executive's Policy Address Supplement published in October 2021, which would increase the subsidy in the initial years after the abolition and provide more targeted assistance to micro, small and medium-sized enterprises. Under the refined GSS, the maximum amount of SP/LSP payable by an employer per employee is capped in the initial nine years after the abolition. The "capped amount" in the initial three years is as low as \$3,000. Please refer to Enclosure 2 for details. The Government's financial commitment for GSS is estimated at \$33.2 billion (in 2021 prices).

Encl. 2

Labour and Welfare Bureau
Labour Department
June 2023

Cost and Benefit Analysis for the Implementation of the Government Subsidy Scheme System

Item	Cash flow (\$'000)					
	2023-24	2024-25	2025-26	2026-27	2027-28	Total
1. Non-recurrent						
Expenditure	14,552	17,698	9,145	-	-	41,395
Staff cost	7,779	10,373	864	-	-	19,016
Total Non-recurrent Cost	22,331	28,071	10,009	-	-	60,411
2. Recurrent						
Expenditure	-	449	4,673	9,661	9,661	24,444
Staff cost	-	-	9,209	10,046	10,046	29,301
Total Recurrent Cost	-	449	13,882	19,707	19,707	53,745
Total Non-recurrent and Recurrent Cost (A)	22,331	28,520	23,891	19,707	19,707	114,156
3. Savings						
Cost avoidance	-	-	37,061	43,236	43,236	123,533
Total Savings (B)	-	-	37,061	43,236	43,236	123,533
Net Savings (C) = (B) – (A)	(22,331)	(28,520)	13,170	23,529	23,529	9,377
Net Cumulative Savings	(22,331)	(50,851)	(37,681)	(14,152)	9,377	

**Employer’s Share under the Government Subsidy Scheme for
Post-abolition Severance Payment/Long Service Payment (SP/LSP)**

Year after the abolition	Employer’s share per employee (as % of post-transition portion of SP/LSP payable)	
	First \$500,000 of all SP/LSP paid by an employer in a year	Beyond the first \$500,000 of all SP/LSP paid by an employer in a year
1 - 3	50%, capped at \$3,000	50%
4	55%, capped at \$25,000	55%
5	60%, capped at \$25,000	60%
6	65%, capped at \$25,000	65%
7	70%, capped at \$50,000	70%
8	75%, capped at \$50,000	75%
9	80%, capped at \$50,000	80%
10	80%	85%
11	80%	90%
12	85%	95%
13	85%	100%
14 - 19	90%	100%
20 - 25	95%	100%
